CITY OF UNIVERSITY HEIGHTS, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

- Prepared By -

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CITY OF UNIVERSITY HEIGHTS, IOWA

OFFICIALS

NAME	TITLE	TERM EXPIRES
Louise From	Mayor	December 2007
Stan Laverman	Mayor Pro-tem	December 2007
Chris Anderson	Council Member	December 2007
Erling Anderson	Council Member	December 2007
Brennan McGrath	Council Member	December 2007
Patricia Yeggy	Council Member	December 2007
Jerry Musser	City Clerk	Indefinite
Lori Kimura	City Treasurer	Indefinite
Steve Ballard	City Attorney	Indefinite

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of University Heights, Iowa, as of and for the year ended June 30, 2007, 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 University Heights' management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my 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 accounting principles generally accepted in the United States. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for the three prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance as of July 1, 2006.

In my 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 as of July 1,2006, as discussed in the preceding paragraph, the aforementioned financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of University Heights as of June 30, 2007, 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 14, during the year ended June 30, 2007, 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, I have also issued my reports dated February 4, 2008 on my consideration of the City of University Heights' internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of University Heights' basic financial statements. Other supplementary information included in Schedules 1 and 2, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Douglas E Kraulage

February 4, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of University Heights provides this overview and analysis of its financial statements for the fiscal year ending June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements which follow.

FY 2007 Financial Highlights

Revenues of the City's governmental activities increased approximately $43,379, or 7.18% from FY2006 to FY2007. Major revenue increases include:

	Increase in FY2007 from FY2006	
Property taxes	$49,450	13.27%
Refunds and reimbursements	9,506	2,618.73%
Contributions	4,000	(none in FY2006)

The City's total cash basis net assets increased $81,093, or approximately 100.94% from June 30, 2006 to June 30, 2007. This increase was solely the increase in the net assets of the governmental activities of the City.

Using This Annual Report

The annual report consists of a series of financial statements and other information that includes:

Management's Discussion and Analysis introduces the basic financial statements for the City of University Heights 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-Cash Basis. This statement provides information about the activities of the City as a whole and presents an overview of the City's finances.

The Fund Financial Statement tells how governmental services were financed in the short term as well as what remains for future spending. The fund financial statement reports 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 for a full understanding of the data provided in the basic financial statements

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

Other Supplementary Information provides detailed information about the non-major governmental funds. In addition, detailed information about the City's receipts by source and disbursements by function is also provided.

Basis of Accounting

The City of University Heights 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 operation of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

Government-wide Financial Statement

The government-wide financial statement is designed to provide a broad overview of the City of University Heights's finances.

The Statement of Activities and Net Assets-Cash Basis presents the City's cash basis net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of the City's financial condition. The Statement of Activities and Net Assets-Cash Basis consists of the following:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, and general government activities.

The City of University Heights has one kind of fund:

- Governmental Funds account for all of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

The City of University Heights does not have any business-type activities.

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 approximately 100.94% from a year ago, from $80,335 to $161,428 at June 30, 2007. The analysis that follows provides detail on the changes in the cash balance.

Changes in Cash Basis Net Assets of Governmental Activities		
	FY2006	FY2007
Receipts and Transfers		
Program Receipts:		
Charges for services	$125,806	$100,126
Operating grants, contributions and restricted interest	2,210	10,230
General Receipts:		
Property tax and utility excise tax	380,989	430,355
Road use tax	82,637	82,261
Grants and contributions, not restricted	-	4,000
Unrestricted investment earnings	2,032	3,185
Other general receipts	10,789	17,682
Total operating receipts	$604,463	$647,839
Sale of capital assets	-	2,000
	$604,463	$649,839
Disbursements		
Public safety	$330,741	$315,901
Public works	143,072	150,377
Culture and recreation	3,670	15,833
Community and economic development	-	1,793
General government	93,893	84,842
Debt service	47,340	-
Total disbursements	$618,716	$568,746
Increase (decrease) in cash basis net assets	$(14,253)	$ 81,093
Cash basis net assets, beginning of year	94,588	80,335
Cash basis net assets, end of year	$ 80,335	$161,428

General property tax revenue increased by $41,458 from FY2006 to FY2007 due to increase in the net taxable valuation from $35,246,894 in FY2006 to $40,504,313 in FY2007. The general tax levy remained at the maximum $8.10 per $1,000 of taxable valuation. The total property tax levy for FY2007 was $10.39247, compared to $10.61560 for FY2006. The balance of the levy for FY2007 was made up of a transit levy of $0.91643, an insurance levy of $0.35593, a library levy of $0.27 and an employee benefit levy of $0.75011.

The major portion of the increase in the City's gross receipts from FY2006 to FY2007 was from property taxes ($49,450), refunds and reimbursements ($9,506) and contributions ($4,000).

The cost of all governmental activities this year was $568,746 compared to $618,716 last year. There was no debt service payment required in FY2007, as the City's outstanding general obligation debt was paid off in FY2006.

Individual Major Governmental Fund Analysis

At the end of the 2007 fiscal year, the combined fund balance of the City of University Heights' governmental funds was $161,428, an increase of $81,093 over the previous year balance of $80,335. Highlights of the increases in the major funds of the governmental activities follow:

General Fund - The increase in the General Fund property taxes was due to an increase of over $6,000,000 in net taxable valuation, plus the addition of levies for transit and library services. The transit and library levies generated an additional $47,965 of general property taxes. Other General Fund revenue increases included refunds and reimbursements, and contributions. In FY2007, the City paid the City of Iowa City $12,570 and the City of Coralville $2,430 to offset the costs of City residents utilizing the libraries of those cities, and other departments saw increases in supply and vehicle fuel costs.

Road Use Tax Fund – Street repairs continue to be required to the City's streets due to normal wear and tear. Street repairs in FY2007 cost a little more than $20,000.

Budgetary Highlights

The FY2007 budget was amended on May 15, 2007. Additional revenues from building and rental permits issued, traffic safety and disaster assistance grants received, and additional refunds and reimbursements offset the costs of police operating costs, additional leaf vacuuming, library expenses and legal fees.

Debt Administration

The City had no outstanding long-term debt during the year ended June 30, 2007.

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit at June 30, 2007 was $4,279,324.

Economic Factors and Next Year's Budgets and Rates

The City of University Heights' elected and appointed officials, and citizens, considered many factors when setting the FY2008 budget, tax levies and fees charged for various city activities. The total tax levy for FY2008 increased to $10.52988, an increase of $0.13741 per $1,000 of taxable value. The City has budgeted $188,000 from the sale of general obligation bonds to be used to finance the costs of several significant street improvements that need to be made. Although inflation is not considered to be a significant factor in the City and the state, confronting the increase in certain costs (fuel for police cars, certain supplies and materials) continues to be a challenge to the City.

Contacting the City's Financial Management

This financial report is designed to provide 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 Lori Kimura, City Treasurer, 1004 Melrose Avenue, University Heights, Iowa, 52246.

CITY OF UNIVERSITY HEIGHTS, IOWA
Statement of Activities and Net Assets – Cash Basis
Year Ended June 30, 2007

		Program Revenue	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**
Primary government:			
Governmental activities:			
Public safety	$315,901	$ 90,638	$ 10,230
Public works	150,377	-	-
Culture and recreation	15,833	-	-
Community and economic development	1,793	-	-
General government	84,842	9,488	-
Total primary government	**$568,746**	**$100,126**	**$ 10,230**

General Revenues:
Property tax
Other taxes
Franchise taxes
Road use tax
Unrestricted investment income
Proceeds from sale of capital assets
Miscellaneous
Transfers
Total general revenues and transfers

Change in cash basis net assets
Cash basis net assets—beginning of year
Cash basis net assets—end of year

See Notes to Financial Statements.

Capital Grants and Contributions	Net (Expense) Revenue and Change in Cash Basis Net Assets Governmental Activities
$ -	$(215,033)
-	(150,377)
-	(15,833)
-	(1,793)
-	(75,354)
$ -	**$(458,390)**
	$ 422,175
	8,180
	6,440
	82,261
	3,185
	2,000
	15,242
	-
	$ 539,483
	$ 81,093
	80,335
	$ 161,428

CITY OF UNIVERSITY HEIGHTS, IOWA
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances – Governmental Funds
As of and for the Year Ended June 30, 2007

	General	Road Use Tax
RECEIPTS:		
Property tax	$391,436	$ -
Other City tax	7,590	-
Licenses and permits	20,382	-
Use of money and property	3,169	-
Intergovernmental	8,120	82,261
Charges for services	1,008	-
Fines and forfeitures	78,736	-
Miscellaneous	21,682	-
Total receipts	$532,123	$ 82,261
DISBURSEMENTS:		
Public safety	$282,872	$ -
Public works	68,003	82,374
Culture and recreation	15,833	-
Community and economic development	1,793	-
General government	83,307	-
Total disbursements	$451,808	$ 82,374
Excess (deficiency) of receipts over (under) disbursements	$ 80,315	$ (113)
Other financing sources (uses):		
Transfer in	$ 6,129	$ -
Transfer out	(508)	-
Proceeds from sale of capital assets	2,000	-
Total other financing sources (uses)	$ 7,621	$ -
Net change in cash balances	$ 87,936	$ (113)
Cash balances beginning of year	(68,024)	114,632
Cash balances end of year	**$ 19,912**	**$114,519**
Cash Basis Fund Balances:		
Unreserved:		
General	$ 19,912	$ -
Special revenue	-	114,519
Debt service	-	-
Total cash basis fund balances	**$ 19,912**	**$114,519**

(continued)

Other Nonmajor Governmental Funds	Total
$ 30,739	$422,175
590	8,180
-	20,382
16	3,185
2,110	92,491
-	1,008
-	78,736
-	21,682
$ 33,455	$647,839
$ 33,029	$315,901
-	150,377
-	15,833
-	1,793
1,535	84,842
$ 34,564	$568,746
$ (1,109)	$ 79,093
$ 508	$ 6,637
(6,129)	(6,637)
-	2,000
$ (5,621)	$ 2,000
$ (6,730)	$ 81,093
33,727	80,335
$ 26,997	**$161,428**
$ -	$ 19,912
10,369	124,888
16,628	16,628
$ 26,997	**$161,428**

(1) Summary of Significant Accounting Policies

The City of University Heights is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1935 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, public improvements and general government services.

A. Reporting Entity

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

Jointly Governed Organizations

The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the city are such that exclusion does not cause the city’s financial statements to be misleading or incomplete. City officials are members of the following boards or commissions: Johnson County Assessor’s Conference Board and Johnson County Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements – 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 are supported by tax and intergovernmental revenues.

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

(1) Summary of Significant Accounting Policies - continued

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 the governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Road Use Tax Special Revenue Fund is used to account for the City's road construction and maintenance.

C. Measurement Focus and Basis of Accounting

The City of University Heights 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 accounting principles generally accepted in the United States.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, the disbursements did not exceed amounts budgeted.

(2) Cash and Investments

The City's deposits in financial institutions at June 30, 2007 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.

(2) Cash and Investments - continued

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) Operating Lease Activity

The City leases office space under a five-year lease expiring May 31, 2009, with an option to renew. Monthly lease payment is $750 plus a portion of real estate taxes and insurance. Lease expense amounted to $9,440 for the year ended June 30, 2007. Future minimum lease payments under this lease are as follows:

FYE	
2008	$ 9,000
2009	8,250
	$17,250

(4) Conduit Debt

From time to time, the City has issued Industrial or Senior Housing Facility Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the City, the State, nor any political subdivision thereof is obligated in any manner for repayment of the bonds.

As of June 30, 2007, there were three series of Senior Housing Facility Revenue Bonds outstanding, with a principal amount payable of $16,269,692.

(5) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Fund	Transfers In	Transfers Out
Governmental:		
General	$6,129	$ 508
Nonmajor funds	508	6,129
Total	$6,637	$6,637

Transfers are used to (1) move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted receipts collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

(6) Pension and Retirement Benefits

IPERS - 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.

Protection plan members are required to contribute 6.08% of their annual covered salary and the City is required to contribute 9.12% of annual covered payroll. Regular plan members are required to contribute 3.70% of their annual covered salary and the city is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2007, was $13,430, equal to the required contribution for the year.

(7) Compensated Absences

City employees earn vacation and sick leave at rates dependent on years of service on a fiscal year basis. Vacation leave is vested on July 1st and must be used prior to the end of the fiscal year. Sick leave may be accumulated but is forfeited if not used. Employees are allowed to carry over a maximum of five days vacation or it is paid out at fiscal year end. These accumulations are not recognized as disbursements by the City until used or paid. The City had no liability for accrued compensated absences at June 30, 2007.

(8) Commitments and Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

(9) Related Party Transactions

The City had no business transactions between the City and the City officials or employees during the year ended June 30, 2007.

(10) Risk Management

The City of University Heights 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.

(11) Litigation

There are currently no claims against the City seeking damages. The City is unaware of any unasserted claims.

(12) Contract Commitments

At June 30, 2007, the City has the following contracts with service providers:

Public Safety Dispatch:

An agreement between the City and the City of Iowa City provides the City and its public safety officials with dispatch services. The agreement automatically renews each fiscal year through June 30, 2007. During the year ended June 30, 2007, the City paid the City of Iowa City $21,138 for public safety dispatch services. A new agreement has been negotiated for the subsequent period.

Fire Protection:

An agreement between the City and the City of Coralville provides the City and its citizens with fire fighting and protection services. The agreement automatically renews every six months on July 1 and January 1 unless the parties agree in writing to terminate the agreement. The City of Coralville is responsible for providing all personnel and equipment for fire fighting services and is responsible for all costs of operating and maintaining its fire department. The agreement is reviewed on an annual basis to determine the amount the City pays to the City of Coralville. During the year ended June 30, 2007, the City paid the City of Coralville $29,718 for fire fighting and protection services.

Transportation:

The City has entered into agreements with Johnson County SEATS and Iowa City Transit to provide bus and transit services to its citizens. The agreements are for a one-year period beginning July 1, 2006 and ended June 30, 2007 and require monthly payments totaling $3,174. The agreements may be renewed annually unless the parties agree in writing to terminate the agreement. A new agreement has been negotiated for the subsequent period.

Sanitation:

An agreement between the City and Johnson County Refuse, Inc. for the period May 8, 2004 through June 30, 2009, provides the City and its citizens with solid waste collection and disposal services. The agreement providing for the services requires the City to pay a monthly charge of $1,555.

(13) Subsequent Events

The City awarded $172,469 in paving and street construction contracts subsequent to June 30, 2007.

The City issued a $240,000 general obligation street improvement note dated July 10, 2007, to finance street improvements. The note is payable over a ten-year period at 3.95% interest.

(14) 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, 2007. 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. Nonmajor funds are presented in total in one column.

CITY OF UNIVERSITY HEIGHTS, IOWA
Statement of Cash Receipts, Disbursements and Changes in Balances – Budget to Actual
As of and for the Year Ended June 30, 2007

	Governmental Funds Actual
RECEIPTS:	
Property tax	$422,175
Other City tax	8,180
Licenses and permits	20,382
Use of money and property	3,185
Intergovernmental	92,491
Charges for services	1,008
Miscellaneous	100,418
Total receipts	$647,839
DISBURSEMENTS:	
Public safety	$315,901
Public works	150,377
Culture and recreation	15,833
Community and economic development	1,793
General government	84,842
Total disbursements	$568,746
Excess (deficiency) of receipts over (under) disbursements	$ 79,093
Other financing sources, net	2,000
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	$ 81,093
Balances beginning of year	80,335
Balances end of year	**$161,428**

See Accompanying Independent Auditor's Report.

Less Funds Not Required To be Budgeted	Net	Budgeted Amounts Original	Budgeted Amounts Amended	Variance with Amended Budget Positive (Negative)
$ -	$422,175	$420,940	$420,940	$ 1,235
-	8,180	8,276	8,276	(96)
-	20,382	12,565	19,465	917
-	3,185	2,000	1,500	1,685
-	92,491	82,000	94,900	(2,409)
-	1,008	-	1,000	8
-	100,418	102,500	101,840	(1,422)
$ -	$647,839	$628,281	$647,921	$ (82)
$ -	$315,901	$309,033	$330,362	$ 14,461
-	150,377	212,500	171,312	20,935
-	15,833	16,000	16,075	242
-	1,793	5,000	5,000	3,207
-	84,842	85,741	91,358	6,516
$ -	$568,746	$628,274	$614,107	$ 45,361
$ -	$ 79,093	$ 7	$ 33,814	$ 45,279
-	2,000	-	-	2,000
$ -	$ 81,093	$ 7	$ 33,814	$ 47,279
-	80,335	98,248	80,332	3
$ -	**$161,428**	**$ 98,255**	**$114,146**	**$ 47,282**

CITY OF UNIVERSITY HEIGHTS, IOWA
Notes to Required Supplementary Information – Budgetary Reporting
June 30, 2007

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 or fund type. 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. All of the function disbursements are required to be budgeted. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by $14,167. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

CITY OF UNIVERSITY HEIGHTS, IOWA
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances – Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2007

	SPECIAL REVENUE		
	Employee Benefits	**Police Forfeiture**	**Total**
RECEIPTS:			
Property tax	$30,488	$ -	$30,488
Other City tax	590	-	590
Use of money and property	-	16	16
Intergovernmental	-	2,110	2,110
Total receipts	$31,078	$ 2,126	$33,204
DISBURSEMENTS:			
Public safety	$31,167	$ 1,862	$33,029
General government	1,535	-	1,535
Total disbursements	$32,702	$ 1,862	$34,564
Excess (deficiency) of receipts over (under) disbursements	$(1,624)	$ 264	$(1,360)
Other financing sources (uses):			
Transfer in	$ -	$ 508	$ 508
Transfer out	-	-	-
Total other financing sources (uses)	$ -	$ 508	$ 508
Net change in cash balances	$(1,624)	$ 772	$ (852)
Cash balances beginning of year	8,548	2,673	11,221
Cash balances end of year	**$ 6,924**	**$ 3,445**	**$10,369**
CASH BASIS FUND BALANCES:			
Unreserved:			
Special revenue	$ 6,924	$ 3,445	$10,369
Debt service	-	-	-
Total cash basis fund balances	**$ 6,924**	**$ 3,445**	**$10,369**

See Accompanying Independent Auditor's Report.

Debt Service	Total
$ 251	$30,739
-	590
-	16
-	2,110
$ 251	$33,455
$ -	$33,029
-	1,535
$ -	$34,564
$ 251	$(1,109)
$ -	$ 508
(6,129)	(6,129)
$(6,129)	$(5,621)
$(5,878)	$(6,730)
22,506	33,727
$16,628	**$26,997**
$ -	$10,369
16,628	16,628
$16,628	**$26,997**

CITY OF UNIVERSITY HEIGHTS, IOWA
Schedule of Receipts by Source and Disbursements by Function –
All Governmental Funds
For the Year Ended June 30, 2007

RECEIPTS:	
Property tax	$422,175
Other City tax	8,180
Licenses and permits	20,382
Use of money and property	3,185
Intergovernmental	92,491
Charges for service	1,008
Fines and forfeitures	78,736
Miscellaneous	21,682
Total	**$647,839**
DISBURSEMENTS:	
Public safety	$315,901
Public works	150,377
Culture and recreation	15,833
Community and economic development	1,793
General government	84,842
Total	**$568,746**

See Accompanying Independent Auditor's Report.

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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 Mayor and Council
City of University Heights, Iowa:

I have audited the financial statements of the City of University Heights, Iowa as of and for the year ended June 30, 2007, and have issued my report thereon dated October 13, 2007. My report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with auditing standards generally accepted in the United States, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of University Heights' internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of University Heights' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of University Heights' internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of University Heights' ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of University Heights' financial statements that is more than inconsequential will not be prevented or detected by the City of University Heights' internal control. I consider the deficiencies in internal control described in the accompanying Schedule of Findings and Responses to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of University Heights' internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above I believe items 1-07, 2-07, 4-07 and 5-07 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights' financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings and Responses.

Comments involving statutory and other legal matters about the City of University Heights' operations for the year ended June 30, 2007, are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City of University Heights. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of University Heights' responses to findings identified in my audit are described in the accompanying Schedule of Findings and Responses. While I have expressed my conclusions on the City's responses, I did not audit the City of University Heights' responses and, accordingly, I 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 University Heights and other parties to whom the City of University Heights may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of University Heights during the course of my audit.

Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Douglas E Kraulage

February 4, 2008

Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

1-07 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. We noted that one person performs substantially all of the accounting and financial reporting duties.

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

Response – We will review our procedures to see what may be done to strengthen internal control. We realize that because of our size there are limitations. The Council members take an active role in monitoring and oversight activities.

Conclusion – Response accepted.

2-07 Paid Invoices Are Not Effectively Cancelled – Invoices supporting disbursements have no indication on the invoice that they have been paid.

Criteria – Invoices should be effectively cancelled at the time of payment to prevent them from being used to support future disbursements.

Effect – By not having an indication that they are paid, the invoices may be used again to support additional payments at a future date. Effective internal control requires that all invoices and supporting documents be marked as paid.

Cause – Few controls were exhibited by the City in the control of disbursements.

Response – We will stamp the invoice "Paid" with the date that they are approved to be paid by the City Council, write the check that they are paid with on the invoice and the treasurer will initial the invoice.

Conclusion – Response accepted.

3-07 Bank Account Signatures – Three current financial institution accounts show individuals having signature authority who are not current employees or officials of the City.

Criteria – Individuals who are no longer associated with the City should be removed from all signature authorizations at all financial institutions as soon as they terminate their association with the City.

Effect – Individuals with no association with the City have access to City funds without any internal controls.

Cause – This situation developed because of lack of follow-up by City management to make changes to banking arrangements as individuals either left or joined the City.

Findings Related to the Financial Statements - continued

SIGNIFICANT DEFICIENCIES:

Recommendation – All financial institution accounts should be reviewed by City management to determine which individuals should be granted signature authority.

Response – Every time there is a change in council and/or mayor, the City will determine who will be authorized signers on the bank accounts and new signature cards will be completed.

Conclusion – Response accepted.

4-07 Checks are Being Written Without Proper Authorization – Checks have been written without the proper approval of the department head documented on the invoices.

Criteria – All expenditures of the City should go through an authorization process, including documentation of the individuals authorizing the payments. At a minimum, the department head should approve all invoices prior to the presentation of the check and presentation of the disbursement to the City Council for their review.

Effect – Internal control has suffered due to the fact that there is no documentation that invoices have been reviewed for acceptability, known supplier, authorized services or supplies being provided and the correct amount being charged for those services or supplies.

Cause – Failure of City management and disbursement personnel to follow the tenets of internal control and also failure of the City Council to oversee its responsibilities to authorize payments.

Recommendation – All disbursements should be approved and authorized for payment by a responsible individual, such as the department head, prior to checks being prepared. The individual approving and authorizing the payment should review the invoices for an appropriate vendor and appropriate date, services or products that were ordered and received, correct pricing and extension of that price and authorization to purchase those items prior to signing off.

Response – We will develop procedures to ensure that all invoices are reviewed prior to payment and the person who reviews the invoice will initial their approval.

Conclusion – Response accepted.

5-07 Payroll not Computed in Accordance with City Ordinance – The payroll checks for the City Clerk and Treasurer are more than the amount authorized by City Ordinance No. 106.

Criteria – Ordinance No. 106 sets the monthly salary of the Mayor, Council members, Treasurer and Clerk as of January 1, 1998. The salaries of the Mayor and Council members have been subsequently changed by ordinance.

Effect – The Treasurer and City Clerk are receiving salaries that are greater than the amount authorized by the ordinance.

Findings Related to the Financial Statements - continued

SIGNIFICANT DEFICIENCIES:

Cause – The City Council erroneously changed the salary of the Treasurer and City Clerk by a simple motion along with the salary of other City employees in years subsequent to the passage of Ordinance No. 106.

Recommendation – The City Council should amend Ordinance No. 106 to approve the salaries that were actually intended to be paid to the Treasurer and City Clerk. The Council should determine if they wish the salaries of the Treasurer and City Clerk to be set by ordinance or by Council resolution or motion with other City employees.

Response – We will have legal counsel review our ordinances and recommend how to proceed with the matter.

Conclusion – Response accepted.

Other Findings Related to Required Statutory Reporting

A-07 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts were not stated in the resolution.

Recommendation – The City should approve a new resolution to comply with Chapter 12C.2 of the Code of Iowa.

Response – We will have legal counsel review Chapter 12C.2 of the Code of Iowa and will prepare a new resolution to comply with Chapter 12C.2.

Conclusion – Response accepted.

B-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amended budget.

C-07 Questionable Expenditures – I noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

D-07 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted. No travel advances to City officials or employees were noted.

E-07 Business Transactions – The City had no business transactions between the City and City officials or employees during the year ended June 30, 2007.

F-07 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 that the coverage is adequate for current operations.

Other Findings Related to Required Statutory Reporting - continued

G-07 Deposits and Investments – The City has an approved investment policy in compliance with Chapters 12B and 12C of the Code of Iowa. However, it was noted that interest was not being properly allocated to the fund that deposited the money. It was also noted the City secured an interest rate on an investment certificate of deposit that was below the rate established by the State Rate Setting Committee.

Recommendation – The City should systematically allocate interest to the fund that is responsible for the interest income. The City should review its policies and negotiate interest rates on time deposits that comply with minimum rates established by the State Rate Setting Committee. The City should notify the financial institution that they are in violation of the Code of Iowa and should adjust the rate on the subject investment to comply with the minimum rate from the date of issue to maturity.

Response – We will allocate interest income to the Debt Service and Employee Benefits funds. We will contact the bank and have the rate adjusted and will also request any additional interest that is due to the City.

Conclusion – Response accepted.

H-07 Council Minutes – No transactions were found that I believe should have been approved in the Council minutes but were not. However, it was noted that various sets of minutes were not authenticated by the City Clerk or Acting City Clerk.

Recommendation – All minutes of the Council should be signed and authenticated by the person responsible for taking minutes at each meeting.

Response – We will make sure the minutes of each meeting are properly signed.

Conclusion – Response accepted.

It was noted that two sets of minutes were not in the City's official minute's book.

Recommendation – All City Council minutes should be located, signed and included in the official minute's book.

Response – The missing minutes were located at the City Attorney's office and were inserted into the minute's book.

Conclusion – Response accepted.

I-07 Publication of Annual Wages - The City did not publish annual gross wages in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa and should publish annual individual salaries as required.

Response – We will publish annual wages as required after W-2's are prepared and reconciled.

Conclusion – Response accepted.