

CITY OF BANCROFT, IOWA
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2004

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CITY OF BANCROFT, IOWA

OFFICIALS

Name	Title	Term Expires
	(Before January 2004)	
Charles Kennedy	Mayor	January 2004
Larry Vaske	Mayor Pro tem	January 2004
Keith Vaske	Council Member	January 2004
Thomas Johnson	Council Member	January 2006
Paul Ingalls	Council Member	January 2006
R. Bruce Davis	Council Member	January 2006
	(After January 2004)	
Janice Wolf	Mayor	January 2008
Larry Vaske	Mayor Pro tem	January 2006
Paul Ingalls	Council Member	January 2006
Thomas Johnson	Council Member	January 2006
Phil Jaren	Council Member	January 2008
Tim Rowlet	Council Member	January 2008
Mark Anderson	City Administrator	Appointed
Vickie Rahe	Clerk / Treasurer	Appointed
Mary Deitering	Deputy Clerk	Appointed
Scott Buchanan	Attorney	Appointed

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Bancroft, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's primary government basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Bancroft's 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, 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 opinions.

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

These financial statements include financial data only for the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Inclusion of financial data of the City's component unit would be required if the City intended to present financial statements in accordance with generally accepted accounting principles.

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- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
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- Direct access to the principle ... always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Bancroft, Iowa, as of June 30, 2004, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in note 1.

As described in Note 12, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2005 on our consideration of the City of Bancroft’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. 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.

Management’s Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 22 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 Bancroft’s primary government basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein), and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Higgins & Associates, P.C.

CAMPBELL, HIGGINS & ASSOCIATES, P.C.
Certified Public Accountants

January, 13 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Bancroft provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Total receipts increased 155%, or approximately \$1,119,000, from fiscal 2003 to fiscal 2004. An increase in debt proceeds of \$810,000 was the major factor in the overall increase.
- Disbursements increased 180%, or approximately \$1,269,000, in fiscal 2004 from fiscal 2003. Public safety, public works, culture and recreation, community and economic development, debt service, capital projects, and business type activities disbursements increased approximately \$76,000, \$54,000, \$18,000, \$143,000, \$152,000, \$779,000 and \$47,000, respectively.
- The City's total cash basis net assets decreased 35.6%, or approximately \$129,000, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities decreased approximately \$169,000 and the assets of the business type activities increased by approximately \$40,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

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

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

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

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

- **Governmental Activities** include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- **Business Type Activities** include the water, gas, sewer and solid waste collection systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. **Governmental funds** account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Housing Grant, RISE Grant, and Development, 3) the Debt Service Fund and 4) the Capital Project Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2. **Proprietary funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased approximately \$172,000 from the prior year to approximately \$65,000. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2004	2003
Receipts and Transfers:		
Program Receipts:		
Charges for Services	\$ 51	\$ 65
Operating Grants, Contributions and Restricted Interest --	22	17
Capital Grants, Contributions and Restricted Interest ----	477	164
General Receipts:		
Property Tax	206	167
Local Option Sales Tax	56	55
Grants and Contributions Not Restricted to Specific Purposes	16	102
Unrestricted Interest on Investments	2	3
Miscellaneous	18	24
Sale of Assets	-	-
Bond and Note Proceeds	810	-
Transfers, Net	-	6
Total Receipts and Transfers	<u>1,658</u>	<u>603</u>
Disbursements and Transfers:		
Public Safety	173	96
Public Works	123	69
Health and Social Services	5	5
Culture and Recreation	149	131
Community and Economic Development	233	90
General Government	75	75
Debt Service	231	79
Capital Projects	786	7
Transfers, Net	52	-
Total Disbursements	<u>1,827</u>	<u>552</u>
Increase (Decrease) in Cash Basis Net Assets	(169)	51
Cash Basis Net Assets Beginning of Year	<u>237</u>	<u>186</u>
Cash Basis Net Assets End of Year	<u>\$ 68</u>	<u>\$ 237</u>

The City's total receipts for governmental activities increased by 175%, or approximately \$1,055,000. The total cost of all programs and services increased by approximately \$1,275,000, or 231%, with no new programs added this year. The significant increase in receipts was primarily the result of debt proceeds received in the current year. The significant increase in disbursements was primarily the result of increased construction project activity.

There were no significant changes in property tax rates for the current year and no significant changes are budgeted for next year.

The cost of all governmental activities this year was \$1,775,000 compared to \$552,000 last year. However, as shown in the Statement of Activities and Net Assets on pages 10 - 11, the amount taxpayers ultimately financed for these activities was only \$1,225,000 because some of the cost was paid by those directly benefited from the programs (\$51,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$499,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, were approximately equal to \$550,000 for 2004. The City paid for the remaining "public benefit" portion of governmental activities with approximately \$262,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements as well as cash reserves.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2004	2003
Receipts and Transfers:		
Program Receipts:		
Charges for Services:		
Water	\$ 115	\$ 85
Sewer	38	37
Operating Grants, Contributions and Restricted Interest ----	31	-
General Receipts:		
Other General Receipts	-	4
Transfers, Net	52	-
Total Receipts	<u>236</u>	<u>126</u>
Disbursements and Transfers:		
Water	117	83
Sewer	80	67
Transfers, Net	-	6
Total Disbursements and Transfers	<u>197</u>	<u>156</u>
Increase (Decrease) in Cash Basis Net Assets	39	(30)
Cash Basis Net Assets Beginning of Year	<u>127</u>	<u>157</u>
Cash Basis Net Assets End of Year	<u>\$ 166</u>	<u>\$ 127</u>

Total business type activities receipts for the fiscal year were \$236,000 compared to \$126,000 last year. This overall increase was due to several factors including an increase in total charges for services of approximately \$31,000, an increase in grant proceeds of approximately \$31,000 and an increase in net transfers of approximately \$52,000 and a decrease in general receipts of \$4,000. Total disbursements and transfers for the fiscal year increased by 26.3% to a total of \$197,000 due mainly to increase operating costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Bancroft completed the year, its governmental funds reported a combined fund balance of \$68,289, a decrease of approximately \$169,000 from last year's total of \$237,512. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased approximately \$81,000 from the prior year to a deficit balance of \$69,404. This decrease in the cash balance was due to increases in public safety, public works and culture and recreation disbursements.
- The Housing Grant Fund cash balance increased approximately \$11,000 from the prior year to \$3,317.
- The RISE Grant Fund cash balance decreased by approximately \$73,000 from the prior year to a deficit balance of \$72,575. The decrease was the result of project costs incurred prior to availability of funds.
- The Development Fund cash balance increased by approximately \$3,000 from the prior year to a balance of \$3,333.
- The Debt Service Fund cash balance decreased by approximately \$21,000 from the prior year to \$15,805. This decrease was due to an increase in debt payments over the prior year.
- The Capital Project – Water System Fund cash balance increased by approximately \$50,000 from the prior year to \$49,482. This increase was due to current year debt proceeds exceeding the current year disbursements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by approximately \$81,000 from the prior year to \$167,840, due primarily to an increase in water rates as well as a transfer of approximately \$52,000 from the Water System Project Fund.
- The Sewer Fund cash balance decreased by approximately \$40,000 from the prior year to a deficit balance of \$1,624, due primarily to current year system maintenance and improvements.

BUDGETARY HIGHLIGHTS

The City of Bancroft had a budget amendment which was approved on May 10, 2004. The amendment provided for a net total of \$238,242 of additional receipts and net other financing sources as well as a total of \$296,346 of additional disbursements in certain City departments.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$886,000 in bonds and other long-term debt, compared to \$313,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2004	2003
General Obligation Capital Loan Notes -----	\$ 338	\$ 298
Loans from Bancroft Municipal Utilities -----	-	15
Revenue Bonds -----	548	-
Total -----	<u>\$ 886</u>	<u>\$ 313</u>

Debt increased as a result of issuing water revenue bonds for water system improvement projects.

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 approximately \$338,000 is significantly below its constitutional debt limit of approximately \$828,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Bancroft's elected and appointed officials and citizens considered many factors when setting the fiscal year 2005 budget, tax rates, and fees that will be charged for various City activities. Some of these factors are the economy, inflation, and state budget cuts.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent.

These factors were taken into account when adopting the budget for fiscal year 2005. Total budgeted receipts and net other sources are \$1.274 million, a decrease of approximately 31% compared with the current year actual results. Budgeted disbursements are \$1.271 million, a decrease of approximately 36% compared to the current year actual results. The City has added no major new programs or initiatives to the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase by approximately \$3,000 by the close of fiscal year 2005.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, 105 East Ramsey, Bancroft, Iowa.

FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental Activities:							
Public Safety	\$ 172,580	\$ 24,672	\$ 2,400	\$ 83,334	\$ (62,174)	\$ -	\$ (62,174)
Public Works	123,418	-	-	75,074	(48,344)	-	(48,344)
Health and Social Services	4,608	-	-	-	(4,608)	-	(4,608)
Culture and Recreation	148,509	7,742	19,490	9,158	(112,119)	-	(112,119)
Community and Economic Development	233,377	-	-	110,833	(122,544)	-	(122,544)
General Government	75,368	18,607	-	-	(56,761)	-	(56,761)
Debt Service	230,888	-	-	-	(230,888)	-	(230,888)
Capital Projects	785,934	-	-	198,371	(587,563)	-	(587,563)
Total Governmental Activities	1,774,682	51,021	21,890	476,770	(1,225,001)	-	(1,225,001)
Business Type Activities:							
Water	116,854	114,936	30,850	-	-	28,932	28,932
Sewer	79,795	38,564	-	-	-	(41,231)	(41,231)
Total Business Type Activities	196,649	153,500	30,850	-	-	(12,299)	(12,299)
Total	\$ 1,971,331	\$ 204,521	\$ 52,740	\$ 476,770	(1,225,001)	(12,299)	(1,237,300)
General Receipts:							
Property Tax Levied For:							
General Purposes					94,144	-	94,144
Insurance					14,736	-	14,736
Debt Service					64,585	-	64,585
Employee Benefits					13,984	-	13,984
Tax Increment Financing					18,169	-	18,169
Local Option Sales Tax					56,152	-	56,152
Grants and Contributions Not Restricted to Specific Purposes					15,795	-	15,795
Unrestricted Interest on Investments					1,664	311	1,975
Bond and Note Proceeds (Net of Warrants Activity - See Note 5)					810,420	-	810,420
Miscellaneous					17,818	-	17,818
Transfers					(51,689)	51,689	-
Total General Receipts and Transfers					1,055,778	52,000	1,107,778
Change in Cash Basis Net Assets					(169,223)	39,701	(129,522)
Cash Basis Net Assets Beginning of Year, As Restated					237,512	126,515	364,027
Cash Basis Net Assets End of Year					\$ 68,289	\$ 166,216	\$ 234,505

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities
Cash Basis Net Assets:						
Restricted:						
Debt Service				\$ 15,805	\$ 43,166	\$ 58,971
Other Purposes				87,370	-	87,370
Unrestricted				(34,886)	123,050	88,164
Total Cash Basis Net Assets				\$ 68,289	\$ 166,216	\$ 234,505

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue				Debt Service	Capital Project - Water System	Other Nonmajor Governmental Funds	Total
	General	Housing Grant	RISE Grant	Development				
Receipts:								
Property Tax	\$ 105,940	\$ -	\$ -	\$ -	\$ 64,585	\$ -	\$ 16,924	\$ 187,449
Tax Increment Financing Collections	-	-	-	-	-	-	18,169	18,169
Other City Tax	-	-	-	-	-	-	56,152	56,152
Licenses and Permits	1,057	-	-	-	-	-	-	1,057
Use of Money and Property	20,997	60	-	-	-	157	-	21,214
Intergovernmental	70,213	129,383	64,883	107,500	-	-	67,296	439,275
Charges for Service	30,414	-	-	-	-	-	-	30,414
Special Assessments	7,778	-	-	-	-	-	-	7,778
Miscellaneous	77,782	4,105	-	3,333	-	-	-	85,220
Total Receipts	314,181	133,548	64,883	110,833	64,585	157	158,541	846,728
Disbursements:								
Public Safety	160,018	-	-	-	-	-	12,562	172,580
Public Works	30,153	-	-	-	-	-	93,265	123,418
Health and Social Services	4,608	-	-	-	-	-	-	4,608
Culture and Recreation	146,316	-	-	-	-	-	2,193	148,509
Community and Economic Development	3,261	122,616	-	107,500	-	-	-	233,377
General Government	73,091	-	-	-	-	-	2,277	75,368
Debt Service	-	-	-	-	230,888	-	-	230,888
Capital Projects	-	-	202,319	-	-	568,651	14,964	785,934
Total Disbursements	417,447	122,616	202,319	107,500	230,888	568,651	125,261	1,774,682
Excess (Deficiency) of Receipts Over (Under) Disbursements	(103,266)	10,932	(137,436)	3,333	(166,303)	(568,494)	33,280	(927,954)
Other Financing Sources (Uses):								
Revenue Bond Proceeds	-	-	-	-	-	570,420	-	570,420
General Obligation Capital Loan Note Proceeds	145,000	-	-	-	-	95,000	-	240,000
Anticipatory Warrants Proceeds	-	-	-	-	-	600,000	-	600,000
Anticipatory Warrants Redeemed	-	-	-	-	-	(600,000)	-	(600,000)
Operating Transfers In (Out)	(191,837)	-	64,861	-	145,000	(47,443)	(22,270)	(51,689)
Total Other Financing Sources (Uses)	(46,837)	-	64,861	-	145,000	617,977	(22,270)	758,731
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(150,103)	10,932	(72,575)	3,333	(21,303)	49,483	11,010	(169,223)
Balance at Beginning of Period, As Restated	80,699	(7,615)	-	-	37,108	(1)	127,321	237,512
Balance at End of Period	\$ (69,404)	\$ 3,317	\$ (72,575)	\$ 3,333	\$ 15,805	\$ 49,482	\$ 138,331	\$ 68,289

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue				Debt Service	Capital Project - Water System	Other Nonmajor Governmental Funds	Total
	General	Housing Grant	RISE Grant	Development				
Cash Basis Fund Balances								
Reserved:								
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 15,805	\$ -	\$ -	\$ 15,805
Unreserved:								
General Fund	(69,404)	-	-	-	-	-	-	(69,404)
Special Revenue Funds	-	3,317	(72,575)	3,333	-	-	153,295	87,370
Capital Projects Funds	-	-	-	-	-	49,482	(14,964)	34,518
Total Cash Basis Fund Balances	\$ (69,404)	\$ 3,317	\$ (72,575)	\$ 3,333	\$ 15,805	\$ 49,482	\$ 138,331	\$ 68,289

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Receipts:			
Charges for Service -----	\$ 112,196	\$ 38,489	\$ 150,685
Miscellaneous -----	2,740	75	2,815
Total Operating Receipts	<u>114,936</u>	<u>38,564</u>	<u>153,500</u>
Operating Disbursements:			
Business Type Activities -----	89,576	79,795	169,371
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>25,360</u>	<u>(41,231)</u>	<u>(15,871)</u>
Non-operating Receipts (Disbursements):			
Intergovernmental -----	30,850	-	30,850
Interest on Investments -----	311	-	311
Debt Service -----	(27,278)	-	(27,278)
Total Non-operating Receipts (Disbursements)	<u>3,883</u>	<u>-</u>	<u>3,883</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	<u>29,243</u>	<u>(41,231)</u>	<u>(11,988)</u>
Other Financing Sources (Uses):			
Operating Transfers In (Out) -----	51,689	-	51,689
Net Change in Cash Balances	<u>80,932</u>	<u>(41,231)</u>	<u>39,701</u>
Cash Balances at Beginning of Year	<u>86,908</u>	<u>39,607</u>	<u>126,515</u>
Cash Balances at End of Year	<u>\$ 167,840</u>	<u>\$ (1,624)</u>	<u>\$ 166,216</u>
Cash Basis Fund Balances			
Reserved for Debt Service -----	\$ 43,166	\$ -	\$ 43,166
Unreserved -----	124,674	(1,624)	123,050
Total Cash Basis Fund Balances	<u>\$ 167,840</u>	<u>\$ (1,624)</u>	<u>\$ 166,216</u>

CITY OF BANCROFT, IOWA**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Bancroft, Iowa is a political subdivision of the State of Iowa located in Kossuth County. It was first incorporated in 1881 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, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Bancroft 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 for criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These primary government financial statements present only the amounts of the City of Bancroft and not its component unit – Bancroft Municipal Utilities. Disclosures about the component unit are not included because the component unit has been audited separately, and a report has been issued under separate cover. The audited financial statements are available at the Bancroft Municipal Utilities office.

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. A City official is a member of the Kossuth County Emergency Management Commission.

B. Basis of Presentation

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

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

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

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

Special Revenue:

The Housing Grant Fund is used to account for the City's CDBG Housing Rehabilitation grant activity.

The RISE Grant Fund is used to account for the City's Revitalize Iowa's Sound Economy (RISE) grant activity.

The Development Fund is used to account for economic development activities including the City's CDBG Economic Development and Public Facilities Set-Asides grant and revolving loan activity.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Project – Water System Project Fund is used to account for the activity relating to the construction of water system improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

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

C. Measurement Focus and Basis of Accounting

The City of Bancroft 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.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the following functions: public works, health and social services, culture and recreation, community and economic development, general government, debt service, and business type activities.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2004 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 at June 30, 2004. For purposes of this report, certificates of deposit are not considered investments as they are subject to withdrawal upon demand.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and water revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Water Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 60,500	\$ 14,475	\$ 23,000	\$ 17,340	\$ 83,500	\$ 31,815
2006	50,500	11,800	24,000	16,650	74,500	28,450
2007	50,500	9,525	24,000	15,930	74,500	25,455
2008	40,500	7,250	25,000	15,210	65,500	22,460
2009	50,500	5,525	26,000	14,460	76,500	19,985
2010-2014	85,000	5,200	141,000	60,180	226,000	65,380
2015-2019	-	-	165,000	37,650	165,000	37,650
2020 - 2023	-	-	<u>120,420</u>	<u>11,400</u>	<u>120,420</u>	<u>11,400</u>
Total	<u>\$ 337,500</u>	<u>\$ 53,775</u>	<u>\$ 548,420</u>	<u>\$ 188,820</u>	<u>\$ 885,920</u>	<u>\$ 242,595</u>

The water revenue bond resolutions include the following provisions:

- a) The bonds will only be redeemed from the future net revenues of the water fund and the bond holders hold a lien on the future net revenues of this fund.
- b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account within the Enterprise Funds for the purpose of making the bond principal and interest payments when due.

NOTE 4 – EQUIPMENT AND VEHICLE LOANS

The City borrowed \$20,000 from Bancroft Municipal Utilities (BMU) in December of 1999 for the purchase of a maintainer. This no-interest loan was being paid back to BMU at the rate of \$4,800 per year. This loan was paid off during the fiscal year ended June 30, 2004.

The City also borrowed \$10,000 from BMU in September of 2001 for the purchase of a police car. This no-interest loan was being paid back to BMU at the rate of \$2,500 per year. This loan was paid off during the fiscal year ended June 30, 2004.

NOTE 5 - CONSTRUCTION WARRANTS

During the fiscal year ended June 30, 2004, the City borrowed \$600,000 using construction warrants to be used for short-term financing of water system improvements. In February 2004 these warrants were redeemed using the proceeds of water revenue bonds issued. The proceeds and redemption activity are reflected as other financing sources and uses on Exhibit B - Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds - Primary Government. The activity is netted and therefore, not reflected on Exhibit A - Statement of Activities and Net Assets – Cash Basis – Primary Government.

NOTE 6 - 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 except for police employees, in which case the percentages are 5.93% and 8.907%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$8,394, \$8,078, and \$7,776, respectively, equal to the required contributions for each year.

NOTE 7 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and personal leave hours for subsequent use or for payment upon termination, retirement, or death. Earned but unused sick leave hours are for subsequent use only. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate liability for earned vacation at June 30, 2004 was \$5,680, according to the existing written policy. This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE 8 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$1,931 during the year ended June 30, 2004.

The City rents certain buildings to Bancroft Municipal Utilities on a monthly basis at \$1,500 per month. Total rent received from BMU in the fiscal year ended June 30, 2004 was \$15,000.

NOTE 9 – RISK MANAGEMENT

The City of Bancroft 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.

NOTE 10 – DEFICIT FUND BALANCES

As of June 30, 2004, the following funds had deficit balances:

Fund	Deficit
General Fund -----	\$ 69,404
Special Revenue Fund, RISE Grant Account -----	72,575
Special Revenue Fund, Road Use Tax Account -----	14,673
Special Revenue Fund, Employee Benefits Account -----	11,784
Capital Projects Fund, Pool Projects Account -----	14,964
Enterprise Fund, Sewer Account -----	1,624

The deficit balances were the result of costs incurred prior to availability of funds. Plans to eliminate these deficits include collection of receipts owed to the City, possible tax levy increases, transfers from other funds, and possible rate increases.

NOTE 11 – CONSTRUCTION COMMITMENTS

As of June 30, 2004, the City had construction commitments totaling approximately \$181,000 relating to the water treatment plant project, well project, and RISE grant project.

NOTE 12 – ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The Library Endowment Fund has previously been reported as an expendable trust fund. Under GASB 34, this fund does not meet the definition of a fiduciary fund. Therefore, the beginning balance in this fund was reclassified to the General Fund. As a result, the beginning balances on the government-wide and fund financial statements have been restated as noted below.

	<u>Beginning Balances As Previously Reported</u>	<u>Library Endowment Fund</u>	<u>Beginning Balances As Restated</u>
Government-Wide Financial Statements:			
Governmental Activities -----	\$ 215,663	\$ 21,849	\$ 237,512
Fund Financial Statements:			
Governmental Funds:			
General Fund -----	\$ 58,850	\$ 21,849	\$ 80,699

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET TO ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS - PRIMARY GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2004

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
Receipts:						
Property Tax	\$ 187,449	\$ -	\$ 187,449	\$ 179,556	\$ 166,900	\$ 20,549
Tax Increment Financing Collections	18,169	-	18,169	18,000	18,000	169
Other City Tax	56,152	-	56,152	64,619	55,000	1,152
Licenses and Permits	1,057	-	1,057	820	700	357
Use of Money and Property	21,214	311	21,525	26,600	25,050	(3,525)
Intergovernmental	439,275	30,850	470,125	936,105	1,350,242	(880,117)
Charges for Service	30,414	150,685	181,099	176,700	185,000	(3,901)
Special Assessments	7,778	-	7,778	3,150	3,150	4,628
Miscellaneous	85,220	2,815	88,035	18,650	18,400	69,635
Total Receipts	846,728	184,661	1,031,389	1,424,200	1,822,442	(791,053)
Disbursements:						
Public Safety	172,580	-	172,580	215,150	201,730	29,150
Public Works	123,418	-	123,418	85,750	85,750	(37,668)
Health and Social Services	4,608	-	4,608	4,408	4,408	(200)
Culture and Recreation	148,509	-	148,509	136,300	136,960	(11,549)
Community and Economic Development	233,377	-	233,377	130,518	221,974	(11,403)
General Government	75,368	-	75,368	62,400	71,600	(3,768)
Debt Service	230,888	-	230,888	230,987	215,787	(15,101)
Capital Projects	785,934	-	785,934	845,000	980,000	194,066
Business Type Activities	-	196,649	196,649	87,850	176,500	(20,149)
Total Disbursements	1,774,682	196,649	1,971,331	1,798,363	2,094,709	123,378
Excess (Deficiency) of Receipts Over (Under) Disbursements	(927,954)	(11,988)	(939,942)	(374,163)	(272,267)	(667,675)
Other Financing Sources, Net	758,731	51,689	810,420	400,000	240,000	570,420
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(169,223)	39,701	(129,522)	25,837	(32,267)	(97,255)
Balance at Beginning of Period	237,512	126,515	364,027	317,217	317,217	46,810
Balance at End of Period	\$ 68,289	\$ 166,216	\$ 234,505	\$ 343,054	\$ 284,950	\$ (50,445)

CITY OF BANCROFT, IOWA**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING****JUNE 30, 2004**

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 Internal Service Funds and Fiduciary 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. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. 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, a budget amendment increased budgeted disbursements by \$296,346. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the following functions: public works, health and social services, culture and recreation, community and economic development, general government, debt service, and business type activities.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BANCROFT, IOWA

COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue					Capital Projects		Total
	Local	Road	Employee	Urban	Pool	Street		
	Option Sales Tax	Use Tax	Benefits	Renewal Tax Increment	Project	Project		
Receipts:								
Property Tax -----	\$ -	\$ -	\$ 13,984	\$ 2,940	\$ -	\$ -	\$ -	\$ 16,924
Tax Increment Financing Collections -----	-	-	-	-	18,169	-	-	18,169
Other City Tax -----	56,152	-	-	-	-	-	-	56,152
Intergovernmental -----	-	67,296	-	-	-	-	-	67,296
Total Receipts	56,152	67,296	13,984	2,940	18,169	-	-	158,541
Disbursements:								
Operating:								
Public Safety -----	5,131	-	7,431	-	-	-	-	12,562
Public Works -----	-	89,538	3,727	-	-	-	-	93,265
Culture and Recreation -----	-	-	2,193	-	-	-	-	2,193
General Government -----	-	-	2,277	-	-	-	-	2,277
Capital Projects -----	-	-	-	-	-	14,964	-	14,964
Total Disbursements	5,131	89,538	15,628	-	-	14,964	-	125,261
Excess (Deficiency) of Receipts Over (Under Disbursements)	51,021	(22,242)	(1,644)	2,940	18,169	(14,964)	-	33,280
Other Financing Sources (Uses):								
Operating Transfers In (Out) -----	-	-	-	-	(18,169)	-	(4,101)	(22,270)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	51,021	(22,242)	(1,644)	2,940	-	(14,964)	(4,101)	11,010
Cash Balances at Beginning of Year	121,792	7,569	(10,140)	3,999	-	-	4,101	127,321
Cash Balances at End of Year	\$ 172,813	\$ (14,673)	\$ (11,784)	\$ 6,939	\$ -	\$ (14,964)	\$ -	\$ 138,331
Cash Basis Fund Balances								
Unreserved:								
Special Revenue Funds -----	\$ 172,813	\$ (14,673)	\$ (11,784)	\$ 6,939	\$ -	\$ -	\$ -	\$ 153,295
Capital Projects Funds -----	-	-	-	-	-	(14,964)	-	(14,964)
Total Cash Basis Fund Balances	\$ 172,813	\$ (14,673)	\$ (11,784)	\$ 6,939	\$ -	\$ (14,964)	\$ -	\$ 138,331

CITY OF BANCROFT, IOWA

SCHEDULE OF INDEBTEDNESS - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes:									
Street and Storm Sewer -----	June 1, 1994	5.75%	\$ 200,000	\$ 20,000	\$ -	\$ 20,000	\$ -	\$ 1,150	\$ -
Pool House -----	May 1, 1995	6.50%	80,000	10,000	-	10,000	-	650	-
Pool and Storm Sewer -----	May 1, 1996	5.00%	150,000	60,000	-	15,000	45,000	3,000	-
Street Improvements -----	June 1, 1998	5.00%	105,000	63,000	-	10,500	52,500	3,150	-
Street Improvements -----	November 30, 2001	3.50%	145,000	145,000	-	145,000	-	2,538	-
Street Improvements -----	December 1, 2003	4.00%	240,000	-	240,000	-	240,000	4,800	-
Total General Obligation Notes				\$ 298,000	\$ 240,000	\$ 200,500	\$ 337,500	\$ 15,288	\$ -
Loans from Bancroft Municipal Utilities:									
Maintainer -----	December 13, 1999	0.00%	\$ 20,000	\$ 7,600	\$ -	\$ 7,600	\$ -	\$ -	\$ -
Police Car -----	September 18, 2001	0.00%	10,000	7,500	-	7,500	-	-	-
				\$ 15,100	\$ -	\$ 15,100	\$ -	\$ -	\$ -
Revenue Bonds:									
Water -----	February 6, 2004	3.00%	\$ 600,000	\$ -	\$ 570,420	\$ 22,000	\$ 548,420	\$ 5,278	\$ -
			**						
Anticipatory Warrants:									
Water System Improvements ----	August 26, 2003	3.00%	\$ 600,000	\$ -	\$ 600,000	\$ 600,000	\$ -	\$ 6,559	\$ -

** Approved for water revenue bond in the amount of \$600,000 but only received proceeds of \$570,420 as of June 30, 2004.

**BOND AND NOTE MATURITIES - PRIMARY GOVERNMENT
JUNE 30, 2004**

General Obligation Notes							
Year Ending June 30,	Pool and Storm Sewer Issued May 1, 1996		Street Improvements Issued June 1, 1998		Street Improvements Issued December 1, 2003		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.00%	\$ 15,000	5.00%	\$ 10,500	4.00%	\$ 35,000	\$ 60,500
2006	5.00%	15,000	5.00%	10,500	4.00%	25,000	50,500
2007	5.00%	15,000	5.00%	10,500	4.00%	25,000	50,500
2008		-	5.00%	10,500	4.00%	30,000	40,500
2009		-	5.00%	10,500	4.00%	40,000	50,500
2010		-		-	4.00%	40,000	40,000
2011		-		-	4.00%	45,000	45,000
		<u>\$ 45,000</u>		<u>\$ 52,500</u>		<u>\$ 240,000</u>	<u>\$ 337,500</u>

Revenue Notes		
Water		
Issued February 6, 2004		
Year Ending June 30,	Interest Rates	Amount
2005	3.00%	\$ 23,000
2006	3.00%	24,000
2007	3.00%	24,000
2008	3.00%	25,000
2009	3.00%	26,000
2010	3.00%	27,000
2011	3.00%	27,000
2012	3.00%	28,000
2013	3.00%	29,000
2014	3.00%	30,000
2015	3.00%	31,000
2016	3.00%	32,000
2017	3.00%	33,000
2018	3.00%	34,000
2019	3.00%	35,000
2020	3.00%	36,000
2021	3.00%	37,000
2022	3.00%	38,000
2023	3.00%	9,420
		<u>\$ 548,420</u>

SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS

	Years Ended June 30,			
	2004	2003	2002	2001
Receipts:				
Property Tax -----	\$ 187,449	\$ 166,909	\$ 176,997	\$ 169,998
Tax Increment Financing Collections -----	18,169	-	-	-
Other City Tax -----	56,152	55,369	59,375	49,441
Licenses and Permits -----	1,057	1,002	675	1,116
Use of Money and Property -----	21,214	30,321	25,352	26,410
Intergovernmental -----	439,275	216,898	211,450	181,119
Charges for Service -----	30,414	36,417	25,034	25,299
Special Assessments -----	7,778	8,800	2,787	2,723
Miscellaneous -----	85,220	81,441	16,673	26,714
Total Receipts	\$ 846,728	\$ 597,157	\$ 518,343	\$ 482,820
Disbursements:				
Operating:				
Public Safety -----	\$ 172,580	\$ 96,491	\$ 105,741	\$ 98,515
Public Works -----	123,418	68,702	69,458	118,751
Health and Social Services -----	4,608	4,608	2,300	2,300
Culture and Recreation -----	148,509	131,264	119,231	113,318
Community and Economic Development -----	233,377	89,752	22,606	32,186
General Government -----	75,368	75,746	67,456	49,525
Debt Service -----	230,888	78,918	74,525	91,564
Capital Projects -----	785,934	6,635	127,630	12,935
Total Disbursements	\$ 1,774,682	\$ 552,116	\$ 588,947	\$ 519,094

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

To the Honorable Mayor and
Members of the City Council:

We have audited the primary government financial statements of the City of Bancroft, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated January 13, 2005. Our report expressed an unqualified 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, 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's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of 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 the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government 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. Prior year statutory comments have not been resolved.

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Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City'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 the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in 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 to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

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 Bancroft and other parties to whom the city of Bancroft 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 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.

Campbell, Higgins & Associates, PC.

CAMPBELL, HIGGINS & ASSOCIATES, P.C.
Certified Public Accountants

January 13, 2005

CITY OF BANCROFT, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004**Part I: Findings Related to the Financial Statements:****Reportable Conditions:**

I-A-04 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee performs most of the accounting functions of the City.

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.

Response – We will do our best to segregate duties. With the changes in job descriptions, this should be accomplished more easily.

Conclusion – Response accepted.

I-B-04 Disbursements – We noted the following issues relating to the disbursements which were selected for testing:

- a) One disbursement was not supported by an invoice or other supporting documentation.
- b) Forty-five invoices were not cancelled upon payment.
- c) Eighteen disbursements were not approved by the Council until after they were made.
- d) Twenty-six disbursements were not approved by the Council.
- e) One check contained only one signature.
- f) Numerous disbursements were recorded in the wrong fund.

Recommendation – Care should be taken in the processing of disbursements to ensure that all disbursements are properly supported by invoices or other documentation, all invoices are cancelled upon payment to prevent duplicate payment, all disbursements are properly approved by the Council, all checks contain two signatures, and all disbursements are recorded in the proper fund.

Response – This will be watched more closely, another “paid” stamp has been purchased.

Conclusion – Response accepted.

I-C-04 Transfers – We were unable to trace transfers between funds to approval in the council minutes or budget.

Recommendation – All transfers should be approved by the City council in the minutes or budget.

Response – We will do our best to comply.

Conclusion – Response accepted.

I-D-04 Records of Accounts - Library – The library maintains accounting records pertaining to the operations of the library. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states that a "city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the Clerk's records.

Response – We will work toward incorporating the library's books.

Conclusion – Response accepted.

I-E-04 Allocation of Interest Receipts – It appears that interest receipts are not being allocated to the various funds on a consistent basis.

Recommendation – An equitable method of allocating interest receipts to the various funds should be developed and followed consistently. For example, a spreadsheet could be developed and used to allocate the interest receipts to the funds based upon the respective fund balances.

Response – We will use a spreadsheet to accomplish this.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution do not appear to have been exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the following functions: public works, health and social services, culture and recreation, community and economic development, general government, debt service, and business type activities. 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 – Although the budget was amended in accordance with Chapter 384.18 of the Code of Iowa, care should have been taken to ensure that the amendment was sufficient to prevent disbursements from exceeding the budget.

Response – Care will be taken to amend the budget in a timely and accurate fashion.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements – No disbursements for questionable items were noted.

II-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Paul Ingalls, Council Member Owner of Ingalls Electric	Supplies and Services	\$ 209
Phil Jaren, Council Member Owner of Office, Etc.	Office Equipment and Supplies	\$ 1,722

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Members listed above do not appear to represent conflicts of interest since total transactions with each individual were less than \$2,500 during the fiscal year.

II-F-04 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.

- II-G-04 Council Minutes – The published minutes for the April 12, 2004, May 10, 2004, and June 14, 2004 council meetings did not include a summary of all receipts and total disbursements by fund in accordance with Chapter 372.13(6) of the Code of Iowa.

Although minutes of Council proceedings were published, they were not always published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa.

We were unable to obtain documentation of council approval as required by Chapter 372.13(6) of the Code of Iowa for twenty-six of the disbursements selected for testing.

Recommendation – A summary of all receipts and total disbursements by fund should be published for each month. All disbursements should be approved by the City council and this approval should be documented in the minutes. Minutes of all meetings should be timely published.

Response – We will do our best to ensure that the minutes are published timely and include the required information.

Conclusion – Response accepted.

- II-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

- II-I-04 Revenue Bonds – The City has complied with the revenue bond resolutions.

- II-J-04 Financial Condition – As of June 30, 2004, the General Fund, Special Revenue Fund – RISE Grant Account, Special Revenue Fund – Road Use Tax Account, Special Revenue Fund – Employee Benefits Account, Capital Projects Fund – Pool Projects Account and the Enterprise Fund – Sewer Account had deficit balances of \$69,404, \$72,575, \$14,673, \$11,784, \$14,964 and \$1,624, respectively.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – We will look into this as soon as possible and make transfers as needed.

Conclusion – Response accepted.