

BANCROFT MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

DECEMBER 31, 2004

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**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

UTILITY OFFICIALS

NAME	TITLE	TERM EXPIRES
Thomas Johnson	Utility Official	December, 2005
Paul Ingalls	Utility Official	December, 2005
Larry Vaske	Utility Official	December, 2005
Janice Wolf	Utility Official	December, 2008
Phil Jaren	Utility Official	December, 2008
Tim Rowlet	Utility Official	December, 2008
Vickie Rahe	Utility Clerk	
Tracy Elliott	Utility Superintendent	
Scott Buchanan	Attorney	

INDEPENDENT AUDITORS' REPORT

To the Officials of
Bancroft Municipal Utilities
Bancroft, Iowa

We have audited the accompanying basic financial statements of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated September 15, 2005 on our consideration of Bancroft Municipal Utilities' 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.

Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-round tax planning
- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
- Small business management help • Computer consulting • IRS representation • Litigation support

For your convenience:

- 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

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 19 through 20 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Campbell, Higgins + Associates, P.C.

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

September 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Bancroft Municipal Utilities provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2004. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The total of the Utility's cash and certificates of deposit decreased 44%, or approximately \$485,100, from 2003 to 2004.
- Operating revenues increased 2%, or approximately \$20,300, from 2003 to 2004.
- Operating expenses increased 3%, or approximately \$28,800, from 2003 to 2004.
- Contributions and Transfers to the City of Bancroft and Others increased 291% or approximately \$260,500 from 2003 to 2004.
- The Utility's net assets decreased 7%, or approximately \$256,200, from December 31, 2003 to December 31, 2004.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Basic Financial Statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These statements provide information about the activities of the Utility including resources held by the Utility but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

Notes to the Financial Statements provide additional information that is 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 Utility's budget for the year.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better or worse off as a result of the year's activities?" The statement of net assets, and the statement of revenues, expenses and changes in net assets report information about the Utility's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net assets and changes in them. The Utility's total net assets – the difference between assets and liabilities – is one measure of the Utility's financial health or financial position. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating. Other non-financial factors, such as changes in the Utility's customer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its customers and local economic factors should also be considered to assess the overall financial health of the Utility.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Financial Analysis of the Utility

The Utility's net assets are the difference between its assets and liabilities reported in the statements of net assets. The Utility's net assets decreased by \$256,156 (7%) from 2003 to 2004.

Assets, Liabilities and Net Assets

	<u>2004</u>	<u>2003</u>
Assets:		
Current Assets	\$ 871,962	\$ 1,349,509
Net Capital Assets	2,830,244	2,904,153
Other Assets	747,374	557,818
Total Assets	<u>4,449,580</u>	<u>4,811,480</u>
Liabilities:		
Current Liabilities	235,463	251,207
Long-Term Debt	885,000	975,000
Total Liabilities	<u>1,120,463</u>	<u>1,226,207</u>
Net Assets:		
Invested in Capital Assets, Net of Related Debt	1,855,244	1,844,153
Restricted	231,330	215,753
Unrestricted	<u>1,242,543</u>	<u>1,525,367</u>
Total Net Assets	<u>\$ 3,329,117</u>	<u>\$ 3,585,273</u>

Financial Analysis of the Utility (Continued)

Revenues, Expenses and Change in Net Assets

	<u>2004</u>	<u>2003</u>
Operating Revenues:		
Sales of Electricity _____	\$ 843,332	\$ 829,601
Generator Credits _____	113,441	122,952
Other Operating Revenues _____	31,606	15,525
Total Operating Revenues _____	988,379	968,078
Operating Expenses _____	879,106	850,348
Operating Income (Loss) _____	109,273	117,730
Net Non-Operating Revenues (Expenses) _____	(15,344)	(957)
Income (Loss) Before Contributions and Transfers _____	93,929	116,773
Contributions and Transfers _____	(350,085)	(89,556)
Increase (Decrease) in Net Assets _____	(256,156)	27,217
Net Assets at Beginning of Period _____	3,585,273	3,558,056
Net Assets at End of Period _____	<u>\$ 3,329,117</u>	<u>\$ 3,585,273</u>

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Utility annually adopts a budget following required public notice and hearings. The budget may be amended during the year utilizing similar statutorily prescribed procedures. For the year ended December 31, 2004, there were no amendments to the original budget. The Utility's total expenses, contributions and transfers for the year exceeded amounts budgeted by \$138,842. This was due to a large increase in contributions to the City of Bancroft.

CAPITAL ASSETS AND DEBT ADMINISTRATION**Capital Assets**

At December 31, 2004, the Utility had \$2,830,244 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2004, the Utility acquired or constructed capital assets costing \$87,318, financed by cash and cash equivalents.

Debt Administration

At December 31, 2004, the Utility had \$975,000 in long-term debt compared to \$1,060,000 last year.

	<u>2004</u>	<u>2003</u>
1999 Revenue Bond Issue _____	<u>\$ 975,000</u>	<u>\$ 1,060,000</u>

There have been no changes in the Utility's debt ratings during the past two years. More detailed information about the Utility's long-term liabilities is presented in Note 5 to the financial statements.

ECONOMIC FACTORS

The current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Expenses, including the cost of power, continue to increase.
- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide readers with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Utility's administration office at 107 E Ramsey, Bancroft, Iowa.

BASIC FINANCIAL STATEMENTS

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

STATEMENT OF NET ASSETS
DECEMBER 31, 2004

Assets		Liabilities	
Current Assets:		Current Liabilities:	
Cash -----	\$ 204,378	Accounts Payable and Taxes Payable -----	83,549
Certificates of Deposit -----	412,678	Accounts Payable - City of Bancroft -----	46,880
Accounts Receivable -----	105,929	Accrued Wages and Compensated Absences -----	9,345
Accounts Receivable - City of Bancroft -----	17,641	Accrued Interest -----	4,282
Accrued Interest Receivable -----	9,935	Meter Deposits -----	1,407
Inventories -----	113,803	Current Maturities of Long-Term Debt -----	90,000
Prepaid Expenses -----	7,598	Total Current Liabilities -----	235,463
Total Current Assets -----	871,962		
Capital Assets (Note 4):		Long-Term Debt (Note 5):	
Capital Assets -----	5,446,483	Revenue Bonds -----	975,000
Less Accumulated Depreciation -----	(2,616,239)	Less Current Maturities of Long-Term Debt -----	(90,000)
Net Capital Assets -----	2,830,244	Net Long-Term Debt -----	885,000
		Total Liabilities -----	1,120,463
Other Assets:		Net Assets:	
Investments (Note 2) -----	324,250	Invested in Capital Assets, Net of Related Debt -----	1,855,244
Common Transmission System - Improvement Fund (Note 3) ----	191,794	Restricted for:	
Restricted Bond Funds (Note 5) -----	231,330	Debt Service (Note 5) -----	231,330
Total Other Assets -----	747,374	Unrestricted -----	1,242,543
Total Assets -----	4,449,580	Total Net Assets -----	\$ 3,329,117

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

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Exhibit B

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2004

Operating Revenues:

Sales of Electricity -----	\$ 843,332
Generator Credits -----	113,441
Other Operating Revenues -----	31,606
Total Operating Revenues	988,379

Operating Expenses:

Bad Debts -----	3,018
Depreciation -----	161,300
Dues and Memberships -----	3,245
Employee Salaries and Wages -----	140,194
Employee Benefits -----	71,833
Fuel and Oil -----	9,562
Inspections and Testing -----	1,682
Insurance -----	19,271
Miscellaneous -----	11,108
Office Expenses -----	21,964
Professional Fees -----	5,895
Purchased Power -----	313,004
Rents -----	21,600
Supplies and Maintenance -----	72,009
Taxes - Property and Other -----	23,421
Total Operating Expenses	879,106

Operating Income (Loss)	109,273
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Non-Operating Income (Expenses):

Interest Income -----	40,707
Interest Expense and Bond Fees -----	(56,051)
Net Non-Operating Income (Expenses)	(15,344)

Income (Loss) Before Contributions and Transfers	93,929
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Contributions and Transfers:

Contributions from (to) City -----	(298,491)
Contributions from (to) Others -----	(1,386)
Transfers from (to) City in Lieu of Property Taxes (Note 10) -----	(50,208)
Total Contributions and Transfers	(350,085)

Increase (Decrease) in Net Assets	(256,156)
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Net Assets at Beginning of Period	3,585,273
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Net Assets at End of Period	\$ 3,329,117
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**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

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Exhibit C

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2004**

Cash Flows From Operating Activities:

Cash Received from Customers -----	\$ 974,816
Cash Payments to Suppliers for Goods and Services -----	(501,321)
Cash Payments to Employees for Services -----	(205,783)
Net Cash Provided (Used) by Operating Activities	267,712

Cash Flows From Non-Capital Financing Activities:

Contributions from (to) City and Others -----	(298,349)
Transfers from (to) City in Lieu of Property Taxes -----	(79,257)
Net Cash Provided (Used) by Non-Capital Financing Activities	(377,606)

Cash Flows From Capital and Related Financing Activities:

Purchase and Construction of Capital Assets -----	(87,318)
Interest Paid -----	(56,388)
Principal Payments on Long-Term Debt -----	(85,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(228,706)

Cash Flows From Investing Activities:

Purchases of Certificates of Deposit -----	(161,672)
Proceeds from Maturities of Certificates of Deposit -----	771,487
Purchases of Investments -----	(260,596)
Proceeds from Redemption of Investments -----	64,230
(Increase) Decrease in Common Transmission System - Improvement Fund -----	20,787
Interest Received -----	44,653
(Increase) Decrease in Restricted Bond Funds Secured by Cash -----	(12,290)
Net Cash Provided (Used) by Investing Activities	466,599

Net Increase (Decrease) in Cash	127,999
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Cash at Beginning of Period	76,379
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Cash at End of Period	\$ 204,378
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BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

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 Exhibit C

STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2004

Reconciliation of Operating Income (Loss) to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss) -----	\$ 109,273
Adjustments to Reconcile Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation -----	161,300
(Increase) Decrease in:	
Accounts Receivable -----	(15,023)
Accounts Receivable - City of Bancroft -----	528
Inventories -----	2,676
Prepaid Expenses -----	317
Increase (Decrease) in:	
Accounts Payable and Taxes Payable -----	(2,561)
Accounts Payable - City of Bancroft -----	13,578
Accrued Wages and Compensated Absences -----	(2,526)
Meter Deposits -----	150
Net Cash Provided (Used) by Operating Activities	\$ 267,712

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bancroft Municipal Utilities is a component unit of the City of Bancroft, whose funds are reported under a separate cover utilizing a fiscal year ending June 30. The City, which is a political subdivision of the State of Iowa, was incorporated in 1881 and operates under the Home Rule provisions of the constitution of Iowa. The Utility officials operate the City Utility by the authority of Chapters 384 and 388 of the Code of Iowa. Bancroft Municipal Utilities provides electric service on a user charge basis to the general public and other governmental units within Kossuth County, Iowa.

Reporting Entity

For financial reporting purposes, the Utility has included all funds. The Utility 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 Utility is such that exclusion would cause the Utility'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 Utility 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 Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Assets, Liabilities and Net Assets**

The following accounting policies are followed in preparing the statement of net assets:

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Utility considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents as of December 31, 2004.

Accounts Receivable – The Utility has elected to record bad debts using the direct write-off method. Generally accepted accounting principles require that the allowance method be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Inventories – Inventories are valued at the lower of cost or market and are accounted for on a first-in, first-out basis.

Capital Assets – Capital Assets are carried at cost. The Utility computes depreciation on capital assets using the straight-line method. Estimated useful lives for the capital assets range from five to forty years.

Joint Plant Ownership

Bancroft Municipal Utilities is a member of NIMECA (North Iowa Municipal Electric Cooperative Association). As part of this cooperative, the Utility has a .347% undivided interest in an electric generation station known as George Neal Generating Station Unit No. 4. The Utility also has an undivided .56% interest in the Lehigh-Webster Transmission System. The Utility's ownership interests in the above are reflected on the statement of net assets as components of cash, inventories, and capital assets. The Utility's share of operations is included on the statement of revenues, expenses and changes in net assets as components of purchased power and depreciation expense.

Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

Interest Capitalization

The Utility capitalizes interest cost on borrowings incurred during the new construction or upgrade of qualifying assets. Capitalized interest is added to the cost of the underlying assets and is amortized over the estimated useful lives of the assets.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 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 Utility 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 Utility Officials; 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 Utility's investments are categorized to give an indication of the level of risk assumed by the Utility at year-end. The Utility's investments are all category 1 which means that the investments are insured or registered or the securities are held by the Utility or its agent in the Utility's name. The Utility's policy is to report investments at their carrying amounts since they are not materially different from their fair values.

The Utility's investments at December 31, 2004 were as follows:

Description	Carrying Amount
GNMA and FHLMC Bonds -----	<u>\$ 324,250</u>

NOTE 3 - COMMON TRANSMISSION SYSTEM - IMPROVEMENT FUND

The Utility (along with other utilities) has signed an agreement with Corn Belt Power Cooperative which guarantees the use of transmission lines and also covers a sharing agreement with Corn Belt Power Cooperative which was established to ensure all parties being able to service customers during periods of peak demand.

The improvement fund was established as a result of the Corn Belt agreement. Corn Belt assesses the Utility a monthly amount that accumulates for the purpose of maintaining and improving the transmission lines identified in the agreement. These monies have been remitted since May 1989. The Utility made contributions of \$26,810 in 2004, which includes interest income of \$4,010.

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended December 31, 2004 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Capital Assets Not Being Depreciated:				
Land	\$ 9,863	\$ -	\$ -	\$ 9,863
Capital Assets Being Depreciated:				
Plant and Equipment	3,558,046	36,822	-	3,594,868
George Neal Operating Station	1,210,703	3,261	-	1,213,964
Lehigh Webster Transmission System	46,174	-	79	46,095
Corn Belt Plant Acquisitions	537,177	47,309	2,793	581,693
Total Capital Assets Being Depreciated	<u>5,352,100</u>	<u>87,392</u>	<u>2,872</u>	<u>5,436,620</u>
Less Accumulated Depreciation for:				
Plant and Equipment	1,369,144	112,789	-	1,481,933
George Neal Operating Station	819,313	34,638	-	853,951
Lehigh Webster Transmission System	32,484	1,317	79	33,722
Corn Belt Plant Acquisitions	236,870	12,556	2,793	246,633
Total Accumulated Depreciation	<u>2,457,811</u>	<u>161,300</u>	<u>2,872</u>	<u>2,616,239</u>
Total Capital Assets Being Depreciated, Net	<u>2,894,289</u>	<u>(73,908)</u>	<u>-</u>	<u>2,820,381</u>
Total Capital Assets, Net	<u>\$ 2,904,152</u>	<u>\$ (73,908)</u>	<u>\$ -</u>	<u>\$ 2,830,244</u>

NOTE 5 - LONG-TERM DEBT

A summary of changes in long-term debt for the year ended December 31, 2004 is as follows:

	Beginning Balance	Issuances	Redemptions	Ending Balance
1999 Revenue Bonds	<u>\$ 1,060,000</u>	<u>\$ -</u>	<u>\$ 85,000</u>	<u>\$ 975,000</u>

The Utility's long-term indebtedness consists of a December 1, 1999 revenue bond issue, the proceeds of which were used for the purchase and installation of two Caterpillar 1825 KW engines. The bonds bear interest ranging from 4.30% to 5.65% with interest only due each June 1st (beginning June 1, 2000) and principal and interest due each December 1st (beginning December 1, 2000). Annual debt service requirements to maturity for the revenue bonds are as follows:

NOTE 5 – LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Principal	Interest	Total
2005	\$ 90,000	\$ 51,958	\$ 141,958
2006	90,000	47,547	137,547
2007	95,000	43,048	138,048
2008	100,000	38,202	138,202
2009	105,000	33,003	138,003
2010	115,000	27,437	142,437
2011	120,000	21,228	141,228
2012	125,000	14,627	139,627
2013	135,000	7,628	142,628
	<u>\$ 975,000</u>	<u>\$ 284,678</u>	<u>\$ 1,259,678</u>

For the year ended December 31, 2004, the Utility incurred total interest costs of \$56,051, all of which were charged to operations.

The bonds are payable solely from the net revenues of the Utility. The provisions of the bond issue include the creation and maintenance of a Sinking Fund, Reserve Fund and Improvement Fund.

Sinking Fund

Sufficient monthly transfers shall be made to this fund for the purpose of making the note principal and interest payments when due.

Reserve Fund

The amount to be maintained in this fund is equal to the lesser of 1) the maximum annual principal and interest coming due on all outstanding bonds in any succeeding year, 2) 10% of the stated principal amount on the outstanding bonds and 3) 125% of average annual principal and interest coming due on all outstanding bonds in any succeeding fiscal year.

Improvement Fund

A minimum of \$2,000 shall be deposited in the Improvement Fund each month until \$160,000 has been accumulated. Once the required balance has been reached, no further deposits in the Fund need to be made except to maintain it at such level. Money in the Improvement Fund shall be used solely for the purpose of paying principal and interest on the 1999 bonds when there shall be insufficient money in the Sinking Fund or Reserve Fund. To the extent not required for the payment of principal and interest, the funds may be used to pay the cost of extraordinary maintenance or repairs, renewals and replacements not included in the annual budget, payment of rentals on any part of the Utility or payments due for any property purchased as a part of the Utility, and for capital improvements to the Utility. Whenever, it shall become necessary to use money in the Improvement Fund, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount.

The balances in the sinking, reserve and improvement funds are combined and reflected on the balance sheets as restricted bond funds.

NOTE 6 - PENSION AND RETIREMENT BENEFITS

The Utility 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 Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the year ended December 31, 2004 were \$8,055, which is equal to the required contributions for the year.

NOTE 7 - COMPENSATED ABSENCES

The Utility has adopted a policy to allow a limited amount of earned but unused vacation and personal leave hours to be carried forward for subsequent use or for payment upon termination, retirement or death. Employees can carry over no more than 80 hours of unused vacation leave from one calendar year to the next. The outstanding liability as of December 31, 2004 was \$3,909 based on rates of pay in effect on that date.

Utility employees earn sick leave days for subsequent use. The maximum accumulation is 36 days (288 hours) of sick leave. Employees are not paid for unused sick leave upon termination, retirement, or death. Accordingly, no accrual for unused sick leave has been recorded on the attached financial statements.

NOTE 8 - CONCENTRATION OF CREDIT RISK

Bancroft Municipal Utilities is a provider of electrical power to the residents and businesses of Bancroft, Iowa. Bancroft Municipal Utilities grants credit to these customers.

NOTE 9 - RELATED PARTY TRANSACTIONS**City of Bancroft**

Bancroft Municipal Utilities bills and collects charges for the City of Bancroft for the Water and Sewer Funds. The Utility subsequently remits to the Water and Sewer Funds the amounts billed on their behalf. Amounts billed by the Utility on behalf of the City but not remitted totaled \$16,539 as of December 31, 2004. In addition, the Utility pays the City rent in the amount of \$1,500 per month for the use of office space and equipment. There are also various other transactions between the Utility and the City including payments received from the City for street lighting and other reimbursements as well as payments to the City for transfers in lieu of tax, various grants and other reimbursements. Amounts due from the City and due to the City are included in the balance sheet as Accounts Receivable – City of Bancroft and Accounts Payable – City of Bancroft.

Additional disclosures relating to transactions with the City of Bancroft are included in Note 10.

Others

There were business transactions between the Utility and the Utility Officials totaling \$1,280 for the year ended December 31, 2004.

NOTE 10 - PAYMENTS IN LIEU OF PROPERTY TAXES

The Utility has agreed to make voluntary payments to the City of Bancroft totaling 5% of annual gross revenues. These transfers are reflected on the Statement of Revenues, Expenses and Changes in Net Assets as Transfers to the City in Lieu of Property Taxes.

NOTE 11 - RISK MANAGEMENT

Bancroft Municipal Utilities 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 Utility 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 years.

REQUIRED SUPPLEMENTARY INFORMATION

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

**SCHEDULE OF REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS - BUDGET AND ACTUAL
 FOR THE YEAR ENDED DECEMBER 31, 2004**

	Actual	* Original and Final Budget	Final to Actual Variance - Positive (Negative)
Revenues:			
Charges for Service -----	\$ 843,332	\$ 827,300	\$ 16,032
Use of Money and Property -----	40,707	65,000	(24,293)
Miscellaneous -----	145,047	112,400	32,647
Total Revenues	1,029,086	1,004,700	24,386
Expenses, Contributions and Transfers -----	1,285,242	1,146,400	(138,842)
Increase (Decrease) in Net Assets	(256,156)	(141,700)	(114,456)
Balance at Beginning of Period	3,585,273	3,633,868	(48,595)
Balance at End of Period	\$ 3,329,117	\$ 3,492,168	\$ (163,051)

* The original budget was not amended during the year ended December 31, 2004.

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING**

YEAR ENDED DECEMBER 31, 2004

In accordance with the Code of Iowa, the Utility annually adopts a budget following required public notice and hearing for the enterprise fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. The budget is prepared on a basis consistent with U.S. generally accepted accounting principles.

Formal and legal budgetary control is based upon ten major classes of expenses, 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 and non-program. The Utility utilizes only the business-type function. During the year, there were no amendments to the budget.

For the year ended December 31, 2004, expenses exceeded the amounts budgeted by \$138,842.

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

To the Officials of
Bancroft Municipal Utilities
Bancroft, Iowa

We have audited the financial statements of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the year ended December 31, 2004, and have issued our report thereon dated September 15, 2005. 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 Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, 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.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments were not resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility'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 Utility'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 the accompanying Schedule of Findings.

Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-round tax planning
- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
- Small business management help • Computer consulting • IRS representation • Litigation support

For your convenience:

- 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

Internal Control Over Financial Reporting (Continued)

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 customers of Bancroft Municipal Utilities and other parties to whom the Utility 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 Utility 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, P.C.

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

September 15, 2005

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

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 the same person performs most of the accounting functions.

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

Response – We will continue to segregate duties in our office to the best of our abilities.

Conclusion – Response accepted.

I-B-04 Accounts Receivable – Subsidiary ledgers are not being reconciled to the general ledger balance on a consistent basis.

Recommendation – A monthly reconciliation of the subsidiary ledgers to the general ledger should be performed, and any differences investigated.

Response – We will do this.

Conclusion – Response accepted.

BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004

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

I-C-04 Accounting Reports – Based upon our audit, it appears that accounting reports are not being prepared in a timely and accurate manner.

Recommendation – Utility personnel should take steps to ensure that all future accounting reports are prepared timely and accurately.

Response – These are currently up to date and will continue to be current.

Conclusion – Response accepted.

Part II: Other Finding Related to Statutory Reporting:

II-A-04 Official Depositories – A resolution naming official depositories has been approved by the Utility. The maximum amounts stated in the resolution were not exceeded during the year ended December 31, 2004.

II-B-04 Certified Budget – Expenses during the year ended December 31, 2004 exceeded the amounts budgeted. 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 accordance with Chapter 384.18 of the Code of Iowa, before expenses exceeded amounts budgeted.

Response – Care will be taken to monitor the budget more closely.

Conclusion – Response accepted.

II-C-04 Questionable Expenditures – We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

**BANCROFT MUNICIPAL UTILITIES
A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2004**

Part II: Other Finding Related to Statutory Reporting (Continued):

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

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

Name, Title, and Business Connection	Transaction Description	Amount
Phil Jaren, Utility Official Owner of Office, Etc.	Office Supplies	\$ 1,280

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Utility Officials do not appear to represent a conflict of interest since total transactions were less than \$2,500 per official during the calendar year.

II-F-04 Bond Coverage – Surety bond coverage of Utility 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 Board Minutes – Of the transactions we tested, none were found that we believe should have been approved in the Board minutes but were not.

II-H-04 Revenue Bonds – – No violations of the 1999 Revenue Bond provisions were noted.

II-I-04 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.