

CITY OF VAIL
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2003

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City of Vail

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Wayne Kruger	Mayor	Dec. 31, 2003
Kurt Brundgart	Council Member	Dec. 31, 2003
Tim Rogers	Council Member	Dec. 31, 2003
William Blair	Council Member	Dec. 31, 2005
Phyllis Luft	Council Member	Dec. 31, 2005
Carol Smith	Council Member	Dec. 31, 2005
Kathy Ruch	City Clerk	Indefinite

CITY OF VAIL

November 18, 2004

Independent Auditors' Report

To the Officials of the
City of Vail

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Vail, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of City of Vail's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, 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 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 that our audit provides a reasonable basis for our opinion.

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 have not been audited for all prior years. Accordingly, we are unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2002.

As discussed in Note 11 to the financial statements, the City of Vail intends to implement 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*; and Statement No. 38, *Certain Financial Statement Note Disclosures*, for the fiscal year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the City's financial statements and related notes in the year of implementation. The revised requirements will include an analytical overview of the City's financial activities in the Management's Discussion and Analysis introduction to the basic financial statements.

Continued . . .

November 18, 2004
To the Officials of the
City of Vail
Independent Auditors' Report

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002 as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Vail as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 18, 2004, on our consideration of City of Vail's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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.

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and in our opinion, except for the effects of such adjustments, if any, as might have been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in the third preceding paragraph, is fairly stated in all material respects in relation to the aforementioned financial statements, taken as a whole.

FINANCIAL STATEMENTS

CITY OF VAIL
COMBINED STATEMENT OF CASH TRANSACTIONS
ALL FUND TYPES
YEAR ENDED JUNE 30, 2003

	<u>Governmental Fund Types</u>		<u>Proprietary Fund Type</u>	<u>Total (Memorandum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Enterprise</u>	
Receipts:				
Property tax	\$ 34,447	19,848	0	54,295
Other city tax	2,131	25,833	0	27,964
Licenses and permits	1,109	0	0	1,109
Use of money and property	1,652	0	85	1,737
Intergovernmental	8,516	36,799	0	45,315
Charges for service	1,662	0	119,590	121,252
Miscellaneous	1,516	0	2,100	3,616
Total receipts	<u>51,033</u>	<u>82,480</u>	<u>121,775</u>	<u>255,288</u>
Disbursements:				
Public safety	6,414	0	0	6,414
Public works	25,583	17,326	0	42,909
Culture and recreation	1,361	0	0	1,361
General government	32,462	15,682	0	48,144
Debt service	2,262	20,659	0	22,921
Business type activities	0	0	98,219	98,219
Total disbursements	<u>68,082</u>	<u>53,667</u>	<u>98,219</u>	<u>219,968</u>
Excess (deficiency) of receipts over (under) disbursements	(17,049)	28,813	23,556	35,320
Other financing sources:				
Sale of fixed assets	768	0	1,500	2,268
Excess (deficiency) of receipts and other financing sources over (under) disbursements	(16,281)	28,813	25,056	37,588
Balance beginning of year	<u>47,270</u>	<u>70,600</u>	<u>1,561</u>	<u>119,431</u>
Balance end of year	<u>\$ 30,989</u>	<u>99,413</u>	<u>26,617</u>	<u>157,019</u>

See notes to financial statements

CITY OF VAIL
COMPARISON OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES -
ACTUAL TO BUDGET
YEAR ENDED JUNE 30, 2003

	<u>Actual</u>	<u>Amended Budget</u>	<u>Variance Favorable (Nonfavorable)</u>	<u>Actual as % of Amended Budget</u>
Receipts:				
Property tax	\$ 54,295	54,410	(115)	100 %
Other city tax	27,964	27,568	396	101 %
License and permits	1,109	1,620	(511)	68 %
Use of money and property	1,737	1,850	(113)	94 %
Intergovernmental	45,315	41,219	4,096	110 %
Charges for service	121,252	116,200	5,052	104 %
Miscellaneous	3,616	2,800	816	129 %
Total receipts	<u>255,288</u>	<u>245,667</u>	<u>9,621</u>	104 %
Disbursements:				
Public safety	6,414	4,500	(1,914)	143 %
Public works	42,909	58,121	15,212	74 %
Culture and recreation	1,361	1,500	139	91 %
General government	48,144	42,173	(5,971)	114 %
Debt service	22,921	32,819	9,898	70 %
Business type activities	98,219	105,345	7,126	93 %
Total disbursements	<u>219,968</u>	<u>244,458</u>	<u>24,490</u>	90 %
Excess of receipts over disbursements	35,320	1,209		
Other financing sources	<u>2,268</u>	<u>0</u>		
Excess of receipts and other financing sources over disbursements	37,588	1,209		
Balance beginning of year	<u>119,431</u>	<u>90,463</u>		
Balance end of year	<u>\$ 157,019</u>	<u>91,672</u>		

See notes to financial statements

**CITY OF VAIL
STATEMENT OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2003**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation bonds and note:			
Storm sewer	Oct. 1, 1997	5.25 %	\$ 100,000
Land purchase	Oct. 8, 2001	5.00 %	9,500
Revenue note:			
Water	Aug. 13, 1998	4.75 %	\$ 50,000
Total			

See notes to financial statements

EXHIBIT C

	<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$	19,950	0	19,950	0	709	0
	<u>9,500</u>	<u>0</u>	<u>1,978</u>	<u>7,522</u>	<u>284</u>	<u>0</u>
\$	<u>29,450</u>	<u>0</u>	<u>21,928</u>	<u>7,522</u>	<u>993</u>	<u>0</u>
\$	<u>19,972</u>	<u>0</u>	<u>10,084</u>	<u>9,888</u>	<u>744</u>	<u>0</u>

CITY OF VAIL

CITY OF VAIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Vail is a political subdivision of the state of Iowa located in Crawford County. It 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 its citizens including public safety, public works, culture and recreation, and general government services. The City also provides water, sewer and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Vail has included all funds, organizations, account groups, 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 financial burdens on the City. The City has no component units which meet the Government Accounting Standards Board criteria.

Jointly Governed Organizations

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

B. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds and their designated purposes are as follows:

Governmental Funds

General Fund – The General Fund is the general operating fund of the City. All general tax receipts and other receipts that are 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 through other funds.

CITY OF VAIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

B. Fund Accounting - Continued

Special Revenue Funds – The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Proprietary Funds

Enterprise Funds – The Enterprise Funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services that are supported by user charges.

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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, except blended component units, internal service, non-expendable trust, and agency funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements, known as functions, not by fund. These functions are public safety, public works, culture and recreation, general government, debt service, and business type activities.

All unused appropriations of the annually adopted budget lapse at year end.

E. Total (Memorandum Only)

The total column on the combined statement of cash transaction is captioned “Memorandum Only” to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position or results of operations in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

**CITY OF VAIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Property Tax Calendar

The City's property tax rates were extended against assessed valuation of the City as of January 1, 2001, to compute the amounts which became liens on property on July 1, 2002. These taxes were due and payable in two installments on September 30, 2002 and March 31, 2003, at the Crawford County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE 2 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2003 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's cash, which consists of cash in bank and certificates of deposit, totaled \$157,019 at June 30, 2003.

NOTE 3 NOTES PAYABLE

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

Year Ended June 30	General Obligation Note		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 2,000	375	9,888	356	11,888	731
2005	2,000	300	0	0	2,000	300
2006	2,000	175	0	0	2,000	175
2007	<u>1,522</u>	<u>76</u>	<u>0</u>	<u>0</u>	<u>1,522</u>	<u>76</u>
Total	\$ <u>7,522</u>	<u>926</u>	<u>9,888</u>	<u>356</u>	<u>17,410</u>	<u>1,282</u>

At June 30, 2003, the Enterprise Fund - Water fund balance was insufficient to cover the costs of operations and debt service.

The City has a general obligation debt limit of approximately \$372,000 which was not exceeded during the year ended June 30, 2003.

CITY OF VAIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 4 PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual 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, 2003, was \$2,455, equal to the required contribution for the year.

NOTE 5 COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation hours payable to employees at June 30, 2003, primarily relating to the General Fund, is \$2,526.

NOTE 6 BUDGET OVEREXPENDITURE

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2003, disbursements in the public safety and general government functions exceeded the amounts budgeted.

NOTE 7 RISK MANAGEMENT

The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool with over 475 members from various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 300 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

CITY OF VAIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003

NOTE 7 RISK MANAGEMENT - CONTINUED

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2003 were \$6,018.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$250,000 per claim. Claims exceeding \$250,000 are reinsured in an amount not to exceed \$1,750,000 per claim and \$5,000,000 in aggregate per year. For members requiring specific coverage from \$2,000,000 to \$15,000,000, such excess coverage is also reinsured. All property risks, including automobile physical damage, are also reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2003, settled claims have not exceeded the risk pool or reinsurance company coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions, however, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City also carries workmen's compensation insurance purchased from Iowa Municipal Workers Compensation Association. The City assumes liability for any deductions, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF VAIL
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2003**

NOTE 8 DEFICIT FUND BALANCES

The Enterprise Fund – Water Account had a deficit fund balance of \$12,288 at June 30, 2003. The City plans to eliminate the deficit with an increase in water rates.

NOTE 9 COMMITMENTS

The City has entered into the following contract which was not complete as of June 30, 2003.

<u>Project</u>	<u>Estimated Contract Price</u>	<u>Paid to June 30, 2003</u>	<u>Remaining Commitment</u>
Water Engineer	\$ <u>97,700</u>	\$ <u>3,660</u>	\$ <u>94,040</u>

At June 30, 2003 the City owed the Iowa Department of Transportation a balance of \$9,003 for reimbursement of the City's share of costs incurred on a Highway 30 project.

NOTE 10 SUBSEQUENT EVENTS

In October 2003, the City approved the issuance of a general obligation note for \$85,000 to purchase land for economic development.

In April 2004, the City was awarded a Community Development Block Grant award of \$300,000 for a water project. The City also signed a contract for \$15,000 for grant administrative services.

NOTE 11 PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued 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*; and Statement No. 38, *Certain Financial Statement Note Disclosures*. These statements will be implemented for the fiscal year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised requirements include using the economic resources measurement focus and full accrual accounting. Also, the revised minimum reporting requirements include Management's Discussion and Analysis to introduce the basic financial statements and to provide an analytical overview of the City's financial activities.

SUPPLEMENTAL INFORMATION

**CITY OF VAIL
SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
YEAR ENDED JUNE 30, 2003**

Receipts:	
Property tax	\$ 34,447
Other city tax:	
Utility tax replacement excise tax	1,510
Cable franchise	621
	2,131
Licenses and fees	
Liquor and beer	75
Cigarette	338
Building	696
	1,109
Use of money and property:	
Interest on investments	1,527
Rent	125
	1,652
Intergovernmental:	
State allocation	6,178
Bank franchise tax	778
Liquor profits	1,560
	8,516
Charges for service:	
Tree cutting and mowing	1,662
Miscellaneous:	
Donations	880
Miscellaneous	636
	1,516
Total receipts	51,033
Disbursements:	
Public Safety:	
Fire:	
Services and commodities	6,414
Public works:	
Roads, bridges and sidewalks:	
Personal services	5,200
Services and commodities	13,915
	19,115

**CITY OF VAIL
SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
YEAR ENDED JUNE 30, 2003**

Disbursements (continued):	
Public works (continued):	
Street lighting	\$ <u>6,468</u>
	25,583
Culture and recreation:	
Parks and recreation:	
Services and commodities	1,361
General government:	
Council and mayor	
	2,380
Clerk and treasurer	20,280
City hall:	
Services and commodities	<u>9,802</u>
	32,462
Debt service:	
Principal redemption	
	1,978
Interest	<u>284</u>
	<u>2,262</u>
Total disbursements	68,082
Deficiency of receipts under disbursements	(17,049)
Other financing sources:	
Sale of general fixed assets	<u>768</u>
Deficiency of receipts and other financing sources under disbursements	(16,281)
Balance beginning of year	<u>47,270</u>
Balance end of year	\$ <u><u>30,989</u></u>

See accompanying independent auditor's report

CITY OF VAIL
COMBINING SCHEDULE OF CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2003

	Road Use Tax	Employee Benefits	Insurance
Receipts:			
Property tax	\$ 0	12,802	5,912
Other city tax:			
Utility tax replacement excise tax	0	571	263
Local option sales tax	0	0	0
	<u>0</u>	<u>571</u>	<u>263</u>
Intergovernmental:			
Road use tax allocation	36,799	0	0
Total receipts	<u>36,799</u>	<u>13,373</u>	<u>6,175</u>
Disbursements:			
Public works:			
Roads, bridges and sidewalks:			
Personal services	2,264	5,982	0
Services and commodities	0	0	0
Capital outlay	5,000	0	0
	<u>7,264</u>	<u>5,982</u>	<u>0</u>
General government:			
City hall:			
Personal services	0	8,130	0
Services and commodities	0	0	7,552
	<u>0</u>	<u>8,130</u>	<u>7,552</u>
Debt service:			
Principal redemption	19,950	0	0
Interest	709	0	0
	<u>20,659</u>	<u>0</u>	<u>0</u>
Total disbursements	<u>27,923</u>	<u>14,112</u>	<u>7,552</u>
Excess (deficiency) of receipts over (under) disbursements	8,876	(739)	(1,377)
Balance beginning of year	<u>29,027</u>	<u>4,917</u>	<u>1,377</u>
Balance end of year	\$ <u>37,903</u>	<u>4,178</u>	<u>0</u>

See accompanying independent auditor's report

SCHEDULE 2

<u>Emergency</u>	<u>Local Option Sales Tax</u>	<u>Total</u>
1,134	0	19,848
50	0	884
0	24,949	24,949
<u>50</u>	<u>24,949</u>	<u>25,833</u>
0	0	36,799
<u>1,184</u>	<u>24,949</u>	<u>82,480</u>
0	0	8,246
0	4,080	4,080
0	0	5,000
<u>0</u>	<u>4,080</u>	<u>17,326</u>
0	0	8,130
0	0	7,552
<u>0</u>	<u>0</u>	<u>15,682</u>
0	0	19,950
0	0	709
<u>0</u>	<u>0</u>	<u>20,659</u>
<u>0</u>	<u>4,080</u>	<u>53,667</u>
1,184	20,869	28,813
<u>0</u>	<u>35,279</u>	<u>70,600</u>
<u>1,184</u>	<u>56,148</u>	<u>99,413</u>

**CITY OF VAIL
COMBINING SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUNDS
YEAR ENDED JUNE 30, 2003**

	<u>Water</u>	<u>Sewer Rental</u>	<u>Solid Waste</u>	<u>Total</u>
Receipts:				
Use of money and property:				
Interest on investments	\$ 40	45	0	85
Charges for service:				
Sale of water	76,413	0	0	76,413
Sewer rental fees	0	21,021	0	21,021
Solid waste fees	<u>0</u>	<u>0</u>	<u>22,156</u>	<u>22,156</u>
	76,413	21,021	22,156	119,590
Miscellaneous:				
Customer deposits	<u>2,100</u>	<u>0</u>	<u>0</u>	<u>2,100</u>
Total receipts	78,553	21,066	22,156	121,775
Disbursements:				
Water:				
Personal services	5,200	0	0	5,200
Services and commodities	50,503	0	0	50,503
Debt service:				
Principal redemption	10,084	0	0	10,084
Interest	<u>744</u>	<u>0</u>	<u>0</u>	<u>744</u>
	66,531	0	0	66,531
Sewer:				
Personal services	0	5,200	0	5,200
Services and commodities	<u>0</u>	<u>8,380</u>	<u>0</u>	<u>8,380</u>
	0	13,580	0	13,580
Solid waste:				
Personal services	0	0	6,828	6,828
Services and commodities	<u>0</u>	<u>0</u>	<u>11,280</u>	<u>11,280</u>
	0	0	18,108	18,108
Total disbursements	<u>66,531</u>	<u>13,580</u>	<u>18,108</u>	<u>98,219</u>
Excess of receipts over disbursements	12,022	7,486	4,048	23,556
Other financing sources:				
Sale of equipment	<u>0</u>	<u>0</u>	<u>1,500</u>	<u>1,500</u>
Excess of receipts and other financing sources over disbursements	12,022	7,486	5,548	25,056
Balance beginning of year	<u>(24,310)</u>	<u>4,903</u>	<u>20,968</u>	<u>1,561</u>
Balance end of year	\$ <u>(12,288)</u>	<u>12,389</u>	<u>26,516</u>	<u>26,617</u>

See accompanying independent auditor's report

**CITY OF VAIL
NOTE MATURITIES
YEAR ENDED JUNE 30, 2003**

Year Ending June 30,	General Obligation Note		Revenue Note	
	Land Purchase		Water	
	Issued Oct. 8, 2001		Issued Aug. 13, 1998	
	Interest Rates	Amount	Interest Rates	Amount
2004	5.00 %	\$ 2,000	4.75 %	\$ 9,888
2005	5.00 %	2,000	-	0
2006	5.00 %	2,000	-	0
2007	5.00 %	1,522	-	0
		\$ 7,522		\$ 9,888

See accompanying independent auditor's report

November 18, 2004

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council
of the City of Vail, IA

We have audited the financial statements of the City of Vail, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon, dated November 18, 2004. 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 auditing standards generally accepted in the United States of America, 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.

Compliance

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There was no prior year audit.

Continued . . .

November 18, 2004
City of Vail
Independent Auditors' Report on Compliance

Internal Control Over Financial Reporting

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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses. However, we believe all of the reportable conditions noted above are also material weaknesses. There was no prior year audit.

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

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

**CITY OF VAIL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2003**

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

I-A-03 Segregation of Duties

Comment – 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 had control over each of the following areas:

- 1) Receipts – billing, mail opening, collecting, depositing, posting and reconciling.
- 2) Disbursements – check writing, posting and reconciling.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances. The City should consider the use of a third party bank for collection of utility receipts.

Response – With a limited number of employees, we try to implement additional control procedures where possible. The City Council reviews and approves the City Clerk's reports monthly. We will consider your recommendation.

Conclusion – Response acknowledged.

I-B-03 Check Signatures

Comment – We noted only one signature is required on checks.

Recommendation – The City should consider requiring two signatures on all checks in order to provide an additional internal control over cash disbursements.

Response – We will consider this.

Conclusion – Response acknowledged.

**CITY OF VAIL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2003**

Part I: Findings Related to the Financial Statements (continued)

REPORTABLE CONDITIONS (continued):

I-C-03 Utility Billings, Collections and Delinquencies

Comment – Utility billings, collections and delinquent accounts were not reconciled.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies. In addition, the City should review its collection policy to provide for more timely shutoff procedures.

Response – We currently monitor delinquent accounts on a monthly basis. We will reconcile the utility billings, collections and delinquent balances monthly, and review our collection policy.

Conclusion – Response accepted.

**CITY OF VAIL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2003**

Part II: Other Findings Related to Statutory Reporting:

II-A-03 Official Depositories

A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

II-B-03 Certified Budget

Comment – Disbursements during the year ended June 30, 2003, exceeded the amounts budgeted in the Public Safety and General Government functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

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

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

II-C-03 Entertainment Expense

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

II-D-03 Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-03 Business Transactions

No business transactions were noted between the City and City officials or employees.

II-F-03 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.

**CITY OF VAIL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2003**

Part II: Other Findings Related to Statutory Reporting (continued):

II-G-03 Council Minutes

Comment - No transactions were found that we believe should have been approved in the Council minutes but were not. Although minutes were published, they did not include a summary of receipts and disbursements by fund.

Recommendation – The City should monitor procedures to insure all publications are made in accordance with Chapters 372.13(6) of the Code of Iowa.

Response – We will do this.

Conclusion – Response accepted.

II-H-03 Deposits and Investments

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy.

II-I-03 Revenue Note

Comment – The Enterprise Fund - Water Fund had a deficit balance at June 30, 2003.

Recommendation – The City should set adequate utility rates to provide sufficient receipts to finance both the operations and debt service of the utility.

Response - We have raised our utility rates several times since June 30, 2003.

Conclusion - Response accepted.

II-J-03 Excess Balances

Comment - The balances in the Special Revenue Fund - Road Use Tax Account and Local Option Sales Tax Account, and the Enterprise Fund – Solid Waste Account at June 30, 2003, were in excess of the respective funds’ disbursements during the year.

Recommendation – The City should consider the necessity of maintaining these substantial balances and, where financially feasible, consider reducing the balances in an orderly manner through revenue reductions.

Response - We are planning on improving our infrastructure after we complete our water project. We will be using the excess balances for capital projects.

Conclusion - Response accepted.

**CITY OF VAIL
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2003**

Part II: Other Findings Related to Statutory Reporting (continued):

II-K-03 Employee Benefit Tax Levy

Comment – The City used property tax dollars to pay benefits for employees whose wages were paid from the utility fund.

Recommendation – The City should use property taxes levied for employee benefits only for employees whose wages are paid from the General Fund or Road Use Tax Account in accordance with City Finance Committee rules.

Response - We have corrected this.

Conclusion - Response accepted.

CITY OF VAIL NEWS RELEASE

Schroer & Associates, P.C., 300 West Broadway, Suite 41, Council Bluffs, Iowa today released an audit report on the City of Vail, Iowa.

Schroer & Associates, P.C. reported that the City's receipts totaled \$255,288 for the year ended June 30, 2003. The receipts included \$54,295 in property tax, \$24,949 in local option sales tax, \$45,315 from state, \$1,612 in interest on investments, and \$121,252 for charges for services.

Disbursements for the year totaled \$219,968, which included \$48,144 for general government, \$42,909 for public works, \$22,921 for debt service, and \$98,219 for business type activities.

A copy of the audit report is available for review in the office of the Auditor of State and the City Clerk's office.