

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

JUNE 30, 2006

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CITY OF BANCROFT, IOWA

OFFICIALS

Name	Title	Term Expires
(Before January 2006)		
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
(After January 2006)		
Janice Wolf	Mayor	January 2008
Tim Rowlet	Mayor Pro tem	January 2008
Phil Jaren	Council Member	January 2008
Thomas Johnson	Council Member	January 2010
Judy Vaske	Council Member	January 2010
Pat Merron	Council Member	January 2010
Mark Dreyer	Administrator / Clerk	Appointed
Vickie Rahe	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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City'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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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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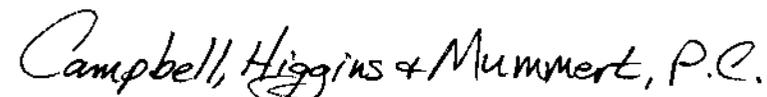
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- Meetings at your place or ours

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, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated July 27, 2007 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, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing 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 have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted 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, 2005 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 fairly stated in all material respects in relation to the basic financial statements taken as a whole.


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

July 27, 2007

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Total receipts decreased 44%, or approximately \$577,000, from fiscal 2005 to fiscal 2006.
- Disbursements decreased 57%, or approximately \$986,000, in fiscal 2006 from fiscal 2005.
- The City's total cash basis net assets decreased 1%, or approximately \$1,500, from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased approximately \$51,000 and the assets of the business type activities increased by approximately \$49,500.

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, health and social services, 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 and sewer 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 Local Option Sales Tax, Road Use Tax, and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects 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 statement for governmental funds is 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 statement for proprietary funds is 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 \$51,000 from the prior year to a deficit balance of approximately \$36,000. 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,	
	2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for Services -----	\$ 70	\$ 52
Operating Grants, Contributions and Restricted Interest --	18	141
Capital Grants, Contributions and Restricted Interest -----	80	525
General Receipts:		
Property Tax -----	234	215
Local Option Sales Tax -----	58	60
Grants and Contributions Not Restricted		
to Specific Purposes -----	20	103
Unrestricted Interest on Investments -----	5	4
Bond and Note Proceeds -----	-	435
Miscellaneous -----	10	17
Transfers, Net -----	11	7
Total Receipts and Transfers -----	<u>506</u>	<u>1,559</u>
Disbursements and Transfers:		
Public Safety -----	87	91
Public Works -----	89	116
Health and Social Services -----	4	4
Culture and Recreation -----	169	159
Community and Economic Development -----	3	240
General Government -----	65	82
Debt Service -----	67	75
Capital Projects -----	73	845
Transfers, Net -----	-	-
Total Disbursements and Transfers -----	<u>557</u>	<u>1,612</u>
Increase (Decrease) in Cash Basis Net Assets -----	(51)	(53)
Cash Basis Net Assets Beginning of Year -----	<u>15</u>	<u>68</u>
Cash Basis Net Assets End of Year -----	<u>(\$ 36)</u>	<u>\$ 15</u>

The City's total receipts and transfers for governmental activities decreased by 68%, or approximately \$1,053,000. The total cost of all programs and services decreased by approximately \$1,055,000, or 65%, with no new programs added this year.

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

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for Services:		
Water	\$ 142	\$ 157
Sewer	109	50
Operating Grants, Contributions and Restricted Interest ----	-	-
General Receipts:		
Unrestricted Interest on Investments	2	1
Transfers, Net	-	-
Total Receipts and Transfers	<u>253</u>	<u>208</u>
Disbursements and Transfers:		
Water	109	85
Sewer	84	39
Transfers, Net	11	7
Total Disbursements and Transfers	<u>204</u>	<u>131</u>
Increase (Decrease) in Cash Basis Net Assets	49	77
Cash Basis Net Assets Beginning of Year	<u>243</u>	<u>166</u>
Cash Basis Net Assets End of Year	<u>\$ 292</u>	<u>\$ 243</u>

Total business type activities receipts and transfers for the fiscal year were \$253,000 compared to \$208,000 last year. This overall increase was due to an increase in total charges for services of approximately \$44,000. Total disbursements and transfers for the fiscal year increased by approximately \$73,000 due mainly to an increase in capital outlay and operating costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Bancroft completed the year, its governmental funds reported a combined deficit fund balance of \$35,816, a decrease of approximately \$51,000 from last year's positive total of \$15,037. The following details the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased approximately \$122,000 from the prior year to a deficit balance of \$248,720.
- The Local Option Sales Tax Fund cash balance increased approximately \$58,000 from the prior year to \$284,733.
- The Road Use Tax Fund cash balance increased by approximately \$5,000 from the prior year to a deficit balance of \$34,836.
- The Urban Renewal Tax Increment Fund cash balance increased by approximately \$62,000 from the prior year to \$107,602.
- The Debt Service Fund cash balance increased by approximately \$10,000 from the prior year to \$12,005.
- The Capital Project – Pool cash balance decreased by approximately \$63,000 from the prior year to a deficit balance of \$160,666.
- The total Nonmajor Governmental Funds cash balance decreased by approximately \$1,000 from the prior year to \$4,066.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by approximately \$24,000 from the prior year to \$258,687.
- The Sewer Fund cash balance increased by approximately \$25,000 from the prior year to \$34,103.

BUDGETARY HIGHLIGHTS

The City of Bancroft did not amend its budget for the year ended June 30, 2006.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately \$1,149,000 in bonds and other long-term debt, compared to approximately \$1,230,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2006	2005
General Obligation Capital Loan Notes -----	\$ 527	\$ 577
Revenue Bonds -----	622	653
Total -----	<u>\$ 1,149</u>	<u>\$ 1,230</u>

Debt decreased as a result of scheduled debt payments made during the fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of approximately \$527,000 is below its constitutional debt limit of approximately \$887,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to the State's budget constraints.

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

CITY OF BAINCROFT, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

Functions / Programs:	Program Receipts			Net (Disbursements) Receipts and		
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental Activities:						
Public Safety	\$ 86,648	\$ 28,786	\$ 2,400	\$ (55,462)	\$ -	\$ (55,462)
Public Works	89,096	-	-	(16,493)	-	(16,493)
Health and Social Services	3,650	-	72,603	(3,650)	-	(3,650)
Culture and Recreation	169,389	20,182	15,647	(132,560)	-	(132,560)
Community and Economic Development	2,626	-	4,505	1,879	-	1,879
General Government	65,164	21,600	-	(43,564)	-	(43,564)
Debt Service	66,929	-	-	(66,929)	-	(66,929)
Capital Projects	73,094	-	1,733	(71,361)	-	(71,361)
Total Governmental Activities	556,596	70,568	18,047	(388,140)	-	(388,140)
Business Type Activities:						
Water	109,415	142,151	-	-	32,736	32,736
Sewer	84,055	109,189	-	-	25,134	25,134
Total Business Type Activities	193,470	251,340	-	-	57,870	57,870
Total	\$ 750,066	\$ 321,908	\$ 18,047	\$ (388,140)	\$ 57,870	\$ (330,270)
General Receipts:						
Property Tax Levied For:						
General Purposes				80,737	-	80,737
Insurance				8,075	-	8,075
Debt Service				77,153	-	77,153
Employee Benefits				6,317	-	6,317
Tax Increment Financing				61,626	-	61,626
Local Option Sales Tax				57,879	-	57,879
Grants and Contributions Not Restricted to Specific Purposes				20,421	-	20,421
Unrestricted Interest on Investments				4,840	1,992	6,832
Bond and Note Proceeds				-	-	-
Miscellaneous				9,734	-	9,734
Transfers				10,505	(10,505)	-
Total General Receipts and Transfers				337,287	(8,513)	328,774
Change in Cash Basis Net Assets				(50,853)	49,357	(1,496)
Cash Basis Net Assets Beginning of Year				15,037	243,433	258,470
Cash Basis Net Assets End of Year				\$ (35,816)	\$ 292,790	\$ 256,974

See Notes to Financial Statements

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets:					
Restricted:					
Debt Service			\$ 12,005	\$ 74,526	\$ 86,531
Other Purposes			361,565	-	361,565
Unrestricted			(409,386)	218,264	(191,122)
Total Cash Basis Net Assets			\$ (35,816)	\$ 292,790	\$ 256,974

CITY OF BANCOFT, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue			Capital Projects			Other Nonmajor Governmental Funds	Total
	Local Option Sales Tax	Road Use Tax	Urban Renewal Tax Increment	Water System	Pool	Debt Service		
Receipts:								
Property Tax	\$ 86,805	\$ -	\$ -	\$ -	\$ -	\$ 77,153	\$ 8,324	\$ 172,282
Tax Increment Financing Collections	-	-	61,626	-	-	-	-	61,626
Other City Tax	-	57,879	-	-	-	-	-	57,879
Licenses and Permits	500	-	-	-	-	-	-	500
Use of Money and Property	27,438	-	-	-	-	-	502	27,940
Intergovernmental	37,827	67,650	-	-	-	-	-	105,477
Charges for Service	46,968	-	-	-	-	-	-	46,968
Special Assessments	4,953	-	-	-	-	-	-	4,953
Miscellaneous	11,375	-	-	-	-	-	6,238	17,613
Total Receipts	215,866	57,879	67,650	61,626	77,153	-	15,064	495,238
Disbursements:								
Public Safety	78,934	-	-	-	-	-	7,714	86,648
Public Works	22,855	62,263	-	-	-	-	3,978	89,096
Health and Social Services	3,650	-	-	-	-	-	-	3,650
Culture and Recreation	165,806	-	-	-	-	-	3,583	169,389
Community and Economic Development	2,626	-	-	-	-	-	-	2,626
General Government	64,493	-	-	-	-	-	671	65,164
Debt Service	-	-	-	-	-	66,929	-	66,929
Capital Projects	-	-	-	10,505	62,589	-	-	73,094
Total Disbursements	338,364	62,263	-	10,505	62,589	66,929	15,946	556,596
Excess (Deficiency) of Receipts Over (Under) Disbursements	(122,498)	57,879	61,626	(10,505)	(62,589)	10,224	(882)	(61,358)
Other Financing Sources (Uses):								
General Obligation Capital Loan Note Proceeds	-	-	-	-	-	-	-	-
Operating Transfers In (Out)	-	-	-	10,505	-	-	-	10,505
Total Other Financing Sources (Uses)	-	-	-	10,505	-	-	-	10,505
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(122,498)	57,879	61,626	-	(62,589)	10,224	(882)	(50,853)
Balance at Beginning of Period	(126,222)	226,854	(40,223)	-	(98,077)	1,781	4,948	15,037
Balance at End of Period	\$ (248,720)	\$ 284,733	\$ (34,836)	\$ 107,602	\$ (160,666)	\$ 12,005	\$ 4,066	\$ (35,816)

See Notes to Financial Statements

CITY OF BANCROFT, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue				Capital Projects			Other	
	Local	Road	Urban	Water	Debt	System	Pool	Nonmajor	Governmental
General	Sales Tax	Use Tax	Renewal Tax	Increment	Service			Funds	Total
Cash Basis Fund Balances									
Reserved:									
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 12,005	\$ -	\$ -	\$ -	\$ 12,005
Unreserved:									
General Fund	(248,720)	-	-	-	-	-	-	-	(248,720)
Special Revenue Funds	284,733	(34,836)	107,602	-	-	-	-	4,066	361,565
Capital Projects Funds	-	-	-	-	-	(160,666)	-	-	(160,666)
Total Cash Basis Fund Balances	\$ (248,720)	\$ 284,733	\$ (34,836)	\$ 107,602	\$ 12,005	\$ (160,666)	\$ -	\$ 4,066	\$ (35,816)

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Receipts:			
Charges for Service -----	\$ 141,474	\$ 109,189	\$ 250,663
Miscellaneous -----	677	-	677
Total Operating Receipts	<u>142,151</u>	<u>109,189</u>	<u>251,340</u>
Operating Disbursements:			
Business Type Activities -----	58,810	84,055	142,865
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	<u>83,341</u>	<u>25,134</u>	<u>108,475</u>
Non-operating Receipts (Disbursements):			
Interest on Investments -----	1,992	-	1,992
Debt Service -----	(50,605)	-	(50,605)
Total Non-operating Receipts (Disbursements)	<u>(48,613)</u>	<u>-</u>	<u>(48,613)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	34,728	25,134	59,862
Other Financing Sources (Uses):			
Operating Transfers In (Out) -----	(10,505)	-	(10,505)
Net Change in Cash Balances	24,223	25,134	49,357
Cash Balances at Beginning of Year	<u>234,464</u>	<u>8,969</u>	<u>243,433</u>
Cash Balances at End of Year	<u>\$ 258,687</u>	<u>\$ 34,103</u>	<u>\$ 292,790</u>
Cash Basis Fund Balances			
Reserved for Debt Service -----	\$ 74,526	\$ -	\$ 74,526
Unreserved -----	184,161	34,103	218,264
Total Cash Basis Fund Balances	<u>\$ 258,687</u>	<u>\$ 34,103</u>	<u>\$ 292,790</u>

CITY OF BANCROFT, IOWA**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006****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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

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

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 asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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 Local Option Sales Tax Fund is used to account for receipts and disbursements relating to local option sales tax.

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

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 Capital Project – Pool Fund is used to account for the activity relating to the construction of swimming pool 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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, 2006, disbursements exceeded the amounts budgeted in the following functions: public works, culture and recreation, general government, capital projects and business type activities.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 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.

NOTE 2 – CASH AND POOLED INVESTMENTS (CONTINUED)

The City had no investments at June 30, 2006. 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
2007	\$ 70,500	\$ 29,712	\$ 31,000	\$ 18,675	\$ 101,500	\$ 48,387
2008	60,500	19,150	32,000	17,745	92,500	36,895
2009	75,500	16,575	34,000	16,785	109,500	33,360
2010	65,000	13,388	35,000	15,765	100,000	29,153
2011	75,000	10,725	35,000	14,714	110,000	25,439
2012-2016	180,000	24,013	194,000	57,045	374,000	81,058
2017-2021	-	-	184,487	27,884	184,487	27,884
2022-2026	-	-	77,000	3,480	77,000	3,480
Total	\$ 526,500	\$ 113,563	\$ 622,487	\$ 172,093	\$1,148,987	\$ 285,656

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 - 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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$7,198, \$8,155, and \$8,394, respectively, equal to the required contributions for each year.

NOTE 5 – 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 and personal leave at June 30, 2006 was \$3,605, according to the existing written policy. This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE 6 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$5,468 during the fiscal year ended June 30, 2006.

The City rents certain buildings to Bancroft Municipal Utilities (BMU) on a monthly basis at \$1,500 per month. Total rent received from BMU in the fiscal year ended June 30, 2006 was \$18,000.

NOTE 7 – ECONOMIC DEVELOPMENT LOANS

During the fiscal year ended June 30, 2004, the City received \$107,500 from the Iowa Department of Economic Development in Community Development Block Grant funds. In accordance with the agreement, the City loaned \$100,000 of these funds to a qualified local business. The loan consists of a \$50,000 forgivable loan and a \$50,000 interest-free conventional loan. Repayment of the conventional loan is to be made in monthly payments of \$833, with the first payment due March 1, 2004 to the City of Bancroft. (During the fiscal year ended June 30, 2005, the conventional loan was re-amortized and the monthly payments were reduced to \$375 beginning January 1, 2005). Terms of the forgivable loan are based on the creation and retention of jobs by the qualified business.

During the fiscal year ended June 30, 2005, the City loaned an additional \$100,000 and granted \$25,000 to the same local business noted above. The terms of this \$100,000 forgivable loan are based on the creation and retention of jobs by the qualified business.

During the fiscal year ended June 30, 2005, the City loaned \$10,000 to another local business. The terms of this loan require sixty monthly payments of \$180 including interest at three percent, with the first payment due August 1, 2005. The first monthly payment on this loan was not received until September 7, 2006.

NOTE 8 – RISK MANAGEMENT

The City 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 9 – DEFICIT FUND BALANCES

As of June 30, 2006, the following funds had deficit balances:

Fund	Deficit
General Fund -----	\$248,720
Special Revenue Fund, Road Use Tax Account -----	34,836
Special Revenue Fund, Employee Benefits Account -----	23,774
Capital Projects Fund, Pool Account -----	160,666

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, and transfers from other funds.

NOTE 10 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Capital Projects – Water System Project	Enterprise – Water	<u>\$ 10,505</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. Transfers also move available resources from funds to those funds with disbursements that need to be paid.

REQUIRED SUPPLEMENTARY INFORMATION

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS - PRIMARY GOVERNMENT
 REQUIRED SUPPLEMENTARY INFORMATION
 YEAR ENDED JUNE 30, 2006**

	Governmental Funds		Proprietary Funds		Total Actual	Original and Final Budget		Final to Total Variance
	Actual		Actual			Budget		
Receipts:								
Property Tax	\$ 172,282	\$ -	\$ 172,282	\$ 167,503	\$ 4,779			
Tax Increment Financing Collections	61,626	-	61,626	33,000	28,626			
Other City Tax	57,879	-	57,879	61,190	(3,311)			
Licenses and Permits	500	-	500	1,020	(520)			
Use of Money and Property	27,940	1,992	29,932	28,050	1,882			
Intergovernmental	105,477	-	105,477	256,575	(151,098)			
Charges for Service	46,968	250,663	297,631	210,300	87,331			
Special Assessments	4,953	-	4,953	3,150	1,803			
Miscellaneous	17,613	677	18,290	14,530	3,760			
Total Receipts	495,238	253,332	748,570	775,318	(26,748)			
Disbursements:								
Public Safety	86,648	-	86,648	116,650	30,002			
Public Works	89,096	-	89,096	6,330	(82,766)			
Health and Social Services	3,650	-	3,650	4,608	958			
Culture and Recreation	169,389	-	169,389	141,611	(27,778)			
Community and Economic Development	2,626	-	2,626	36,226	33,600			
General Government	65,164	-	65,164	50,850	(14,314)			
Debt Service	66,929	-	66,929	77,575	10,646			
Capital Projects	73,094	-	73,094	-	(73,094)			
Business Type Activities	-	193,470	193,470	137,500	(55,970)			
Total Disbursements	556,596	193,470	750,066	571,350	(178,716)			
Excess (Deficiency) of Receipts Over (Under) Disbursements	(61,358)	59,862	(1,496)	203,968	(205,464)			
Other Financing Sources, Net	10,505	(10,505)	-	-	-			
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	(50,853)	49,357	(1,496)	203,968	(205,464)			
Balance at Beginning of Period	15,037	243,433	258,470	237,226	21,244			
Balance at End of Period	\$ (35,816)	\$ 292,790	\$ 256,974	\$ 441,194	\$ (184,220)			

CITY OF BANCROFT, IOWA**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION --
BUDGETARY REPORTING****JUNE 30, 2006**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the 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. There were no budget amendments during the year.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the following functions: public works, culture and recreation, general government, capital projects and business type activities.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BANCROFT, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue					Total
	Housing Grant	Development	Employee Benefits	Emergency		
Receipts:						
Property Tax	\$ -	\$ -	\$ 6,317	\$ 2,007	\$ -	\$ 8,324
Use of Money and Property	68	434	-	-	-	502
Miscellaneous	1,733	4,505	-	-	-	6,238
Total Receipts	1,801	4,939	6,317	2,007	-	15,064
Disbursements:						
Operating:						
Public Safety	-	-	7,714	-	-	7,714
Public Works	-	-	3,978	-	-	3,978
Culture and Recreation	-	-	3,583	-	-	3,583
General Government	-	-	671	-	-	671
Total Disbursements	-	-	15,946	-	-	15,946
Excess (Deficiency) of Receipts Over (Under) Disbursements	1,801	4,939	(9,629)	2,007	-	(882)
Other Financing Sources (Uses):						
Operating Transfers In (Out)	-	-	-	-	-	-
Net Change in Cash Balances	1,801	4,939	(9,629)	2,007	-	(882)
Cash Balances at Beginning of Year	8,821	767	(14,145)	9,505	-	4,948
Cash Balances at End of Year	\$ 10,622	\$ 5,706	\$ (23,774)	\$ 11,512	\$ -	\$ 4,066
Cash Basis Fund Balances Unreserved:						
Special Revenue Funds	\$ 10,622	\$ 5,706	\$ (23,774)	\$ 11,512	\$ -	\$ 4,066

CITY OF BANCROFT, IOWA
SCHEDULE OF INDEBTEDNESS - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2006

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	Due and Unpaid
General Obligation Notes:									
Pool and Storm Sewer	May 1, 1996	5.00%	\$ 150,000	\$ 30,000	\$ -	\$ 15,000	\$ 15,000	\$ 1,500	\$ -
Street Improvements	June 1, 1998	5.00%	105,000	42,000	-	10,500	31,500	2,056	-
Street Improvements	December 1, 2003	4.00%	240,000	205,000	-	25,000	180,000	8,200	-
Swimming Pool	November 8, 2004	3.00%	300,000	300,000	-	300,000	-	4,673	-
Swimming Pool	November 1, 2005	4.25%	300,000	-	300,000	-	300,000	-	-
Total General Obligation Notes				\$ 577,000	\$ 300,000	\$ 350,500	\$ 526,500	\$ 16,429	\$ -
Revenue Bonds:									
Water	February 6, 2004	3.00%	\$ 600,000	\$ 555,000	\$ -	\$ 24,000	\$ 531,000	\$ 16,650	\$ -
Water	July 20, 2004	3.00%	183,000	98,487	-	7,000	91,487	2,955	-
Total Revenue Bonds				\$ 653,487	\$ -	\$ 31,000	\$ 622,487	\$ 19,605	\$ -

BOND AND NOTE MATURITIES - PRIMARY GOVERNMENT
JUNE 30, 2006

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		Swimming Pool Issued November 1, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2007	5.00%	\$ 15,000	5.00%	\$ 10,500	4.00%	\$ 25,000	4.25%	\$ 20,000	70,500
2008		-	5.00%	10,500	4.00%	30,000	4.25%	20,000	60,500
2009		-	5.00%	10,500	4.00%	40,000	4.25%	25,000	75,500
2010		-		-	4.00%	40,000	4.25%	25,000	65,000
2011		-		-	4.00%	45,000	4.25%	30,000	75,000
2012		-		-		-	4.25%	30,000	30,000
2013		-		-		-	4.25%	35,000	35,000
2014		-		-		-	4.25%	35,000	35,000
2015		-		-		-	4.25%	40,000	40,000
2016		-		-		-	4.25%	40,000	40,000
		<u>\$ 15,000</u>		<u>\$ 31,500</u>		<u>\$ 180,000</u>		<u>\$ 300,000</u>	<u>\$ 526,500</u>

Revenue Bonds					
Year Ending June 30,	Water Issued February 6, 2004		Water Issued July 20, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	
2007	3.00%	\$ 24,000	3.00%	\$ 7,000	\$ 31,000
2008	3.00%	25,000	3.00%	7,000	32,000
2009	3.00%	26,000	3.00%	8,000	34,000
2010	3.00%	27,000	3.00%	8,000	35,000
2011	3.00%	27,000	3.00%	8,000	35,000
2012	3.00%	28,000	3.00%	8,000	36,000
2013	3.00%	29,000	3.00%	9,000	38,000
2014	3.00%	30,000	3.00%	9,000	39,000
2015	3.00%	31,000	3.00%	9,000	40,000
2016	3.00%	32,000	3.00%	9,000	41,000
2017	3.00%	33,000	3.00%	9,487	42,487
2018	3.00%	34,000		-	34,000
2019	3.00%	35,000		-	35,000
2020	3.00%	36,000		-	36,000
2021	3.00%	37,000		-	37,000
2022	3.00%	38,000		-	38,000
2023	3.00%	39,000		-	39,000
		<u>\$ 531,000</u>		<u>\$ 91,487</u>	<u>\$ 622,487</u>

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

	Fiscal Years Ended June 30,			
	2006	2005	2004	2003
Receipts:				
Property Tax -----	\$ 172,282	\$ 169,824	\$ 187,449	\$ 166,909
Tax Increment Financing Collections -----	61,626	45,976	18,169	-
Other City Tax -----	57,879	59,567	56,152	55,369
Licenses and Permits -----	500	611	1,057	1,002
Use of Money and Property -----	27,940	27,735	21,214	30,321
Intergovernmental -----	105,477	745,596	439,275	216,898
Charges for Service -----	46,968	27,128	30,414	36,417
Special Assessments -----	4,953	4,810	7,778	8,800
Miscellaneous -----	17,613	36,125	85,220	81,441
Total Receipts	\$ 495,238	\$ 1,117,372	\$ 846,728	\$ 597,157
Disbursements:				
Operating:				
Public Safety -----	\$ 86,648	\$ 90,657	\$ 172,580	\$ 96,491
Public Works -----	89,096	115,928	123,418	68,702
Health and Social Services -----	3,650	4,458	4,608	4,608
Culture and Recreation -----	169,389	159,425	148,509	131,264
Community and Economic Development -----	2,626	240,208	233,377	89,752
General Government -----	65,164	81,532	75,368	75,746
Debt Service -----	66,929	75,065	230,888	78,918
Capital Projects -----	73,094	845,137	785,934	6,635
Total Disbursements	\$ 556,596	\$ 1,612,410	\$ 1,774,682	\$ 552,116

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, 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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated July 27, 2007. 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Bancroft's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 the Part I of the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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-06 is a material weakness.

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 protection
- Small business management help • Computer consulting • IRS representation • Litigation support

FOR YOUR CONVENIENCE:

- Direct access to the principal – always • Short phone consultations at no cost
- Fair morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

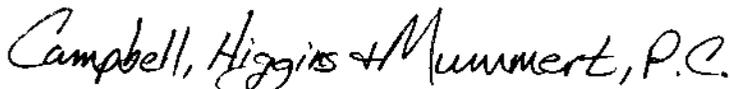
Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Bancroft 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 & MUMMERT, P.C.
Certified Public Accountants

July 27, 2007

CITY OF BANCROFT, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006**Part I: Findings Related to the Financial Statements:****Reportable Conditions:**

I-A-06 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 intend to make a more concerted effort to segregate duties.

Conclusion – Response accepted.

I-B-06 Disbursements – We noted the following issues relating to the disbursements which were selected for testing:

- a) Six disbursements were not supported by an invoice or other supporting documentation.
- b) The majority of the invoices were not cancelled upon payment.
- c) Five disbursements were not approved by the Council.
- d) Numerous disbursements were approved late - after the disbursement had already been made.
- e) Numerous disbursements were recorded in the wrong fund.
- f) Forty-one checks that had been voided were included in the accounting reports (this was subsequently corrected with the assistance of audit personnel).
- g) One hundred thirty-three checks that cleared the bank account had not been entered into the accounting reports (this was subsequently corrected with the assistance of audit personnel).

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 (stamped paid) upon payment to prevent duplicate payment, all disbursements are properly approved by the Council, all disbursements are recorded in the proper fund and all disbursements are included in the accounting reports.

Response – Care will be taken to ensure that the above recommendations are followed.

Conclusion – Response accepted.

- I-C-06 Receipts – During the audit, we identified numerous receipts that were not entered into the accounting system (this was subsequently corrected with the assistance of audit personnel).
- Recommendation - Care should be taken by City personnel to ensure that all receipts are entered properly.
- Response – We will make sure that receipts are properly entered.
- Conclusion – Response accepted.
- I-D-06 Bank Reconciliations – During the audit, we noted that the City’s bank accounts were not being reconciled on a consistent monthly basis.
- Recommendation - The City should implement procedures to ensure that all bank accounts are reconciled on a monthly basis.
- Response – Bank reconciliations will be done monthly.
- Conclusion – Response accepted.
- I-E-06 Financial Reporting – During the audit, we identified and proposed numerous adjusting entries which were material in amount relating to all funds. Adjustments were subsequently made by City personnel to correct these items.
- Recommendation - The City should implement procedures to ensure that all fund activity and balances are properly recorded.
- Response – We will record and balance all fund activity.
- Conclusion – Response accepted.
- I-F-06 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 – All fund transfers will be approved by the council.
- Conclusion – Response accepted.

I-G-06 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 into the Clerk’s records.

Conclusion – Response accepted.

I-H-06 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 – Interest will be receipted in as a normal receipt, and will be allocated accordingly.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-06 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, 2006.

II-B-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the following functions: public works, culture and recreation, general government, capital projects 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 – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa.

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

Conclusion – Response accepted.

II-C-06 Questionable Disbursements – No disbursements for questionable items were noted.

II-D-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Paul Ingalls, Council Member Owner of Ingalls Electric	Supplies and Services	\$ 410
Phil Jaren, Council Member Owner of Office, Etc.	Office Equipment and Supplies	\$ 4,613
Judy Vaske, Council Member Owner of Vaske Welding.	Welding Supplies and Services	\$ 445

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with Council Members Ingalls and Vaske 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. However, the transactions with Council Member Jaren may represent a possible conflict of interest since total transactions were more than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – We will consult the City’s attorney.

Conclusion – Response accepted.

II-F-06 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-06 Council Minutes – None of the published council meeting minutes which were selected for testing included 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 five of the disbursements selected for testing. Many of the disbursements that were approved by the Council were done so after the disbursement was already made.

The Council went into closed session on January 9, 2006. However, the minutes record did not document the affirmative public vote of the council members as required by Chapter 21.5.1 of the Code of Iowa.

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 prior to the disbursement and this approval should be documented in the minutes. Minutes of all meetings should be timely published. The City should comply with Chapter 21 of the Code of Iowa.

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

Conclusion – Response accepted.

II-H-06 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-06 Revenue Bonds – The City has complied with the revenue bond resolutions.

II-J-06 Financial Condition – As of June 30, 2006, the General Fund, Special Revenue Fund – Road Use Tax Account, Special Revenue Fund – Employee Benefits Account, and the Capital Projects Fund – Pool Account had deficit balances of \$248,720, \$34,836, \$23,774, and \$160,666, 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 the needed transfers.

Conclusion – Response accepted.