

CITY OF SOLON, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2015

CITY OF SOLON, IOWA

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2
Management's Discussion and Analysis		5
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement: Cash Basis Statement of Activities and Net Position	A	11
Governmental Fund Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	15
Proprietary Fund Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	19
Notes to Financial Statements		20
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		32
Notes to Other Information - Budgetary Reporting		34
Schedule of the City's Proportionate Share of the Net Pension Liability		35
Schedule of City Contributions		36
Notes to Other Information - Pension Liability		38
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	39
Schedule of Indebtedness	2	41
Bond and Note Maturities	3	43
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4	45
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		46
Schedule of Findings and Responses		48

CITY OF SOLON, IOWA

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mayor and Council		
Steve Stange	Mayor	December 2015
Brad Kunkel	Mayor Pro-Tem (through November 19, 2014)	December 2015
Mark Krall	Mayor Pro-Tem (appointed January 7, 2015)	December 2017
Ron Herdliska	Council Member (through January 7, 2015)	December 2015
Dale Snipes	Council Member (appointed February 4, 2015)	December 2015
Brad Kunkel	Council Member (through November 19, 2014)	December 2015
Mark Prentice	Council Member (appointed January 7, 2015)	December 2015
Steve Duncan	Council Member	December 2017
Casey Grover	Council Member	December 2017
Mark Krall	Council Member	December 2017
City Staff		
Cami Rasmussen	Interim City Administrator (through May 5, 2015) City Administrator (began May 6, 2015)	Indefinite
Susie Siddell	City Clerk/Treasurer	Indefinite
James Martinek	City Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Solon, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of June 30, 2015, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Solon, Iowa adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Solon, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the two years ended June 30, 2013 (none of which are presented herein) were audited by other auditors and they expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the year ended June 30, 2011 (none of which are presented herein) were audited by other auditors and they expressed a modified opinion on those financial statements, which were prepared on the basis of cash receipts and disbursements, because they were unable to satisfy themselves as to the distribution by fund of the total fund balance at July 1, 2010. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Disclaimer of Opinion on Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Solon's basic financial statements. The other information, Management's Discussion and Analysis, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 5 through 10 and 32 through 38 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2016 on our consideration of the City of Solon, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Solon, Iowa's internal control over financial reporting and compliance.

Winkler, Parker & Foster, CPA PC

Iowa City, Iowa
March 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Solon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2015 Financial Highlights

Receipts of the City's governmental activities decreased approximately \$750,000, or 24.5% from fiscal year 2014 to 2015. Charges for service increased approximately \$100,000, operating grants, contributions and restricted interest decreased approximately \$75,000, capital grants, contributions and restricted interest decreased approximately \$28,000, property taxes increased approximately \$26,000, tax increment financing increased approximately \$129,000 and local option sales tax proceeds decreased approximately \$53,000. Net proceeds from the issuance of long-term debt decreased approximately \$856,000.

Disbursements for governmental activities decreased approximately \$14,000, or 0.4% from fiscal year 2014 to 2015. Public safety disbursements decreased approximately \$63,000, culture and recreation disbursements increased approximately \$87,000 and community and economic development disbursements decreased approximately \$75,000. Debt service disbursements increased approximately \$574,000 due to payoff of the 2005 general obligation sewer improvement bonds, and capital projects disbursements decreased approximately \$578,000 due to fewer capital projects in 2015.

The City's total cash basis net position decreased approximately \$655,000, or approximately 18.9%, from June 30, 2014 to June 30, 2015. Of this amount, governmental activities decreased approximately \$659,000 and business type activities increased approximately \$4,000.

Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Reporting the City's Financial Activities

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net cash position. Over time, increases or decreases in the City's net cash position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and recoupment fees. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) The General Fund, 2) the Special Revenue Funds, such as Urban Renewal Tax Increment, Road Use Tax and Library Trust, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and recoupment fees funds, which are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts:		
Charges for service	\$ 420	\$ 320
Operating grants, contributions and restricted interest	360	435
Capital grants, contributions and restricted interest	-	28
General receipts:		
Property tax	826	800
Tax increment financing	667	538
Local option sales tax	-	53
Unrestricted interest on investments	8	10
Other general receipts	34	20
Sale of assets	-	5
Net bond and note proceeds	-	856
Total receipts	<u>2,315</u>	<u>3,065</u>
Disbursements:		
Public safety	166	229
Public works	650	642
Culture and recreation	463	376
Community and economic development	67	142
General government	307	274
Debt service	1,288	714
Capital projects	242	820
Total disbursements	<u>3,183</u>	<u>3,197</u>
Change in cash basis net position before transfers	(868)	(132)
Transfers, net	<u>209</u>	<u>126</u>
Change in cash basis net position	(659)	(6)
Cash basis net position, beginning of year	<u>2,137</u>	<u>2,143</u>
Cash basis net position, end of year	<u>\$ 1,478</u>	<u>\$ 2,137</u>

- The City's total receipts from governmental activities decreased approximately \$750,000, or 24.5%, primarily due to no sales of general obligation bonds during 2015.
- The total cost of all programs and services decreased approximately \$14,000, or 0.4%, primarily due to a decrease in costs of capital projects from 2014 to 2015.

The cost of all governmental activities this year was approximately \$3,183,000, compared to \$3,197,000 last year. As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was approximately \$2,403,000 because some of the cost was paid by those who directly benefited from the programs (charges for service or by other governments and organizations that subsidized certain programs with grants and contributions).

**Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)**

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 397	\$ 377
Sewer	502	467
Recoupment fees	70	110
General receipts:		
Unrestricted interest on investments	7	6
Miscellaneous	17	16
Bond proceeds	<u>4</u>	<u>-</u>
Total receipts	<u>997</u>	<u>976</u>
Disbursements:		
Water	388	432
Sewer	<u>396</u>	<u>466</u>
Total disbursements	<u>784</u>	<u>898</u>
Change in cash basis net position before transfers	213	78
Transfers, net	<u>(209)</u>	<u>(126)</u>
Change in cash basis net position	4	(48)
Cash basis net position, beginning of year	<u>1,320</u>	<u>1,368</u>
Cash basis net position, end of year	<u>\$ 1,324</u>	<u>\$ 1,320</u>

Total business type activities receipts for the fiscal year increased approximately \$21,000. The increase was due primarily to an increase in utility billing rates in water and sewer. Total business type activities disbursements decreased approximately \$114,000, primarily due to fewer repair and maintenance costs than in the previous year.

Individual Major Governmental Fund Analysis

As the City of Solon completed the year, its governmental funds reported a combined fund balance of approximately \$1,478,000, a decrease of approximately \$659,000 from the prior year. Major reasons for the changes in fund balances of the major funds from the prior year are as follows:

- The General Fund cash balance decreased approximately \$44,000 from the prior year to a balance of approximately \$465,000. General Fund cash reserves designated for capital project shortfalls were utilized as projects came to completion and closed.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased approximately \$169,000.
- The Special Revenue, Road Use Tax Fund cash balance increased approximately \$9,000 from the prior year.
- The Special Revenue, Library Trust Fund cash balance increased approximately \$9,000 to approximately \$454,000 at year end.
- The Debt Service Fund cash balance decreased approximately \$683,000 primarily due to paying off the 2005 general obligation sewer improvement bonds with funds held in escrow from a refunding bond issue sold in June 2012.

Business Type Fund Analysis

The City's business type fund cash balances increased by approximately \$4,000 from the prior year. Water and sewer rates were increased for the year. A transfer of \$155,000 was made from the Recoupment Fund to the Capital Projects Fund.

Budgetary Highlights

During the year ended June 30, 2015, receipts were approximately \$225,000 more than budgeted. Building permit and inspection fees and enterprise charges for service were more than budgeted. Disbursements in the culture and recreation, community and economic development, general government, debt service and capital projects exceeded budgeted amounts.

Debt Administration

As of June 30, 2015, the City had \$4,678,000 in bonds and other debt, compared to \$5,926,712 last year, as shown below.

Outstanding Debt at Year End (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2015</u>	<u>2014</u>
General obligation bonds and notes	\$ 3,699	\$ 4,843
Revenue bonds	979	1,084
Bond anticipation note	<u>-</u>	<u>-</u>
Total	<u>\$ 4,678</u>	<u>\$ 5,927</u>

The City collected the final \$4,288 on the water revenue bond. The City also paid off the balance of the 2005 general obligation sewer improvement bonds.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt and tax increment financing rebate agreements, net of cash available to service those debts is below the City's constitutional debt limit of approximately \$8,035,000.

The City does not carry a general obligation bond rating assigned by national rating agencies due to the small size of the City and the debt traditionally bonded for; additionally, it is considered that the cost associated with obtaining such a rating would not be in line with any potential resulting savings or points discounted.

Economic Factors and Next Year's Budget and Rates

The City is situated in a quickly developing area in eastern Iowa. Building permits for single-family and multi-family dwelling units continues its growth pattern. The growth in dwelling units will offset the decreases in valuations of vacant multi-family lots assessed now at agricultural rates instead of residential-assessed rates.

The City's budget for fiscal year 2016 includes total receipts of \$3,759,560 and disbursements of \$3,540,367.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Interim City Administrator or the City Clerk/Treasurer at 101 N. Main Street, Solon, Iowa 52333, or by phone at (319)-624-3755.

BASIC FINANCIAL STATEMENTS

CITY OF SOLON, IOWA

Cash Basis Statement of Activities and Net Position
(Page 1 of 2)

As of and for the Year Ended June 30, 2015

	Program Receipts			
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 165,858	\$ 201,425	\$ 17,922	\$ -
Public works	649,539	125,382	211,812	-
Culture and recreation	462,884	81,156	130,280	-
Community and economic development	67,010	300	-	-
General government	307,369	11,421	-	-
Debt service	1,287,690	-	-	-
Capital projects	242,075	-	-	-
Total governmental activities	3,182,425	419,684	360,014	-
Business type activities:				
Water	387,556	396,982	-	-
Sewer	396,287	501,943	-	-
Recoupment fees	-	69,500	-	-
Total business type activities	783,843	968,425	-	-
Total Primary Government	\$ 3,966,268	\$ 1,388,109	\$ 360,014	\$ -
Component Unit:				
Library Foundation	\$ 4,052	\$ -	\$ 3,776	\$ -
General Receipts and Transfers:				
Property tax and other related levies for:				
General purposes				
Debt service				
Other purposes				
Tax increment financing				
Unrestricted interest on investments				
Miscellaneous				
Bond proceeds				
Transfers				
Total general receipts and transfers				
Change in cash basis net position				
Cash basis net position, beginning of year				
Cash basis net position, end of year				

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
\$ 53,489	\$ -	\$ 53,489	
(312,345)	-	(312,345)	
(251,448)	-	(251,448)	
(66,710)	-	(66,710)	
(295,948)	-	(295,948)	
(1,287,690)	-	(1,287,690)	
(242,075)	-	(242,075)	
<u>(2,402,727)</u>	<u>-</u>	<u>(2,402,727)</u>	
-	9,426	9,426	
-	105,656	105,656	
-	69,500	69,500	
<u>-</u>	<u>184,582</u>	<u>184,582</u>	
<u>(2,402,727)</u>	<u>184,582</u>	<u>(2,218,145)</u>	
			<u>\$ (276)</u>
646,796	-	646,796	-
19,416	-	19,416	-
159,374	-	159,374	-
667,304	-	667,304	-
8,135	6,579	14,714	-
34,299	16,971	51,270	-
-	4,288	4,288	-
208,800	(208,800)	-	-
<u>1,744,124</u>	<u>(180,962)</u>	<u>1,563,162</u>	<u>-</u>
(658,603)	3,620	(654,983)	(276)
<u>2,136,921</u>	<u>1,319,731</u>	<u>3,456,652</u>	<u>93,647</u>
<u>\$ 1,478,318</u>	<u>\$ 1,323,351</u>	<u>\$ 2,801,669</u>	<u>\$ 93,371</u>
(Exhibit B)	(Exhibit C)		

CITY OF SOLON, IOWA

Cash Basis Statement of Activities and Net Position
(Page 2 of 2)

As of and for the Year Ended June 30, 2015

Cash Basis Net Position

Restricted

Expendable:

Streets

Debt service

Capital improvements

Employee benefits

Urban renewal

Library purposes

Recreation

Fire protection

Unrestricted

Total cash basis net position

See accompanying Notes to Financial Statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
\$ 194,207	\$ -	\$ 194,207	\$ -
10,188	104,877	115,065	-
81,479	523,694	605,173	-
36,931	-	36,931	-
204,411	-	204,411	-
454,437	-	454,437	93,371
46,027	-	46,027	-
682	-	682	-
449,956	694,780	1,144,736	-
<u>\$ 1,478,318</u>	<u>\$ 1,323,351</u>	<u>\$ 2,801,669</u>	<u>\$ 93,371</u>

CITY OF SOLON, IOWA

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Governmental Funds
(Page 1 of 2)

As of and for the Year Ended June 30, 2015

	Special Revenue			
	General Fund	Urban Renewal Tax Increment	Road Use Tax	Library Trust
Receipts:				
Property tax	\$ 618,179	\$ -	\$ -	\$ -
Tax increment financing	-	667,304	-	-
Other city tax	11,827	-	-	-
Licenses and permits	208,208	-	-	-
Use of money and property	5,445	529	-	2,659
Intergovernmental	141,339	-	211,812	5,180
Charges for service	189,751	-	-	-
Miscellaneous	55,575	-	-	5,101
Total receipts	1,230,324	667,833	211,812	12,940
Disbursements:				
Operating				
Public safety	165,858	-	-	-
Public works	422,396	-	202,474	-
Culture and recreation	404,778	-	-	4,257
Community and economic development	-	67,010	-	-
General government	295,132	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,288,164	67,010	202,474	4,257
Excess (deficiency) of receipts over (under) disbursements	(57,840)	600,823	9,338	8,683
Other financing sources (uses):				
Operating transfers in	57,800	125,000	-	-
Operating transfers (out)	(43,805)	(556,778)	-	-
Total other financing sources (uses)	13,995	(431,778)	-	-
Change in cash balances	(43,845)	169,045	9,338	8,683
Cash balances, beginning of year	509,013	35,366	184,869	445,754
Cash balances, end of year	\$ 465,168	\$ 204,411	\$ 194,207	\$ 454,437

Exhibit B

Debt Service	Nonmajor Governmental Funds	Total
\$ 18,723	\$ 152,318	\$ 789,220
-	-	667,304
267	2,916	15,010
-	-	208,208
2,047	969	11,649
426	4,140	362,897
-	640	190,391
-	9,667	70,343
<u>21,463</u>	<u>170,650</u>	<u>2,315,022</u>
-	-	165,858
-	24,669	649,539
-	53,849	462,884
-	-	67,010
-	12,237	307,369
1,287,690	-	1,287,690
-	242,075	242,075
<u>1,287,690</u>	<u>332,830</u>	<u>3,182,425</u>
<u>(1,266,227)</u>	<u>(162,180)</u>	<u>(867,403)</u>
583,283	198,805	964,888
-	(155,505)	(756,088)
<u>583,283</u>	<u>43,300</u>	<u>208,800</u>
(682,944)	(118,880)	(658,603)
<u>693,132</u>	<u>268,787</u>	<u>2,136,921</u>
<u>\$ 10,188</u>	<u>\$ 149,907</u>	<u>\$ 1,478,318</u>

(Exhibit A)

CITY OF SOLON, IOWA

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Governmental Funds
(Page 2 of 2)

As of and for the Year Ended June 30, 2015

	Special Revenue			
	General Fund	Urban Renewal Tax Increment	Local Option Sales Tax	Library Trust
Cash basis fund balances:				
Restricted for:				
Streets	\$ -	\$ -	\$ 194,207	\$ -
Debt service	-	-	-	-
Capital improvements	-	-	-	-
Employee benefits	-	-	-	-
Urban renewal	-	204,411	-	-
Library	-	-	-	454,437
Recreation	-	-	-	-
Fire protection	-	-	-	-
Assigned for historic preservation	7,451	-	-	-
Unassigned	457,717	-	-	-
Total cash basis fund balances	<u>\$ 465,168</u>	<u>\$ 204,411</u>	<u>\$ 194,207</u>	<u>\$ 454,437</u>

See accompanying Notes to Financial Statements.

Exhibit B

<u>Debt Service</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
\$ -	\$ -	\$ 194,207
10,188	-	10,188
-	81,479	81,479
-	36,931	36,931
-	-	204,411
-	-	454,437
-	46,027	46,027
-	682	682
-	-	7,451
-	(15,212)	442,505
<u>\$ 10,188</u>	<u>\$ 149,907</u>	<u>\$ 1,478,318</u>

CITY OF SOLON, IOWA

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Proprietary Funds

As of and for the Year Ended June 30, 2015

	Water	Sewer	Recoupment Fees	Total
Operating receipts:				
Charges for service	\$ 396,982	\$ 501,943	\$ 69,500	\$ 968,425
Operating disbursements:				
Business type activities	326,562	306,242	-	632,804
Excess of operating receipts over operating disbursements	70,420	195,701	69,500	335,621
Non-operating receipts (disbursements):				
Interest on investments	1,869	1,627	3,083	6,579
Miscellaneous	10,773	6,198	-	16,971
Bond proceeds	4,288	-	-	4,288
Debt service	(60,994)	(90,045)	-	(151,039)
Capital outlay	-	-	-	-
Net non-operating receipts (disbursements)	(44,064)	(82,220)	3,083	(123,201)
Excess of receipts over disbursements	26,356	113,481	72,583	212,420
Other financing sources (uses):				
Operating transfers in	-	-	125,000	125,000
Operating transfers (out)	(26,900)	(26,900)	(280,000)	(333,800)
Total other financing sources (uses)	(26,900)	(26,900)	(155,000)	(208,800)
Change in cash balances	(544)	86,581	(82,417)	3,620
Cash balances, beginning of year	351,100	345,380	623,251	1,319,731
Cash balances, end of year	\$ 350,556	\$ 431,961	\$ 540,834	\$ 1,323,351
				(Exhibit A)
Cash basis fund balances:				
Restricted:				
Debt service	\$ 5,060	\$ 7,677	\$ 92,140	\$ 104,877
Capital improvements	-	75,000	448,694	523,694
Unrestricted	345,496	349,284	-	694,780
Total cash basis fund balances	\$ 350,556	\$ 431,961	\$ 540,834	\$ 1,323,351

See accompanying Notes to Financial Statements.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Solon, Iowa is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1840 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity and Jointly Governed Organizations

For financial reporting purposes, the City of Solon, Iowa has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and 1) the ability of the City to impose its will on that organization or 2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City.

These financial statements present the City of Solon, Iowa (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Solon Public Library Foundation (Foundation) was established pursuant to Section 501(c)(3) of the Internal Revenue Code to solicit and receive donations, gifts and grants to provide supplementary funding to strengthen and enrich the Solon Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received and held by the Foundation are substantially for the direct benefit of the Solon Public Library.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Johnson County Assessor's Conference Board, Johnson County Emergency Management Commission, Johnson County Landfill Commission and Johnson County Joint E911 Service Board.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Net position restricted through enabling legislation includes \$540,834 of recoupment fees collected for debt service and capital improvements.

Unrestricted net position consists of cash balances that do not meet the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Road Use Tax Fund is used to account for the road use tax allocations received by the City to be used for street operations, maintenance and construction.

The Library Trust Fund is used to account for receipts from a bequest and donations to be used for library operations and future expansion.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Debt Service Fund is utilized to account for property taxes and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Recoupment Fees Fund accounts for fees collected to be used solely to acquire, equip and make improvements to City public capital facilities.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs with a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the programs. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then with general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2015, disbursements in the culture and recreation, community and economic development, general government, debt service and capital projects functions exceeded budgeted amounts.

F. Property Tax Calendar

The City's property taxes were extended against the assessed valuation of the City as of January 1, 2013, to compute the amounts which became liens on property on July 1, 2014. These taxes were due and payable by the property owners in two installments on September 30, 2014 and March 31, 2015, at the Johnson County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE 2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and uses of the City.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds at June 30, 2015 are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 396,000	\$ 100,856	\$ 115,000	\$ 37,840
2017	415,000	92,678	117,000	33,270
2018	423,000	83,616	123,000	28,570
2019	392,000	73,767	125,000	23,530
2020	395,000	63,596	131,000	18,355
2021-2025	1,678,000	149,497	368,000	30,315
Total	\$ 3,699,000	\$ 564,010	\$ 979,000	\$ 171,880

Year Ending June 30,	Total	
	Principal	Interest
2016	\$ 511,000	\$ 138,696
2017	532,000	125,948
2018	546,000	112,186
2019	517,000	97,297
2020	526,000	81,951
2021-2025	2,046,000	179,812
Total	\$ 4,678,000	\$ 735,890

General Obligation Street Improvement and Refunding Bonds

On June 15, 2012, the City issued \$1,850,000 of general obligation street improvement and refunding bonds. Of the total bond proceeds, \$620,591 was deposited in the Capital Projects Fund for the purpose of paying the costs of constructing street improvements and \$331,237 was deposited in the Debt Service Fund to currently refund \$330,000 of 2002 general obligation notes. These notes were called and redeemed on July 11, 2012.

The remaining proceeds of \$869,007 were converted to U.S. government securities and, pursuant to an escrow agreement, were placed with an escrow agent to facilitate the crossover refunding of \$675,000 of the 2005 general obligation sewer improvement notes and \$150,000 of the 2008 general obligation street improvement notes with crossover dates of June 1, 2015 and June 1, 2014, respectively. The escrow agent paid the principal and interest on the refunding general obligation bonds (new debt) until the respective crossover dates. On the respective crossover dates, the refunded general obligation notes (old debt) were paid using the amounts held by the escrow agent. From June 1, 2015 forward, a debt service levy will be used to pay the refunding general obligation bonds (new debt). The transactions and balances of the escrow account were recorded by the City because the refunded debts were not considered extinguished until actually paid.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 3. BONDS AND NOTES PAYABLE (Continued)

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$950,000 of sewer revenue bonds issued May 1, 2006. Proceeds from the bonds provided financing for sewer improvements and extensions. The bonds are payable solely from sewer customer net receipts and are payable through 2021. The total principal and interest remaining to be paid on the bonds, as of June 30, 2015, is \$536,310. For the year ended June 30, 2015, principal and interest paid and total customer net receipts were \$90,045 and \$195,701, respectively. Annual principal and interest payments on the bonds required approximately 46.0% of net receipts.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Sewer Fund for the purpose of making the bond principal and interest payments when due.
- (c) Upon delivery of the bonds, \$92,140 shall be set apart and paid to a sewer reserve account. If at any time the balance of the reserve account has been reduced below this amount, additional funds shall be deposited to the reserve account to restore the reserve account to the required reserve balance. The City has restricted a portion of the Recoupment Fees Fund for this purpose.
- (d) All funds remaining in the sewer account after the payments of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue improvement account within the Sewer Fund until a minimum of \$75,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for bond and interest payments which the other accounts might not be able to cover.

Water Revenue Bonds

On December 10, 2010, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$730,000 of water revenue bonds with interest at a rate of 3% per annum. The agreement also requires the City to annually pay a 0.25% servicing fee on the outstanding principal balance. The bonds were issued pursuant to the provisions of Chapters 384.24A and 384.83 of the Code of Iowa to pay for the cost of construction of certain improvements and extensions to the water treatment facilities. The City will draw funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred. During the year ended June 30, 2015, the City drew down the final remaining \$4,288 of the authorized amount of \$730,000.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue bonds. The bonds are payable solely from water customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes as of June 30, 2015 is \$614,570. For the year ended June 30, 2015, principal and interest paid and total customer net receipts were \$60,994 and \$70,420, respectively. Annual principal and interest payments on the bond required approximately 86.6% of net receipts.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 3. BONDS AND NOTES PAYABLE (Continued)

The resolution providing for the issuance of the water revenue bonds issued under the loan agreement includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a water revenue bond sinking account within the Water Fund for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

NOTE 4. PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payment.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 4. PENSION PLAN (Continued)

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or recalculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rates, Regular members contributed 5.95 percent of pay and the City contributed 8.93 percent for a total rate of 14.88 percent.

The City's contributions to IPERS for the year ended June 30, 2015 were \$43,103.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$282,927. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.007134 percent, which was an increase of 0.000693 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$21,176, \$15,561 and \$107,900, respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00 percent per annum
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 4. PENSION PLAN (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation Percentage	Long-Term Expected Real Rate of Return
U.S. Equity	23%	6.31
Non-U.S. Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5 percent) or one percentage point higher (8.5 percent) than the current rate:

City's proportionate share of the net pension liability:	
1 percent decrease (6.5%)	\$ 534,582
Discount rate (7.5%)	282,927
1 percent increase (8.5%)	70,503

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 5. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for retirees and current employees and their families. There are eight active and no retired members in the plan. Participants must be age 55 or older at retirement. The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The City finances the health insurance plan with Wellmark on a pay-as-you-go basis. Contribution requirements of plan members are established by and may be amended by the City. For the year ended June 30, 2015, the City paid 100% of the cost of single coverage premiums. The City also contributes \$75 monthly toward coverage for employees who select coverage for family members. The most recent premium cost per member ranges from \$327 to \$1,710 per month, depending on the additional insureds and the ages of all insureds. During the year ended June 30, 2015, the City contributed \$59,046 to the plan.

NOTE 6. COMPENSATED ABSENCES

City employees accumulate earned but unused vacation hours for subsequent use or for payment upon retirement, termination or death. These accumulations are not recognized as disbursements by the City until used or paid. The approximate liability for earned vacation payable to employees at June 30, 2015, primarily relating to the General Fund, is \$18,200. This liability has been computed based on rates of pay as of June 30, 2015.

NOTE 7. RISK MANAGEMENT

The City of Solon, Iowa is exposed to various risks of loss related to torts, theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8. LEASE PURCHASE AGREEMENT

On April 2, 2015, the City entered into a lease purchase agreement with Altorfer, Inc. for a Caterpillar loader. The net purchase price after trade-in of another loader was \$63,225. Monthly payments of \$708.53 begin September 2015, with final payment of the remaining balance in August 2020. Interest is provided at a rate of 3.2% per annum. No payments were made on this agreement through June 30, 2015.

Estimated annual maturities of principal under this agreement at June 30, 2015 are as follows:

Year ending June 30, 2016	\$	5,500
2017		6,700
2018		7,000
2019		7,300
2020		7,600
2021		29,125
	\$	<u>63,225</u>

NOTE 9. CONSTRUCTION CONTRACTS

The City had no outstanding construction projects at June 30, 2015.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 10. INTERFUND TRANSFERS

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources, move resources to facilitate the payment of principal and interest on bonds and notes payable, and move resources for the acquisition of major equipment purchases and capital projects.

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Water Enterprise	\$ 26,900
	Sewer Enterprise	26,900
	Special Revenue:	
	Playground Trust	4,000
		<u>57,800</u>
Special Revenue:		
Urban Renewal Tax Increment	Recoupment Fees Enterprise	<u>125,000</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	151,505
	Urban Renewal Tax Increment	<u>431,778</u>
		<u>583,283</u>
Capital Projects	General	43,805
	Recoupment Fees Enterprise	<u>155,000</u>
		<u>198,805</u>
Recoupment Fees Enterprise	Special Revenue:	
	Urban Renewal Tax Increment	<u>125,000</u>
		<u>\$ 1,089,888</u>

NOTE 11. URBAN RENEWAL PROJECT REBATE AND ECONOMIC DEVELOPMENT AGREEMENTS

Project Rebate Agreements

The City has entered into two tax increment financing rebate agreements. The City has agreed to assist in urban renewal projects by rebating incremental property tax paid by the participating company with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of years determined by each agreement, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The agreements end by fiscal year 2018. The total amount that will be rebated in any fiscal year for the tax increment financing agreements is based on the assessed value of the land and buildings less the frozen property values times the property tax values for the City, Johnson County and the Solon Community School District, less the portion attributable to debt service for that year. The City has made rebate payments of \$180,473 on these agreements through June 30, 2015. The outstanding balance of the rebate agreements at June 30, 2015 is approximately \$454,000.

The project rebate agreements are not general obligations of the City, but are subject to the constitutional debt limitation of the City. However, these agreements include an annual appropriation clause and only the amount payable in the succeeding year is subject to the constitutional debt limitation.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2015

NOTE 12. WATER REVENUE ANTICIPATION PROJECT NOTE

The City entered into a water revenue anticipation project note agreement dated March 20, 2015 with the Iowa Finance Authority to borrow funds to pay for the planning and design costs of the 2015-2016 water system improvement project. The maximum amount that can be borrowed is \$120,000. The interest rate on the note is 0%. The note is due in full on March 20, 2018. There were no borrowings during the year ended June 30, 2015, and no outstanding balance due at June 30, 2015.

NOTE 13. DEFICIT BALANCES

The Capital Projects Fund had a deficit balance of \$15,212 at June 30, 2015. The deficit will be eliminated with a transfer from available City funds.

NOTE 14. SUBSEQUENT EVENTS

On July 1, 2015, the City approved the purchase of 0.6 acres of land at a cost of \$25,000 for usage as a ground storage reservoir.

On July 1, 2015, the City approved an engineering services contract for the Highway 1/Main Street intersection improvements project.

Management of the City has evaluated events through March 30, 2016, the date which the financial statements were available to be issued.

OTHER INFORMATION

CITY OF SOLON, IOWA

Budgetary Comparison Schedule
of Receipts, Disbursements and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year Ended June 30, 2015

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 789,220	\$ -	\$ 789,220
Tax increment financing	667,304	-	667,304
Other city tax	15,010	-	15,010
Licenses and permits	208,208	-	208,208
Use of money and property	11,649	6,579	18,228
Intergovernmental	362,897	-	362,897
Charges for service	190,391	968,425	1,158,816
Miscellaneous	70,343	16,971	87,314
Total receipts	<u>2,315,022</u>	<u>991,975</u>	<u>3,306,997</u>
Disbursements:			
Public safety	165,858	-	165,858
Public works	649,539	-	649,539
Culture and recreation	462,884	-	462,884
Community and economic development	67,010	-	67,010
General government	307,369	-	307,369
Debt service	1,287,690	-	1,287,690
Capital projects	242,075	-	242,075
Business type activities	-	783,843	783,843
Total disbursements	<u>3,182,425</u>	<u>783,843</u>	<u>3,966,268</u>
Excess (deficiency) of receipts over (under) disbursements	(867,403)	208,132	(659,271)
Other financing sources (uses), net	208,800	(204,512)	4,288
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(658,603)	3,620	(654,983)
Balances, beginning of year	2,136,921	1,319,731	3,456,652
Balances, end of year	<u>\$ 1,478,318</u>	<u>\$ 1,323,351</u>	<u>\$ 2,801,669</u>

There were no funds of the City not required to be budgeted during the year ended June 30, 2015.

See accompanying Independent Auditor's Report and
accompanying Notes to Other Information.

Budgeted Amounts	Final to Net Variance
\$ 805,041	\$ (15,821)
668,215	(911)
6,676	8,334
100,925	107,283
20,084	(1,856)
330,207	32,690
1,087,793	71,023
62,950	24,364
<u>3,081,891</u>	<u>225,106</u>
172,333	6,475
659,600	10,061
439,212	(23,672)
66,773	(237)
256,400	(50,969)
602,453	(685,237)
-	(242,075)
885,275	101,432
<u>3,082,046</u>	<u>(884,222)</u>
(155)	(659,116)
<u>-</u>	<u>4,288</u>
(155)	(654,828)
<u>2,720,850</u>	<u>735,802</u>
<u>\$ 2,720,695</u>	<u>\$ 80,974</u>

CITY OF SOLON, IOWA

Notes to Other Information - Budgetary Reporting

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements are required to be budgeted for all funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund.

Disbursements during the year ended June 30, 2015 exceeded the budgeted amounts in the culture and recreation, community and economic development, general government, debt service and capital projects functions.

CITY OF SOLON, IOWA

Schedule of the City's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year *

Other Information

	<u>2015</u>
City's proportion of the net pension liability	0.007134%
City's proportionate share of the net pension liability	\$ 282,927
City's total covered-employee payroll Regular	\$ 466,816
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.61%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full ten year trend is compiled, the City will present information for those years for which information is available.

See accompanying Independent Auditor's Report and
accompanying Notes to Other Information.

CITY OF SOLON, IOWA

Schedule of City Contributions
Iowa Public Employees' Retirement System
Last Ten Fiscal Years

Other Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution:				
Regular	\$ 43,103	\$ 41,687	\$ 36,621	\$ 31,283
Contributions in relation to the statutorily required contribution:				
Regular	<u>43,103</u>	<u>41,687</u>	<u>36,621</u>	<u>31,283</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's covered-employee payroll:				
Regular	<u>\$ 482,681</u>	<u>\$ 466,816</u>	<u>\$ 422,384</u>	<u>\$ 387,647</u>
Contributions as a percentage of covered-employee payroll:				
Regular	<u>8.93%</u>	<u>8.93%</u>	<u>8.67%</u>	<u>8.07%</u>

See accompanying Independent Auditor's Report and
accompanying Notes to Other Information.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 26,827	\$ 24,054	\$ 20,483	\$ 18,575	\$ 16,627	\$ 15,056
<u>26,827</u>	<u>24,054</u>	<u>20,483</u>	<u>18,575</u>	<u>16,627</u>	<u>15,056</u>
<u>\$ -</u>					
<u>\$ 385,999</u>	<u>\$ 361,708</u>	<u>\$ 322,564</u>	<u>\$ 307,017</u>	<u>\$ 289,157</u>	<u>\$ 261,841</u>
<u>6.95%</u>	<u>6.65%</u>	<u>6.35%</u>	<u>6.05%</u>	<u>5.75%</u>	<u>5.75%</u>

CITY OF SOLON, IOWA

Notes to Other Information - Pension Liability

June 30, 2015

Changes of Benefit Terms

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of Assumptions

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of termination members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

SUPPLEMENTARY INFORMATION

CITY OF SOLON, IOWA

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances -
Nonmajor Governmental Funds

As of and for the Year Ended June 30, 2015

	Special Revenue				Total
	Local Option Sales Tax	Employee Benefits	Playground Trust	Fire Trust	
Receipts:					
Property tax	\$ -	\$ 104,077	\$ -	\$ -	\$ 104,077
Other city tax	-	1,993	-	-	1,993
Use of money and property	857	-	90	-	947
Intergovernmental	-	2,829	-	-	2,829
Charges for service	-	-	640	-	640
Miscellaneous	-	-	9,667	-	9,667
Total receipts	857	108,899	10,397	-	120,153
Disbursements:					
Operating					
Public works	-	24,669	-	-	24,669
Culture and recreation	-	53,849	-	-	53,849
General government	-	12,237	-	-	12,237
Capital projects	-	-	-	-	-
Total disbursements	-	90,755	-	-	90,755
Excess (deficiency) of receipts over (under) disbursements	857	18,144	10,397	-	29,398
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers (out)	(151,505)	-	(4,000)	-	(155,505)
Total other financing sources (uses)	(151,505)	-	(4,000)	-	(155,505)
Change in cash balances	(150,648)	18,144	6,397	-	(126,107)
Cash balances, beginning of year	232,127	18,787	39,630	682	291,226
Cash balances, end of year	\$ 81,479	\$ 36,931	\$ 46,027	\$ 682	\$ 165,119
Cash basis fund balances:					
Restricted for:					
Capital improvements	\$ 81,479	\$ -	\$ -	\$ -	\$ 81,479
Employee benefits	-	36,931	-	-	36,931
Recreation	-	-	46,027	-	46,027
Fire protection	-	-	-	682	682
Unassigned	-	-	-	-	-
Total cash basis fund balances	\$ 81,479	\$ 36,931	\$ 46,027	\$ 682	\$ 165,119

See accompanying Independent Auditor's Report.

Schedule 1

<u>Capital Projects</u>	<u>Total</u>
\$ 48,241	\$ 152,318
923	2,916
22	969
1,311	4,140
-	640
-	9,667
<u>50,497</u>	<u>170,650</u>
-	24,669
-	53,849
-	12,237
<u>242,075</u>	<u>242,075</u>
<u>242,075</u>	<u>332,830</u>
<u>(191,578)</u>	<u>(162,180)</u>
198,805	198,805
-	(155,505)
<u>198,805</u>	<u>43,300</u>
7,227	(118,880)
<u>(22,439)</u>	<u>268,787</u>
<u>\$ (15,212)</u>	<u>\$ 149,907</u>
\$ -	\$ 81,479
-	36,931
-	46,027
-	682
<u>(15,212)</u>	<u>(15,212)</u>
<u>\$ (15,212)</u>	<u>\$ 149,907</u>

CITY OF SOLON, IOWA

Schedule of Indebtedness

Year Ended June 30, 2015

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds and Notes:			
East Side Relief Sewer	10/27/03	** 1.75 %	\$ 250,000
Wastewater Treatment Plant	12/1/05	3.55-4.80	1,405,000
Street and Sidewalk Improvements	7/15/10	1.40-4.10	1,650,000
Street Improvement and Refunding	6/15/12	1.00-2.20	1,850,000
City Hall Project	8/22/13	3.15	1,070,000
Total			
Revenue Bonds:			
Sewer Revenue	5/1/06	3.95-5.10	950,000
Water Revenue	12/10/10	** 3.00	730,000
Total			
Revenue Anticipation Project Notes:			
Water Revenue Anticipation Project Note	3/20/2015	-	120,000

** Annual servicing fee of 0.25% of outstanding principal balance is required.

See accompanying Independent Auditor's Report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 113,000	\$ -	\$ 11,000	\$ 102,000	\$ 1,978	\$ -
770,000	-	770,000	-	35,375	-
1,410,000	-	100,000	1,310,000	51,505	-
1,540,000	-	175,000	1,365,000	23,022	-
1,010,000	-	88,000	922,000	31,810	-
<u>\$ 4,843,000</u>	<u>\$ -</u>	<u>\$ 1,144,000</u>	<u>\$ 3,699,000</u>	<u>\$ 143,690</u>	<u>\$ -</u>
\$ 520,000	\$ -	\$ 65,000	\$ 455,000	\$ 25,045	\$ -
563,712	4,288	44,000	524,000	16,994	-
<u>\$ 1,083,712</u>	<u>\$ 4,288</u>	<u>\$ 109,000</u>	<u>\$ 979,000</u>	<u>\$ 42,039</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SOLON, IOWA

Bond and Note Maturities

June 30, 2015

Year Ending June 30,	General Obligation Bonds and Notes					
	East Side Sewer Relief		Street/Sidewalk Improvements		Street Improvement and Refunding	
	Issued Oct. 27, 2003		Issued July 15, 2010		Issued June 15, 2012	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2016	1.75 %	\$ 11,000	3.00 %	\$ 110,000	1.00 %	\$ 185,000
2017	1.75	12,000	3.20	115,000	1.15	195,000
2018	1.75	12,000	3.40	120,000	1.30	195,000
2019	1.75	13,000	3.60	125,000	1.50	155,000
2020	1.75	13,000	3.70	125,000	1.70	155,000
2021	1.75	13,000	3.80	130,000	1.85	160,000
2022	1.75	14,000	4.00	135,000	2.00	105,000
2023	1.75	14,000	4.00	145,000	2.10	105,000
2024		-	4.05	150,000	2.20	110,000
2025		-	4.10	155,000		-
Total		<u>\$ 102,000</u>		<u>\$ 1,310,000</u>		<u>\$ 1,365,000</u>

Year Ending June 30,	Revenue Bonds				
	Sewer Revenue		Water Revenue		Total
	Issued May 1, 2006		Issued Dec. 10, 2010		
	Interest Rates	Amount	Interest Rates	Amount	
2016	4.60 %	\$ 70,000	3.00 %	\$ 45,000	\$ 115,000
2017	4.70	70,000	3.00	47,000	117,000
2018	4.80	75,000	3.00	48,000	123,000
2019	4.90	75,000	3.00	50,000	125,000
2020	5.00	80,000	3.00	51,000	131,000
2021	5.10	85,000	3.00	53,000	138,000
2022		-	3.00	55,000	55,000
2023		-	3.00	57,000	57,000
2024		-	3.00	58,000	58,000
2025		-	3.00	60,000	60,000
Total		<u>\$ 455,000</u>		<u>\$ 524,000</u>	<u>\$ 979,000</u>

See accompanying Independent Auditor's Report.

Schedule 3

<u>City Hall Project</u>		
<u>Issued Aug. 22, 2013</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Total</u>
3.15 %	\$ 90,000	\$ 396,000
3.15	93,000	415,000
3.15	96,000	423,000
3.15	99,000	392,000
3.15	102,000	395,000
3.15	105,000	408,000
3.15	109,000	363,000
3.15	112,000	376,000
3.15	116,000	376,000
	-	155,000
	<u>\$ 922,000</u>	<u>\$ 3,699,000</u>

Schedule 4

CITY OF SOLON, IOWA

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Five Years

	2015	2014	2013	2012	2011
Receipts:					
Property tax	\$ 789,220	\$ 789,820	\$ 803,768	\$ 718,952	\$ 621,928
Tax increment financing	667,304	538,234	465,532	476,013	461,225
Other city tax	15,010	63,137	214,715	205,044	142,847
Licenses and permits	208,208	127,338	91,923	84,503	90,569
Use of money and property	11,649	12,893	20,232	23,807	27,530
Intergovernmental	362,897	433,582	559,368	399,953	361,980
Charges for service	190,391	170,793	157,935	150,108	137,177
Miscellaneous	70,343	68,633	37,854	52,794	49,963
Total	\$ 2,315,022	\$ 2,204,430	\$ 2,351,327	\$ 2,111,174	\$ 1,893,219
Disbursements:					
Operating					
Public safety	\$ 165,858	\$ 228,730	\$ 152,367	\$ 139,091	\$ 131,999
Public works	649,539	642,375	510,387	637,300	577,750
Culture and recreation	462,884	375,747	410,796	400,295	341,243
Community and economic development	67,010	142,305	134,000	37,058	-
General government	307,369	273,736	224,896	199,848	198,939
Debt service	1,287,690	714,181	831,023	421,555	420,162
Capital projects	242,075	820,203	1,724,319	318,090	857,965
Total	\$ 3,182,425	\$ 3,197,277	\$ 3,987,788	\$ 2,153,237	\$ 2,528,058

See accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council
City of Solon, Iowa

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 30, 2016. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Solon, Iowa's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Solon, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Solon, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Responses as items II-A-15 and II-B-15 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Responses as items II-C-15 and II-D-15 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Solon, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item II-E-15. We also noted certain immaterial instances of noncompliance and other matters which are described in Part III of the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City of Solon, Iowa's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures during our audit of the financial statements of the City of Solon, Iowa. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Solon, Iowa's Responses to Findings

The City of Solon, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of Solon, Iowa's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Solon, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Winkel, Parker & Josten, CPA PC

Iowa City, Iowa
March 30, 2016

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part I. Summary of the Independent Auditor's Results

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.
- (b) Material weaknesses and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit disclosed an instance of noncompliance which is material to the financial statements.

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-15 Segregation of Duties

Criteria - The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition - One important aspect of internal accounting control is segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- 1 Accounting system - performing all general accounting functions, including custody of assets.
- 2 Cash - custodian, reconciliation and cash receipts.
- 3 Receipts - collecting, depositing, journalizing and posting.
- 4 Utility receipts - billing, collecting and reconciling.
- 5 Disbursements - posting, reconciling and mailing.
- 6 Payroll - preparing and distributing.
- 7 Financial reporting - preparing, reconciling and distributing without independent review of journal entries.
- 8 Computer system - performing all general accounting functions and controlling all data input and output.

For the Library Foundation, a component unit of the City, one individual has control over each of the following areas:

- 1 Cash - handling and recording cash. Bank reconciliations are not performed and reviewed by an independent individual.
- 2 Receipts - collecting and depositing.
- 3 Disbursements - check writing, signing and approving.

Effect - As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part II. Findings Related to the Financial Statements (Continued)

Cause - The City and the Library Foundation have a limited number of personnel performing accounting functions.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Library Foundation should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Review of bank reconciliations and other financial reports by an independent person should be documented by signing or initialing and dating the reconciliation.

Responses -

City - The City will periodically evaluate internal control procedures and work toward seeking solutions to improve internal controls. As the City continues to experience growth, additional staffing will be considered allowing increased segregation of duties to occur. Currently, procedures include having elected officials review all invoices and banking documents.

Library Foundation - The Library Foundation submits monthly reconciliations to the Library Board of Trustees for approval and to the City for review by an independent person. The Foundation will also review internal control procedures for any changes that can be made in segregation of duties to increase internal control.

Conclusion - Response accepted.

II-B-15 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria - Effective accounting controls require that procedures be in place for reconciliation of transactions and balances to supporting records and information.

Condition - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The City Council or a Council designated independent person should review the reconciliation and monitor delinquent accounts.

Response - The City has followed policy on past due payments and will continue to monitor delinquent accounts closely. The City is currently reviewing its water ordinance and is considering amending deposit and delinquency procedures.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part II. Findings Related to the Financial Statements (Continued)

II-C-15 Computer Systems

Criteria - Internal control policies and procedures should be adopted and placed in service to ensure the effectiveness and efficiency of operations relating to processing, recording, reconciling, approval of and reporting of transactions and financial activity.

Condition - During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine if activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer systems were noted:

The City does not have written policies for:

- * Requiring staff to log off unattended computers.
- * Requiring the maintenance of password privacy and confidentiality.
- * Requiring passwords to be changed at least every 60-90 days.
- * Requiring password length of a minimum of 8 characters, including special characters.
- * Requiring a lockout function for incorrectly entered passwords.
- * Requiring backups be stored at an offsite location.
- * Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- * A computer usage policy.
- * Usage of internet policy.
- * Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan.

Recommendation - The City should develop written policies addressing the above items in order to improve the City's control over its computer systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify a listing of computer equipment needed for temporary processing, extra stocks of paper supplies, such as checks, warrants, purchase orders, etc., and be located off-site. Additionally, copies of user documentation and the disaster recovery plan should be maintained at an off-site location. The backup tapes should be stored at an offsite location.

Response - The City is currently in the process of a software conversion and once completed, the program will have built in login controls for each user. Computer hardware and backup systems were upgraded in 2014 when the transition to the current city hall was made. A computer usage policy is in draft form to be implemented as part of the Employee Handbook update planned for the 2016 calendar year. The City will also work on developing a written disaster recovery plan.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part II. Findings Related to the Financial Statements (Continued)

II-D-15 Library Foundation

Criteria - Internal control policies and procedures should be adopted and placed in service to ensure the effectiveness and efficiency of operations relating to processing, recording, reconciling, approval of and reporting of transactions and financial activity.

Condition - We noted the following regarding the Library Foundation:

- * A monthly reconciliation of bank to book balance is not prepared.
- * An investment register documenting certificate of deposit activity and balances is not maintained.
- * The Foundation requires only one signature for a check to be issued.
- * Supporting documentation is not maintained for disbursements.

Recommendation - Bank reconciliations and investment reports will be prepared monthly and reviewed by the Library Board of Trustees. The Foundation will maintain all supporting documentation for disbursements and review its check writing policy to ensure proper internal control.

Response - Bank reconciliations and investment reports will be prepared monthly. The Foundation will maintain all supporting documentation for disbursements and will review its check writing policy to ensure proper internal control.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE

II-E-15 Certified Budget

Criteria - Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation". In addition, Chapter 384.18 of the Code of Iowa provides for the requirements of amendment of the budget after the original budget has been adopted.

Condition - Disbursements during the year ended June 30, 2015 exceeded the budgeted amounts in the culture and recreation, community and economic development, general government, debt service and capital projects functions. The City held a public hearing on May 20, 2015 for the purposes of amending the budget for the year, and the amendment of the budget was approved. However, the publication of the notice of public hearing was published on May 14, 2015, which is not within the required 10 to 20 days prior to the date of the public hearing. Accordingly, the amended budget was rendered invalid because the publication did not meet the requirements for the date of publication, and the original budget adopted by the City was the in effect for the entire year.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part II. Findings Related to the Financial Statements (Continued)

Recommendation - The publication of the notice of public hearing for amendment of the City budget should be made between 10 and 20 days prior to the meeting date as required by Chapter 384.18 of the Code of Iowa. City staff should make sure that the publication date and the date of the public hearing are in compliance with this Chapter. In addition, the budget should be amended in sufficient amounts as required by Chapter 384.20 of the Code of Iowa before disbursements are allowed to exceed the budget.

Response - The City will follow publication requirements for budget amendments as required by Chapter 384.16 of the Code of Iowa.

Conclusion - Response accepted.

Part III. Other Findings Related to Required Statutory Reporting

III-A-15 **Certified Budget** - See Finding II-E-15.

III-B-15 **Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-15 **Travel Expenses** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-15 **Business Transactions with City Officials and Employees** - No business transactions between the City and City officials or employees were noted.

III-E-15 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-15 **City Council Minutes**

Comment - No transactions were found that we believe should have been approved in the City Council minutes but were not.

We were unable to find any evidence that the minutes of the April 19, 2015 Special Meeting were published. Publications of the minutes of the Council meetings of July 16, 2014, July 29, 2014 and September 17, 2014 were not made within 15 days as required by Chapter 372.13(6) of the Code of Iowa. In addition, none of the minutes publications tested by us contained a summary of receipts.

Recommendation - The City should comply with Chapter 372 of the Code of Iowa in relation to all publication requirements.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part III. Other Findings Related to Required Statutory Reporting (Continued)

Response - The City recognized the minutes identified correlate with major city events or happenings. City staff have implemented procedures to ensure compliance with all publication requirements of Chapter 372 of the Code of Iowa.

Conclusion - Response accepted.

III-G-15 Deposits and Investments

Comment - The maximum depository amount at one of the banks the City is authorized to bank with was exceeded on several occasions during the year until the maximum depository amount was increased from \$2,000,000 to \$5,000,000 on May 6, 2015.

Recommendation - Total deposits on hand at the banks the City is authorized to bank with should be reviewed on a regular basis to avoid exceeding the maximum authorized amounts.

Response - The City has passed Resolution No. 15-10, A Resolution Naming Depositories. The resolution, in part, increases the guarantee of deposits at Solon State Bank from \$2,000,000 to \$5,000,000. The City will monitor total balances.

Conclusion - Response accepted.

III-H-15 Revenue Bonds - No instances of noncompliance with the revenue bond and note resolutions were noted.

III-I-15 Urban Renewal Annual Report - The urban renewal annual report for the year ended June 30, 2015 was properly approved and certified to the Iowa Department of Management on or before December 1, 2015 and no exceptions were noted.

III-J-15 Financial Condition

Comment - The Capital Projects Fund had a deficit balance of \$15,212 at June 30, 2015.

Recommendation - The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Response - The City has closed several major projects and has a plan to return the Capital Projects Fund to a sound financial position with General Fund surplus funds allocated for capital projects.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part III. Other Findings Related to Required Statutory Reporting (Continued)

III-K-15 Tax Increment Financing (TIF) Indebtedness Certification and Disbursements

Comment - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

Chapter 403.19(2) of the Code of Iowa states, in part, "That portion of the taxes each year...shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise, including bonds issued under the authority of section 403.9, subsection 1, incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area." Chapter 403.19(10)(6) of the Code of Iowa prohibits borrowing from this "special fund."

During the year ended June 30, 2013, the City approved and provided a \$125,000 forgivable loan to Brewery Property LLC from the Special Revenue, Urban Renewal Tax Increment Fund (TIF Fund). However, the resolution approving the forgivable loan required the loan be advanced from the Recoupment Fees enterprise fund, not the TIF Fund. Pursuant to Chapter 403.19 of the Code of Iowa, the City may not borrow from the TIF Fund for any purpose.

Recommendation - The City should transfer \$125,000 from the Enterprise, Recoupment Fees Fund to the TIF Fund to reimburse the TIF Fund and reflect the loan advance from the fund approved by the City Council.

Response - The City has made this transfer as of June 30, 2015.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2015

Part III. Other Findings Related to Required Statutory Reporting (Continued)

III-L-15 City Fire Protection

Comment - In August 1999, the City entered into a 28E agreement (Agreement) with the Tri-Township Fire Department (Department), consisting of the Big Grove, Cedar and Newport Townships, for joint and mutual fire protection. Pursuant to the Agreement, the City is responsible for maintenance, insurance, utilities and other costs associated with maintaining the fire station, as well as vehicle maintenance, telephone and operating supplies. These costs are paid directly by the City. The agreement also requires the City to pay an annual amount to the Department representing the City's share of "all other expenses for the maintenance of the Solon-Tri-Township Fire Department, including its vehicles and personnel costs". During the year ended June 30, 2015, the City paid \$61,640 to the Department under the terms of the Agreement.

We were unable to determine how the Tri-Township Fire Department was established. The Department does not appear to be organized as a non-profit organization and no documents could be located to indicate its establishment as a 28E organization, although we believe the Department was intended to be created as a 28E organization through the joint efforts of the three townships. The City does not provide oversight to ensure the funds provided to the Department are properly used to accomplish the purposes set out in the Agreement, including ensuring all funds are spent only for the public benefit.

Pursuant to the agreement, "Expenditures made under this agreement shall be administered by the City Treasurer". However, all financial activity is administered by the Tri-Township Treasurer.

Recommendation - Since the City has joined with and provides funding to the Tri-Township Fire Department, the City should determine how the Department was organized, including whether a separate entity exists or whether activity for the Department should be accounted for and recorded by the City.

The City should establish procedures to ensure public funds provided to the Department are properly used to accomplish the purposes set out in the Agreement.

Response - The City and its attorney and the Tri-townships, who are being represented by the Johnson County Attorney's office, have jointly sought the expertise of George Oster and Associates, who are considered experts in the state on fire organizations. The City, Tri-townships and their attorneys have been working directly with Mr. Oster for the past several months and are currently in the process of developing a draft agreement for the formation of a 28E Charter Agency. The draft agreement creates an Agency to oversee all fire and emergency services in the current fire district area, with the City and Cedar, Big Grove and Newport Townships to have one board member on the Agency Board of Directors. The draft language includes a provision that the Agency Board of Directors will appoint a Clerk/Treasurer to oversee all accounting functions of the Agency. The City currently reviews and pays all bills under the City's responsibility and the City reviews and records all Tri-township bills paid by the Tri-township.

Conclusion - Response accepted.