



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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NEWS RELEASE

FOR RELEASE

May 25, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Hills, Iowa.

The City's receipts totaled \$572,627 for the year ended June 30, 2011. The receipts included \$233,679 in property tax, \$137,033 from charges for service, \$105,707 from operating grants, contributions and restricted interest, \$71,129 from local option sales tax, \$15,851 from unrestricted interest on investments and \$9,228 from other general receipts.

Disbursements for the year totaled \$448,770, and included \$153,356 for general government, \$139,333 for public works and \$50,244 for public safety. Also, disbursements for business type activities totaled \$36,103.

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 <http://auditor.iowa.gov/reports/1121-0482-B00F.pdf>.

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CITY OF HILLS

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

Table of Contents

			<u>Page</u>
Officials			3
Independent Auditor’s Report			5-6
Management’s Discussion and Analysis			7-11
Basic Financial Statements:		<u>Exhibit</u>	
Government-wide Financial Statement:			
Statement of Activities and Net Assets – Cash Basis	A		14-15
Governmental Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B		16
Proprietary Fund Financial Statement:			
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C		17
Notes to Financial Statements			18-21
Required Supplementary Information:			
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds			24-25
Notes to Required Supplementary Information – Budgetary Reporting			26
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 <u>Government Auditing Standards</u>			27-28
Schedule of Findings			29-34
Staff			35

City of Hills

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Russell Bailey	Mayor	Jan 2012
Steve Harris	Council Member	Jan 2012
Merle Hill	Council Member	Jan 2012
Cathy Knebel	Council Member	Jan 2012
Tim Kemp	Council Member	Jan 2014
Thomas Kirkpatrick	Council Member	Jan 2014
Bonnie Hansen	Clerk	Indefinite
Ben Hayek	Attorney	Indefinite

City of Hills



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit and each major fund of the City of Hills, 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. These financial statements are the responsibility of the City of Hills's management. Our responsibility is to express opinions on these financial statements based on our audit.

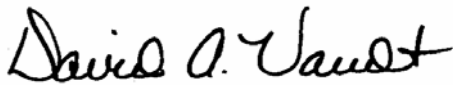
Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, 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 the total fund balance at July 1, 2010.


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 balance at July 1, 2010, 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, the discretely presented component unit and each major fund of the City as of June 30, 2011, and the respective changes in its cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated May 15, 2012 on our consideration of the City of Hills's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 15, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Hills provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 11.6%, or approximately \$87,000, during the year.
- The cash basis net assets of the City's business type activities increased 26.3%, or approximately \$36,000, during the year, due primarily to an increase in sewer rates.

USING THIS ANNUAL REPORT

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

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

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

The Fund Financial Statements tell how governmental services were financed in the short term, as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial 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 to the City's budget for the year.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, general government and capital projects. Property tax finances most of these activities.
- Business Type Activities include the sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for sewer operations. The Sewer Fund is considered to be a major fund of the City.

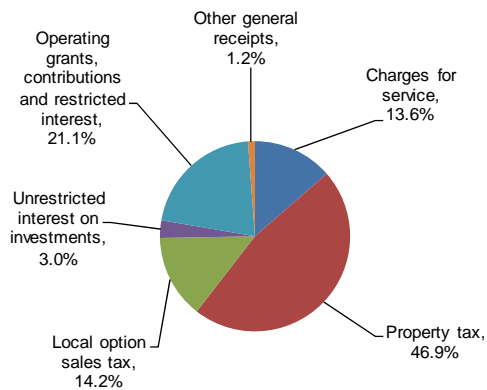
The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

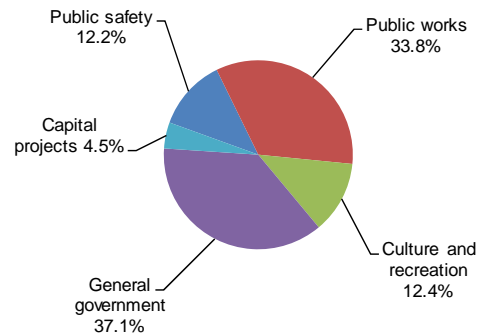
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$750,595 to \$838,004. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 68,248
Operating grants, contributions and restricted interest	105,707
General receipts:	
Property tax	233,679
Local option sales tax	71,129
Unrestricted interest on investments	15,183
Other general receipts	6,130
Total receipts	<u>500,076</u>
Disbursements:	
Public safety	50,244
Public works	139,333
Culture and recreation	51,020
General government	153,356
Capital projects	18,714
Total disbursements	<u>412,667</u>
Increase in cash basis net assets	87,409
Cash basis net assets beginning of year	<u>750,595</u>
Cash basis net assets end of year	<u><u>\$ 838,004</u></u>

Receipts by Source



Disbursements by Function



The cash basis net assets of the City's governmental funds increased \$87,409, primarily due to six new apartment buildings built within the City over the last couple of years which raised the City's property tax base, along with continued collection of local option sales tax which is being built up to help fund a new water utility for the City.

<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30, 2011</u>
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 68,785
General receipts:	
Unrestricted interest on investments	668
Miscellaneous	3,098
Total receipts	<u>72,551</u>
Disbursements:	
Sewer	<u>36,103</u>
Increase in cash basis net assets	36,448
Cash basis net assets beginning of year	<u>138,741</u>
Cash basis net assets end of year	<u><u>\$ 175,189</u></u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$138,741 to \$175,189, primarily due to the City increasing sewer rates.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hills completed the year, its governmental funds reported a combined fund balance of \$838,004, an increase of \$87,409 from last year's total of \$750,595. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$58,667 from the prior year to a year-end balance of \$867,507, primarily due to six new apartment buildings built within the City over the last couple of years which raised the City's property tax base.
- The Special Revenue, Road Use Tax Fund cash balance decreased \$23,673 from the prior year to a year-end balance of \$(150,389). The decrease was due primarily to a street project that was to be partially paid from the General Fund, but was all paid for from the Road Use Tax Fund.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$52,415 from the prior year to a year-end balance of \$120,886. The increase was primarily due to fewer projects being funded by local option sales tax.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance increased \$36,448 from the prior year to a year-end balance of \$175,189, primarily due to the City increasing sewer rates in fiscal year 2011.

BUDGETARY HIGHLIGHTS

The City did not amend its budget during the year. The City's receipts were \$140,443 more than budgeted. This was primarily due to the City not budgeting receipts for licenses and permits and the proprietary fund.

Total disbursements were \$85,829 more than budgeted. This was primarily due to the City not budgeting disbursements for the capital projects and business type activities. The City exceeded the budget in the culture and recreation, general government, capital projects and business type activities functions for the year ended June 30, 2011.

DEBT ADMINISTRATION

The City had no long-term debt outstanding at June 30, 2011.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Hills' 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.

- The fiscal year 2012 budget contains total receipts of \$579,985 and disbursements of \$312,772.
- The fiscal year 2012 levy is \$8.10000 per \$1,000 of taxable valuation.
- If these estimates are realized, the City's budgeted cash balance is expected to increase \$267,213 by the close of 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 questions about this report or need additional financial information, contact Bonnie Hansen, City Clerk, 201 North 1st Street, Hills, IA 52235.

City of Hills

Basic Financial Statements

City of Hills

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	<u>Disbursements</u>	<u>Program Receipts</u>	
		<u>Charges for Service</u>	<u>Operating Grants, Contributions and Restricted Interest</u>
Functions/Programs:			
Primary Government			
Governmental activities:			
Public safety	\$ 50,244	29,392	39,666
Public works	139,333	37,351	66,041
Culture and recreation	51,020	150	-
General government	153,356	1,355	-
Capital projects	18,714	-	-
Total governmental activities	412,667	68,248	105,707
Business type activities:			
Sewer	36,103	68,785	-
Total Primary Government	\$ 448,770	137,033	105,707
Component Unit			
Fire Fighters Association	\$ 60,843	-	68,720

General Receipts:

Property and other city tax levied for general purposes

Local option sales tax

Unrestricted interest on investments

Miscellaneous

Total general receipts

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:

Fire Fighters Association

Capital projects

Garbage collection

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Fire Fighters Association
18,814	-	18,814	
(35,941)	-	(35,941)	
(50,870)	-	(50,870)	
(152,001)	-	(152,001)	
(18,714)	-	(18,714)	
(238,712)	-	(238,712)	
-	32,682	32,682	
(238,712)	32,682	(206,030)	
			<u>7,877</u>
233,679	-	233,679	-
71,129	-	71,129	-
15,183	668	15,851	1,602
6,130	3,098	9,228	-
326,121	3,766	329,887	1,602
87,409	36,448	123,857	9,479
750,595	138,741	889,336	130,157
\$ 838,004	175,189	1,013,193	<u>139,636</u>
\$ -	-	-	139,636
120,886	-	120,886	-
85,199	-	85,199	-
631,919	175,189	807,108	-
\$ 838,004	175,189	1,013,193	<u>139,636</u>

Exhibit B

City of Hills

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

As of and for the year ended June 30, 2011

	General	Special Revenue		Total
		Road Use Tax	Local Option Sales Tax	
Receipts:				
Property tax	\$ 233,679	-	-	233,679
Other city tax	-	-	71,129	71,129
Licenses and permits	29,973	-	-	29,973
Use of money and property	13,427	2,680	-	16,107
Intergovernmental	39,666	66,041	-	105,707
Charges for service	37,351	-	-	37,351
Miscellaneous	6,130	-	-	6,130
Total receipts	<u>360,226</u>	<u>68,721</u>	<u>71,129</u>	<u>500,076</u>
Disbursements:				
Operating:				
Public safety	50,244	-	-	50,244
Public works	46,939	92,394	-	139,333
Culture and recreation	51,020	-	-	51,020
General government	153,356	-	-	153,356
Capital projects	-	-	18,714	18,714
Total disbursements	<u>301,559</u>	<u>92,394</u>	<u>18,714</u>	<u>412,667</u>
Net change in cash balances	58,667	(23,673)	52,415	87,409
Cash balances beginning of year	808,840	(126,716)	68,471	750,595
Cash balances end of year	<u>\$ 867,507</u>	<u>(150,389)</u>	<u>120,886</u>	<u>838,004</u>
Cash Basis Fund Balances				
Restricted for:				
Capital projects	\$ -	-	120,886	120,886
Garbage collection	85,199	-	-	85,199
Unassigned	782,308	(150,389)	-	631,919
Total cash basis fund balances	<u>\$ 867,507</u>	<u>(150,389)</u>	<u>120,886</u>	<u>838,004</u>

See notes to financial statements.

City of Hills

Statement of Cash Receipts, Disbursements
And Changes in Cash Balances
Proprietary Fund

As of and for the year ended June 30, 2011

	<u>Enterprise</u> <u>Sewer</u>
Operating receipts:	
Charges for service	\$ 68,785
Operating disbursements:	
Business type activities	<u>36,103</u>
Excess of operating receipts over operating disbursements	<u>32,682</u>
Non-operating receipts :	
Interest on investments	668
Miscellaneous	3,098
Net non-operating receipts	<u>3,766</u>
Excess of receipts over disbursements	36,448
Cash balances beginning of year	<u>138,741</u>
Cash balances end of year	<u><u>\$ 175,189</u></u>
Cash Basis Fund Balances	
Unrestricted	<u><u>\$ 175,189</u></u>

See notes to financial statements.

City of Hills

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Hills is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1906 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Hills 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.

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

Discretely Presented Component Unit

The Hills Fire Fighters Association (Association) was established pursuant to Chapter 504A of the Code of Iowa to receive donations for the benefit of the Hills Fire Department. The donations are to be used to purchase items not included in the City's budget. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Association meets the definition of a component unit which should be discretely presented.

Jointly Governed Organizations

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

B. Basis of Presentation

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

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

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions 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 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 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 collection of the local option sales tax which is to be used for the improvement of streets, sidewalks, storm sewers, sanitary sewer systems and parks.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer 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 assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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 imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in the preceding classification.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the culture and recreation, general government, capital projects and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime

eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$5,967, equal to the required contribution for the year.

(4) 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.

(5) Deficit Balance

The Special Revenue, Road Use Tax Fund had a deficit balance of \$150,389 at June 30, 2011. The City Council will look into alternatives to eliminate the deficit balance.

(6) Subsequent Event

In November 2011, the City issued a total of \$44,615,000 of Health Facilities revenue bonds under the provisions of Chapter 419 of the Code of Iowa. The bond principal and interest do not constitute liabilities of the City.

City of Hills

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 233,679	-
Other city tax	71,129	-
Licenses and permits	29,973	-
Use of money and property	16,107	668
Intergovernmental	105,707	-
Charges for service	37,351	68,785
Miscellaneous	6,130	3,098
Total receipts	<u>500,076</u>	<u>72,551</u>
Disbursements:		
Public safety	50,244	-
Public works	139,333	-
Health and social services	-	-
Culture and recreation	51,020	-
General government	153,356	-
Capital projects	18,714	-
Business type activities	-	36,103
Total disbursements	<u>412,667</u>	<u>36,103</u>
Excess of receipts over disbursements	87,409	36,448
Balances beginning of year	750,595	138,741
Balances end of year	<u>\$ 838,004</u>	<u>175,189</u>

See accompanying independent auditor's report.

Total	Budgeted	Final to Total Variance
	Amounts Original/Final	
233,679	231,803	1,876
71,129	74,881	(3,752)
29,973	-	29,973
16,775	-	16,775
105,707	100,000	5,707
106,136	25,500	80,636
9,228	-	9,228
<u>572,627</u>	<u>432,184</u>	<u>140,443</u>
50,244	76,688	26,444
139,333	151,405	12,072
-	5,000	5,000
51,020	21,303	(29,717)
153,356	108,545	(44,811)
18,714	-	(18,714)
36,103	-	(36,103)
<u>448,770</u>	<u>362,941</u>	<u>(85,829)</u>
123,857	69,243	54,614
<u>889,336</u>	<u>1,285,135</u>	<u>(395,799)</u>
<u>1,013,193</u>	<u>1,354,378</u>	<u>(341,185)</u>

City of Hills

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 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 and the Enterprise Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The budget was not amended during the year ended June 30, 2011.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, general government, capital projects and business type activities functions.



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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 the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit and each major fund of the City of Hills, 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 our report thereon dated May 15, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Hills is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Hills' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Hills' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Hills' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be 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 Hills' financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) 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 (D) through (F) to be significant deficiencies.

Compliance and Other Matters

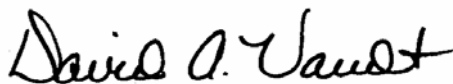
As part of obtaining reasonable assurance about whether the City of Hills' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2011 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.

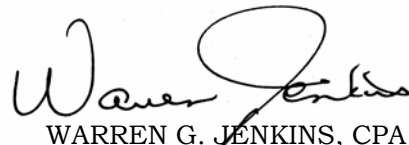
The City of Hills' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Hills' responses and, accordingly, we express no opinion on them.

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 Hills and other parties to whom the City of Hills may report and is not intended to be and should not be used by anyone other than these specified parties.

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



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

May 15, 2012

City of Hills

Schedule of Findings

Year ended June 30, 2011

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas for the City:
- (1) Accounting system – performing all general accounting functions, including journal entries, and having custody of City assets.
 - (2) Cash – reconciling bank accounts, initiating cash receipt and disbursement transactions and handling and recording cash.
 - (3) Investments – investing, recording and custody.
 - (4) Receipts – collecting, depositing, journalizing and posting.
 - (5) Utility receipts – billing, collecting, depositing, posting and reconciling.
 - (6) Disbursements – purchasing, check signing, recording and reconciling.
 - (7) Payroll – preparing and distributing.
 - (8) Financial reporting – preparing, reconciling and distributing.

For the Hills Fire Fighters Association account, one individual has control over each of the following areas:

- (1) Receipts – collecting, depositing, posting and reconciling.
- (2) Disbursements – preparing, recording and reconciling.
- (3) Cash – handling, reconciling and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of the reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Responses:

City – In fiscal year 2012 a deputy clerk will be hired who will share more of the accounting responsibilities.

Fire Association – When holding fund raisers, multiple people count the money. Two people take it to the bank. When shopping for supplies, two people are there. One carries the card and one signs for it. Three copies of receipts are made, one for secretary, one for station and one for treasurer. Two people are present when depositing checks and cash receipt copies are made, one for

City of Hills

Schedule of Findings

Year ended June 30, 2011

treasurer, one for secretary and one for station. Three of the Fire Association Volunteers are on the signature cards and two are required to sign each check.

Conclusions – Responses accepted.

- (B) Reconciliation of Utility Billings, Collections and Delinquent Accounts – During the year, the City billed for sewer and garbage fees quarterly. The following were noted:

Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared. Also, utility collections were not reconciled to deposits.

Deposits for utility billings do not appear to be made timely.

The City's ordinance for sewer rates for fiscal year 2011 authorized commercial properties be charged at \$25.00 per month. However, the actual billings were computed at \$27.67 per month.

Recommendation – A listing of delinquent accounts should be prepared monthly. Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. Utility billings should be made timely and intact. Rates approved by ordinance should be the rates charged.

Response – Beginning January 31, 2012, delinquent reports are being printed. A detailed utility reconciliation will be implemented during the last half of fiscal year 2012. Rates charged will be in accordance with the approved ordinance.

Conclusion – Response accepted.

- (C) Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations included only the checking accounts, did not include investments and other reconciling items and did not compare to the fund balances on the City Clerk's monthly financial report. In addition, monthly financial reports were not reviewed or approved by the City Council.

Recommendation – Monthly bank reconciliations should include all checking accounts, investments, petty cash and reconciling items. The reconciliations should be compared to the fund balances on the City Clerk's monthly financial report. The monthly financial reports should be provided to the City Council and approved at each meeting.

Response – Beginning January 31, 2012, a reconciled report will be included in the City Council's packet along with other financial reports for the month to be reviewed and approved.

Conclusion – Response accepted.

City of Hills

Schedule of Findings

Year ended June 30, 2011

- (D) Lack of Written Policies and Procedures – While the City has adopted a written disaster recovery plan, certain items were not included in the plan. Specifically, the plan does not include an inventory of all essential software systems, requirements for supplies and relevant accounting manuals and other documentation to be located offsite and a requirement to test the plan.

Recommendation – The City should include the above noted items in its written disaster recovery plan.

Response – This item will be considered in future plans, probably by spring or summer of 2012.

Conclusion – Response accepted.

- (E) Information Systems – The City does not have adequate fire protection, such as fire extinguishers, fire alarms, smoke detectors, halon gas or other non-water based fire suppression systems or water sensor devices.

Recommendation – The City should investigate options and determine a reasonable method to achieve adequate fire protection.

Response – Alarms will be purchased by March 31, 2012.

Conclusion – Response accepted.

- (F) Dual Signatures – Dual signatures are required on each check. However, the City Clerk prints the Mayor's signature on checks.

Recommendation – The Mayor should provide a final review of all checks to be disbursed.

Response – Beginning January 23, 2012, the Mayor reviews all checks prior to signing.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Hills

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the culture and recreation, general government, capital projects and business type activities functions. 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 have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – This will be taken into consideration in the future. An amendment will be filed for fiscal year 2012, if necessary.

Conclusion – Response accepted.

- (2) Questionable Disbursements – Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
I Wireless	Cell phone late payment fee	\$ 8

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The City Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – This was due to the timing of the receipt of the bill and the timing of the City Council meetings for approval. This will be taken in for consideration for future discussion at a City Council meeting of what can be paid and what should not be paid.

Conclusion – Response acknowledged. The City Council should consider passing a resolution to allow immediate payment of bills which include fees for late payment, including a provision the City Council would approve the bill at the next meeting.

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

City of Hills

Schedule of Findings

Year ended June 30, 2011

- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Steve Harris, City Council member	Fire Department repair	\$ 449

In accordance with Chapter 362.5(3)(k) of the Code of Iowa, the transaction with Steve Harris does not appear to represent a conflict of interest since the cumulative amount was less than \$2,500 during the fiscal year.

- (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 insure the coverage is adequate for current operations.
- (6) Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the City Council minutes but were not.

Minutes of the City Council meetings were not signed.

Although minutes of City Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City Council minutes should be signed in accordance with Chapter 380.7 of the Code of Iowa. The City should publish minutes of City Council proceedings within fifteen days and publish annual individual salaries as required by Chapter 372.13(6) of the Code of Iowa.

Response – Beginning in January 2012, all minutes and wages have been published in the Cedar Rapids Gazette and copies of the publication are in a book for record keeping with signed minutes.

Conclusion – Response accepted.

- (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 which complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – This will be put under consideration for future plans of the City of Hills for the spring or summer of 2012.

Conclusion – Response accepted.

City of Hills

Schedule of Findings

Year ended June 30, 2011

- (8) Financial Condition – The Special Revenue, Road Use Tax Fund had a deficit balance of \$150,389 at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City Council will look into alternatives to eliminate the deficit balance.

Conclusion – Response accepted.

- (9) Annual Financial Report – The City’s Annual Financial Report was prepared and filed timely for the year ended June 30, 2011. However, the report contained material errors in the beginning balances.

Recommendation – The City should use the audited fiscal year 2011 ending balances as the beginning balances for the fiscal year 2012 Annual Financial Report.

Response – The City will use the audited numbers for the Annual Financial Report with notations explaining the changes.

Conclusion – Response accepted.

- (10) Fire Fighters Association Donation – In November 2011, the City donated \$2,500 to the Hills Fire Fighters Association. The amount donated was from the proceeds on the sale of an old rescue truck.

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to a private non-profit corporation. Article III, Section 31 states, “No public money or property shall be appropriated for local, or private purposes, unless such appropriation compensation, or claim, be allowed by two thirds of the members elected to each branch of the General Assembly.”

Recommendation – The City should consult legal counsel to determine the disposition of this matter, including requesting the return of the funds to the City.

Response – The City Clerk and Mayor have forwarded this matter to the City Attorney with the Auditor’s recommendation and reference. He is currently reviewing the situation.

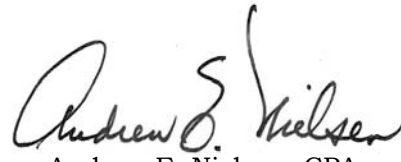
Conclusion – Response accepted.

City of Hills

Staff

This audit was performed by:

Brian R. Brustkern, CPA, Manager
Daniel L. Grady, Senior Auditor
Jessica P.V. Green, Staff Auditor
Adam B. Bartz, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA
Deputy Auditor of State