

CITY OF LONG GROVE, IOWA
AUDITED FINANCIAL STATEMENTS

June 30, 2011

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CITY OF LONG GROVE, IOWA

OFFICIALS

June 30, 2011

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ida Weibel	Mayor	Dec 2013
Donald Abington, Jr.	Council Member	Dec 2011
Brian Schmidt	Council Member	Dec 2013
Shannon Hambly	Council Member	Dec 2011
Cynthia Davis	Council Member	Dec 2011
Don Thiessen	Council Member	Dec 2013
Jackie Wilcox	Clerk/Treasurer	Indefinite

TOM ENGELMANN, CPA

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Independent Auditor's Report

To the Mayor and City Council
City of Long Grove, Iowa
Long Grove, Iowa

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Long Grove, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. My responsibility is to express opinions on these financial statements based on my audit. I did not audit the fiscal year June 30, 2005 to 2007 schedule of receipts and disbursements by function (page 27), of which fiscal year June 30, 2006 was audited by other auditors whose report thereon has been furnished to me, and my opinion, insofar as it relates to the fiscal year June 30, 2006, schedule of receipts and disbursements by function is based on the report of other auditors.

I conducted my 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 I 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. I believe that my audit and the report of other auditors provide a reasonable basis for my opinions.

As described in Note 1, the City of Long Grove prepares its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than United States generally accepted accounting principles.

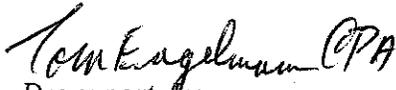
In my opinion, based on my audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position – cash basis of the governmental activities, the business-type activities and each major fund of the City of Long Grove, Iowa, as of June 30, 2011, and the respective changes in financial position – cash basis, where applicable thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 4 to 8 and the budgetary comparison schedule of receipts, disbursements and changes in fund balances on page 24 be presented to supplement the basic financial statements. Such

information, although not a part of the basic financial statements is required by the *Government Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information, in accordance with U.S generally accepted auditing standards which consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, I have also issued my report, dated February 6, 2012, on my consideration of the City of Long Grove's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of 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, located on pages 28-29 of this report, is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Long Grove's basic financial statements as a whole. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements of the City of Long Grove for the three years ended June 30, 2008, 2009 & 2010 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The other supplementary information and combining and individual fund financial statements listed in the table of contents are presented for purposes of additional analysis, and are not a required part of the financial statements. The combining and individual fund financial statements on pages 32 to 46 for are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. This information has been subjected to the auditing procedures applied in my audit of the basic financial statements and certain additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, based on my audit, the information is fairly stated in all material respects in relation to the financial statements taken as a whole on the basis of accounting described in Note 1.


Davenport, Iowa
February 6, 2012

**CITY OF LONG GROVE, IOWA
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR 2011**

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow:

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased approximately \$44,000 from fiscal 2010 to fiscal 2011. Property tax receipts increased approximately \$14,420.
- Disbursements of the City's governmental activities increased approximately \$78,000 in fiscal year 2011 from fiscal year 2010 due to purchase of a new squad car and equipment, rise in cost of purchased electricity and fuel costs.
- The City's total cash basis net assets increased approximately \$85,000 from fiscal 2010 to fiscal 2011. Of this amount, the assets of the governmental activities increased approximately \$26,000 and the assets of the business type activities increased by approximately \$59,000.

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 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 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 details 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.

Other Supplementary Information provides detailed information on the indebtedness of the City as of year end and its obligations into the future and functional receipts and disbursements for the last six years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

BASICS 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 or worse off 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 and decreased 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 and Local Option Sales Tax Funds finance nearly all of the activities not related to the utilities.
- Business Type Activities include 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 balances at year-end that are available for spending. The governmental funds include: 1) General Fund, 2) Special Revenue Funds, such as Road Use Tax, and Local Option Sales Tax and 3) Debt Service 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements (continued)

- 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets may serve over time as a useful indicator of financial position. The City's balance for governmental activities increased from a year ago to \$476,373 to \$502,479. The analysis that follows focuses on the changes in cash balance for governmental activities.

CHANGES IN CASH BASIS NET ASSETS OF GOVERNMENTAL ACTIVITIES

	Year ended June 30	
	2011	2010
<i>Receipts:</i>		
Program receipts:		
Charges for service	\$ 15,557	\$ 12,916
Capital Grants and restricted interest		1,000
General receipts:		
Property tax	286,268	276,636
Local option sales tax	77,435	72,774
Intergovernmental	63,118	55,379
Unrestricted interest on investments	5,645	7,509
Miscellaneous	2,476	3,036
Total receipts	450,499	429,250

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONTINUED):

**CHANGES IN CASH BASIS NET ASSETS
OF GOVERNMENTAL ACTIVITIES**

	Year ended June 30	
	2011	2010
<i>Disbursements:</i>		
Public safety	\$ 66,136	\$ 25,087
Public works	149,725	134,211
Culture and recreation	46,504	32,859
Community and economic development	2,368	2,375
General government	53,996	45,656
Debt service	75,664	75,980
Total disbursements	<u>394,393</u>	<u>316,169</u>
Change in cash basis net assets before interfund borrowing / transfers	56,106	113,081
Interfund borrowing	---	(53,926)
Interfund transfers (out)	(30,000)	---
Change in cash basis net assets	<u>26,106</u>	<u>59,154</u>
<i>Cash basis net assets, beginning of year</i>	476,373	417,219
<i>Cash basis net assets, end of year</i>	<u><u>\$ 502,479</u></u>	<u><u>\$ 476,373</u></u>

The City's local receipts for governmental activities increased by \$21,249 or 3.48%. The total cost of all programs and services increased by approximately \$78,224 due to the purchase of a new police squad and equipment, rise in cost of electric and fuel costs this year.

Property tax receipts increased by \$9,632 from 2010 to 2011, due to increase in property valuations.

The cost of all governmental activities this year was approximately \$394,000 compared to \$316,000 last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

GOVERNMENT WIDE FINANCIAL ANALYSIS (CONTINUED):

**CHANGES IN CASH BASIS NET ASSETS
OF BUSINESS TYPE ACTIVITIES**

	Year ended June 30	
	2011	2010
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 97,485	\$ 103,436
Sewer	179,376	181,882
Electric	329,348	328,510
General receipts:		
Unrestricted interest on investments	12,160	11,845
Bond proceeds	---	5,000
Other general receipts	23,844	7,941
Total receipts	<u>642,213</u>	<u>638,614</u>
Disbursements:		
Water	103,180	84,399
Sewer	102,640	164,678
Electric	331,967	318,831
Debt service	75,663	76,130
Total disbursements	<u>613,450</u>	<u>644,038</u>
Change in cash basis net assets before interfund borrowing / transfers	28,763	(5,424)
Interfund borrowing	---	53,926
Interfund transfers in	30,000	---
Change in cash basis net assets	<u>58,763</u>	<u>48,502</u>
Cash basis net assets, beginning of year	1,007,806	959,304
Cash basis net assets, end of year	<u>\$ 1,066,569</u>	<u>\$ 1,007,806</u>

Total business type activities receipts for the fiscal year were \$642,212 compared to \$638,614 last year. Total business type activities disbursements for the fiscal year were \$613,450 compared to \$644,038 last year. Sewer disbursements declined due to completion of the wastewater treatment facility during 2010.

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR GOVERNMENT FUND ANALYSIS

As the City of Long Grove Completed the year, the governmental funds reported a combined fund balance of \$ 502,479, an increase of \$ 26,106 from last year's total of \$ 476,373. 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 by \$18,828 from the prior year to \$64,830, mainly due to reductions in interfund borrowings and transfers from the general fund.
- The Road Use Tax Fund cash balance decreased \$14,000 during the fiscal year to \$65,137. This was due to increased road/street repair and fuel costs.
- The Local Option Sales Tax Fund increased by \$52,839 to \$318,988 during the fiscal year. This was attributable to the decreased expenditures and capital projects carried into the fiscal year 2012.
- The Debt Service Fund cash balance decreased by \$31,489 due to interfund transfers of \$1,000 to the General Fund and \$30,000 to the Sewer Fund to repay interfund loans.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by \$6,285 to \$387,515, due primarily to increase usage and lower expenditures than budgeted.
- The Sewer Fund cash balance increased by \$48,043 to \$220,337, due primarily to interfund transfers from the Debt Service Fund.
- The Electric Fund cash balance increased by \$4,435 to \$458,717, due primarily to decreased expenditures.

BUDGETARY HIGHLIGHTS

The City' receipts were \$16,363 less than budgeted, mainly due to decrease in Road Use Tax revenue and decreased expenditures

The City's disbursements were under budget by \$291,530 due to incomplete capital improvements for fiscal year 2011, which were carried over to fiscal year 2012.

DEBT ADMINISTRATION

As of June 30, 2011 the City has a State Revolving Loan in the amount of \$1,924,000, compared to \$2,010,000 last year. Fifty percent of the loan is General Obligation Bonds and fifty percent is Revenue 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 of \$ 962,000 is below its constitutional debt limit of approximately \$1.3 million.

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 2012 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 2012. A known disbursement at the time of 2012 budget preparation will be the shared cost of a recreational path between Long Grove and Eldridge. The cost of this project is being shared between the two cities, Scott County and the State of Iowa, Department of Transportation. The State DOT has awarded the grant for the project. The City has added major new program funds for completion of this project expected in the fiscal year 2012.

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 any questions about this report or need additional financial information contact Jackie Wilcox, City Clerk, 104 S. First Street, Long Grove, Iowa 52756. Phone 563-285-4904.

CITY OF LONG GROVE, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

For the Year Ended June 30, 2011

Functions / Programs	Program receipts			Net (Disbursements) Receipts and Changes in Net Assets		
	Disbursements	Charges for Services	Capital grants and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:						
Public safety	\$ 66,136	\$ -60	---	\$ (66,076)	\$ ---	\$ (66,076)
Public works	149,725	6,705	---	(143,020)	---	(143,020)
Culture and recreation	46,504	---	---	(46,504)	---	(46,504)
Community and economic development	2,368	---	---	(2,368)	---	(2,368)
General government	53,996	8,792	---	(45,204)	---	(45,204)
Debt service	75,664	---	---	(75,664)	---	(75,664)
Total governmental activities	394,393	15,557	---	(378,836)	---	(378,836)
Business type activities:						
Water	103,180	97,485	---	---	(5,695)	(5,695)
Sewer	178,303	179,376	---	---	1,073	1,073
Electric	331,967	329,348	---	---	(2,619)	(2,619)
Total business type activities	613,450	606,209	---	---	(7,241)	(7,241)
Total	\$ 1,007,843	\$ 621,766	\$ ---	(378,836)	(7,241)	(386,077)

General receipts

Property and other city tax levied for:

General purposes	211,093	---	---	---	---	211,093
Debt service	75,175	---	---	---	---	75,175
Local option sales tax	77,435	---	---	---	---	77,435
Intergovernmental	63,118	---	---	---	---	63,118
Unrestricted interest on investments	5,645	---	---	12,160	---	17,805
Miscellaneous	2,476	---	---	23,844	---	26,320
Interfund transfers in (out)	(30,000)	---	---	30,000	---	---
Total general receipts and transfers	404,942	---	---	66,004	---	470,946

Change in cash basis net assets

Cash basis net assets, beginning of year

Cash basis net assets, end of year

Cash basis net assets

Restricted:

Debt service

Unrestricted

Total cash basis net assets

See accompanying notes to the basic financial statements.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2011

	General Fund	Special Revenue		Debt Service	Total Governmental Funds
		Road Use Tax	Local Option Sales Tax		
Receipts:					
Property taxes	\$ 211,093	\$ ---	\$ ---	\$ 75,175	\$ 286,268
Other city tax	2,476	---	77,435	---	79,911
Licenses and permits	5,225	---	---	---	5,225
Use of money and property	2,967	1,132	1,546	---	5,645
Intergovernmental	---	63,118	---	---	63,118
Charges for service	10,272	---	---	---	10,272
Miscellaneous	60	---	---	---	60
Total receipts	<u>232,093</u>	<u>64,250</u>	<u>78,981</u>	<u>75,175</u>	<u>450,499</u>
Disbursements:					
Operating:					
Public safety	66,136	---	---	---	66,136
Public works	45,261	78,322	26,142	---	149,725
Culture and recreation	46,504	---	---	---	46,504
Community and economic development	2,368	---	---	---	2,368
General government	53,996	---	---	---	53,996
Debt service	---	---	---	75,664	75,664
Total disbursements	<u>214,265</u>	<u>78,322</u>	<u>26,142</u>	<u>75,664</u>	<u>394,393</u>
Excess (deficiency) of receipts over disbursements	17,828	(14,072)	52,839	(489)	56,106
Other financing sources (uses)					
Transfers in (out)	1,000	---	---	(31,000)	(30,000)
Net changes in cash balances	18,828	(14,072)	52,839	(31,489)	26,106
Cash balances, beginning of year	46,002	79,209	318,988	32,174	476,373
Cash balances, end of year	<u>\$ 64,830</u>	<u>\$ 65,137</u>	<u>\$ 371,827</u>	<u>\$ 685</u>	<u>\$ 502,479</u>
Cash basis fund balances					
Reserved for debt service	\$ ---	\$ ---	\$ ---	\$ 685	\$ 685
Unreserved:					
General fund	64,830	---	---	---	64,830
Special revenue funds	---	65,137	371,827	---	436,964
Total cash basis fund balances	<u>\$ 64,830</u>	<u>\$ 65,137</u>	<u>\$ 371,827</u>	<u>\$ 685</u>	<u>\$ 502,479</u>

See accompanying notes to the basic financial statements.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the Year Ended June 30, 2011

	Water	Sewer	Electric	Totals
Operating receipts				
Charges for service	\$ 97,485	\$ 179,376	\$ 329,348	\$ 606,209
Miscellaneous	7,935	14,385	1,524	23,844
Total operating receipts	<u>105,420</u>	<u>193,761</u>	<u>330,872</u>	<u>630,053</u>
Operating disbursements				
Business type activities	<u>103,180</u>	<u>102,640</u>	<u>331,967</u>	<u>537,787</u>
Excess of operating receipts over operating disbursements	<u>2,240</u>	<u>91,121</u>	<u>(1,095)</u>	<u>92,266</u>
Non-operating receipts (disbursements)				
Interest on investments	4,045	2,585	5,530	12,160
Transfers in	---	30,000	---	30,000
Debt service paid	---	(75,663)	---	(75,663)
Net non-operating receipts (disbursements)	<u>4,045</u>	<u>(43,078)</u>	<u>5,530</u>	<u>(33,503)</u>
Net change in cash balances	6,285	48,043	4,435	58,763
Cash balances, beginning of year	<u>381,230</u>	<u>172,294</u>	<u>454,282</u>	<u>1,007,806</u>
Cash balances, end of year	<u>\$ 387,515</u>	<u>\$ 220,337</u>	<u>\$ 458,717</u>	<u>\$ 1,066,569</u>
Cash basis fund balances				
Unreserved	<u>\$ 387,515</u>	<u>\$ 220,337</u>	<u>\$ 458,717</u>	<u>\$ 1,066,569</u>

See accompanying notes to the basic financial statements.

CITY OF LONG GROVE, IOWA
NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1 Summary of significant accounting policies

Reporting entity

The City Council of the City of Long Grove ("Council") is the basic level of government which has oversight and control over all activities relating to the City. The Council receives funding from local, county, and state sources and must comply with the concomitant requirements of these funding source entities. In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth by the *Governmental Accounting Standards Board* (GASB). These criteria include appointing a voting majority of the organization's governing body and (1) the ability of the City to impose its will on the organization or (2) the potential for the organization to provide specific benefits or impose specific financial burdens on the City. The City has no component units which meet the GASB criteria.

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; Scott County Assessor's Conference Board, Scott County Emergency Management Commission, Scott County Landfill Commission and Scott County Joint E911 Service Board.

Fund accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances/net assets, receipts, and disbursements.

Basis of presentation

GOVERNMENT WIDE FINANCIAL STATEMENTS The statement of activities and net assets reports information on all the 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.

NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies, continued

Basis of presentation, continued

The statement of activities and net assets presents the City's net assets. Net assets are reported in two categories:

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

Unrestricted net assets consist of net assets not meeting 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 and business type funds are reported as separate columns in the fund financial statements. All governmental funds are reported as major governmental funds.

The City reports the following major governmental funds:

General Fund - 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 not paid from other funds.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific receipts that are legally restricted to disbursements for specified purposes. The City includes the following special revenue funds, both of which are major:

Road Use Tax accounts for allocation of State shared receipts legally restricted to streets and alley improvements.

Local Option Sales Tax accounts for the receipts and disbursements of sales taxes imposed via referendum that is legally restricted via the language within the referendum.

NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies, continued

Basis of presentation, continued

Debt Service Fund is used to account for the payment of interest and principal on the City's general long term debt.

Proprietary Type Funds

Proprietary funds are used to account for business like activities provided to the general public. These activities are financed primarily by user charges. The City includes the following proprietary funds as major funds:

Water Fund accounts for the operation and maintenance of the system responsible for the pumping, treatment and distribution of potable water to the citizens of the City.

Sewer Fund accounts for the operation and maintenance of the wastewater treatment plant and the system responsible for the collection of wastewater generated by the citizens of the City.

Electric Fund accounts for the operation and maintenance of the system responsible for the distribution of electricity to the citizens of the City.

Measurement focus and basis of accounting

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

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.

Under the terms of grant agreements, the City funds certain projects by a combination of specific cost reimbursement grants and general receipts. Thus, when project disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the project. It is the City's policy to first apply cost reimbursement grant proceeds to such projects, followed 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.

NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies, continued

Cash and cash equivalents

For the purpose of financial reporting, "cash and cash equivalents" include all demand accounts or money market savings accounts.

Investments

Investments consist of certificates of deposit and are stated at cost, which approximates market value.

Budgets and budgetary accounting

Budgets for all funds of the City are adopted on the cash basis, which is not consistent with generally accepted accounting principles (GAAP). Budget comparisons presented in this report are on this non-GAAP basis. The budgetary comparisons and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceed the amounts budgeted in the General, Road Use and Debt Service Funds.

Capital assets

No capital assets are accounted for or reported as assets due to use of the cash basis of reporting.

Long term debt

No long term debt incurred by the City is accounted for or reported as liabilities due to the cash basis of reporting.

Interfund activities

In the process of aggregating the financial information for the government-wide statement of activities, any amounts reported as interfund activity have been eliminated or reclassified.

Fund Financial Statements

Interfund activity, if any, within and among the governmental and business type activity fund categories is reported in the fund financial statements as interfund transfers, which are the flow of assets from one fund to another where repayment is not expected and are reported as transfers in and out or as interfund borrowings where repayment is expected.

NOTES TO FINANCIAL STATEMENTS

Note 1 Summary of significant accounting policies, continued

Stewardship, compliance and accountability

By its nature as a local government unit, the City is subject to various federal, state and local laws and contractual regulations. No instances of noncompliance were noted.

Note 2 Cash and pooled investments

The City maintains a cash pool for all funds. Investment income generally is allocated to the various funds based upon the funds' cash and investment balances. At year end the book amounts of the City's deposits was \$ 1,569,048 and the bank balances were \$ 1,595,577. This entire amount was 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 funds.

The City has adopted GASB No. 40, *Deposit and Investment Risk Disclosures*, which defines custodial credit risk. The City's deposits are not exposed to custodial credit risk as of June 30, 2011.

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within fifteen 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.

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 companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2011 the City had the following certificates of deposit:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
<u>Certificates of Deposit:</u>			
First Central State Bank	\$ 67,498	\$ 67,498	12-7-11
First Central State Bank	86,407	86,407	12-27-11
Valley State Bank	316,334	316,334	3-11-12
Valley State Bank	70,848	70,848	12-7-11
Valley State Bank	150,801	150,801	8-10-11
Valley State Bank	264,627	264,627	10-20-11
Totals	<u>\$ 956,515</u>	<u>\$ 956,515</u>	

NOTES TO FINANCIAL STATEMENTS

Note 2 Cash and pooled investments, continued

At June 30, 2011 the City's certificates of deposit were allocated between unrestricted and temporarily restricted – sinking funds as follows:

Type	Total	Unrestricted	Temporarily Restricted
<u>Certificates of Deposit:</u>			
First Central State Bank	\$ 67,498	\$ 67,498	\$ ---
First Central State Bank	86,407	75,174	11,233
Valley State Bank	316,334	316,334	---
Valley State Bank	70,848	70,848	---
Valley State Bank	150,801	88,807	61,994
Valley State Bank	264,627	257,614	7,013
Totals	<u>\$ 956,515</u>	<u>\$ 876,275</u>	<u>\$ 80,240</u>

Note 3 Changes in long-term debt

The following is a summary of the long-term debt transactions of the City for the fiscal year ended June 30, 2011:

Debt payable at July 1, 2010	\$ 2,010,000
Principal repaid	<u>(86,000)</u>
Debt payable at June 30, 2011	<u>\$ 1,924,000</u>

Debt payable at June 30, 2011, is comprised of the following notes payable:

GOVERNMENTAL ACTIVITIES

General Obligation Sewer Bonds

May 14, 2008, \$ 1,088,000 bonds payable to the Iowa Finance Authority, to pay for the construction of the sewer project, due in semi-annual installments beginning December 1, 2008 of \$ 41,000 to \$ 71,000, plus interest at 3.00% and annual servicing fee of .25% of balance due, through June 1, 2028	\$ 962,000
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NOTES TO FINANCIAL STATEMENTS

Note 3 Changes in long-term debt, continued

BUSINESS TYPE ACTIVITIES

Sewer Revenue Bonds

May 14, 2008, \$ 1,088,000 bonds payable to the Iowa Finance Authority, to pay for the construction of the sewer project, due in semi-annual installments beginning December 1, 2008 of \$ 41,000 to \$ 71,000, plus interest at 3.00% and annual servicing fee of .25% of balance due, through June 1, 2028

962,000

Total long term debt payable

\$ 1,924,000

The City has pledged future sewer customer receipts, net of specific operating disbursements, to repay the \$ 1,005,000 in sewer revenue bonds issued May 14, 2008. Proceeds from the bonds provided financing for the construction of a new wastewater treatment plant. The bonds are payable solely from sewer customer net receipts and are payable through 2028. Annual principal and interest payments on the notes are expected to require less than 87 percent of net receipts. For the current year, principal and interest paid were \$ 43,000 and \$ 32,663, respectively, totally \$75,663. For the current year, net receipts were \$ 91,120.

The resolutions providing for the issuance of the revenue bonds include the following provision: 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 fund.

Projected annual debt service requirements to maturity, including principal and interest as of June 30, 2011, are as follows:

Maturing during year ending June 30,	<u>General Obligation Debt</u>		<u>Business Type Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 44,000	\$ 28,860	\$ 44,000	\$ 28,860
2013	46,000	27,540	46,000	27,540
2014	47,000	26,160	47,000	26,160
2015	48,000	24,750	48,000	24,750
2016	50,000	25,253	50,000	25,253
2017-2021	272,000	101,010	272,000	101,010
2022-2026	315,000	54,113	315,000	54,113
2027-2028	<u>140,000</u>	<u>6,858</u>	<u>240,000</u>	<u>6,858</u>
	<u>\$ 962,000</u>	<u>\$ 294,544</u>	<u>\$ 962,000</u>	<u>\$ 294,544</u>

NOTES TO FINANCIAL STATEMENTS

Note 4 Interfund transfers / loans

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Sewer Fund	Debt Service Fund	\$ 30,000
General Fund	Debt Service Fund	<u>1,000</u>
Total		<u>\$ 31,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

The detail of interfund loans as of June 30, 2011 is as follows:

<u>Receivable at</u>	<u>Payable from</u>	<u>Amount</u>
General Fund	Road Use Tax Fund	\$ 53,840
General Fund	Sewer Fund	337,246
Sewer Fund	Debt Service Fund	1,847

Note 5 Property taxes

Property tax revenues have been recorded on the "cash basis", therefore, only property tax distributions received on or before June 30, 2011, are shown in the combined financial statements. Property taxes attach as an enforceable lien on property as of January 1. A certified copy of the levy ordinance is filed with the Scott County Auditor no later than the 15th day of March, and the county auditor extends the tax and the county treasurer collects the tax. This tax levy ordinance was adopted by the City on March 9, 2010. Taxes are due and payable in two installments established by statute (March 30 and September 30) and are collected primarily in these months. The county bills and collects all property taxes within its borders and then forwards the tax collected to the City.

A debt service levy of \$ 1.66863 per thousand valuation was imposed by the Council effective with the levy certified as of March of 2008 and became collectible during the year ended June 30, 2009, to provide the resources for the general obligation bond debt service.

Note 6 Pension plan

The City contributes to the Iowa Public Employees Retirement System (IPERS), 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 the Iowa Public Employees Retirement System, P.O. Box 9117 Des Moines, IA 50306-9117.

NOTES TO FINANCIAL STATEMENTS

Note 6 Pension plan, continued

Regular plan members are required to contribute 4.5 percent of their annual covered salary, with the City contributing 6.95 percent. Part time police members contribution rates are 6.64 percent with the City contributing 9.95 percent. Contribution requirements are established by state statute. The City's contribution to IPERS, which was equal to the required contribution, was \$ 12,142, \$ 11,222 and \$10,387 for the years ended June 30, 2011, 2010 and 2009, respectively.

Note 7 Risk management

The City 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 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 coverage in any of the past three years.

Note 8 Segment reporting

The GASB Statement Numbers 34 and 37 require reporting of certain condensed financial information on all major business type activities funds. All of this information can be found in the financial statements of individual funds, for the Water fund on page 44, Sewer fund on page 45, and the Electric fund on page 46.

Note 9 Compensated absences

City employees accumulate an unlimited 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 liability for earned vacation and sick leave termination payments payable to employees is split among the general, road use and enterprise funds and based on rates of pay as of that date.

The total accumulated compensated absences as of June 30, 2011 is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,564
Sick leave	30,207
Compensatory time in lieu of overtime	<u>1,341</u>
Total	<u>\$ 37,112</u>

NOTES TO FINANCIAL STATEMENTS

Note 10 Commitments and contingencies

The City as of June 30, 2011 is obligated for the purchase of a new mower. The City in consultation with the State Department of Natural Resources, has selected the site for the drilling of a second water well.

Note 11 Subsequent events

The City has evaluated events and transactions through February 6, 2012 in preparing these financial statements.

The City, jointly with the City of Eldridge and Scott County, completed construction of a bike path linking Eldridge to Long Grove, subsequent to the report date. The City's local cost sharing match was funded through the Local Option Sales Tax Fund. During September, 2011, the City signed a maintenance agreement with City of Eldridge for the entire length of the path, with the City's obligation extending beyond the City's borders to include part of the non-incorporated area the path traversed.

The City dropped the group health insurance plan for employees during August, 2011, changing to a plan to reimburse each employee their individual premium cost up to \$10,500 a year.

In September, 2011, the City signed a contract for \$ 114,129 to remove and dispose of sewage lagoon sludge.

Note 12 Overall budgetary comparison

The City's budgetary compliance is presented on page 24 for all Governmental and Proprietary funds.

CITY OF LONG GROVE, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - CASH BASIS - ALL GOVERNMENTAL AND PROPRIETARY FUNDS

Required Supplementary Information

For the Year Ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property taxes	\$ 286,268	\$ ---	\$ 286,268	\$ 284,689	\$ 284,689	\$ 1,579
Other city tax	79,911	---	79,911	73,600	73,600	6,311
Licenses and permits	5,225	---	5,225	2,800	2,800	2,425
Use of money and property	5,645	12,160	17,805	13,900	13,900	3,905
Intergovernmental	63,118	---	63,118	55,130	55,130	7,988
Charges for service	10,272	606,209	616,481	637,565	637,565	(21,084)
Miscellaneous	60	23,844	23,904	8,665	8,665	15,239
Total receipts	450,499	642,213	1,092,712	1,076,349	1,076,349	16,363
Disbursements:						
Public safety	66,136	---	66,136	66,668	66,668	532
Public works	149,725	---	149,725	100,130	100,130	(49,595)
Culture and recreation	46,504	---	46,504	44,452	44,452	(2,052)
Community and economic development	2,368	---	2,368	9,500	9,500	7,132
General government	53,996	---	53,996	45,589	45,589	(8,407)
Debt service paid	75,664	75,663	151,327	146,301	146,301	(5,026)
Capital projects	---	---	---	140,833	140,833	140,833
Business type activities	---	537,787	537,787	745,900	745,900	208,113
Total disbursements	394,393	613,450	1,007,843	1,299,373	1,299,373	291,530
Excess of receipts over disbursements	56,106	28,763	84,869	(223,024)	(223,024)	307,893
Other financing sources (uses):						
Transfers (out)	(31,000)	---	(31,000)	(75,663)	(75,663)	44,663
Transfers in	1,000	30,000	31,000	60,870	60,870	(29,870)
Total other financing sources (uses)	(30,000)	30,000	---	(14,793)	(14,793)	14,793
Excess of receipts and other financing sources over disbursements and other (uses)	26,106	58,763	84,869	(237,817)	(237,817)	322,686
Fund balances, beginning of year	476,373	1,007,806	1,484,179	1,484,179	1,484,179	1,484,179
Fund balances, end of year	\$ 502,479	\$ 1,066,569	\$ 1,569,048	\$ 1,246,362	\$ 1,246,362	\$ 1,806,865

See accompanying notes to the basic financial statements.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGETARY REPORTING

June 30, 2011

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 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 its 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. 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 required to be budgeted include disbursements for the general fund, the special revenue funds, the debt service fund and all enterprise 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 no budget amendments were enacted.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions.

**CITY OF LONG GROVE, IOWA
SCHEDULE OF INDEBTEDNESS**

For the Year Ended June 30, 2011

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation bonds: Sewer construction	May 14, 2008	3.00%	\$ 1,088,000	\$ 1,005,000	\$ 43,000	\$ 962,000	\$ 30,152	\$ ----
Revenue notes: Sewer	May 14, 2008	3.00%	\$ 1,088,000	\$ 1,005,000	\$ 43,000	\$ 962,000	\$ 30,150	\$ ----

BOND AND NOTE MATURITIES

June 30, 2011

GENERAL OBLIGATION BONDS

Sewer Construction Issued June 4, 2008

Interest Rate

REVENUE NOTES

Sewer Construction Issued June 4, 2008

Interest Rate

Year Ending June 30	Rate	Amount	Total	Interest Rate	Amount	Total
2012	3.00%	\$ 44,000	\$ 44,000	3.00%	\$ 44,000	\$ 44,000
2013	3.00%	46,000	46,000	3.00%	46,000	46,000
2014	3.00%	47,000	47,000	3.00%	47,000	47,000
2015	3.00%	48,000	48,000	3.00%	48,000	48,000
2016	3.00%	50,000	50,000	3.00%	50,000	50,000
2017	3.00%	51,000	51,000	3.00%	51,000	51,000
2018	3.00%	53,000	53,000	3.00%	53,000	53,000
2019	3.00%	54,000	54,000	3.00%	54,000	54,000
2020	3.00%	56,000	56,000	3.00%	56,000	56,000
2021	3.00%	58,000	58,000	3.00%	58,000	58,000
2022	3.00%	59,000	59,000	3.00%	59,000	59,000
2023	3.00%	61,000	61,000	3.00%	61,000	61,000
2024	3.00%	63,000	63,000	3.00%	63,000	63,000
2025	3.00%	65,000	65,000	3.00%	65,000	65,000
2026	3.00%	67,000	67,000	3.00%	67,000	67,000
2027	3.00%	69,000	69,000	3.00%	69,000	69,000
2028	3.00%	71,000	71,000	3.00%	71,000	71,000
Totals		\$ 962,000	\$ 962,000		\$ 962,000	\$ 962,000

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

SCHEDULE OF RECEIPTS AND DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS

For the Last Seven Years

	2011	2010	2009	2008	Unaudited 2007	2006	Unaudited 2005
Receipts:							
Property taxes	\$ 286,268	\$ 276,635	\$ 233,982	\$ 173,775	\$ 173,421	\$ 171,966	\$ 159,947
Other city tax	79,911	75,809	78,910	84,008	80,152	66,739	67,806
Licenses and permits	5,225	3,350	6,637	3,293	5,455	8,154	26,006
Use of money and property	5,645	7,509	7,429	12,806	1,694	9,329	2,728
Intergovernmental	63,118	55,379	56,910	60,159	49,757	50,076	50,278
Charges for service	10,272	9,485	7,154	15,172	16,660	6,702	6,606
Miscellaneous	60	1,081	866	1,401	772	12,656	8,287
Total receipts	\$ 450,499	\$ 429,248	\$ 391,888	\$ 350,614	\$ 327,911	\$ 325,622	\$ 321,658
Disbursements:							
Operating:							
Public safety	\$ 66,136	\$ 25,087	\$ 32,951	\$ 34,505	\$ 23,113	\$ 31,421	\$ 28,388
Public works	149,725	134,211	140,417	171,812	104,830	87,808	87,982
Culture and recreation	46,504	32,859	40,392	40,333	36,345	20,520	41,221
Community and economic development	2,368	2,375	2,710	2,548	113	4,889	4,138
General government	53,996	45,656	38,763	43,577	42,546	36,802	26,626
Debt service	75,664	75,980	71,504	---	---	---	---
Capital projects	---	---	---	---	25,961	63,871	115,120
Total disbursements	\$ 394,393	\$ 316,168	\$ 326,737	\$ 292,775	\$ 232,908	\$ 245,311	\$ 303,475

See accompanying independent auditor's report.

Tom Engelmann, CPA

1111 East River Drive, Davenport, Iowa 52803
(563) 323-3568 FAX (563) 326-6204

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 Mayor and City Council
City of Long Grove, Iowa
Long Grove, Iowa

I have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Long Grove, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated February 6, 2012. My report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; 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 my audit, I considered the City of Long Grove, Iowa's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. A material weakness is a significant deficiency or combination of significant deficiencies that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

I noted one matter involving the internal control over financial reporting and its operation that I consider to be a significant deficiency:

SEGREGATION OF DUTIES

During my audit I noted the City has a lack of segregation of duties due to its size and staffing levels. As hiring additional employees to possibly circumvent this situation is not usually cost-beneficial, I recommend the City Council maintain appropriate oversight of management to ensure adequate controls in this area.

I also noted other matters involving the internal control over financial reporting, which included control deficiencies that I have reported to management of the City of Long Grove, Iowa, in a separate letter dated February 6, 2012.

Compliance and other matters

As part of obtaining reasonable assurance about whether the City of Long Grove's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City of Long Grove, Iowa. Since my 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 the City of Long Grove, Iowa, and other parties to whom the City of Long Grove, Iowa, may report, and is not intended to be and should not be used by anyone other than those specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Long Grove during the course of my audit. Should you have any questions concerning any of the above matters, I would be pleased to discuss them with you at your convenience.


Davenport, Iowa
February 6, 2012

CITY OF LONG GROVE, IOWA
SCHEDULE OF FINDINGS

June 30, 2011

Findings related to the Financial Statements:

Significant Deficiency:

2010-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. I noted that certain functions are not entirely segregated.

Recommendation – I 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 controls possible under the circumstance. The Council also needs to maintain proper oversight over management to ensure controls are actually occurring.

Response – We will review our internal control procedures.

Conclusion – Response acknowledged.

Instances of Non- Compliance:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

2011 -1 Certified budget – Disbursements during the year ended June 30, 2011 exceeded the budget in the public works, culture and recreation, general government and debt service functions.

2011 -2 Questionable disbursements – I noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2011 -3 Travel expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

2011 -4 Business transactions – No transactions between the City and City officials and employees were noted.

2011 -5 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.

2011 -6 Council minutes – No transactions were found that I believe should have been approved in the Council minutes but were not.

SCHEDULE OF FINDINGS

Other Findings related to Statutory Reporting (continued):

- 2011 -7 Deposits and investments – I 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.
- 2011 -8 Revenue bonds – No instances of non-compliance with the revenue bond resolution were noted.
- 2011 -9 Financial conditions – Various funds (Road Use Tax and Sewer) have utilized the common cash pool maintained by the City to temporarily borrow from the General Fund for a total of \$ 391,086 as of June 30, 2011. In addition the Debt Service Fund has borrowed \$ 1,847 from the Sewer Fund as of June 30, 2011. At the same time the Sewer Fund continues to hold certificates of deposit.

Recommendations – The City should carefully consider the cash flow needs of the Sewer Fund to begin payments to the General Fund. Utilize not only the checking account but the balance of the certificates of deposit it holds to repay as much of the debt it owes to the General Fund, as considered prudent. It appears these actions would allow the Sewer Fund to repay approximately \$ 200,000 of its interfund loan to the General Fund. The Road Use Tax Fund should either curtail some road projects in the future to allow for the accumulation of cash to repay its obligation to the General Fund of \$ 53,840, or it can also 'transfer' some of the bank certificates of deposit it holds to the General Fund to reduce / eliminate this loan.

Response – We will review the recommendations made and work to reduce/ eliminate the interfund borrowing in the future.

Conclusion – Response accepted.

- 2011 -10 Financial condition – The Sewer Fund currently owes \$ 337,246 to the General Fund, mostly in relation to additional costs related to the completion of the new wastewater treatment plant project. Even all of the actions taken in the prior finding would only reduce that loan to about \$ 137,000. And there are still some costs associated with the new treatment plant to be paid by the City.

Recommendations – The City should reduce expenditures in the Sewer Fund to the minimum necessary to allow for repayment of this debt in some reasonable time frame.

Response – We will create a repayment schedule for this loan in the future.

Conclusion – Response accepted.

CITY OF LONG GROVE, IOWA

COMPARATIVE STATEMENT OF ASSETS AND LIABILITIES
CASH BASIS

GENERAL FUND

June 30, 2011 and 2010

	June 30,	
	2011	2010
<i>ASSETS</i>		
Cash	\$ 47,426	\$ 28,885
Certificates of deposit	17,404	17,117
Total	<u>\$ 64,830</u>	<u>\$ 46,002</u>
 <i>FUND EQUITY</i>		
Total fund balance	<u>\$ 64,830</u>	<u>\$ 46,002</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET

GENERAL FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance- favorable (unfavorable)	2010
	Final Budget	Actual		Actual
Receipts				
Property taxes	\$ 209,026	\$ 211,093	\$ 2,067	\$ 201,334
Franchise fees	3,600	2,476	(1,124)	3,035
Fines	---	60	60	81
Building and construction	2,400	4,835	2,435	2,911
Miscellaneous charges	1,000	8,402	7,402	8,160
Alcohol control	400	390	(10)	439
Grant received	---	---	---	1,000
Interest	1,000	2,967	1,967	3,630
Charges / fees	1,500	1,870	370	1,325
Total receipts	<u>\$ 218,926</u>	<u>232,093</u>	<u>\$ 13,167</u>	<u>221,915</u>
Operating disbursements				
Public safety	66,668	66,136	532	25,087
Public works	45,000	45,261	(261)	47,273
Culture and recreation	44,452	46,504	(2,052)	32,859
Community and economic development	9,500	2,368	7,132	2,375
General government	45,589	53,996	(8,407)	45,656
Total operating disbursements	<u>\$ 211,209</u>	<u>214,265</u>	<u>\$ (3,056)</u>	<u>153,250</u>
Excess of receipts over disbursements		17,828		68,665
Other financing sources (uses)				
Operating transfers in	\$ ---	1,000	\$ 1,000	---
Interfund borrowing	---	---	---	(65,444)
Operating transfers (out)	(75,663)	---	(75,663)	(32,847)
Total other financing sources (uses)	<u>\$ (75,663)</u>	<u>1,000</u>	<u>\$ (74,663)</u>	<u>(98,291)</u>
Net change in cash balances		18,828		(29,626)
Cash balance, beginning of year		<u>46,002</u>		<u>75,628</u>
Cash balance, end of year		<u>\$ 64,830</u>		<u>\$ 46,002</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF DISBURSEMENTS, BY FUNCTION
CASH BASIS - COMPARED TO BUDGET

GENERAL FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
<i>Public safety & public works</i>				
<i>Police Operations</i>				
Salaries	\$ 16,800	\$ 13,087	\$ 3,713	\$ 4,095
Other benefits	300	170	130	---
Taser	---	916	(916)	---
Vehicle operations	31,937	32,464	(527)	2,187
Electric and gas	700	250	450	768
Court and record	150	35	115	318
Office supplies	1,100	3,533	(2,433)	2,602
Total police operations	<u>50,987</u>	<u>50,455</u>	<u>532</u>	<u>9,970</u>
<i>Fire Department</i>				
Other Contractual services	<u>15,681</u>	<u>15,681</u>	<u>---</u>	<u>15,117</u>
Total public safety	<u>\$ 66,668</u>	<u>\$ 66,136</u>	<u>\$ 532</u>	<u>\$ 25,087</u>
<i>Public Works</i>				
Garbage collection services	<u>45,000</u>	<u>45,261</u>	<u>(261)</u>	<u>47,273</u>
Total public works	<u>\$ 45,000</u>	<u>\$ 45,261</u>	<u>\$ (261)</u>	<u>\$ 47,273</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF DISBURSEMENTS, BY FUNCTION
CASH BASIS - COMPARED TO BUDGET

GENERAL FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance- favorable (unfavorable)	2010 Actual
	Final Budget	Actual		
<i>Culture and recreation: Community and economic development</i>				
<i>Culture and recreation</i>				
Library				
Other contractual services	\$ 21,582	\$ 21,582	\$ ---	\$ 20,835
Parks				
Grounds maintenance	10,000	6,011	3,989	5,456
Other maintenance	10,000	16,041	(6,041)	3,568
Total parks	20,000	22,052	(2,052)	9,024
Community center				
Other contractual services	2,870	2,870	---	3,000
Total culture and recreation	\$ 44,452	\$ 46,504	\$ (2,052)	\$ 32,859
<i>Community and economic development</i>				
Community beautification				
Community beautification	\$ 1,500	\$ 166	\$ 1,334	\$ 456
Economic development				
Printing and publications	8,000	2,202	5,798	1,919
Total community and economic development	\$ 9,500	\$ 2,368	\$ 7,132	\$ 2,375

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

**STATEMENT OF DISBURSEMENTS, BY FUNCTION
CASH BASIS - COMPARED TO BUDGET**

GENERAL FUND

For the Year Ended June 30, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
<i>General government</i>				
Mayor, Council and city manager Other pay	\$ 6,000	\$ 6,135	\$ (135)	\$ 5,558
Clerk, treasurer				
Salaries	16,779	17,283	(504)	15,308
Payroll taxes	1,140	1,046	94	4,029
Iowa public employees retirement	1,050	691	359	888
Other benefits	2,500	1,003	1,497	2,516
Meetings and conferences	2,000	3,482	(1,482)	714
Total clerk, treasurer	23,469	23,505	(36)	23,455
Elections				
Payments to others	---	2,273	(2,273)	1,391
City attorney				
Legal expense	2,300	1,444	856	2,043
City hall				
Utilities	3,220	466	2,754	2,508
Maintenance and repairs	1,500	4,634	(3,134)	362
Printing and publications	1,500	4,295	(2,795)	1,683
Office supplies	3,500	6,440	(2,940)	4,945
Office equipment	---	276	(276)	---
Total city hall	9,720	16,111	(6,391)	9,498
Tort liability				
Insurance expense	4,100	4,528	(428)	3,711
Total general government	\$ 45,589	\$ 53,996	\$ (8,407)	\$ 45,656

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

COMBINING STATEMENT OF ASSETS, LIABILITIES AND FUND BALANCES
CASH BASIS

SPECIAL REVENUE FUNDS

June 30, 2011 and 2010

	Road Use Tax Fund	Local Option Sales Tax	June 30,	
			2011	2010
ASSETS				
Cash	\$ (15,204)	\$ 221,360	\$ 206,156	\$ 169,648
Certificates of deposit	80,341	150,467	230,808	228,549
Total	\$ 65,137	\$ 371,827	\$ 436,964	\$ 398,197
FUND BALANCES				
Fund balance - restricted	65,137	371,827	436,964	398,197
Total fund balances	\$ 65,137	\$ 371,827	\$ 436,964	\$ 398,197

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE

SPECIAL REVENUE FUNDS

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	Road Use Tax	Local Option Sales Tax	Totals	
			2011	2010
Receipts				
Road use taxes	\$ 63,118	\$ ---	\$ 63,118	\$ 52,771
Sales taxes	---	77,435	77,435	72,774
Grant received	---	---	---	2,608
Interest	1,132	1,546	2,678	3,873
Total receipts	<u>64,250</u>	<u>78,981</u>	<u>143,231</u>	<u>132,026</u>
Operating disbursements				
Roads, bridges, sidewalks	78,322	---	78,322	66,896
Capital projects	---	26,142	26,142	20,042
Total operating disbursements	<u>78,322</u>	<u>26,142</u>	<u>104,464</u>	<u>86,938</u>
Excess (deficiency) of receipts over disbursements	(14,072)	52,839	38,767	45,088
Other financing sources (uses)				
Interfund borrowing	---	---	---	11,518
Total other financing sources (uses)	<u>---</u>	<u>---</u>	<u>---</u>	<u>11,518</u>
Net change in cash balances	(14,072)	52,839	38,767	56,606
Cash balance, beginning of year	<u>79,209</u>	<u>318,988</u>	<u>398,197</u>	<u>341,591</u>
Cash balance, end of year	<u>\$ 65,137</u>	<u>\$ 371,827</u>	<u>\$ 436,964</u>	<u>\$ 398,197</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET

ROAD USE TAX FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
Receipts				
Road use taxes	\$ 55,130	\$ 63,118	\$ 7,988	\$ 52,771
Grant received	---	---	---	2,608
Interest	---	1,132	1,132	1,440
Total receipts	<u>\$ 55,130</u>	<u>64,250</u>	<u>\$ 9,120</u>	<u>56,819</u>
Operating disbursements				
Salaries	\$ 27,000	26,683	\$ 317	25,294
Payroll taxes	2,065	1,862	203	2,019
Iowa public employees retirement	1,800	1,707	93	1,557
Vehicle operations	7,890	9,097	(1,207)	8,246
Other maintenance and repairs	---	2,292	(2,292)	778
Payments to others	---	3,670	(3,670)	4,197
Street maintenance	5,875	13,089	(7,214)	8,662
Posts / signs	500	190	310	---
Streets	10,000	19,732	(9,732)	16,143
Total operating disbursements	<u>\$ 55,130</u>	<u>78,322</u>	<u>\$ (23,192)</u>	<u>66,896</u>
(Deficiency) of receipts over operating disbursements		(14,072)		(10,077)
Other financing sources				
Interfund borrowing	---	---	---	11,518
Net change in cash balances		(14,072)		1,441
Cash balance, beginning of year		<u>79,209</u>		<u>77,768</u>
Cash balance, end of year		<u>\$ 65,137</u>		<u>\$ 79,209</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET

LOCAL OPTION SALES TAX FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
Receipts				
Local option sales tax	\$ 70,000	\$ 77,435	\$ 7,435	\$ 72,774
Interest	2,300	1,546	(754)	2,433
Total receipts	<u>\$ 72,300</u>	<u>78,981</u>	<u>\$ 6,681</u>	<u>75,207</u>
Operating disbursements				
Capital projects				
Other capital / equipment	\$ 14,800	7,495	\$ 7,305	4,281
Infrastructure	8,000	---	8,000	---
Other capital outlay	118,033	18,647	99,386	15,761
Total operating disbursements	<u>\$ 140,833</u>	<u>26,142</u>	<u>\$ 114,691</u>	<u>20,042</u>
Net change in cash balances		52,839		55,165
Cash balance, beginning of year		<u>318,988</u>		<u>263,823</u>
Cash balance, end of year		<u>\$ 371,827</u>		<u>\$ 318,988</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET

DEBT SERVICE FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011		Variance- favorable (unfavorable)	Actual Actual
	Final Budget	Actual		
Receipts				
Property taxes	\$ 75,663	75,175	\$ 488	\$ 75,301
Interest	---	---	---	6
Total receipts	<u>\$ 75,663</u>	<u>75,175</u>	<u>\$ 488</u>	<u>75,307</u>
Operating disbursements				
Debt service paid				
Principal paid	\$ 43,000	43,000	\$ ---	42,000
Interest paid	30,151	32,664	(2,513)	33,980
Total operating disbursements	<u>\$ 73,151</u>	<u>75,664</u>	<u>\$ (2,513)</u>	<u>75,980</u>
(Deficiency) of receipts over operating disbursements		(489)		(673)
Other financing sources (uses)				
Transfers in (out)	<u>\$ ---</u>	<u>(31,000)</u>	<u>\$ 31,000</u>	<u>32,847</u>
Net change in cash balances		(31,489)		32,174
Cash balance, beginning of year		<u>32,174</u>		<u>---</u>
Cash balance, end of year		<u>\$ 685</u>		<u>\$ 32,174</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

COMBINING STATEMENT OF ASSETS AND NET ASSETS
CASH BASIS

PROPRIETARY FUNDS

June 30, 2011 and 2010

	Water Fund	Sewer Fund	Electric Fund	Totals	
				2011	2010
ASSETS					
Cash	\$ 208,209	\$ 45,540	\$ 104,516	\$ 358,265	\$ 310,257
Certificates of deposit - unrestricted	156,024	149,733	322,307	628,064	618,801
Certificates of deposit - sinking funds	23,282	25,064	31,894	80,240	78,748
Total assets	<u>\$ 387,515</u>	<u>\$ 220,337</u>	<u>\$ 458,717</u>	<u>\$ 1,066,569</u>	<u>\$ 1,007,806</u>
NET ASSETS					
<i>Net assets</i>					
Undesignated, unreserved	<u>\$ 387,515</u>	<u>\$ 220,337</u>	<u>\$ 458,717</u>	<u>\$ 1,066,569</u>	<u>\$ 1,007,806</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE

PROPRIETARY FUNDS

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	Water	Sewer	Electric	Totals	
	Fund	Fund	Fund	2011	2010
Receipts					
Charges for service	\$ 97,485	\$ 179,376	\$ 329,348	\$ 606,209	\$ 613,828
Miscellaneous	7,935	14,385	1,524	23,844	7,941
Total receipts	105,420	193,761	330,872	630,053	621,769
Operating disbursements					
Salaries and benefits	51,771	51,771	51,772	155,314	164,561
Meetings / training	1,706	2,056	1,027	4,789	4,187
Utilities	666	611	---	1,277	17,066
Maintenance and repairs	10,844	20,278	7,614	38,736	21,186
Insurance	4,528	4,528	4,528	13,584	11,951
Wholesale power purchased	---	---	241,492	241,492	233,171
Other office expenses	11,206	8,825	4,884	24,918	34,393
Capital expenditures	22,459	14,568	20,650	57,677	81,393
Total operating disbursements	103,180	102,640	331,967	537,787	567,908
Excess of receipts over operating disbursements	2,240	91,121	(1,095)	92,266	53,861
Non-operating receipts (disbursements)					
Interest on investments	4,045	2,585	5,530	12,160	11,845
Bond proceeds received	---	---	---	---	5,000
Interfund borrowing	---	---	---	---	53,926
Transfers in (out)	---	30,000	---	30,000	---
Debt service paid	---	(75,663)	---	(75,663)	(76,130)
Net non-operating receipts (disbursements)	4,045	(43,078)	5,530	(33,503)	(5,359)
Net change in cash balances	6,285	48,043	4,435	58,763	48,502
Cash balance, beginning of year	381,230	172,294	454,282	1,007,806	959,304
Cash balance, end of year	\$ 387,515	\$ 220,337	\$ 458,717	\$ 1,066,569	\$ 1,007,806

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET

WATER FUND

For the Year Ended June 30, 2011

With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
Receipts				
Water sales	\$ 127,065	\$ 97,485	\$ (29,580)	\$ 103,436
Miscellaneous	7,935	7,935	---	7,935
Total receipts	<u>\$ 135,000</u>	<u>105,420</u>	<u>\$ (29,580)</u>	<u>111,371</u>
Operating disbursements				
Salaries	\$ 44,000	40,910	\$ 3,090	40,833
Payroll taxes	3,400	3,171	229	3,720
Iowa public employees retirement	3,000	2,232	768	2,760
Employee insurance	8,900	5,459	3,441	7,658
Meetings and conferences	1,500	1,706	(206)	1,334
Utilities	4,000	666	3,334	4,441
Other maintenance and repairs	10,000	2,406	7,594	2,939
Sales tax	---	1,188	(1,188)	---
Engineering	1,000	7,250	(6,250)	---
Insurance	4,100	4,528	(428)	3,711
Legal	1,500	1,444	56	2,280
Testing	2,500	2,697	(197)	2,152
Office supplies	3,500	7,064	(3,564)	12,571
Meter replacement	12,000	---	12,000	---
Other capital expenditures	40,300	22,459	17,841	---
Total operating disbursements	<u>\$ 139,700</u>	<u>103,180</u>	<u>\$ 36,520</u>	<u>84,399</u>
Excess of receipts over operating disbursements		2,240		26,972
Non-operating receipts				
Interest on investments	<u>\$ 2,700</u>	<u>4,045</u>	<u>\$ 1,345</u>	<u>3,452</u>
Net change in cash balances		6,285		30,424
Cash balance, beginning of year		<u>381,230</u>		<u>350,806</u>
Cash balance, end of year		<u>\$ 387,515</u>		<u>\$ 381,230</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET

SEWER FUND

For the Year Ended June 30, 2011
 With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
Receipts				
Sewer sales	\$ 183,000	\$ 179,376	\$ (3,624)	\$ 181,882
Miscellaneous	---	14,385	(14,385)	---
Total receipts	<u>\$ 183,000</u>	<u>193,761</u>	<u>\$ (18,009)</u>	<u>181,882</u>
Operating disbursements				
Salaries	\$ 44,000	40,910	\$ 3,090	40,028
Payroll taxes	3,400	3,171	229	3,809
Iowa public employees retirement	3,000	2,232	768	2,898
Employee insurance	8,900	5,459	3,441	7,658
Meetings and conferences	1,500	2,056	(556)	1,131
Utilities	12,000	611	11,389	12,625
Other maintenance and repairs	20,000	9,113	10,887	7,979
Sales tax	---	1,797	(1,797)	---
Engineering	1,000	9,369	(8,369)	---
Insurance	7,000	4,528	2,472	4,529
Legal	1,500	1,444	56	2,205
Testing	5,000	3,161	1,839	3,856
Office supplies	3,000	4,221	(1,221)	4,155
Other capital expenditures	104,000	14,568	89,432	73,805
Total operating disbursements	<u>\$ 214,300</u>	<u>102,640</u>	<u>\$ 111,660</u>	<u>164,678</u>
Excess of receipts over operating disbursements		91,121		17,204
Non-operating receipts (disbursements)				
Interest on investments	\$ 2,600	2,585	\$ (15)	3,053
Advances on loan	---	---	---	5,000
Interfund borrowing	---	---	---	53,926
Transfers in	---	30,000	30,000	---
Debt service principal paid	(43,000)	(43,000)	---	(42,000)
Debt service interest paid	(30,150)	(32,663)	(2,513)	(34,130)
Net non-operating (disbursements)	<u>\$ (70,550)</u>	<u>(43,078)</u>	<u>\$ 27,472</u>	<u>(14,151)</u>
Net change in cash balances		48,043		3,053
Cash balance, beginning of year		<u>172,294</u>		<u>169,241</u>
Cash balance, end of year		<u>\$ 220,337</u>		<u>\$ 172,294</u>

See accompanying independent auditor's report.

CITY OF LONG GROVE, IOWA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
AND CHANGES IN CASH BALANCE
COMPARED TO BUDGET
ELECTRIC FUND

For the Year Ended June 30, 2011
With Comparative Actual Amounts for the Year Ended June 30, 2010

	2011			2010 Actual
	Final Budget	Actual	Variance- favorable (unfavorable)	
Receipts				
Electric sales	\$ 325,000	\$ 329,348	\$ 4,348	\$ 328,510
Miscellaneous	730	1,524	794	6
Total receipts	<u>\$ 325,730</u>	<u>330,872</u>	<u>\$ 5,142</u>	<u>328,516</u>
Operating disbursements				
Salaries	\$ 44,000	40,910	\$ 3,090	40,430
Payroll taxes	3,400	3,171	229	4,314
Iowa public employees retirement	3,000	2,232	768	2,764
Employee insurance	8,900	5,459	3,441	7,689
Meetings and conferences	1,500	1,027	473	1,722
Other maintenance and repairs	10,000	7,345	2,655	10,268
Sales tax	---	269	(269)	---
Engineering	4,000	---	4,000	---
Insurance	4,100	4,528	(428)	3,711
Legal	1,500	1,444	56	2,655
Testing	4,000	350	3,650	438
Wholesale power	232,000	241,492	(9,492)	233,171
Office supplies	3,500	3,090	410	4,081
Other capital expenditures	---	4,571	(4,571)	2,134
Other capital outlays	72,000	16,079	55,921	5,454
Total operating disbursements	<u>\$ 391,900</u>	<u>331,967</u>	<u>\$ 59,933</u>	<u>318,831</u>
Excess of receipts over operating disbursements		(1,095)		9,685
Non-operating receipts				
Interest on investments	\$ 5,300	5,530	\$ 230	5,340
Transfers in (out)	60,870	---	(60,870)	---
Total non-operating receipts	<u>\$ 66,170</u>	<u>5,530</u>	<u>\$ (60,640)</u>	<u>5,340</u>
Net change in cash balances		4,435		15,025
Cash balance, beginning of year		<u>454,282</u>		<u>439,257</u>
Cash balance, end of year		<u>\$ 458,717</u>		<u>\$ 454,282</u>

See accompanying independent auditor's report.

TOM ENGELMANN, CPA

1111 East River Drive, Davenport, Iowa 52803
(563) 323-3568 FAX (563) 326-6204

To the Mayor and City Council
City of Long Grove, Iowa
Long Grove, Iowa

I have audited the financial statements of the City of Long Grove, Iowa for the year ended June 30, 2011, and have issued my report dated February 6, 2012. Professional standards require that I provide you with the following information related to my audit.

My responsibility under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133.

As stated in my engagement letter of May 13, 2011, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with cash basis accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute, assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

In planning and performing my audit, I considered the City's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I 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 my audit. While my audit provides a reasonable basis for my opinion, it does not provide a legal determination of the City's compliance with those requirements.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies of the City of Long Grove, Iowa, are described in Note 1 of the financial statements.

I noted the only significant and unusual transactions entered into by the City during the year involved the payment on the bonds incurred in relation to the new wastewater treatment plant.

Accounting Estimates

Accounting estimates are in integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility of future events affecting them may differ significantly from those expected. The most significant estimate affecting the financial statements involves the completion and initiation into use of the new wastewater treatment plant completed last year. Management's estimate is based on final completion dates and timelines from the State of Iowa Department of Natural Resources approval for operation. I evaluated the key factors and assumptions used to develop this estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the City's financial reporting process (that is, cause future financial statements to be materially misstated). The only significant audit adjustments were recorded in relation to recording interest on investments. In my judgment, these adjustments indicate matters that might have a significant effect on the City's financial reporting process.

Disagreements with management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all of the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues discussed prior to retention of Independent Auditors

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

Difficulties encountered in performing the audit

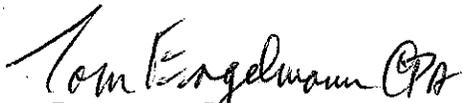
I encountered no significant difficulties in dealing with management in performing and completing my audit.

Other comments

I have included additional comments regarding the financial statements and operations. These comments are not a result of in-depth study of any specific areas but are based on observations made during the course of my audit. My observations indicate that the overall financial operations of the City continue to be conducted in an efficient and effective manner.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Long Grove, Iowa, and other parties to whom the City of Long Grove, Iowa, may report, and is not intended to be and should not be used by anyone other than those specified parties.

I will be happy to discuss these or any other topics at your convenience. I would like to take this opportunity to express my appreciation to you and your staff for the fine cooperation that I received during the course of the audit.


Davenport, Iowa
February 6, 2012

**CITY OF LONG GROVE, IOWA
OTHER COMMENTS**

June 30, 2011

SEGREGATION OF DUTIES

During my audit I noted the City has a lack of segregation of duties due to its size and staffing levels. As hiring additional employees to possibly circumvent this situation is not usually cost-beneficial, I recommend the City Council maintain appropriate oversight of management to ensure adequate controls in this area. In addition, I recommend the City review its internal control procedures to obtain the maximum internal control possible under the circumstances.

OUTSTANDING CHECKS

During my audit I noted the City continues to have numerous old outstanding checks on the bank reconciliation, some from several years ago. The State of Iowa has an escheat law governing outstanding items that needs to be observed. I recommend that staff invest the time necessary to completely identify all checks on the list. Then investigate all checks that have been voided, actually cleared the bank, or are duplicates, eliminating them from the list if appropriate. After all appropriate corrections / deletions have been made, anything older than required by the State of Iowa escheat law needs to be remitted to the State with appropriate explanation.

INTERFUND LOANS

During my audit I noted that several of the City's funds had utilized the common cash pool maintained by the City to borrow cash from each other. This temporary use of cash needs to be either repaid or forgiven. Listed below are the interfund loans in total as of June 30, 2011:

Receivable at		Payable from	
General Fund	\$ 53,840	Road Use Tax Fund	53,840
General Fund	337,246	Sewer Fund	337,246
Sewer Fund	1,847	Debt Service Fund	1,847

At the same time several of these funds own certificates of deposit or accumulated cash on hand. Listed below are available cash / certificate balances as of June 30, 2011:

Road Use Tax Fund Certificates of deposit	\$ 80,341
Sewer Fund Certificates of deposit	174,796

INTERFUND LOANS, CONTINUED

I would recommend the following actions be taken to repay these loans:

- 1) The Sewer Fund repay \$ 30,000 of its loan to the General Fund using checking cash.
- 2) The Sewer Fund repay another \$ 170,000 of its loan to the General Fund by 'transferring' that much of its bank Certificates of deposit to the General Fund.
- 3) The Road Use Tax Fund repay \$ 50,000 of its loan to the General Fund by 'transferring' that much of its bank Certificates of deposit to the General Fund.

Please note most of these are partial payments. If you choose, you could pay off more of several loans. These are for sample purposes only.

The end result would be the following interfund loan balances:

Receivable at		Payable from	
General Fund	\$ 3,840	Road Use Tax Fund	\$ 3,840
General Fund	137,246	Sewer Fund	137,246
Sewer Fund	1,847	Debt Service Fund	1,847

The City would end up with \$ 250,000 more 'cash' in the General Fund to allow for better cash flow purposes and still allow for flexibility in the other funds.

Subsequent to these actions, I would recommend the three 'debtor funds' (Road Use, Debt Service & Sewer), all attempt to 'pay off' these loans as soon as possible. I will list some options for the each of the three funds.

For Road Use Tax – Attempt to reduce / control construction projects to allow for the accumulation of at least \$ 10,000 in cash – then pay off the balance due of \$ 3,840 to the General Fund.

For Debt Service – The principal and interest payments made are still running slightly ahead of the tax levy. This loan might have to wait till enough excess cash can accumulate to pay off the balance of its \$ 1,847 to the Sewer Fund.

For Sewer Fund – Establish a planned schedule to pay off the remaining \$ 137,246 over the course of some period of years. I would recommend a period of 7 to 10 years, which would be about \$19,600 (seven year pay off) to \$13,700 (ten years) each year. In tandem with this reduce / control expenses in this fund over that period to make sure it generates at least that much cash 'income' (after all operations and IFA debt service) each year.

TRACKING INTERFUND LOANS

During my audit I noted that several of the City's funds had utilized the common cash pool maintained by the City to borrow cash from each other. This temporary use of cash needs to be tracked so repayments can be made. Listed below are the interfund loans in total as of June 30, 2011:

TRACKING INTERFUND LOANS, CONTINUED

Receivable at		Payable from	
General Fund	\$ 53,840	Road Use Tax Fund	\$ 53,840
General Fund	337,246	Sewer Fund	337,246
Sewer Fund	1,847	Debt Service Fund	1,847

I have provided to the Clerk a computerized spreadsheet that could be utilized to track these loans. I would recommend periodically (at least semi annually), after recording all of the City's receipts and disbursements in the computer, balancing the checking and money market accounts and generating fund financial statements, updating this schedule for additional borrowings made and posting any repayments previously authorized by the City Council, and then bringing that information back to the City Council with possible recommendations from the Clerk as to possible further repayments to be made, keeping in mind future cash flow needs of each fund.