



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

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Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

FOR RELEASE May 14, 2018

Contact: Andy Nielsen
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Auditor of State Mary Mosiman today released an audit report on the City of Long Grove, Iowa.

The City's receipts totaled \$1,288,768 for the year ended June 30, 2017. The receipts included \$352,045 of property tax, \$670,557 of charges for service, \$101,246 of operating grants, contributions and restricted interest, \$129,198 of local option sales tax, \$10,053 of unrestricted interest on investments and \$25,669 of other general receipts.

Disbursements for the year ended June 30, 2017 totaled \$1,194,003, and included \$268,394 for public works, \$81,601 for general government and \$77,358 for culture and recreation. Also, disbursements for business type activities totaled \$648,941.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <https://auditor.iowa.gov/reports/1721-0778-B00F>.

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CITY OF LONG GROVE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

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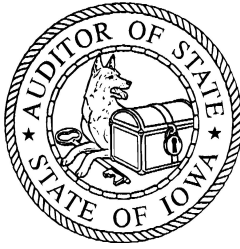
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City of Long Grove

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Michael Limberg	Mayor	Jan 2018
Cindy Blinkinsop	Mayor Pro tem	Jan 2018
Jon Drumm	Council Member	Jan 2018
Mike Oechsner	Council Member	Jan 2018
Andy Cook	Council Member	Jan 2020
Nancy Herrin	Council Member	Jan 2020
Jackie Wilcox	City Clerk	Retired Jan 2017
Rosina Boddicker (Appointed Jan 2017)	City Clerk	Indefinite
Joshua Cobie	Attorney	Indefinite

City of Long Grove



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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We 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, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Modified Opinions

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of total fund balances at July 1, 2016.

Modified Opinions

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balances at July 1, 2016, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities and each major fund of the City of Long Grove as of June 30, 2017, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information


Our 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. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 22 through 28, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 2, 2018 on our consideration of the City of Long Grove's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Long Grove's internal control over financial reporting and compliance.


MARY MOSIMAN, CPA
Auditor of State

April 2, 2018

Basic Financial Statements

City of Long Grove

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

		Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:	Disbursements		
Governmental activities:			
Public safety	\$ 38,038	11,197	-
Public works	268,394	-	100,308
Culture and recreation	77,358	-	938
Community and economic development	5,043	-	-
General government	81,601	3,676	-
Debt service	74,628	-	-
Total governmental activities	545,062	14,873	101,246
Business type activities:			
Water	140,922	118,593	-
Sewer	187,081	184,156	-
Electric	320,938	352,935	-
Total business type activities	648,941	655,684	-
Total	\$ 1,194,003	670,557	101,246
General Receipts:			
Property and other city tax levied for:			
General purposes			
Debt service			
Local option sales tax			
Utility franchise tax			
Unrestricted interest on investments			
Tower rent			
Sale of capital assets			
Total general receipts			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			
Cash Basis Net Position			
Restricted for:			
Streets			
Debt service			
Local option sales tax purposes			
Unrestricted			
Total cash basis net position			
See notes to financial statements.			

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(26,841)	-	(26,841)
(168,086)	-	(168,086)
(76,420)	-	(76,420)
(5,043)	-	(5,043)
(77,925)	-	(77,925)
(74,628)	-	(74,628)
(428,943)	-	(428,943)
-	(22,329)	(22,329)
-	(2,925)	(2,925)
-	31,997	31,997
-	6,743	6,743
(428,943)	6,743	(422,200)
277,269	-	277,269
74,776	-	74,776
129,198	-	129,198
3,443	-	3,443
5,427	4,626	10,053
-	9,125	9,125
13,101	-	13,101
503,214	13,751	516,965
74,271	20,494	94,765
1,031,684	1,042,984	2,074,668
\$ 1,105,955	1,063,478	2,169,433
\$ 109,901	-	109,901
1,382	73,280	74,662
560,617	-	560,617
434,055	990,198	1,424,253
\$ 1,105,955	1,063,478	2,169,433

Exhibit B

City of Long Grove

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2017

	General	Special Revenue		Debt Service	Total
		Road Use Tax	Local Option Sales Tax		
Receipts:					
Property tax	\$ 277,269	-	-	74,776	352,045
Other city tax	3,443	-	129,198	-	132,641
Licenses and permits	9,414	-	-	-	9,414
Use of money and property	3,979	337	1,111	-	5,427
Intergovernmental	938	100,308	-	-	101,246
Charges for service	2,173	-	-	-	2,173
Miscellaneous	3,286	-	-	-	3,286
Total receipts	300,502	100,645	130,309	74,776	606,232
Disbursements:					
Operating:					
Public safety	38,038	-	-	-	38,038
Public works	52,492	116,396	99,506	-	268,394
Culture and recreation	77,358	-	-	-	77,358
Community and economic development	5,043	-	-	-	5,043
General government	81,601	-	-	-	81,601
Debt service	-	-	-	74,628	74,628
Total disbursements	254,532	116,396	99,506	74,628	545,062
Excess (deficiency) of receipts over (under) disbursements	45,970	(15,751)	30,803	148	61,170
Other financing sources:					
Sale of capital assets	13,101	-	-	-	13,101
Change in cash balances	59,071	(15,751)	30,803	148	74,271
Cash balances beginning of year	374,984	125,652	529,814	1,234	1,031,684
Cash balances end of year	\$ 434,055	109,901	560,617	1,382	1,105,955
Cash Basis Fund Balances					
Restricted for:					
Streets	\$ -	109,901	-	-	109,901
Debt service	-	-	-	1,382	1,382
Local option sales tax purposes	-	-	560,617	-	560,617
Unassigned	434,055	-	-	-	434,055
Total cash basis fund balances	\$ 434,055	109,901	560,617	1,382	1,105,955

See notes to financial statements.

City of Long Grove

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

As of and for the year ended June 30, 2017

	Enterprise			
	Water	Sewer	Electric	Total
Operating receipts:				
Charges for service	\$ 118,593	184,156	352,935	655,684
Operating disbursements:				
Business type activities	140,922	112,453	320,938	574,313
Excess (deficiency) of operating receipts over (under) operating disbursements	(22,329)	71,703	31,997	81,371
Non-operating receipts (disbursements):				
Tower rent	9,125	-	-	9,125
Interest on investments	1,091	1,436	2,099	4,626
Debt service	-	(74,628)	-	(74,628)
Net non-operating receipts (disbursements)	10,216	(73,192)	2,099	(60,877)
Change in cash balances	(12,113)	(1,489)	34,096	20,494
Cash balances beginning of year	122,788	334,911	585,285	1,042,984
Cash balances end of year	\$ 110,675	333,422	619,381	1,063,478
Cash Basis Fund Balances				
Restricted for debt service	\$ -	73,280	-	73,280
Unrestricted	110,675	260,142	619,381	990,198
Total cash basis fund balances	\$ 110,675	333,422	619,381	1,063,478

See notes to financial statements.

City of Long Grove

City of Long Grove

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Long Grove is a political subdivision of the State of Iowa located in Scott County. It was first incorporated in 1922 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Long Grove has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

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 E-911 Service Board.

B. Basis of Presentation

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

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

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

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

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the local option sales tax allocation from the State of Iowa to be used for any lawful purpose of the City.

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

The City reports the following major proprietary funds:

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

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

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electrical system.

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating receipts and disbursements from 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.

D. Governmental Cash Basis Fund Balances

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

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

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amount budgeted in the public works function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

(3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds and revenue bonds are as follows:

Year Ending June 30,	General Obligation		Sewer			
	Sewer Improvement Bonds		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 53,000	20,280	53,000	20,280	106,000	40,560
2019	54,000	18,690	54,000	18,690	108,000	37,380
2020	56,000	17,070	56,000	17,070	112,000	34,140
2021	58,000	15,390	58,000	15,390	116,000	30,780
2022	59,000	13,650	59,000	13,650	118,000	27,300
2023-2027	325,000	40,500	325,000	40,500	650,000	81,000
2028	71,000	2,130	71,000	2,130	142,000	4,260
Total	\$ 676,000	127,710	676,000	127,710	1,352,000	255,420

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,088,000 of sewer revenue bonds issued in May 2008. Proceeds from the notes provided financing for the construction of improvements to the wastewater treatment system. The bonds are payable solely from sewer customer net receipts, are payable through 2028 and bear interest at 3.0% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. Annual principal and interest payments on the bonds required approximately 102% of net receipts. The total principal and interest remaining to be paid on the bonds is \$803,710. For the current year, principal and interest paid and total customer net receipts were \$72,810 and \$71,703, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) The rents, rates and other charges shall be at least sufficient to meet the operation and maintenance expenses of the wastewater treatment system and to produce and maintain net receipts at a level not less than 110% of the amount of principal and interest on the revenue bonds.

During fiscal year 2017, sufficient rates were not established at a level to produce net receipts equal to at least 110% of the principal and interest on the bonds as they came due.

(4) Pension Plan

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

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

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

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

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

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

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

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

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 totaled \$21,963.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$212,783 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.003381%, which was a decrease of 0.000399% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$25,237, \$61,773 and \$28,870, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions – The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation (effective June 30, 2014)	3.00% per annum.
Rates of salary increase (effective June 30, 2010)	4.00 to 17.00% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

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

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

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Core plus fixed income	28%	1.90%
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	<u>100%</u>	

Discount Rate – The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 344,255	212,783	101,820

IPERS' Fiduciary Net Position – Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, compensatory time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, compensatory time and sick leave payable to employees at June 30, 2017, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 16,700
Compensatory time	7,100
Sick leave	20,400
Total	<u>\$ 44,200</u>

This liability has been computed based on rates of pay in effect at June 30, 2017.

(6) 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 the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(7) Special Investigation

The City requested the Office of Auditor of State perform a special investigation of the City as a result of concerns identified with a City employee. A separate report will be issued upon completion of the special investigation.

(8) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

Other Information

City of Long Grove

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

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 352,045	-	352,045
Other city tax	132,641	-	132,641
Licenses and permits	9,414	-	9,414
Use of money and property	5,427	4,626	10,053
Intergovernmental	101,246	-	101,246
Charges for service	2,173	655,684	657,857
Miscellaneous	3,286	9,125	12,411
Total receipts	606,232	669,435	1,275,667
Disbursements:			
Public safety	38,038	-	38,038
Public works	268,394	-	268,394
Culture and recreation	77,358	-	77,358
Community and economic development	5,043	-	5,043
General government	81,601	-	81,601
Debt service	74,628	-	74,628
Business type activities	-	648,941	648,941
Total disbursements	545,062	648,941	1,194,003
Excess (deficiency) of receipts over (under) disbursements	61,170	20,494	81,664
Other financing sources	13,101	-	13,101
Excess (deficiency) of receipts and other financing sources over (under) disbursements	74,271	20,494	94,765
Balances beginning of year	1,031,684	1,042,984	2,074,668
Balances end of year	\$ 1,105,955	1,063,478	2,169,433

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
350,249	350,249	1,796
109,907	109,907	22,734
2,590	2,590	6,824
650	650	9,403
88,880	88,880	12,366
658,634	658,634	(777)
-	-	12,411
1,210,910	1,210,910	64,757
43,079	43,079	5,041
144,250	200,300	(68,094)
85,184	85,184	7,826
10,200	10,200	5,157
91,137	136,012	54,411
74,628	74,628	-
655,134	712,584	63,643
1,103,612	1,261,987	67,984
107,298	(51,077)	132,741
-	-	13,101
107,298	(51,077)	145,842
2,127,327	2,127,327	(52,659)
2,234,625	2,076,250	93,183

City of Long Grove

Notes to Other Information – Budgetary Reporting

June 30, 2017

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. 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 the 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, one budget amendment increased budgeted disbursements by \$158,375. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amount budgeted in the public works function.

City of Long Grove

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Year*
(In Thousands)

Other Information

	<u>2017</u>
City's proportion of the net pension liability	0.003381%
City's proportionate share of the net pension liability	\$ 213
City's covered-employee payroll	\$ 237
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	89.92%
IPERS' net position as a percentage of the total pension liability	81.82%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Long Grove

City of Long Grove

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Year
(In Thousands)

Other Information

	<u>2017</u>
Statutorily required contribution	\$ 21,963
Contributions in relation to the statutorily required contribution	<u>(21,963)</u>
Contribution deficiency (excess)	<u>\$ -</u>
City's covered-employee payroll	\$ 245,945
Contributions as a percentage of covered-employee payroll	8.93%

See accompanying independent auditor's report.

Note: GASB Statement No. 68 requires ten years of information be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Long Grove

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

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

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

Changes of assumptions:

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

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

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

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

Supplementary Information

City of Long Grove
Schedule of Indebtedness
Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Sewer improvement	Jun 4, 2008	3.00%	\$ 1,088,000
Revenue bonds:			
Sewer improvement	May 21, 2008	3.00%	\$ 1,088,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 727,000	-	51,000	676,000	21,810
\$ 727,000	-	51,000	676,000	21,810

City of Long Grove

City of Long Grove

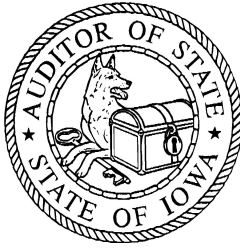
Bond Maturities

June 30, 2017

Year Ending June 30,	General Obligation		Revenue Bonds	
	Sewer Improvement		Sewer Improvement	
	Bonds		Bonds	
	Issued Jun 4, 2008		Issued May 21, 2008	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2018	3.00%	\$ 53,000	3.00%	\$ 53,000
2019	3.00	54,000	3.00	54,000
2020	3.00	56,000	3.00	56,000
2021	3.00	58,000	3.00	58,000
2022	3.00	59,000	3.00	59,000
2023	3.00	61,000	3.00	61,000
2024	3.00	63,000	3.00	63,000
2025	3.00	65,000	3.00	65,000
2026	3.00	67,000	3.00	67,000
2027	3.00	69,000	3.00	69,000
2028	3.00	71,000	3.00	71,000
Total		<u>\$ 676,000</u>		<u>\$ 676,000</u>

See accompanying independent auditor's report.

City of Long Grove



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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, 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, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 2, 2018. Our report expressed modified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2016.

Internal Control Over Financial Reporting

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

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (C) through (G) to be significant deficiencies.

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, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.


City of Long Grove's Responses to the Findings

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

Purpose of this Report

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

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


MARY MOSIMAN, CPA
Auditor of State

April 2, 2018

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals may have control over the following areas for which no compensating controls exist:

- (1) Cash – handling cash, reconciling, opening mail, check signing, receipting and disbursing.
- (2) Investments – recordkeeping, investing, custody of investments and reconciling earnings.
- (3) Debt – recordkeeping, compliance and debt payment processing.
- (4) Receipts – opening mail, collecting, depositing, posting and reconciling.
- (5) Utilities – opening mail, billing, collecting, depositing, posting, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording, as well as receiving, approving and processing vouchers.
- (7) Payroll – check preparation, distribution, recording vacation, compensation time and sick leave hours.
- (8) Bank reconciliation – preparation and maintenance of accounting records.
- (9) Accounting system – performing all general accounting functions, including journal entries, and having custody of assets.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

Recommendation – The City should review control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports. Independent reviews of financial transactions reconciliations and reports should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City of Long Grove acknowledges the importance of segregation of duties; however, due to the limited number of staff available it is difficult for us to segregate duties. The City and City Council will work diligently to segregate duties as much as possible and implement controls over any significant risk areas including controls such as review by an independent person.

Monthly bank reconciliations are now sent to City Council members in their Council packets the Friday prior to the monthly City Council meeting. The bank reconciliations are now approved via motion during the consent agenda portion of the City Council meeting.

Conclusion – Response acknowledged. As part of the monthly bank reconciliation review and approval, the City Council should ensure the ending bank balance, outstanding checks and other reconciling items are verified to supporting documentation.

(B) Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to maintaining delinquent account listings, reconciling utility billings, collections and delinquent accounts and comparing utility collections to deposits to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent account balances.

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

The City's shut off policy does not clearly establish when delinquent accounts are to be shut off. As a result, the City has not been properly shutting off delinquent accounts. Two delinquent accounts at June 30, 2017 were identified as having balances in excess of \$1,000. The City Council is not reviewing monthly delinquent accounts listings to determine if delinquent accounts should be shut off, penalized or written off and to ensure customers are not being allowed to carry large delinquent account balances. The delinquent account balances were primarily accumulated during the former City Clerk's employment. The current City Clerk identified the outstanding balances in January 2017 and properly sent shut off notices to the appropriate individuals. The City entered into repayment plans with certain individuals which require minimum monthly payments until the delinquent balance owed is paid in full.

The City does not have a written policy regarding when delinquent accounts should be written off as uncollectible. Also, a file or listing of accounts written off is not maintained and reviewed periodically to determine if the accounts subsequently become collectible. In January 2017, the current City Clerk began maintaining files of delinquent accounts. However, there is no evidence the City Council reviews the delinquent accounts.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

Cause – Policies have not been established and procedures have not been implemented to ensure a monthly utility reconciliation is completed and reviewed by an independent person. The City does not have written policies regarding when delinquent accounts should be shut off or when delinquent accounts should be written off as uncollectible.

Effect – Lack of monthly utility reconciliations could result in unrecorded or misstated utility receipts, improper or unauthorized adjustments and write-offs and/or misstated delinquent account balances.

Lack of written procedures regarding when delinquent accounts should be shut off or written off requires City personnel to use personal judgment which could result in certain customers receiving preferential treatment.

Recommendation – The City should ensure utility reconciliations are completed monthly and are reviewed by an independent person. The City should develop and implement written policies and procedures regarding when delinquent accounts should be shut off and/or written off as uncollectible.

Response – We will begin preparing a monthly utility reconciliation and will have the reconciliation reviewed by City Council at their monthly meetings.

The City has started tracking delinquent utility balances as of January 2017. The listing of delinquent accounts, including balances and amount of time outstanding, will be provided to the City Council to review and approve at monthly meetings. We will revise City policies to ensure there are detailed procedures for when delinquent accounts are to be shut off or written off. A file of all written off accounts will be maintained and reviewed periodically.

Conclusion – Response accepted.

(C) Payroll

Criteria – An effective internal control system requires employees to maintain timesheets for hours worked per pay period. These timesheets should be reviewed by the supervisor for accuracy before the pay check is issued to the employee. Employees' wages should be reviewed and approved by the City Council on a periodic basis. Employees should be paid according to a set pay period calendar and all employees should be paid on the same time frame.

The City's policy states any overtime work is to be pre-approved by management. The City's policy also allows for each City employee to receive a \$1,000 per month health insurance stipend for which the employees are to submit supporting documentation of premiums paid for the year.

Condition – For 6 of 10 employee timesheets tested, there was no evidence an independent person had reviewed and approved the timesheet. In addition, overtime worked was not pre-approved by management. For 1 of 10 employee timesheets tested, the hours recorded on the timesheet did not agree with the number of hours paid to the employee for the month, resulting in an underpayment of \$42.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

The City does not have a set pay period for all employees. Some employees are paid monthly while others are paid twice a month. The pay periods were established by the former City Clerk. The current City Clerk identified this as an issue in April 2017 and began working on a way to correct this.

Employees are not submitting documentation of health insurance premiums paid to support the health insurance stipend received. The City's policy for health insurance stipends was initially established through an amendment to the Employee Handbook in November 2014. However, on September 8, 2015, the City Council approved a Resolution allowing for "Additional Compensation" to current full time employees in the amount of \$1,000 per month with no specification of purpose. According to City representatives, this Resolution was passed to supersede the Employee Handbook requiring supporting documentation for health insurance premiums actually paid. Because the Resolution did not specify a purpose for the additional compensation, this statement could not be verified. The City Council cannot supersede the Employee Handbook with a Resolution.

Cause – City policies and procedures regarding overtime and health insurance stipends are not being complied with. Employee timesheets are not required to be reviewed and approved by supervisory personnel. In addition, the City Council did not establish a policy defining the pay period for all City employees.

Effect – Inaccurate employee timesheets could be submitted which would result in potential overpayments or underpayments to employees. Employees could work and be paid for unauthorized overtime hours. Lack of supporting documentation for health insurance premiums paid could result in overpayment of the stipend to an employee. In addition, lack of a defined pay period for all City employees could result in inconsistencies in payroll periods and the opportunity for pay periods to be revised or manipulated without authorization.

Recommendation – The City should ensure employee timesheets are reviewed and approved by supervisory personnel and all overtime is properly pre-approved in accordance with City policy. In addition, the City should consult legal counsel regarding the conflicting policies regarding health insurance stipends.

Response – Since October 2017, the City Council approved the City to utilize a time tracking software system and send timesheets to a third party payroll accounting firm for preparation and distribution of payroll checks. Timesheets are reviewed by the City Clerk, Deputy City Clerk and the Mayor prior to being sent to the City Council for approval. The timesheets and payroll information are now on a bi-monthly schedule for all employees and are reviewed and signed off by two City Council members prior to every City Council meeting. The third party payroll accounting firm reviews the payroll for accuracy. This information is entered into the software system and reconciled monthly by the City Clerk.

The City will require pre-approval of any overtime by the City Council prior to the overtime being worked and will keep documentation of this approval with the employee's timesheet.

The City Council will review and consider revising the Employee Handbook to adjust for the current discrepancies noted.

Conclusion – Response accepted.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

(D) Disbursements

Criteria – Internal controls over safeguarding assets constitute a process, effected by an entity's governing body, management and other personnel designed to provide reasonable assurance regarding prevention or timely detection of unauthorized transactions and safeguarding assets from error or misappropriation. Such processes include establishing policies addressing proper supporting documentation.

Condition – Supporting documentation is not effectively cancelled to prevent reuse and is not being properly maintained for all disbursements. In addition, there is no evidence of review of supporting documentation by an independent person.

Cause – The City has not implemented procedures to ensure proper supporting documentation is obtained for all disbursements, reviewed by an independent person and cancelled to prevent reuse.

Effect – Lack of supporting documentation could result in unauthorized or improper transactions and the opportunity for misappropriation. In addition, lack of cancellation could result in a duplicate payment being issued to a vendor.

Recommendation – All disbursements should be supported by invoices or other supporting documentation, which is cancelled upon payment to prevent reuse. An independent person should review this documentation for propriety and document their review.

Response – Supporting documentation will be maintained for all disbursements. The City Clerk will note the date paid on the documentation along with the check number, then initial and date the documentation. All documentation for disbursements is now reviewed by two City Council members prior to the monthly City Council meetings. These City Council members sign off on all disbursements prior to the Council meeting. Disbursements are approved by motion and seconded during the consent agenda portion of the meeting in the "approved claims" section.

Conclusion – Response accepted.

(E) Financial Reporting

Criteria – A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – Not all interest earned on investments is being recorded in the City's accounting records. In addition, the City has "unapplied payments" which have been received but not recorded in the accounting system as of fiscal year end.

Cause – City policies do not require and procedures have not been established to require independent review of transactions to ensure the City's financial statements are accurate and reliable.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, adjustments to the City's financial statements were necessary.

Recommendation – The City should implement procedures to ensure accurate financial reporting.

Response – The City will review and consider new accounting software systems to address the noted deficiencies in recording interest and unapplied payments.

Conclusion – Response accepted.

(F) Accounting Policies and Procedures Manual

Criteria – Accounting policies and procedures manuals provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.
- (4) Improve the efficiency and understanding of steps to perform for running monthly financial reports and retrieving management information.

Condition – The City does not have an accounting policies and procedures manual.

Cause – Officials have been unaware of the need for an accounting policies and procedures manual.

Effect – Lack of an accounting policies and procedures manual could result in the City's lack of ability to continue operating effectively and efficiently in the event there is accounting staff turnover.

Recommendation – An accounting policies and procedures manual should be developed for the City.

Response – The City will work with employees to develop a formal accounting policies and procedures manual.

Conclusion – Response accepted.

(G) Disaster Recovery Plan

Criteria – A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.
- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Condition – The City does not have a disaster recovery plan that covers items specific to the needs of the City for financial continuity.

Cause – Management has not required written disaster recovery policies addressing financial continuity.

Effect – Lack of a disaster recovery plan could result in the City's inability to function in the event of a disaster or continue business without interruption.

Recommendation – The City's written disaster recovery plan should be revised to ensure it addresses all of the above stated criteria.

Response – The City Council will review and revise the disaster recovery plan to the suggested updated standards.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amount budgeted in the public works function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should be amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget.

Response – The current City accounting software did not reflect any excess amounts exceeded in the budget for the public works department. The City is looking into obtaining a new software system with updated uniform fund accounting in order to better allocate and track disbursements by fund and function.

Conclusion – Response accepted.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – The City does not have policies or procedures in place for identifying related party transactions. As a result, the City is unable to determine if there are any potential conflicts of interest in accordance with Chapter 362.5 of the Code of Iowa.

Recommendation – The City should implement policies and procedures to identify related party transactions and review these transactions periodically to ensure a conflict of interest does not arise.

Response – The City will review its policies and consider implementing procedures to identify related party transactions and review of the transactions.

Conclusion – Response accepted.

- (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 the coverage is adequate for current operations.
- (6) City Council Minutes – No transactions were found that we believe should have been approved in the City Council meeting minutes but were not.
- (7) Deposits and Investments – The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

City of Long Grove

Schedule of Findings

Year ended June 30, 2017

Response – The City understands the importance of establishing a written investment policy and will review options for and consider adopting a written investment policy by Resolution.

Conclusion – Response accepted.

- (8) Revenue Bonds – The provisions of the City’s sewer revenue bond resolution require the City to produce net operating receipts equal to at least 110% of the principal of and interest on the bonds as they become due. The City’s fiscal year 2017 net operating receipts of \$72,724 were less than 110% of the \$72,810 of sewer revenue bond principal and interest due during fiscal year 2017.

Recommendation – The City should establish utility rates at a sufficient level to allow net receipts to comply with the bond provisions.

Response – The City understands the importance of maintaining a sufficient sewer fund balance and net operating receipts in order to comply with the sewer bond resolution. The City will review the sewer rates to determine and establish sufficient rates to comply with the bond resolution.

Conclusion – Response accepted.

- (9) Sick Leave Payout – The City’s Employee Handbook states, “Upon termination of employment, any earned and unused sick leave will be included in the employee’s final paycheck, except for those employees terminated for misconduct.”

During the former City Clerk’s period of employment, the City Council passed Resolution 2016-12 to approve accrued sick leave in excess of 240 hours be paid to all full-time employees and subsequently issued payments totaling \$62,225 to all current full-time employees pursuant to the resolution. This resolution and subsequent sick leave payout are inconsistent with the City’s established sick leave payout policy.

In addition, the Public Works Director’s employment contract states, “One-half day per month of sick time shall be given to employee for a maximum of 90 days. If employee is terminated, employee shall not receive payment for any unused sick time.” These terms are not consistent with the sick leave policy established in the City’s Employee Handbook.

Recommendation – The City should ensure payments issued for accumulated leave hours comply with established City policy. In addition, the City Council should review current employee contracts to ensure the terms included are consistent with established policy.

Response – The City Council will work with HR professionals to review and consider revising the Employee Handbook and HR procedures for consistency.

Conclusion – Response accepted.

City of Long Grove

Staff

This audit was performed by:

Jennifer Campbell, CPA, Manager
Christian Cottingham, Senior Auditor
Taylor Kivell, Assistant Auditor
Matthew Miller, Assistant Auditor

A handwritten signature in black ink, reading "Andrew E. Nielsen". The signature is fluid and cursive, with the first name "Andrew" and last name "Nielsen" clearly legible.

Andrew E. Nielsen, CPA
Deputy Auditor of State