CITY OF UNIVERSITY HEIGHTS, IOWA

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

JUNE 30, 2011

- Prepared By -

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CITY OF UNIVERSITY HEIGHTS, IOWA

OFFICIALS

NAME	TITLE	TERM EXPIRES
Louise From	Mayor	December 2011
Patricia Yeggy	Mayor Pro-tem	December 2011
Rosanne Hopson	Council Member	December 2011
Mike Haverkamp	Council Member	December 2011
Stan Laverman	Council Member	December 2011
Brennan McGrath	Council Member	December 2011
Christine Anderson	City Clerk	Indefinite
Lori Kimura	City Treasurer	Indefinite
Steve Ballard	City Attorney	Indefinite

Kronlage & Olson, P.C.

Certified Public Accountants

Douglas E. Kronlage, CPA
John C. Olson, CPA

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, 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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of University Heights' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for the three prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance as of July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance as of July 1, 2010, 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, 2011, 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.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2012 on our consideration of the City of University Heights' 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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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. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our 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 through 4, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Kronlage & Oban, P.C.

January 6, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FY 2011 Financial Highlights

Receipts of the City's governmental activities increased by $312,471, or approximately 33.23%, from FY 2010 to FY 2011. Property taxes increased by $18,211, other city taxes increased by $21,237 and intergovernmental receipts increased by $302,971.

Disbursements of the City's governmental activities increased by $513,603, or approximately 60.16%, from FY 2010 to FY 2011. Public works disbursements increased by $32,381, general government disbursements increased by $26,900, debt service disbursements increased by $154,080 and capital projects disbursements increased by $313,210.

Other net financing sources increased by $150,620 from FY 2010 to FY 2011. Loan proceeds were $150,000 and proceeds from the sale of capital assets were $620.

The City's total cash basis net assets increased by $36,059, or approximately 13.95% from June 30, 2010 to June 30, 2011. 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 and the City's indebtedness. 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.

Reporting the City's Financial Activities

Government-wide Financial Statement

The government-wide financial statement is designed to provide a broad overview of the City of University Heights's finances to help determine if the City's finances are improving or deteriorating.

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, general government, debt service and capital projects activities.

Fund Financial Statements

The City of University Heights has one fund type:

- 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, 3) the Debt Service Fund and 4) the Capital Projects Funds. 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 basis net assets for governmental activities increased approximately 13.95% from a year ago, from $258,516 at June 30, 2010 to $294,575 at June 30, 2011. The analysis that follows provides detail on the changes in the cash basis net assets.

Changes in Cash Basis Net Assets of Governmental Activities

	FY 2011	FY 2010
Receipts		
Program Receipts:		
Charges for services	$ 99,076	$107,431
Operating grants and contributions	105,401	102,484
Capital grants and contributions	354,211	54,157
General Receipts:		
Property tax and utility excise tax	557,221	539,312
Local option sales tax	123,014	101,476
Grants and contributions not restricted to specific purposes	250	250
Unrestricted investment earnings	2,574	2,552
Other general receipts	10,980	27,594
Total Operating Receipts	$1,252,727	$935,256
Proceeds from loan	150,000	-
Sale of capital assets	620	5,000
Total Receipts	$1,403,347	$940,256
Disbursements		
Public safety	$ 378,286	$396,438
Public works	221,073	188,692
Culture and recreation	34,371	30,558
Community and economic development	3,591	2,200
General government	141,544	114,644
Debt service	185,844	31,764
Capital projects	402,579	89,389
Total Disbursements	$1,367,288	$853,685
Increase in cash basis net assets	$ 36,059	$ 86,571
Cash basis net assets, beginning of year	258,516	171,945
Cash basis net assets, end of year	$ 294,575	$258,516

The City's total receipts from governmental activities increased by $463,091, or approximately 49.25%, from FY 2010 to FY 2011. The significant increase was due primarily to capital grants and loan proceeds received for significant construction activities in the City. The total cost of all programs and services increased by $513,603, or approximately 60.16%, from FY 2010 to FY 2011. The significant increase was due primarily to capital projects and repayment of loan proceeds.

Property taxes and utility excise taxes increased by $17,909 from FY 2010 to FY 2011. The total tax levy rate for FY 2010 was $10.9464 and the total tax levy rate for FY 2011 was $11.04972. Taxable property valuations increased by approximately $1,120,000 from FY 2010 to FY 2011. Taxable property valuations for FY 2012 increased by approximately $2,800,000 from FY 2011 and the City expects to collect an additional $32,000 in property taxes in FY 2012. The total tax levy rate for FY 2012 is $11.06390.

The cost of all governmental activities this year was $1,367,288 compared to $853,685 last year. As shown in the Statement of Activities and Net Assets – Cash Basis, the net amount financed by the taxpayers, before certain other general receipts, was only $808,600 because some of the program costs were paid by those directly benefitted by the programs ($99,076) and by other governments which subsidized certain program costs with grants and contributions ($459,612). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased by $294,616 from FY 2010 to FY 2011 primarily due to receiving additional capital grants for sidewalk projects in the City.

Individual Major Governmental Fund Analysis

At the end of FY 2011, the combined cash basis fund balances of the City of University Heights' governmental funds were $294,575, an increase of $36,059 over the previous year balance of $258,516. Highlights of the increases in the major funds of the governmental activities follow:

General Fund - The increase of $134,892 in the General Fund cash basis fund balance was due primarily to local option sales tax receipts of $123,014 received during the year. The City first began receiving local option sales tax receipts during the year ended June 30, 2010. The City intends to use a portion of the tax receipts to pay for significant capital project costs not paid with capital grant receipts.

Capital Projects Fund – The Capital Projects Fund is used to account for major City capital projects. During the year, the Melrose Avenue wide sidewalk project was substantially completed. Federal grant funds were received to pay for a substantial portion of the project cost. The fund balance decreased by $99,795 during the year. The City's share of the project cost will be paid for from accumulated local option sales tax proceeds once all final costs of the project, less grant funds received, are determined.

Budgetary Highlights

The FY 2011 budget was amended on May 10, 2011. Budgeted receipts were amended to adjust the amount of anticipated capital grant receipts and other anticipated refunds and reimbursements. Actual receipts were $33,431 less than budgeted amounts. The most significant difference was actual refunds and reimbursements being approximately $30,000 less than budgeted amounts. Several of those reimbursements were received after June 30, 2011.

Total disbursements did not exceed the amended budget total. However, actual disbursements of the Culture and Recreation and General Government functions exceeded the amended budget amounts because actual costs exceeded estimated amounts when the budget was amended. The actual disbursements of the Public Works and Capital Projects functions for the year were approximately $30,000 less than amended budget amounts because the final costs of certain repair and construction projects were not made until after June 30, 2011.

Debt Administration

The City had the following amounts of outstanding general obligation bonds at June 30, 2011 and 2010:

	2011	2010
General obligation – 2007 street improvement	$170,000	$195,000

During the year ended June 30, 2011, the City obtained a short-term loan in the amount of $150,000 to pay for the wide sidewalk project costs not paid for with grant funds. The loan was repaid during the year.

The constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of $170,000 at June 30, 2011 is significantly below its constitutional debt limit of $5,152,266.

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 FY2012 budget, tax levies and fees charged for various city activities. The total tax levy for FY2012 increased to $11.06390, an increase of $0.01418 per $1,000 of taxable value. The City is expected to collect an additional $30,000 of property taxes in FY 2012, primarily due to increased taxable valuations of approximately $2,800,000 for the year. Capital grant receipts and capital projects costs are expected to be substantially less than the FY 2011 amounts due to completion of two sidewalk projects early in FY 2012. Budgeted receipts and disbursements for FY 2012 are $910,258 and $853,014, respectively. If these estimates are realized during FY 2012, the City's cash balance is expected to increase by approximately $57,000. 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, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions
Primary government:			
Governmental activities:			
Public safety	$ 378,286	$ 86,715	$ 13,874
Public works	221,073	-	91,527
Culture and recreation	34,371	-	-
Community and economic development	3,591	-	-
General government	141,544	12,361	-
Debt service	185,844	-	-
Capital projects	402,579	-	-
Total primary government	**$1,367,288**	**$ 99,076**	**$105,401**

General Revenues:	
Property tax	
Other taxes	
Franchise taxes	
Unrestricted investment income	
Proceeds from sale of capital assets	
Proceeds from loan	
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	
Cash basis net assets	
Restricted for:	
Expendable:	
Employee benefits	
Streets	
Debt service	
Other purposes	
Assigned for street projects	
Unrestricted	
Total cash basis net assets	

See Notes to Financial Statements.

Capital Grants and Contributions	Net (Expense) Revenue and Change in Cash Basis Net Assets Governmental Activities
$ -	$(277,697)
-	(129,546)
-	(34,371)
-	(3,591)
-	(129,183)
-	(185,844)
354,211	(48,368)
$354,211	$(808,600)
	$ 548,908
	131,328
	9,017
	2,574
	620
	150,000
	2,212
	-
	$ 844,659
	$ 36,059
	258,516
	$ 294,575
	$ 3,814
	92,892
	16,607
	2,289
	140,000
	38,973
	$ 294,575

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, 2011

	General	Capital Projects
RECEIPTS:		
Property tax	$474,402	$ -
Other City tax	130,200	-
Licenses and permits	21,150	-
Use of money and property	2,071	-
Intergovernmental	59,749	303,091
Charges for services	747	-
Fines and forfeitures	77,178	-
Miscellaneous	11,230	-
Total receipts	$776,727	$ 303,091
DISBURSEMENTS:		
Operating:		
Public safety	$331,960	$ -
Public works	122,644	307
Culture and recreation	34,371	-
Community and economic development	3,591	-
General government	140,060	-
Debt service	3,365	-
Capital projects	-	402,579
Total disbursements	$635,991	$ 402,886
Excess (deficiency) of receipts over (under) disbursements	$140,736	$ (99,795)
Other financing sources (uses):		
Transfer in	$ -	$ -
Transfer out	(6,464)	(150,000)
Proceeds from sale of capital assets	620	-
Proceeds from loan	-	150,000
Total other financing sources (uses)	$ (5,844)	-
Net change in cash balances	$134,892	$ (99,795)
Cash balances beginning of year	168,578	(24,702)
Cash balances end of year	$303,470	$(124,497)
Cash Basis Fund Balances:		
Restricted for:		
Expendable:		
Employee benefits	$ -	$ -
Streets	-	-
Debt service	-	-
Other purposes	-	-
Assigned for street projects	140,000	-
Unassigned	163,470	(124,497)
Total cash basis fund balances	$303,470	$(124,497)

(continued)

Other Nonmajor Governmental Funds	Total
$ 74,506	$ 548,908
1,128	131,328
-	21,150
503	2,574
96,772	459,612
-	747
-	77,178
-	11,230
$ 172,909	$1,252,727
$ 46,326	$ 378,286
98,122	221,073
-	34,371
-	3,591
1,484	141,544
182,479	185,844
-	402,579
$ 328,411	$1,367,288
$(155,502)	$ (114,561)
$ 156,464	$ 156,464
-	(156,464)
-	620
-	150,000
$ 156,464	$ 150,620
$ 962	$ 36,059
114,640	258,516
$ 115,602	**$ 294,575**
$ 3,814	$ 3,814
92,892	92,892
16,607	16,607
2,289	2,289
-	140,000
-	38,973
$ 115,602	$ 294,575

(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 to be reported in the following categories:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City. The City has no net assets required to be reported in this category.

Expendable 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.

(1) Summary of Significant Accounting Policies - continued

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.

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.

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

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

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

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

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.

Capital Projects Capital Project Fund is used to account for the City's on-going capital improvements.

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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, the disbursements exceeded amounts budgeted in the Culture and Recreation and General Government functions.

(2) Cash and Investments

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

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

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

(3) Operating Lease Activity

The City leases office space under a five-year lease expiring May 31, 2014, with an option to renew. Monthly lease payment is $867 plus a portion of real estate taxes and insurance. Lease expense amounted to $10,962 for the year ended June 30, 2011. Future minimum lease payments under this lease are as follows:

FYE	
2012	$10,404
2013	10,404
2014	9,537
	$30,345

(4) Bonds Payable

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

FYE	Principal	Interest	Total
2012	$ 26,000	$ 6,715	$ 32,715
2013	27,000	5,688	32,688
2014	28,000	4,622	32,622
2015	29,000	3,516	32,516
2016	30,000	2,370	32,370
2017-2021	30,000	2,370	32,370
Total	$170,000	$25,281	$195,281

(5) 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, 2011, there were four series of Senior Housing Facility Revenue Bonds outstanding, with a principal amount payable of $14,019,767.

(6) Interfund Transfers

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

Fund	Transfers In	Transfers Out
Governmental:		
General	$ -	$ 6,464
Capital projects	-	150,000
Nonmajor funds	156,464	-
Total	$156,464	$156,464

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.

(7) 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 6.64% of their annual covered salary and the City is required to contribute 9.95% of annual covered payroll. Regular plan members are required to contribute 4.50% of their annual covered salary and the city is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2011, was $21,381, equal to the required contribution for the year.

(8) 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 not allowed to carry over vacation and 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, 2011.

(9) 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.

(10) Related Party Transactions

The City had business transactions between the City and the City officials or employees totaling $1,326 during the year ended June 30, 2011.

(11) 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.

(12) Litigation

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

(13) Contract Commitments

At June 30, 2011, the City has the following contracts with service providers:

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, 2011, 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, 2010 and ended June 30, 2011 and require monthly payments totaling $3,445. 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 July 1, 2009 through June 30, 2014, 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 $1,739.

(14) Deficit Fund Balances

The basic financial statements include an individual fund deficit as follows:

Capital project fund:	
Capital projects	$124,497

This deficit will be eliminated through Local Option Sales Tax receipts.

(15) Subsequent Events

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through January 6, 2012, the date the financial statements were issued.

The City awarded $19,655 in paving and street construction contracts subsequent to June 30, 2011.

(16) Fund Balances

In fiscal year 2011, the City adopted GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types.

CITY OF UNIVERSITY HEIGHTS, IOWA
Schedule of Cash Receipts, Disbursements and
Changes in Balances - Budget to Actual
As of and for the Year Ended June 30, 2011

	Governmental Funds Actual
RECEIPTS:	
Property tax	$ 548,908
Other City tax	131,328
Licenses and permits	21,150
Use of money and property	2,574
Intergovernmental	459,612
Charges for services	747
Miscellaneous	88,408
Total receipts	$1,252,727
DISBURSEMENTS:	
Operating:	
Public safety	$ 378,286
Public works	221,073
Culture and recreation	34,371
Community and economic development	3,591
General government	141,544
Debt Service	185,844
Capital projects	402,579
Total disbursements	$1,367,288
Excess (deficiency) of receipts over (under) disbursements	$ (114,561)
Other financing sources, net	150,620
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	$ 36,059
Balances beginning of year	258,516
Balances end of year	$ 294,575

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)
$ -	$ 548,908	$ 547,928	$ 547,928	$ 980
-	131,328	133,334	133,334	(2,006)
-	21,150	20,100	20,351	799
-	2,574	3,000	2,600	(26)
-	459,612	530,800	462,058	(2,446)
-	747	1,000	1,000	(253)
-	88,408	79,750	118,887	(30,479)
$ -	$1,252,727	$1,315,912	$1,286,158	$(33,431)
$ -	$ 378,286	$ 378,588	$ 378,764	$ 478
-	221,073	180,652	238,681	17,608
-	34,371	30,992	31,492	(2,879)
-	3,591	5,000	5,000	1,409
-	141,544	95,800	139,861	(1,683)
-	185,844	32,810	186,190	346
-	402,579	969,000	415,000	12,421
$ -	$1,367,288	$1,692,842	$1,394,988	$ 27,700
$ -	$ (114,561)	$ (376,930)	$ (108,830)	$ (5,731)
-	150,620	506,500	150,000	620
$ -	$ 36,059	$ 129,570	$ 41,170	$ (5,111)
-	258,516	273,893	258,516	-
$ -	$ 294,575	$ 403,463	$ 299,686	$ (5,111)

CITY OF UNIVERSITY HEIGHTS, IOWA
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2011

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 $297,854. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Culture and Recreation and General Government functions.

CITY OF UNIVERSITY HEIGHTS, IOWA
Schedule of Cash Receipts, Disbursements and
Changes in Cash Balances - Nonmajor Governmental Funds
As of and for the Year Ended June 30, 2011

	SPECIAL REVENUE		
	Employee Benefits	Police Forfeiture	Road Use Tax
RECEIPTS:			
Property tax	$42,130	$ -	$ -
Other City tax	638	-	-
Use of money and property	491	12	-
Intergovernmental	-	-	91,527
Total receipts	$43,259	$ 12	$ 91,527
DISBURSEMENTS:			
Operating:			
Public safety	$45,518	$ 808	$ -
Public works	-	-	98,122
General government	1,484	-	-
Debt service	-	-	-
Total disbursements	$47,002	$ 808	$ 98,122
Excess (deficiency) of receipts over (under) disbursements	$(3,743)	$ (796)	$ (6,595)
Other financing sources (uses):			
Transfer in	$ 6,464	$ -	$ -
Transfer out	-	-	-
Total other financing sources(uses)	$ 6,464	$ -	$ -
Net change in cash balances	$ 2,721	$ (796)	$ (6,595)
Cash balances beginning of year	1,093	3,085	89,931
Cash balances end of year	$ 3,814	$ 2,289	$ 83,336
CASH BASIS FUND BALANCES:			
Restricted for:			
Expendable:			
Employee benefits	$ 3,814	$ -	$ -
Streets	-	-	83,336
Debt service	-	-	-
Other purposes	-	2,289	-
Total cash basis fund balances	$ 3,814	$ 2,289	$ 83,336

See Accompanying Independent Auditor's Report.

Total	Debt Service	Street Construction	Total
$ 42,130	$ 32,376	$ -	$ 74,506
638	490	-	1,128
503	-	-	503
91,527	-	5,245	96,772
$134,798	$ 32,866	$5,245	$ 172,909
$ 46,326	$ -	$ -	$ 46,326
98,122	-	-	98,122
1,484	-	-	1,484
-	182,479	-	182,479
$145,932	$ 182,479	$ -	$ 328,411
$(11,134)	$(149,613)	$5,245	$(155,502)
$ 6,464	$ 150,000	$ -	$ 156,464
-	-	-	-
$ 6,464	$ 150,000	$ -	$ 156,464
$ (4,670)	$ 387	$5,245	$ 962
94,109	16,220	4,311	114,640
$ 89,439	$ 16,607	$9,556	$ 115,602
$ 3,814	$ -	$ -	$ 3,814
83,336	-	9,556	92,892
-	16,607	-	16,607
2,289	-	-	2,289
$ 89,439	$ 16,607	$9,556	$ 115,602

CITY OF UNIVERSITY HEIGHTS, IOWA
Schedule of Indebtedness
For the Year Ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
2007 GO Street Improvement Note	August 9, 2007	3.95%	$240,000
Wide Sidewalk Loan	August 23, 2010	4.75%	$150,000

See Accompanying Independent Auditor's Report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
$195,000	$ -	$ 25,000	$170,000	$ 7,479
-	150,000	150,000	-	3,365
$195,000	$150,000	$175,000	$170,000	$10,844

CITY OF UNIVERSITY HEIGHTS, IOWA
Bond and Note Maturities
For the Year Ended June 30, 2011

Year Ending June 30,	Street Improvement Note Issued August 9, 2007 Interest Rates	Amount
2012	3.95%	$ 26,000
2013	3.95	27,000
2014	3.95	28,000
2015	3.95	29,000
2016	3.95	30,000
2017	3.95	30,000
Total		$170,000

CITY OF UNIVERSITY HEIGHTS, IOWA
Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds
For the Year Ended June 30, 2011

RECEIPTS:	
Property tax	$ 548,908
Other City tax	131,328
Licenses and permits	21,150
Use of money and property	2,574
Intergovernmental	459,612
Charges for service	747
Fines and forfeitures	77,178
Miscellaneous	11,230
Total	$1,252,727
DISBURSEMENTS:	
Operating:	
Public safety	$ 378,286
Public works	221,073
Culture and recreation	34,371
Community and economic development	3,591
General government	141,544
Debt service	185,844
Capital expenditures	402,579
Total	$1,367,288

See Accompanying Independent Auditor's Report.

Kronlage & Olson, P.C.

Certified Public Accountants

Douglas E. Kronlage, CPA
John C. Olson, CPA

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:

We 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, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 6, 2012. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 University Heights' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of University Heights' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of University Heights' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of University Heights' financial statements will not be prevented or detected and corrected on a timely basis. We consider items 1-11, 2-11 and 3-11 in the accompanying Schedule of Findings and Responses to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention of those charged with governance. We consider item 4-11 in the accompanying schedule of Findings and Responses to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of University Heights' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we 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, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City of University Heights. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of University Heights and other parties to whom the City of University Heights may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

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

Kronlage & Oban, P.C.

January 6, 2012

CITY OF UNIVERSITY HEIGHTS, IOWA
Schedule of Findings and Responses
Year Ended June 30, 2011

Findings Related to the Financial Statements

MATERIAL WEAKNESSES:

1-11 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.

2-11 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 all invoice pages "Paid" with the date that they are approved to be paid by the City Council, write the check number that they are paid with on the invoice and the Treasurer will initial the invoice.

Conclusion - Response accepted.

3-11 Subsequent Period Disbursements - Payroll liability checks were written in the subsequent period and then back-dated to reflect inclusion in the current period.

Criteria - Disbursements of the current period should only include checks properly authorized and written within that period.

Effect - Internal control has suffered such that improper posting of subsequent period disbursements were allowed to be reflected in the current period, resulting in overstated disbursements and understated cash balances.

Cause - This occurred each quarter due to an improper cutoff of the checkbook. It has been City practice to include these disbursements at the end of each quarter to include payroll tax and IPERS benefits attributable to wages paid during the quarter.

Findings Related to the Financial Statements - continued

MATERIAL WEAKNESSES: (continued)

Recommendation - Individuals within the accounting function should be reminded that disbursements should be recorded and dated with the date actually prepared. Backdating of disbursements is not consistent with the cash receipts and disbursement basis of accounting.

Response - All disbursements will be dated and recorded as of the date of actual preparation. We will discontinue the practice of backdating checks as of July 1, 2011.

Conclusion - Response accepted.

SIGNIFICANT DEFICIENCY:

4-11 Issuance of Debt - The City's issuance of debt during the year was not preceded by proper public notice and public hearing, as required by Chapters 384.24A and 384.25 of the Code of Iowa.

Criteria - All issuances of indebtedness of the City are required to comply with the respective chapters of the Code of Iowa.

Effect - The City's debt issue is not in compliance with the Code of Iowa.

Cause - This was caused by management oversight of the proper procedures to be followed for any issuance of debt obligations of the City.

Recommendation - Prior to issuance of any debt obligations, the City should review the requirements in the Code of Iowa to ensure compliance with the relevant chapters.

Response - The City will ensure that all future issuance of debt obligations, whether they be long-term bond issues or short-term bank loans, will be done in accordance with the Code of Iowa.

Conclusion - Response accepted.

Other Findings Related to Required Statutory Reporting

A-11 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-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amount budgeted in the public works and general government functions prior to the amendment of the budget in May 2011. Disbursements during the year ended June 30, 2011 exceeded the amended budget in culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The overexpenditure in the Culture and Recreation function was due to paying both the 2009-2010 and 2010-2011 library usage agreement amounts during the year. The amount for each year was $2,934. We overlooked the possibility of two payments during the year when the budget was amended. The overexpenditure in the General Government function was due to the actual legal fees paid in June 2011 being more that estimated when the budget was amended. We will monitor expenditures by function throughout the year to ensure the original and/or amended budgets are not exceeded.

Conclusion - Response accepted.

C-11 Questionable Expenditures - We 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-11 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-11 Business Transactions - The City had business transactions, totaling $1,326, with two individual related parties during the year ended June 30, 2011. In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions do not appear to represent conflicts of interest since total transactions with each individual were less than $1,500.

F-11 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.

G-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

Other Findings Related to Required Statutory Reporting - continued

H-11 Financial Condition - The Capital Projects Fund had a deficit balance of $124,497 at June 30, 2011.

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

Response - The deficit will be covered with Local Option Sales Tax funds available to pay the City's portion of the project in accordance with the grant matching requirements.

Conclusion - Response accepted.