



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 2, 2007

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 has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$432,501 for the year ended June 30, 2006. The receipts included \$144,068 in property tax, \$128,529 from charges for service, \$133,429 from operating grants, contributions and restricted interest, \$25,495 from unrestricted interest on investments and \$980 from other general receipts.

Disbursements for the year totaled \$376,761, and included \$113,070 for public safety, \$87,829 for general government and \$81,348 for public works. Also, disbursements for business type activities totaled \$26,445.

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/reports.htm>.

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CITY OF HILLS

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

JUNE 30, 2006

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City of Hills

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Cathy Fitzmaurice-Hill	Mayor	Jan 2006
Pete Haug	Council Member	Nov 2005
Tim Kemp	Council Member	Jan 2006
Thom Kirkpatrick	Council Member	Jan 2006
Carl Cambridge	Council Member	Jan 2008
Scott Hebl	Council Member	Jan 2008
(After January 2006)		
Russell Bailey	Mayor	Jan 2008
Carl Cambridge	Council Member	Jan 2008
Scott Hebl	Council Member	Jan 2008
Cathy Knebel	Council Member	Jan 2008
Tim Kemp	Council Member	Jan 2010
Thom Kirkpatrick	Council Member	Jan 2010
Bonnie Hansen	Clerk	Indefinite
Jay Honohan	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 and each major fund of the City of Hills, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Hills' 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.

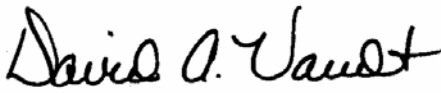
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not 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, 2005.

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, 2005, 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 Hills as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 7, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated March 1, 2007, except for Note 8, as to which the date is May 23, 2007, on our consideration of the City of Hills' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information 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

March 1, 2007, except for Note 8,
as to which the date is May 23, 2007

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since 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.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased 4%, or approximately \$34,000.
- The cash basis net assets of the City's business type activities increased 49%, or approximately \$21,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of 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 which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide information for the sewer fund, 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.

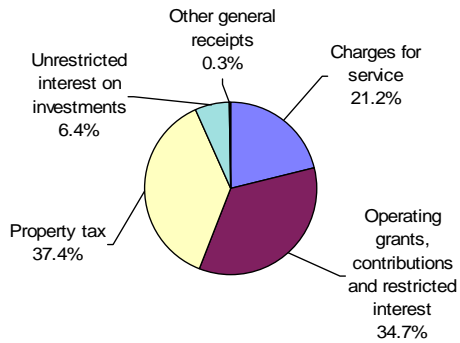
GOVERNMENT-WIDE FINANCIAL ANALYSIS

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 \$789,416 to \$823,898. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

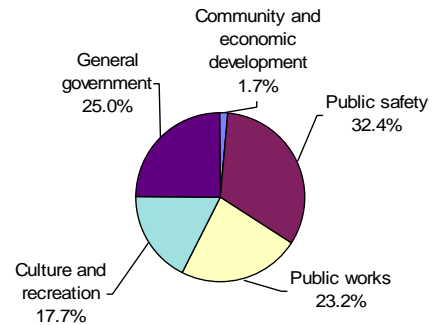
Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 81,542
Operating grants, contributions and restricted interest	133,429
General receipts:	
Property tax	144,068
Unrestricted interest on investments	24,779
Other general receipts	980
Total receipts	384,798
Disbursements:	
Public safety	113,070
Public works	81,348
Culture and recreation	62,069
Community and economic development	6,000
General government	87,829
Total disbursements	350,316
 Increase in cash basis net assets	 34,482
Cash basis net assets beginning of year	789,416
 Cash basis net assets end of year	 \$ 823,898

Receipts by Source



Disbursements by Function



The total business type activities cash balance increased from a year ago, increasing from \$43,212 to \$64,470.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 46,987
General receipts:	
Unrestricted interest on investments	716
Total receipts	<u>47,703</u>
Disbursements:	
Sewer	<u>26,445</u>
Increase in cash basis net assets	21,258
Cash basis net assets beginning of year	<u>43,212</u>
Cash basis net assets end of year	<u><u>\$ 64,470</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Hills completed the year, its governmental funds reported a combined fund balance of \$823,898. 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 \$21,049 from the prior year to \$740,421. The City received a bequest of \$10,000 during the year for recreational purposes for the citizens of the City. These funds were not spent during the fiscal year.
- The Road Use Tax Fund cash balance increased \$13,433 to \$83,477 during the fiscal year. This increase was attributable to road use tax funds received in excess of disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased \$21,258 to \$64,470. The City completed a sewer lining project in the prior fiscal year, so disbursements were not as high in the current fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The City's receipts were \$82,551 more than budgeted. This was primarily due to the receipts of the Hills Fire Fighters and Hills Ball Association receiving \$70,820 in donations and concession stand sales not included in the budget. The City also received a bequest of \$10,000 for recreational purposes for the citizens of the City.

Total disbursements were \$79,171 more than budgeted. Disbursements for the Hills Fire Fighters of \$30,964 were not included in the budget for public safety and disbursements for the Hills Ball Association of \$20,913 were not included in the budget for culture and recreation. In addition, the budget amendment published excluded the budget for the business type activities, so the budget for this function is also shown as exceeded.

DEBT ADMINISTRATION

The City had no long-term debt outstanding at June 30, 2006.

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 2007 budget, tax rates and fees charged for various City activities.

- The fiscal year 2007 budget includes receipts totaling \$349,950 and disbursements of \$346,090.
- The fiscal year 2007 levy rate is \$5.88431 per \$1,000 of taxable valuation.
- If these estimates are realized, the City's budgeted cash balance is expected to increase by \$3,860 by the close of fiscal year 2007.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Bonnie Hansen, City Clerk, 201 North 1st Street, Hills, Iowa 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, 2006

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Governmental activities:			
Public safety	\$ 113,070	4,477	76,579
Public works	81,348	33,917	56,850
Culture and recreation	62,069	26,227	-
Community and economic development	6,000	-	-
General government	87,829	16,921	-
Total governmental activities	350,316	81,542	133,429
Business type activities:			
Sewer	26,445	46,987	-
Total	\$ 376,761	128,529	133,429

General Receipts:

Property and other city tax levied for general purposes
 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 for streets

Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(32,014)	-	(32,014)
9,419	-	9,419
(35,842)	-	(35,842)
(6,000)	-	(6,000)
(70,908)	-	(70,908)
(135,345) [▼]	-	(135,345)
-	20,542	20,542
(135,345)	20,542	(114,803)
144,068	-	144,068
24,779	716	25,495
980	-	980
169,827	716	170,543
34,482	21,258	55,740
789,416	43,212	832,628
\$ 823,898	64,470	888,368
\$ 83,477	-	83,477
740,421	64,470	804,891
\$ 823,898	64,470	888,368

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, 2006

	Special Revenue		Total
	General	Road Use Tax	
Receipts:			
Property tax	\$ 137,791	-	137,791
Other city tax	6,277	-	6,277
Licenses and permits	5,674	-	5,674
Use of money and property	24,779	-	24,779
Intergovernmental	27,900	56,850	84,750
Charges for service	53,010	-	53,010
Miscellaneous	72,517	-	72,517
Total receipts	327,948	56,850	384,798
Disbursements:			
Operating:			
Public safety	113,070	-	113,070
Public works	37,931	43,417	81,348
Culture and recreation	62,069	-	62,069
Community and economic development	6,000	-	6,000
General government	87,829	-	87,829
Total disbursements	306,899	43,417	350,316
Net change in cash balances	21,049	13,433	34,482
Cash balances beginning of year	719,372	70,044	789,416
Cash balances end of year	\$ 740,421	83,477	823,898
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 740,421	-	740,421
Special revenue fund	-	83,477	83,477
Total cash basis fund balances	\$ 740,421	83,477	823,898

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, 2006

	Enterprise Sewer
Operating receipts:	
Charges for service	46,987
Operating disbursements:	
Business type activities	26,445
Excess of operating receipts over operating disbursements	20,542
Non-operating receipts:	
Interest on investments	716
Net change in cash balances	21,258
Cash balances beginning of year	43,212
Cash balances end of year	\$ 64,470
Cash Basis Fund Balances	
Unreserved	\$ 64,470

See notes to financial statements.

City of Hills

Notes to Financial Statements

June 30, 2006

(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, including the Hills Ball Association and the Hills Fire Fighters. 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: Johnson County Assessor's Conference Board, Johnson County Emergency Management Commission and Johnson County Joint E-911 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 the proprietary fund. Major individual governmental funds and the major individual enterprise fund 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.

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

D. Budgets and Budgetary Accounting

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

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in 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 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006 was \$2,665, equal to the required contribution for the year.

(4) Industrial Development Revenue Bonds

The City has issued a total of \$40,000,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$40,000,000 is outstanding at June 30, 2006. The bonds and related interest are payable solely from the revenue generated from operations, and the bond principal and interest do not constitute liabilities of the City.

(5) 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.

(6) Commitment

The City purchased a fire truck for \$141,514, with a down payment of \$33,256 made during the fiscal year ended June 30, 2006. The remaining \$108,258 will be due when the fire truck is received.

(7) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

(8) Investigation

The City conducted an investigation into the disbursements of the Hills Ball Association for the period June 2005 through October 2006. The investigation identified unauthorized disbursements totaling approximately \$9,800. Charges alleging theft have been brought against a former President of the Association by the Johnson County Sheriff’s Office.

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 the Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Fund Actual
Receipts:		
Property tax	\$ 137,791	-
Other city tax	6,277	-
Licenses and permits	5,674	-
Use of money and property	24,779	716
Intergovernmental	84,750	-
Charges for service	53,010	46,987
Miscellaneous	72,517	-
Total receipts	<u>384,798</u>	<u>47,703</u>
Disbursements:		
Public safety	113,070	-
Public works	81,348	-
Culture and recreation	62,069	-
Community and economic development	6,000	-
General government	87,829	-
Business type activities	-	26,445
Total disbursements	<u>350,316</u>	<u>26,445</u>
Excess of receipts over disbursements	34,482	21,258
Balances beginning of year	<u>789,416</u>	<u>43,212</u>
Balances end of year	<u>\$ 823,898</u>	<u>64,470</u>

See accompanying independent auditor's report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
137,791	137,639	143,678	(5,887)
6,277	2,361	2,322	3,955
5,674	2,930	3,000	2,674
25,495	11,100	17,000	8,495
84,750	94,050	99,950	(15,200)
99,997	82,641	84,000	15,997
72,517	-	-	72,517
432,501	330,721	349,950	82,551
113,070	61,802	49,524	(63,546)
81,348	112,367	121,716	40,368
62,069	56,463	54,500	(7,569)
6,000	500	500	(5,500)
87,829	66,490	71,350	(16,479)
26,445	22,831	-	(26,445)
376,761	320,453	297,590	(79,171)
55,740	10,268	52,360	3,380
832,628	719,630	768,395	64,233
888,368	729,898	820,755	67,613

City of Hills

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Fund and the Proprietary Fund. 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 amendments decreased budgeted disbursements by \$22,863. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government and business type activities functions.

Other Supplementary Information

City of Hills



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of the City of Hills, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 1, 2007, except for Note 8, as to which the date is May 23, 2007. 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, 2005. 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

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

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

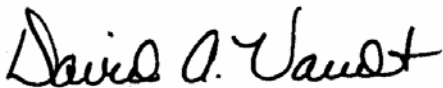
Compliance and Other Matters

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 that are described in the accompanying Schedule of Findings.

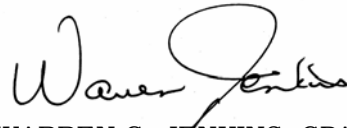
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

March 1, 2007, except for Note 8,
as to which the date is May 23, 2007

City of Hills

City of Hills

Schedule of Findings

Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

(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, including, where applicable, the Hills Ball Association and the Hills Fire Fighters:

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – reconciling bank accounts, initiating cash receipts and disbursement functions and handling and recording cash.
- (3) Investments – detailed record keeping, custody of investments and reconciling earnings.
- (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.

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.

Response – We acknowledge this situation and will be working on and researching a possible solution to this problem.

Conclusion – Response accepted.

(B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not prepared at June 30, 2006. Also, utility collections were not reconciled to deposits.

Recommendation – A listing of delinquent accounts should be prepared on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We do billing quarterly. The Clerk will prepare a reconciliation report for the Council on a quarterly basis.

Conclusion – Response accepted.

City of Hills

Schedule of Findings

Year ended June 30, 2006

- (C) Monthly Bank Reconciliations – Although monthly bank reconciliations were prepared, the reconciliations included only the checking accounts and did not include investments and other reconciling items and did not compare to the book balance. In addition, although monthly financial reports were prepared, they were not reviewed or approved by the City Council.

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

Response – The bank reconciliation prepared will be compared to the book balance. A monthly financial report will be provided to the Council starting with fiscal year 2008 for their approval.

Conclusion – Response accepted.

- (D) Accounting Policies and Procedures Manuals – The City does not have an accounting policies and procedures manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement personnel.
- (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.

Response – Research on a manual has started and a draft will be tentatively scheduled for Council approval by December 2007.

Conclusion – Response accepted.

- (E) Information Systems – The City does not have a written disaster recovery plan. In addition, the City does not have adequate fire protection, such as fire extinguishers, fire alarms, smoke detectors, halon gas or other non-water base fire suppression system or water sensor devices.

Recommendation – The City should develop and implement a written disaster recovery plan and should investigate options and determine a reasonable method to achieve adequate fire protection.

Response – This will be brought to the Hills City Council's attention and will be addressed at a future Council meeting.

Conclusion – Response accepted.

City of Hills

Schedule of Findings

Year ended June 30, 2006

- (F) Receipts – Receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money.

Response – This process has already been addressed and changed since April 2007. A receipt is now issued for every collection received by the Clerk’s office in a numbered receipt book.

Conclusion – Response accepted.

- (G) Signature Stamp – Dual signatures are required on each check. However, the City Clerk has access to the Mayor’s signature stamp.

Recommendation - The Mayor's signature stamp should be under the control of an independent person, if not under the control of the Mayor.

Response – This will be discussed with the Mayor and a possible alternate solution will be discussed.

Conclusion – Response accepted.

- (H) Records of Accounts/Separately Maintained Records – The Hills Fire Fighters and Hills Ball Association each maintain their checking and savings account records in a location separate from the Clerk’s office. These accounts were not reflected in the City’s accounting system or annual budget.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” All financial transactions of these accounts should be included in the Clerk’s monthly financial reports. Internal control would be strengthened and operating efficiency could be increased by integrating the receipts and disbursements of these accounts with the City’s accounting records in the Clerk’s office.

Response – This matter will be brought to the Council’s attention at the next Council meeting.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

An investigation was conducted by the City into the disbursements of the Hills Ball Association for the period June 2005 through October 2006. The investigation identified unauthorized disbursements totaling approximately \$9,800. Charges alleging theft have been brought against a former President of the Association by the Johnson County Sheriff’s Office.

City of Hills

Schedule of Findings

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government 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.”

In addition, the amendment published excluded the business type activities function, so the budget after the amendment for business type activities was zero.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget. The budget amendment should also include all functions, even if the budget is not amended.

Response – This will be monitored closer in the future once all accounts are included with the Clerk’s office.

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 – No business transactions between the City and City officials or employees were noted.
- (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) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Minutes of the Council meetings were not signed in accordance with Chapter 380.7 of the Code of Iowa.

Although minutes of Council proceedings were published, they were not always 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 minutes should be signed in accordance with Chapter 380.7 of the Code of Iowa. The City should publish minutes of council proceedings within fifteen days and publish annual individual salaries as required by Chapter 372.13(6) of the Code of Iowa.

City of Hills

Schedule of Findings

Year ended June 30, 2006

Response – Minutes are signed and posted at the Post Office, Community Center and Hills Bank. They are signed frequently in the official minute book. A new process will be put into place where the Minute book is signed at the same time as the other minutes are posted.

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 that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

Response – This will be addressed and included in the Policy and Procedure manual being drafted.

Conclusion – Response accepted.

- (8) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will discuss this with Hills Bank and will make arrangements for this if possible.

Conclusion – Response accepted.

- (9) Annual Financial Report – The City prepared the annual financial report for the fiscal year ended June 30, 2006. However, the report did not accurately reflect the activity of the City.

Recommendation – The Annual Financial Report should reflect the activity of the City.

Response – We will correct this matter once all accounts are with the Clerk's office and will have a review done before submitting.

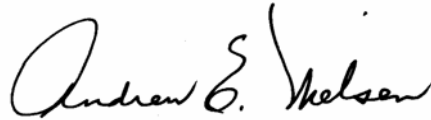
Conclusion – Response accepted.

City of Hills

Staff

This audit was performed by:

Pamela J. Bormann, CPA, Manager
Sheila M. Jensen, Senior Auditor
Marta M. Sobieszkoda, 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