

**CITY OF LONG GROVE, IOWA**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2006**

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Staff

City of Long Grove, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2006)</b>		
Jack L. Hill	Mayor	Jan 2008
Keith Ehrecke	Council Member	Jan 2006
Jan Morrell	Council Member	Jan 2006
Donald Abington, Jr.	Council Member	Jan 2008
Jim Ingram	Council Member	Jan 2008
Jeff Nagle	Council Member	Jan 2008
<b>(After January 2006)</b>		
Jack L. Hill	Mayor	Jan 2008
Donald Abington, Jr.	Council Member	Jan 2008
Jim Ingram	Council Member	Jan 2008
Shannon Hambly	Council Member	Jan 2008
Keith Ehrecke	Council Member	Jan 2010
Jan Morrell	Council Member	Jan 2010
Susan Lensch Mahannah	Clerk/Treasurer	Indefinite

Julie J. Dura, CPA  
Randy L. Linn, CPA  
David A. Schebler, CPA  
Randall B. Sovey, CPA

# **HUCKFELDT & SMITH**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL LIABILITY COMPANY

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of City of Long Grove, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Long Grove's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

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 and each major fund of City of Long Grove as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2007 on our consideration of City of Long Grove internal control over financial reporting and 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 internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

*Huckfeldt & Smith, P.L.C.*

HUCKFELDT & SMITH, P.L.C.

December 01, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Long Grove 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 ending June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow:

### 2006 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased approximately \$12,000 from fiscal 2005 to fiscal 2006. Property tax increased approximately \$12,000.
- Disbursements of the City's governmental activities decreased approximately \$43,500 in fiscal year 2006 from fiscal year 2005.
- The City's total cash basis net assets increased approximately \$105,560 from 6/30/05 to 6/30/06. Of this amount, the assets of the governmental activities increased approximately \$80,311 and the assets of the business type activities increased by approximately \$25,249.

### 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 Statement of Activities and Net Assets. 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 government 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.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### 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 U.S. generally accepted accounting principles. Therefore, when reviewing 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 as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

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

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, and capital projects. Property tax finances most of the activities.
- Business Type Activities include the water, sewer and electric systems. These activities are financed 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 Road Use Tax, and 3) 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### FUND FINANCIAL STATEMENTS (CONTINUED)

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 Proprietary Funds to provide separate information for the water, sewer and electric funds, 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.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets may serve over time as useful indicator of financial position. The City's balance for governmental activities increased from a year ago, increasing from \$323,289 to \$403,600. The analysis that follows focuses on the changes in cash balance for governmental activities.

<u>Changes in Cash Basis Net Assets of Governmental Activities</u>		
	<u>Year Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
<b>Receipts and Transfers:</b>		
Program Receipts		
Charges for Service	\$ 6,702	\$ 6,606
<b>General Receipts:</b>		
Property Tax	171,966	159,947
Local Option Sales Tax	66,739	67,806
Road Use Tax	50,076	50,278
Licenses and Permits	8,154	26,006
Unrestricted Interest on Investments	9,329	2,728
Other General Receipts	12,656	8,287
Total Receipts and Transfers	\$ 325,622	\$ 321,658
<b>Disbursements:</b>		
Public Safety	31,421	28,388
Public Works	87,808	87,982
Culture and Recreation	20,520	41,221
Community and Economic Development	4,889	4,138
General Government	36,802	26,626
Capital Projects	63,871	115,120
Total Disbursements	245,311	303,475
Increase in Cash Basis Net Assets	80,311	18,183
Cash Basis Net Assets Beginning of Year	323,289	281,098
Cash Basis Net Assets End of Year	403,600	299,281

The City's local receipts for governmental activities increased by \$4,000. The total cost of all programs and services decreased by approximately \$58,000 with no new programs added this year. The increase is due to increased valuations and the business type activities.

The City increased property tax rates for 2006 by an average of .2954%. This increase was due to and increased in the FICA and Insurance categories. This increase, the first in years, raised the City's property tax receipts by approximately \$12,000 in 2006. Based upon increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$5,000 next year.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Cash Basis Net Assets of Business-Type Activities		
	Year Ended June 30,	
	2006	2005
Receipts:		
Program Receipts:		
Charges for Service		
Water	\$ 73,465	\$ 65,194
Sewer	69,506	54,372
Electric	307,650	269,087
General Receipts:		
Unrestricted Interest on Investments	20,699	7,735
Other General Receipts	14,223	15,398
Total Receipts	\$ 485,543	\$ 411,786
Disbursements:		
Water	60,827	45,783
Sewer	104,081	72,898
Electric	295,386	264,488
Total Disbursements	460,294	383,169
Increase in Cash Basis Net Assets	25,249	28,617
Cash Basis Net Assets Beginning of Year	753,215	724,598
Cash Basis Net Assets End of Year	778,464	753,215

Total business type activities receipts for the fiscal year were \$485,543 compared to \$411,786 last year. This significant increase was due primarily to the receipt of increased sewer rates. The cash balance increased by approximately \$25,249 from the prior year. Total disbursements for the fiscal year increased by a total of \$77,125 due to the cost associated with the new wastewater treatment facility.

### INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

The following are major reasons for the changes in fund balances of the major funds from the prior year.

- The General fund cash balance increased \$44,000 from the prior year to \$174,000. Approximately \$12,000 of this increase was due to increased valuations.
- The Road Use Tax Fund cash balance primarily remained the same during the fiscal year. This was attributable to increased road/street repair.
- The Local Option Sales Tax Fund increased by \$40,000 to \$147,000 during the fiscal year. This was attributable to the decreased expenditures preparing for a portion to be used for the new wastewater treatment facility.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS (CONTINUED)

- The Water Fund cash balance increased by \$17,673 to \$300,216, due primarily to increase usage and lower expenditures than budgeted.
- The Sewer Fund cash balance decreased by \$29,943 to \$117,971, due primarily to increased cost associated with the new wastewater treatment facility. The most drastic change in the City's proprietary accounts will come in the Sewer Fund in 2007 and 2008. The current lagoon facility is inadequate and a new facility is required. During the 2005 and 2006 budget years the City explored options and finally decided on a mechanical facility. During 2006 engineering design began and was submitted to the Iowa Department of Natural Resources for review and approval, Sewer rates were increased accordingly with more increases possible and an application to the Iowa State Revolving fund has been made to finance the estimated \$1.5 million cost. Estimated on line date for the new facility is summer of 2008.
- The Electric Fund cash balance increased by \$37,069 to \$360,277, due primarily to increased usage.

### BUDGETARY HIGHLIGHTS

The budget was amended in May of 2006 primarily due to grants received, police protection, general government, grant expenditures and the preparation for the wastewater treatment facility.

### DEBT ADMINISTRATION

As of June 30, 2006 the city has no debt.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Long Grove elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities. These factors included projected needs for services, anticipated costs of supporting the City and projected receipts.

These indicators were taken into account when adopting the budget for fiscal year 2007. Amounts available for appropriation in the operating budget are \$732,161, a decrease of 9.7% over the final 2006. Budgeted disbursements are expected to rise by approximately \$26,500. Projected increases in disbursements in the 2007 budget are due to the normal increases associated with inflation in costs, completing underground electric, and scheduled equipment needs. Another factor impacting disbursements in 2007 will be expenditures necessary due to the wastewater treatment facility scheduled for completion in summer of 2008. An unanticipated disbursement at the time of 2007 budget preparation could be the shared (Long Grove, Eldridge, county and State DOT) cost of a bicycle path between Long Grove and Eldridge. The State DOT will review grant requests in 2007. If the grant is not approved, no disbursements will be necessary. The City has added no major new program funds or initiatives to the 2007 budget.

If these estimates are realized, The City's budgeted cash balance is expected to decrease by \$77,000 by close of 2007.

### 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 financial information contact Susan Lensch Mahannah City Clerk, 104 S. First Street, Long Grove, Iowa 563-285-4904.

**City of Long Grove**  
**Statement of Activities and Net Assets - Cash Basis**  
 As of and for year ended June 30, 2006

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Function/Programs:</b>						
<b>Government Activities:</b>						
Public Safety	\$ 31,421	-	-	(31,421)	-	(31,421)
Public Works	87,808	-	-	(87,808)	-	(87,808)
Culture & Recreation	20,520	-	-	(20,520)	-	(20,520)
Community & Economic Development	4,889	-	-	(4,889)	-	(4,889)
General Government	36,802	-	-	(36,802)	-	(36,802)
Capital Projects	63,871	-	-	(63,871)	-	(63,871)
<b>Total Governmental Activities</b>	<b>\$ 245,311</b>	<b>-</b>	<b>-</b>	<b>(245,311)</b>	<b>-</b>	<b>(245,311)</b>
<b>Business Type Activities:</b>						
Water	60,827	73,465	5,035	-	17,673	17,673
Sewer	104,081	69,506	5,082	-	(29,493)	(29,493)
Electric	295,386	321,873	10,582	-	37,069	37,069
<b>Total Business Type Activities</b>	<b>460,294</b>	<b>464,844</b>	<b>20,699</b>	<b>-</b>	<b>25,249</b>	<b>25,249</b>
<b>Total</b>	<b>\$ 705,605</b>	<b>464,844</b>	<b>20,699</b>	<b>(245,311)</b>	<b>25,249</b>	<b>(220,062)</b>
<b>General Receipts:</b>						
Property and other city tax levied for:						
General purposes						
				199,570	-	199,570
Local option sales tax						
				73,875	-	73,875
Road Use Tax						
				49,984	-	49,984
Unrestricted interest on investments						
				2,193	-	2,193
<b>Total general receipts and transfers</b>						
				<b>325,622</b>	<b>-</b>	<b>325,622</b>
Change in cash basis net assets						
				80,311	25,249	105,560
Cash basis net assets beginning of year						
				323,289	753,215	1,076,504
Cash basis net assets end of year						
				<b>\$ 403,600</b>	<b>778,464</b>	<b>1,182,064</b>
<b>Cash Basis Net Assets</b>						
<b>Restricted:</b>						
Streets						
				\$ 81,807	-	81,807
<b>Unrestricted</b>						
				321,793	778,464	1,100,257
<b>Total cash basis net assets</b>						
				<b>\$ 403,600</b>	<b>778,464</b>	<b>1,182,064</b>

See notes to financial statements.

**City of Long Grove**  
**Statement of Cash Receipts, Disbursements and**  
**Changes in Cash Balances - Governmental Funds**  
 As of and for the year ended June 30, 2006

	Special Revenue			Total
	General	Road Use Tax	Local Option Sales Tax	
<b>Receipts:</b>				
Property tax	\$ 171,966	-	-	171,966
Other city tax	-	-	66,739	66,739
Licenses and permits	8,154	-	-	8,154
Use of money and property	2,193	-	7,136	9,329
Intergovernmental	92	49,984	-	50,076
Charges for service	6,702	-	-	6,702
Miscellaneous	12,656	-	-	12,656
Total receipts	201,763	49,984	73,875	325,622
<b>Disbursements:</b>				
Operating:				
Public safety	31,421	-	-	31,421
Public works	35,053	52,755	-	87,808
Culture and recreation	18,786	-	1,734	20,520
Community and economic development	4,889	-	-	4,889
General government	36,802	-	-	36,802
Capital projects	31,424	-	32,447	63,871
Total disbursements	158,375	52,755	34,181	245,311
Excess of receipts over disbursements	43,388	(2,771)	39,694	80,311
Cash balances beginning of year	131,069	84,578	107,642	323,289
Cash balances end of year	\$ 174,457	81,807	147,336	403,600
<b>Cash basis fund balances</b>				
Unreserved:				
General fund	\$ 174,457	-	-	174,457
Special revenues fund	-	81,807	147,336	229,143
Total cash basis balances	\$ 174,457	81,807	147,336	403,600

See notes to financial statements.

**City of Long Grove**Reconciliation of the Statement of Cash Receipts and Changes in  
Cash Balances to the Statement of Activities and Net Assets-  
Governmental Funds

As of and for year ended June 30, 2006

Total Government funds cash balances	\$	403,600
Internal service fund		-
Cash basis net assets of governmental activities	\$	<u>403,600</u>
Net changes in cash balances	\$	80,311
Internal service fund		-
Change in cash balance of government activities	\$	<u>80,311</u>

See notes to financial statements.

**City of Long Grove**  
**Statements of Cash Receipts, Disbursements and Changes in Cash Balances- Proprietary Funds**  
**As of and for year ended June 30, 2006**

	Enterprise Funds			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for service	\$ 73,465	69,506	307,650	450,621
Miscellaneous	-	-	730	730
Total operating receipts	<u>73,465</u>	<u>69,506</u>	<u>308,380</u>	<u>451,351</u>
Operating disbursements:				
Governmental activities:				
Public safety	-	-	-	-
Public works	-	-	-	-
Culture and recreation	-	-	-	-
General government	-	-	-	-
Business type activities	60,827	104,081	295,386	460,294
Total operating disbursements	<u>60,827</u>	<u>104,081</u>	<u>295,386</u>	<u>460,294</u>
Excess (deficiency) of receipts over (under) operating disbursements	<u>12,638</u>	<u>(34,575)</u>	<u>12,994</u>	<u>(8,943)</u>
Non-operating receipts (disbursements):				
Intergovernmental	-	-	-	-
Interest on investments	5,035	5,082	24,075	34,192
Miscellaneous	-	-	-	-
Total non-operating receipts (disbursements)	<u>5,035</u>	<u>5,082</u>	<u>24,075</u>	<u>34,192</u>
Excess (deficiency) of receipts over (under) disbursements	<u>17,673</u>	<u>(29,493)</u>	<u>37,069</u>	<u>25,249</u>
Operating transfers out				-
Net change in cash balances	<u>17,673</u>	<u>(29,493)</u>	<u>37,069</u>	<u>25,249</u>
Cash balances beginning of year	282,543	147,464	323,208	753,215
Cash balances end of year	<u>\$ 300,216</u>	<u>117,971</u>	<u>360,277</u>	<u>778,464</u>
Cash Basis Fund Balances				
Unreserved	300,216	117,971	360,277	778,464
Total cash basis fund balances	<u>\$ 300,216</u>	<u>117,971</u>	<u>360,277</u>	<u>778,464</u>

**City of Long Grove**Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances to the Statement of Activities and  
Net Assets- Proprietary Funds

As of and for year ended June 30, 2006

Total Government funds cash balances	\$	778,464
Internal service fund		-
Cash basis net assets of governmental activities	\$	<u>778,464</u>
Net changes in cash balances	\$	25,249
Internal service fund		-
Change in cash balance of government activities	\$	<u>25,249</u>

CITY OF LONG GROVE, IOWA  
Notes to Financial Statements  
June 30, 2006

**(1) Summary of Significant Accounting Policies**

City of Long Grove is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1902 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 non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, electric and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Long Grove 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 to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statement – The Statement of Activities and 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 service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

CITY OF LONG GROVE, IOWA  
Notes to Financial Statements  
June 30, 2006

B. Basis of Presentation (Continued)

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets 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 funds are accounted for in this field. 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 Road Use Tax Fund is used to account for road construction and maintenance.

CITY OF LONG GROVE, IOWA  
Notes to Financial Statements  
June 30, 2006

B. Basis of Presentation (Continued)

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 waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City's electric system.

C. Measurement Focus and Basis of Accounting

City of Long Grove 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 U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by 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 assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating 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 non-operating receipts and disbursements.

CITY OF LONG GROVE, IOWA  
Notes to Financial Statements  
June 30, 2006

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2006 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 obligation 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.

At June 30, 2006, the City had the following investments:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Certificates of Deposit:			
First Central State Bank	\$226,241	\$226,241	5/02/06
First Central State Bank	269,805	269,805	8/30/06
First Central State Bank	74,728	74,728	6/23/07
Valley State Bank	60,745	60,745	11/30/06
Valley State Bank	58,744	58,744	6/30/06
Valley State Bank	<u>127,875</u>	<u>127,875</u>	8/05/06
Totals	<u>\$818,138</u>	<u>\$ 818,138</u>	

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) in 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 use of the City.

CITY OF LONG GROVE, IOWA  
Notes to Financial Statements  
June 30, 2006

**(3) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$4,121, \$3,872 and \$3,792, respectively, equal to the required contributions for each year.

**(4) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 1,470
Sick leave	<u>27,905</u>
Total	<u>\$29,375</u>

This liability has been computed based on rates of pay in effect at June 30, 2006.

**(5) Related Party Transactions**

The City had no business transactions between the City and City officials during the year ended June 30, 2006.

CITY OF LONG GROVE, IOWA  
Notes to Financial Statements  
June 30, 2006

**(6) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omission; 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.

**City of Long Grove**  
**Budgetary Comparison Schedule of Receipts, Disbursements, and Changes**  
**in Balances-Budget and Actual (Cash Basis)- All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2006**

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
<b>Receipts:</b>						
Property Tax	\$ 171,966	0	171,966	170,948	170,948	1,018
Other City Tax	66,739	0	66,739	74,765	73,500	(6,761)
Licenses and Permits	8,154	0	8,154	5,775	13,475	(5,321)
Use of Money and Property	9,329	0	9,329	2,000	3,000	6,329
Intergovernmental	50,076	0	50,076	50,950	51,050	(974)
Charges for Service	6,702	485,543	492,245	487,366	533,000	(40,755)
Miscellaneous	12,657	0	12,657	0	0	12,657
<b>Total Receipts</b>	<b>325,623</b>	<b>485,543</b>	<b>811,166</b>	<b>791,804</b>	<b>844,973</b>	<b>(33,807)</b>
<b>Disbursements:</b>						
Public Safety	31,421	0	31,421	31,849	34,000	2,579
Public Works	87,808	0	87,808	87,950	87,950	142
Culture and Recreation	20,520	0	20,520	20,880	20,880	360
Community and Economic Development	4,889	0	4,889	6,000	5,500	611
General Government	36,802	0	36,802	21,500	42,300	5,498
Capital Projects	63,871	0	63,871	136,259	160,000	96,129
Business Type Activities	0	460,294	460,294	487,366	480,000	19,706
<b>Total Disbursements</b>	<b>245,311</b>	<b>460,294</b>	<b>705,605</b>	<b>791,804</b>	<b>830,630</b>	<b>125,025</b>
<b>Excess of Receipts</b>						
Over Disbursements	80,312	25,249	105,561	0	14,343	91,218
Balances Beginning of Year	323,288	753,215	1,076,503	1,032,429	1,032,429	44,074
Balances End of Year	\$ 323,288	753,215	1,076,503	1,032,429	1,032,429	44,074

See notes to financial statements.

City of Long Grove, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information 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 except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year one budget amendment increased budgeted disbursements by \$38,826. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements did not exceed the amounts budgeted in the general government and business type activities functions.

Julie J. Dura, CPA  
Randy L. Linn, CPA  
David A. Schebler, CPA  
Randall B. Sovey, CPA

# **HUCKFELDT & SMITH**

CERTIFIED PUBLIC ACCOUNTANTS  
A PROFESSIONAL LIABILITY COMPANY

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:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of City of Long Grove, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated December 1, 2007. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Long Grove's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Long Grove's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions described above. We believe 2006-A is a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Long Grove's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had 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.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of City of Long Grove and other parties to whom City of Long Grove may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Long Grove 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.

*Huepfelder & Smith, P.C.C.*

December 1, 2007

CITY OF LONG GROVE, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

Findings Related to the Financial Statements:

Reportable Conditions:

2006-A        Segregation of duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from having duties that are incompatible. We noted that certain functions are not entirely segregated.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its internal control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will review our internal control procedures.

Conclusion – Response acknowledged.

Other Findings Related to Required Statutory Reporting:

2006-1        Official Depositories – A resolution naming official depositories has been approved by the City. During the audit no deposits in excess of the limits were noted.

2006-2        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.

2006-3        Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2006-4        Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amounts of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

CITY OF LONG GROVE, IOWA  
SCHEDULE OF FINDINGS  
Year Ended June 30, 2006

- 2006-5      Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2006-6      Business Transactions – There were no transactions between the City and City officials or employees.
- 2006-7      Deposits and Investments – We noted no instances of non-compliance with deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

CITY OF LONG GROVE, IOWA

Staff

This audit was performed by: David A. Schebler, CPA, Member