

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

December 31, 2009

T. P. ANDERSON & COMPANY, P.C.
Certified Public Accountants

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

OFFICIALS

December 31, 2009

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Janice Wolf	Mayor	December 31, 2009
Phil Jaren	Councilman	December 31, 2011
Tom Johnson	Councilman	December 31, 2011
Pat Merron	Councilman	December 31, 2011
Bob Richter	Councilman	December 31, 2011
Judy Vaske	Councilman	December 31, 2009
Brian Hatten	Utility Superintendent	
Timothy Rowlet	Utility Clerk	
Scott Buchanan	Attorney	

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Bancroft Municipal Utilities
Bancroft, Iowa

We have audited the accompanying statement of net assets of the Bancroft Municipal Utilities (the Utility), a component unit of the City of Bancroft, Iowa, as of December 31, 2009, and the related statement of revenues, expenses and changes net assets and cash flows for the year then ended. 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.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

We did not observe the taking of the physical inventories at December 31, 2009 and 2008 (stated at \$184,292 and \$180,108, respectively), since those dates were prior to the time we were initially engaged as auditors for the Utility. We were unable to satisfy ourselves about inventory quantities by means of other audit procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventories taken as of December 31, 2009 and 2008, 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, 2009 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011 on our consideration of the Bancroft Municipal Utilities Plant's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 7 and 22 through 24 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.

T.P. Anderson & Company, P.C.

December 5, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Bancroft Municipal Utilities (the Utility) 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, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased by 6.0%, or approximately \$102,000 over 2008 revenues.
- ◆ The Utility's expenses increased by 6.0%, or approximately \$75,000 from 2008 to 2009.
- ◆ The Utility's net assets increased by 10.0%, or \$350,576 from December 31, 2008 to December 31, 2009.

USING THIS ANNUAL REPORT

Bancroft Municipal Utilities is a single Enterprise Fund and presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Bancroft Municipal Utilities' financial statements. 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 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 present information on the Utility's assets and liabilities, and information on the Utility's operating and non-operating revenues and expenses. This information provides a useful indicator of whether the Utility's financial position is improving or deteriorating.
- ◆ 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 Utility's budget for the year.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

The Statement of Net Assets and the Statement of Revenues, Expenses and Change 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, from where did cash come, for what was cash used, and what was the change in cash and cash equivalents during the reporting period.

FINANCIAL ANALYSIS OF THE UTILITY

Statements of Net Assets

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years:

	<u>2009</u>	<u>2008</u>
Current assets	\$ 1,372,464	1,610,980
Other assets	456,944	314,413
Capital assets at cost, less accumulated depreciation	<u>2,602,761</u>	<u>2,700,816</u>
Total assets	<u>4,432,169</u>	<u>4,626,209</u>
Current liabilities	254,324	351,068
Long-term debt	<u>376,488</u>	<u>824,360</u>
Total liabilities	<u>630,812</u>	<u>1,175,428</u>
Net assets:		
Invested in capital assets, net of related debts	2,111,273	1,766,456
Restricted	129,939	94,834
Unrestricted	<u>1,560,145</u>	<u>1,589,491</u>
Total net assets	<u>3,801,357</u>	<u>3,450,781</u>
Total liabilities and net assets	<u>\$ 4,432,169</u>	<u>4,626,209</u>

Statements of Revenues, Expenses, and Change in Net Assets

Operating revenues are received for providing electric services to the residents of the City. Operating expenses are expenses paid to operate the Utility. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues, expenses, and changes in net assets for the years ended December 31, 2009 and 2008 is presented below:

	<u>Changes in Net Assets</u>	
	<u>2009</u>	<u>2008</u>
Operating revenues	\$ 1,773,839	1,672,025
Operating expenses	<u>1,337,573</u>	<u>1,262,189</u>
Total operating revenue	436,266	409,836
Net non-operating (expenses)	<u>(8,689)</u>	<u>(38,642)</u>
Income before transfers and contributions	427,577	371,194
Transfers and contributions	<u>(77,001)</u>	<u>(900)</u>
Increase in net assets	350,576	370,294
Net assets, beginning of year	<u>3,450,781</u>	<u>3,080,487</u>
Net assets, end of year	<u>\$ 3,801,357</u>	<u>3,450,781</u>

The Statements of Revenues, Expenses and Changes in Net Assets reflect an increase in net assets of \$350,576 in 2009, as compared to \$370,294 in 2008.

The Utility's operating revenues increased approximately \$102,000 over 2008 revenues.

The Utility's operating expenses increased approximately \$75,000 in 2009 over 2008.

CAPITAL ASSETS

At December 31, 2009, the Utility had approximately \$2,602,000 invested in capital assets, net of accumulated depreciation of \$3,397,396. Bancroft Municipal Utilities had depreciation expense of \$176,411 in 2009. Major additions to the capital assets in 2009 included distribution system upgrades totaling \$77,664.

DEBT ADMINISTRATION

At December 31, 2009, the Utility had \$500,000 in debt outstanding, a decrease of \$445,000 from 2008. The table below summarizes outstanding debt by type.

	<u>2009</u>	<u>2008</u>
2008 Revenue Bond Issue	\$ 500,000	615,000
2008 Short Term Notes	<u>-</u>	<u>330,000</u>
	<u>\$ 500,000</u>	<u>945,000</u>

BUDGETARY HIGHLIGHTS

The Utility did not amend their budget during 2009. Expenses for the year exceeded budget limitations.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Utility continued to improve its financial position during the current year. However the current condition of the economy in the state continues to be a concern. Keeping these concerns in mind, management anticipates that

Bancroft will be able to maintain the current base rates despite anticipated higher expenses. Some of the realities that may potentially become challenges for the Utility to meet are:

- ◆ 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.
- ◆ With our customers' increasing load requirements and the age of Neal 4 Generation Plant, securing additional base load power is an ongoing challenge.
- ◆ There is the potential of new legislation by the federal and/or the state legislature to establish green energy and energy efficient requirements for all electric utilities.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Bancroft Municipal Utilities' finances and to provide accountability for the money the Utility receives. If you have questions about this report or need additional financial information, contact the Utility's administration office at 107 East Ramsey, Bancroft Iowa.

BASIC FINANCIAL STATEMENTS

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

STATEMENT OF NET ASSETS
As of DECEMBER 31, 2009

	2009
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 684,433
Certificates of Deposit	223,586
Accounts Receivable	239,693
Accounts Receivable - City of Bancroft	22,915
Accounts Receivable - Other	4,839
Accrued Interest Receivable	3,638
Prepaid Expenses	9,068
Inventories	184,292
Total Current Assets	1,372,464
 Capital Assets:	
Capital Assets (Net of Accumulated Depreciation)	2,602,761
Construction Work in Process	-
Total Capital Assets	2,602,761
 Other Assets:	
Common Transmission System - Improvement Fund	205,093
Emmissions Allowance Fund	28,927
Investments	90,000
Note Receivable	2,985
Restricted Assets:	
Cash and Cash Equivalents - Bond Funds	129,939
Total Other Assets	456,944
 Total Assets	 \$ 4,432,169

See Notes to Financial Statements

	<u>2009</u>
Liabilities	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	\$ 97,066
Accounts Payable - City of Bancroft	19,301
Accrued Compensated Wages and Absences	11,073
Customer Deposits and Credit Balances	5,461
Accrued Interest Payable	1,423
Revenue Notes - Current	120,000
Total Current Liabilities	<u>254,324</u>
Non-Current Liabilities:	
OPEB Liabilities	5,000
Revenue Notes - Non-Current	371,488
Total Non-Current Liabilities	<u>376,488</u>
Total Liabilities	<u>630,812</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	2,111,273
Restricted for Debt Service	129,939
Unrestricted	1,560,145
Total Net Assets	<u>3,801,357</u>
Total Liabilities and Net Assets	<u>\$ 4,432,169</u>

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2009

	2009
Operating Revenues:	
Residential and Commerical Sales	\$ 875,310
Rural Sales	320,597
Service Provided to City of Bancroft	25,920
Service Provided to City of Burt	183,839
Neal 4 and NIMECA Credits and Steam Service Income	347,477
Other Sales and Revenue	20,696
Total Operating Revenues	1,773,839
Operating Expenses:	
Generation and Purchased Power	760,785
Employee Salaries and Wages	178,334
Employee Benefits	75,824
Depreciation	176,411
Fuel and Oil	4,553
Supplies and Maintenance	25,058
Dues and Subscriptions	5,222
Office Expenses	21,773
Professional Fees	8,216
Rents	24,600
Property Tax and Insurance	39,125
Sales and Use Tax	3,181
Miscellaneous	14,491
Total Operating Expenses	1,337,573
Operating Income (Loss)	436,266
Non-Operating Revenues (Expenses):	
Interest and Dividend Income	21,352
Interest Expense	(29,537)
Miscellaneous	(504)
Net Non-Operating Revenues (Expenses)	(8,689)
Net Income Before Transfers and Contributions	427,577
Contributions to the City	(54,086)
Transfers to City in Lieu of Property Taxes	(22,915)
Increase in Net Assets	350,576
Net Assets at Beginning of Period	3,450,781
Net Assets at End of Period	\$ 3,801,357

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2009

	2009
Cash Flows From Operating Activities:	
Cash Received from Customers	\$ 1,715,856
Cash Payments to Suppliers for Goods and Services	(1,072,574)
Cash Payments to Employees for Services	(177,441)
Net Cash Provided by Operating Activities	465,841
 Cash Flows From Non-Capital Financing Activities:	
Contributions from (to) the City of Bancroft	(51,686)
Contributions from (to) Others	(2,400)
Transfers from (to) City in Lieu of Property Taxes	(22,915)
	(77,001)
 Cash Flows From Capital and Related Financing Activities:	
Purchases and Construction of Capital Assets	(78,509)
Interest and Bond Fees Paid	(30,507)
Financing grants received	513,025
Principal Payments on Long-Term Debt	(445,000)
Net Cash Provided (Used) by Capital and Related Financing Activities	(40,991)
 Cash Flows From Investing Activities:	
Purchases of Certificates of Deposit	(528,230)
Proceeds from Maturities of Certificates of Deposit	521,526
Proceeds from Redemption of Investments	29,213
Note Receivable Principal Payments Received	4,008
(Increase) Decrease in Common Transmission System - Improvement Fund	(140,647)
Interest Received	27,264
Net Cash Provided (Used) by Investing Activities	(86,866)
Net Increase (Decrease) in Cash and Cash Equivalents	260,983
Cash and Cash Equivalents at Beginning of Period	423,450
Cash and Cash Equivalents at End of Period	\$ 684,433

See Notes to Financial Statements

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

STATEMENT OF CASH FLOWS - continued
YEAR ENDED DECEMBER 31, 2009

	2009
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income	\$ 436,266
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	176,411
(Increase) Decrease in Assets:	
Accounts Receivable	(46,333)
Prepaid Expenses	2,680
Inventories	(4,184)
Increase (Decrease) in Liabilities	
Accounts Payable and Accrued Liabilities	(93,242)
Accounts Payable - City of Bancroft	(12,302)
Accrued Wages and Compensated Absences	893
OPEB Liability	5,000
Customer Deposits and Credit Balances	652
	652
Net Cash Provided by Operating Activities	\$ 465,841

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

NOTES TO FINANCIAL STATEMENTS

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. Bancroft Municipal Utilities (the Utility) provides electric service on a user charge basis to the general public and other governmental units within Kossuth County, Iowa. The Utility operates under the authority of Chapters 384 and 388 of the Code of Iowa.

Reporting Entity

For financial reporting purposes, Bancroft Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. 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 are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) 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.

Basis of Presentation

The accounts of Bancroft Municipal Utilities are organized as an Enterprise Fund. Enterprise Funds are used to account for operations (1) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements, 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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for Bancroft Municipal Utilities result from charges to customers for sales and services. Operating expenses

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

NOTES TO FINANCIAL STATEMENTS

include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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.

Assets, Liabilities and Net Assets

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

Cash and Cash Equivalents – The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Investments are carried at cost which approximates market value.

Accounts Receivable – The Utility uses the allowance method to charge off uncollectible accounts receivable. Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for uncollectible accounts and related accounts receivable write offs. As of December 31, 2009, included in accounts receivable were \$13,423 of receivables that were older than 90 days. At December 31, 2009 the allowance for uncollectible accounts is \$-0-.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Capital Assets - Capital assets are carried at cost. The Utility computes depreciation on buildings and equipment using the straight-line method over the estimated useful lives of the property. Lives for the buildings are twenty to fifty years, while the equipment lives range from three to thirty years.

Joint Plant Ownership

Bancroft Municipal Utilities is a member of North Iowa Municipal Electric Cooperative Association (NIMECA.) 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, Neal 4 fuel and generation, and depreciation expense.

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

NOTES TO FINANCIAL STATEMENTS

Statement of Revenues, Expenses and Changes in Net Assets

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.

Use of Net Assets

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2009, disbursements exceeded the amounts budgeted.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2009 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 ensure 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 Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; warrants or improvement certificates of a drainage district.

Investments are stated at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The Utility's investments at December 31, 2009 were as follows:

Investment	Fair Value	Maturity
Federal Home Loan Mortgage Corporation	\$ 90,000	August 2034
	90,000	

Interest rate risk. The Utility's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities

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

NOTES TO FINANCIAL STATEMENTS

longer than 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit Risk. The Utility's FHLMC investment at June 30, 2011 is rated Aaa by Moody's Investors Service.

Concentrations of credit risk. The Utility places no limit on the amount which may be invested in any one issuer. Approximately 7% of the Utility's cash and investments is held in the Federal Home Loan Mortgage Corporation investment.

NOTE 3 – COMMON TRANSMISSION SYSTEM – IMPROVEMENT FUND

Bancroft Municipal Utilities (along with other utilities) has signed an agreement with Corn Belt Power Cooperative (Corn Belt) which guarantees the use of transmission lines and also covers a sharing agreement with Corn Belt 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. The Utility has accumulated \$205,093 as of December 31, 2009 in this fund.

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2009 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Construction in progress	\$ 31,547	-	31,547	-
Capital assets being depreciated:				
Plant and equipment	3,892,588	83,429	-	3,976,017
George Neal Generating Station Unit No. 4	1,251,823	6,835	-	1,258,658
Lehigh-Webster Transmission System	56,981	2,682	-	59,663
Corn Belt Plant Acquisitions	<u>692,310</u>	<u>17,110</u>	<u>3,600</u>	<u>705,820</u>
Total capital assets being depreciated	<u>5,893,702</u>	<u>110,056</u>	<u>3,600</u>	<u>6,000,158</u>
Less accumulated depreciation for:				
Plant and equipment	1,907,237	123,242	-	2,030,479
George Neal Generating Station Unit No. 4	993,520	35,864	-	1,029,384
Lehigh-Webster Transmission System	39,497	1,590	-	41,087
Corn Belt Plant Acquisitions	<u>284,179</u>	<u>15,715</u>	<u>3,447</u>	<u>296,447</u>
Total accumulated depreciation	<u>3,224,433</u>	<u>176,411</u>	<u>3,447</u>	<u>3,397,397</u>
Total capital assets being depreciated, net	<u>2,669,269</u>			<u>2,602,761</u>
Net capital assets	<u>\$ 2,700,816</u>			<u>2,602,761</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT

Changes in the long-term debt for the year ended December 31, 2009 are as follows:

	Beginning <u>Balance</u>	<u>Issued</u>	<u>Paid</u>	Ending <u>Balance</u>
2008 Revenue Bonds	\$ 615,000	-	115,000	500,000
2008 Notes Payable – Burt Project	<u>330,000</u>	-	<u>330,000</u>	-
	<u>\$ 945,000</u>	<u>-</u>	<u>445,000</u>	<u>500,000</u>

As of December 31, 2009 the Utility’s long-term indebtedness consisted of 2008 revenue bonds. The bonds bear interest ranging from 3.25% to 3.60% with interest due each June 1 and December 1 and principal due each December 1.

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

<u>Year Ending December 31,</u>	<u>Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2010	\$ 120,000	17,265	137,265
2011	125,000	13,305	138,305
2012	125,000	9,055	134,055
2013	<u>130,000</u>	<u>4,680</u>	<u>134,680</u>
	<u>\$ 500,000</u>	<u>44,305</u>	<u>544,305</u>

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 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 2008 bonds when there shall be insufficient money in the Sinking Fund or Reserve Fund; and to the extent not required for the foregoing, to pay the cost of extraordinary maintenance expense 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 so 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.

**BANCROFT MUNICIPAL UTILITIES
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NOTES TO FINANCIAL STATEMENTS

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 4.30% (4.10% through June 30, 2009) of their annual salary and the Utility is required to contribute 6.65% (6.35% through June 30, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2009, 2008 and 2007 were \$11,646, \$10,943, and \$10,165 respectively, equal to the required contributions for each year.

NOTE 7 – COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation hours 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 Utility's approximate liability for earned but unused vacation was \$8,247 as of December 31, 2009.

Utility employees earn sick leave days for subsequent use. The maximum accumulation is 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 – RELATED PARTY TRANSACTIONS

City of Bancroft - Bancroft Municipal Utilities bills and collects charges for the City of Bancroft (the City) 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 and due to the City were \$19,301 for the sewer and water fees as of December 31, 2009. 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 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 and Other Payable – City of Bancroft.

Additional disclosures relating to transactions with the City are included in Note 9.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 9 – PAYMENTS IN LIEU OF PROPERTY TAXES

The Utility has agreed to make voluntary payments to the City of Bancroft totaling 2% of annual gross revenues. These transfers are reflected on the Statement of Revenues, Expenses and Changes in Net Assets as Transfers to the City of Bancroft in Lieu of Property Taxes.

NOTE 10 – RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts, errors and omissions, injuries to employees, natural disasters, and theft of, damage to and destruction of assets. 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 fiscal years.

NOTE 11– OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Bancroft Municipal Utilities implemented GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions for the year ended December 31, 2009.

Plan Description. The Utility operates a single-employer health plan which provides medical benefits for employees and retirees and their spouses. There are 6 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical plan is administered by Wellmark. Retirees under age 65 pay the same premium for the medical plan as active employees, which results in an implicit subsidy. The implicit subsidies result in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The Utility’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility’s annual OPEB cost for the year ended December 31, 2009, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

Annual required contribution	\$ 5,000
Interest on net OPEB Obligation	<u>0</u>
Annual OPEB cost	5,000
Contributions made	<u>0</u>
Increase in net OPEB obligation	5,000
Net OPEB obligation beginning of year	<u>0</u>
Net OPEB obligation end of year	<u><u>\$ 5,000</u></u>

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

NOTES TO FINANCIAL STATEMENTS

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2009.

For the year ended December 31, 2009, the Utility contributed \$41,817 to the medical plan. Plan members eligible for benefits contributed \$-0- of the premium costs.

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2009 are summarized as follows:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	\$ 5,000	0%	\$ 5,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the period January 1, 2009 through December 31, 2009, the actuarial accrued liability was \$50,517, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$50,517. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$179,000 and the ratio of the UAAL to covered payroll was 28%. As of December 31, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the July 1, 2009 actuarial valuation date, the frozen entry age, closed group cost method was used. The actuarial assumptions include a 2.5% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 6%.

Mortality rates are from the 94 Group Annuity Mortality Table, projected to 2,000, assuming 2/3 female and 1/3 male.

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

NOTES TO FINANCIAL STATEMENTS

Projected claim costs of the medical plan are \$440.83 per month for retirees. Benefits are not related to salary levels. The UAAL is being amortized using valuation annual interest rate over 30 years.

NOTE 12 – CONCENTRATIONS

The Utility extends credit to its customers on terms no more favorable than standard terms of the industry it serves. A substantial portion of the Utility's customers are located in Bancroft, Iowa. The Utility's credit risks have been anticipated and management believes that adequate provision has been made for doubtful accounts.

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events and transactions for potential recognition or disclosure through December 5, 2011, the date these financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2009**

	Actual	Original and Final Budget	Final to Actual Variance
Revenues:			
Use of money and property	\$ 21,352	40,000	(18,648)
Charges for services	1,753,143	1,138,711	614,432
Miscellaneous	20,696	100,000	(79,304)
	<u>1,795,191</u>	<u>1,278,711</u>	<u>516,480</u>
Expenses	<u>1,367,614</u>	<u>1,165,725</u>	<u>(201,889)</u>
Excess of receipts over disbursements	427,577	112,986	314,591
Transfers	<u>(77,001)</u>	<u>-</u>	<u>(77,001)</u>
Excess of receipts over disbursements and transfers	350,576	112,986	237,590
Net assets at beginning of period	<u>3,450,781</u>	<u>3,193,531</u>	<u>257,250</u>
Net assets at end of period	<u><u>\$ 3,801,357</u></u>	<u><u>3,306,517</u></u>	<u><u>494,840</u></u>

See Accompanying Independent Auditor's Report

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2009

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of expenses, known as functions, not by fund. These nine functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Bancroft Municipal Utilities utilizes only the business-type activity function.

For the year ended December 31, 2009, disbursements exceeded the amounts budgeted.

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

**REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN**

YEAR ENDED DECEMBER 31, 2009

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ration (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	July 1, 2009	\$ -0-	\$ 50,517	\$ 50,517	0.00%	\$179,000	28.0%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost and net OPEB obligation, funded status and funding progress.

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

To the Board of Trustees 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, 2009 and have issued our report thereon dated December 5, 2011. Except for not observing the taking of physical inventories at December 31, 2009 and 2008, because those dates preceded the date we were engaged as auditors, we conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Planning

In planning and performing our audit, we considered Bancroft Municipal Utilities' (the Utility's) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we believe to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed as I-A-09, I-B-09, I-C-09 and I-D-09 on the accompanying Schedule of Findings to be material weaknesses in internal control over financial reporting.

A *significant* deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency listed as I-E-09 on the accompanying Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

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, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, 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. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's response, we did not audit the response and express no opinion on it.

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. The report is not intended and should not be used by anyone other than these specified parties.

We would like to acknowledge the assistance and courtesies 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.

T.P. Anderson & Company, P.C.

December 5, 2011

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

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

I-A-09 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted 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 – This is difficult with the minimal number of staff but we will continue to work on better segregation of duties.

Conclusion - Response accepted.

I-B-09 Physical Count of Inventory – A proper system of internal controls would include a physical count of inventory at least once per year. The Utility did not perform a physical inventory count on December 31, 2008, nor on December 31, 2009.

Recommendation – Count physical inventory a minimum of once per year and consider implementing a perpetual inventory system to keep inventory current.

Response – We did perform a physical inventory count on December 31, 2010. We will cause a count to be taken annually.

Conclusion - Response accepted.

I-C-09 Accounts Payable – A proper system of internal controls includes the monthly preparation of an accounts payable listing that is reconciled to the general ledger. A properly operating system of internal controls should detect and correct material misstatements in a timely manner. An accounts payable listing was not generated on a monthly basis; therefore the general ledger balance was not reconciled. Additionally, there were material unrecorded payables at December 31, 2009.

Recommendation – The Utility should create an accounts payable listing each month, reconcile it to the general ledger balance, and investigate and correct any variances.

Response – We will implement the recommendations.

Conclusion - Response accepted.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009**

I-D-09 Accounts Receivable Aging – A proper system of internal controls includes a monthly reconciliation of the accounts receivable ledger to the general ledger. The Utility does not perform this reconciliation.

Recommendation – The Utility should create reconcile the accounts receivable ledger to the general ledger balance monthly, and investigate and correct any variances.

Response – We will implement the recommendations.

Conclusion - Response accepted.

I-E-09 Credit Card Transactions – Proper use of credit cards includes a written policy which states allowable charges, employees approved to use the credit card, substantiation of charges with original invoices, and other specifications. The Utility does not have a written credit card policy.

Recommendation – The Utility should formally document their credit card policy in writing, and monitor credit card transactions.

Response – We will implement the recommendations.

Conclusion - Response accepted.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009**

Part II: Other Findings Related to Statutory Reporting:

II-A-09 Certified Budget - Disbursements during the year ended December 31, 2009 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. Iowa Code Chapter 384.2 requires that the budget be approved by Council resolution not later than twenty days prior to the beginning of the calendar year for which the budget applies. The Utility budget was not approved until December 29, 2008.

Recommendation – In accordance with Code Chapter 384.18, the budget should be amended prior to making disbursements in excess of the certified budget. The budget should be approved prior to the December 12 deadline.

Response - We will implement the recommendations.

Conclusion – Response accepted.

II-B-09 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-09 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

II-D-09 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, Councilman Owner, Office Etc.	Office Supplies and Equipment	\$ 2,002
Judy Vaske, Councilman Owner, Vaske Welding	Welding Services	355

Business transactions with Utility officials are prohibited under Chapter 362.5 of the Code of Iowa, due to the possibility of a conflict of interest. However, Chapter 362.5 provides an exemption from this prohibition for transactions that total less than \$2,500 per fiscal year. The transactions with Utility officials appear to be in accordance with the Code of Iowa.

II-E-09 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-F-09 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not. Neither the list of claims nor a summary of receipts were published as required by

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2009**

Chapter 372.13 of the Code of Iowa. We also noted numerous council meeting minutes that were not signed.

Recommendation – Published minutes should include a list of all claims allowed and a summary of all receipts. The claims list should show the name of the person or firm making the claim, the reason for the claim, and the amount of the claim. All council minutes should be signed.

Response - Expenditures will be published in accordance with the Code of Iowa.

Conclusion – Response accepted.

II-G-09 Deposits and Investments – We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-09 Revenue Bonds – The 2008 Revenue Bond required an audit be performed and reported on by an independent auditor no later than 180 days after the end of each fiscal year. The Utility’s fiscal year ending December 31, 2008 was not audited. The fiscal year ending December 31, 2009 was not audited within the 180 days required by the loan terms.

Recommendation – Audits should be performed annually as required by the loan covenant.

Response - We will implement the recommendations.

Conclusion – Response accepted.