

CITY OF BANCROFT, IOWA

**INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2011

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CITY OF BANCROFT, IOWA

OFFICIALS

Name	Title	Term Expires
Thomas Johnson	Mayor	December 2011
Nancy Shillington	Council Member	December 2011
Phil Jaren	Council Member	December 2013
Robert Richter	Council Member	December 2011
Stan Lowe	Council Member	December 2013
Corey Rasch	Council Member	December 2013
Michael Brennen	Administrator / Clerk	Appointed
Scott Buchanan	Attorney	Appointed



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Bancroft, Iowa, as of and for the year ended June 30, 2011, 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 did not audit the financial statements of the Low Rent Housing Agency of Bancroft, a discretely presented component unit of the City of Bancroft with total assets of \$679,858 and total operating revenue of \$112,982 as of December 31, 2010. Its condensed financial information for the year ended December 31, 2010 is included in Note 11 as described below. Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it related to the amounts included for the Low Rent Housing Agency of Bancroft, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 accounting principles generally accepted in the United States. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

As described in Note 10, the City has chosen to present condensed financial information for Bancroft Municipal Utilities, since complete financial statements for the component unit for the year ended December 31, 2010, which were audited by our firm, are available. That report, dated December, 5, 2011 expressed an unqualified opinion on the financial statements.

As described in Note 11, the City has chosen to present condensed financial information for Low Rent Housing Agency of Bancroft, since complete financial statements for the component unit for the year ended December 31, 2010, which were audited by a different firm, are available. That report, dated July 11, 2011, expressed an unqualified opinion on the financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010 as described above, based on our audit and the report of the other auditor, the 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, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Bancroft, as of June 30, 2011, 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 January 26, 2012 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 10 and 25 through 26 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 basic financial statements. Other supplementary information included in Schedules 1 through 3, 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.

T.P. Anderson & Company

January 26, 2012

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Total receipts increased 6%, or approximately \$56,000, from fiscal 2010 to fiscal 2011. The increase was mainly the result of receiving a CDBG grant.
- Disbursements increased 49%, or approximately \$311,000, in fiscal 2011 from fiscal 2010. The increase in disbursements resulted from the capital project disbursements (\$335,000) during the year.
- The City's total cash basis net assets increased 71%, or approximately \$135,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased approximately \$16,000 and the assets of the business type activities increased by approximately \$119,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the City's indebtedness and governmental receipts and disbursements.

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 accounting principles generally accepted in the United States. 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.

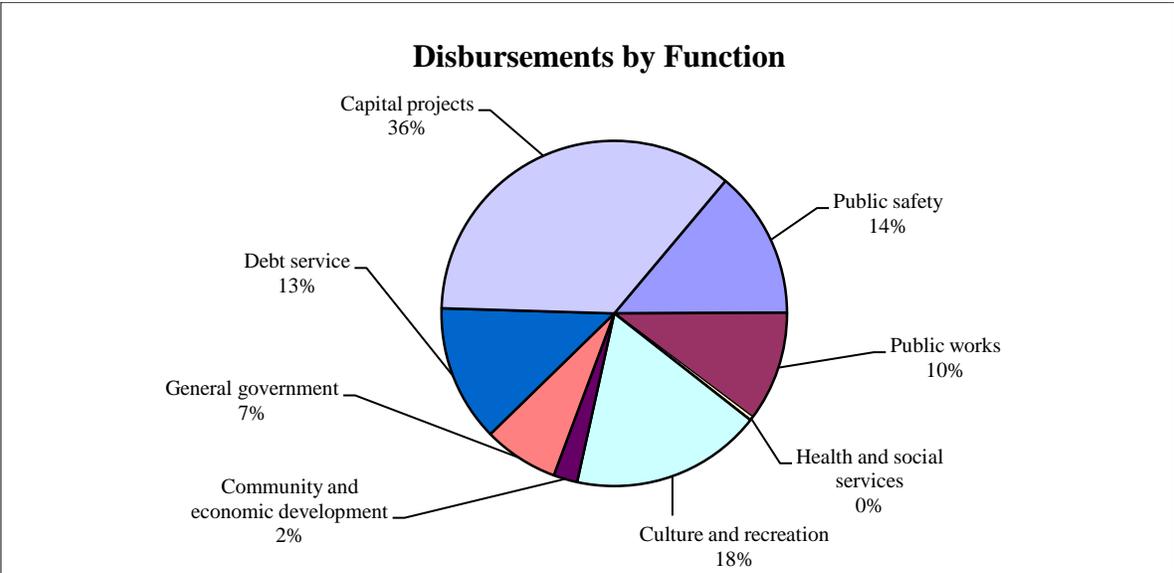
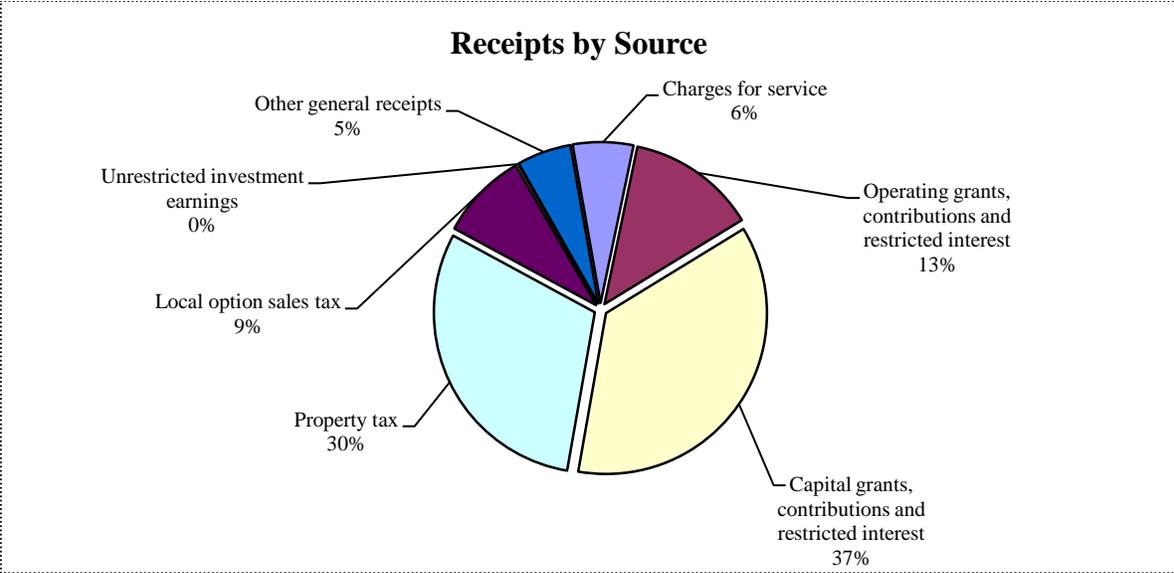
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

The City has two component units, for which complete financial statements can be obtained at City Hall, 105 East Ramsey, Bancroft, Iowa.

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 increased approximately \$16,000 from the prior year to a deficit balance of approximately (\$26,000). 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,	
	2011	2010
Receipts and Transfers:		
Program Receipts:		
Charges for Services -----	\$ 58	50
Operating Grants, Contributions and Restricted Interest -----	96	95
Capital Grants, Contributions and Restricted Interest -----	349	-
General Receipts:		
Property Tax -----	288	273
Local Option Sales Tax -----	84	72
Grants and Contributions Not Restricted to Specific Purposes -----	28	26
Unrestricted Interest on Investments -----	1	1
Miscellaneous -----	52	83
Transfers, Net -----	-	300
Total Receipts and Transfers -----	<u>956</u>	<u>900</u>
Disbursements:		
Public Safety -----	130	134
Public Works -----	97	132
Health and Social Services -----	3	-
Culture and Recreation -----	168	172
Community and Economic Development -----	21	9
General Government -----	66	55
Debt Service -----	120	108
Capital Projects -----	335	19
Total Disbursements -----	<u>940</u>	<u>629</u>
Increase in Cash Basis Net Assets -----	16	271
Cash Basis Net Assets Beginning of Year -----	(42)	(313)
Cash Basis Net Assets End of Year -----	<u>(\$ 26)</u>	<u>(42)</u>



The City’s total receipts and transfers for governmental activities increased by 6%, or approximately \$56,000. The significant increase in receipts was due mainly to CDBG proceeds.

The total cost of all programs and services increased from \$629,000 to \$940,000, or 49%. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$437,000 because some of the cost was paid by those directly benefited from the programs (\$58,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$445,000). Overall, the City’s governmental activities receipts, including intergovernmental aid and fees for service, increased in 2011 from approximately \$145,000 to approximately \$503,000, principally due to receiving grant proceeds to assist in the financing of the wastewater improvement project. The City paid for the remaining “public benefit” portion of governmental activities with approximately \$372,000 in tax (some of which could only be used for certain programs) and other receipts, such as interest, bond proceeds, and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

	Year Ended June 30,	
	2011	2010
Receipts:		
Program Receipts:		
Charges for Services:		
Water -----	\$ 144	121
Sewer -----	155	130
General Receipts:		
Miscellaneous -----	2	1
Total Receipts -----	<u>301</u>	<u>252</u>
Disbursements and Transfers:		
Water -----	110	86
Sewer -----	72	90
Transfers, Net -----	-	300
Total Disbursements and Transfers -----	<u>182</u>	<u>476</u>
Increase (Decrease) in Cash Basis Net Assets -----	119	(224)
Cash Basis Net Assets Beginning of Year -----	<u>232</u>	<u>456</u>
Cash Basis Net Assets End of Year -----	<u>\$ 351</u>	<u>232</u>

Total business type activities receipts and transfers for the fiscal year were \$301,000 compared to \$252,000 last year. This overall increase was due to an increase in total charges for services of approximately \$48,000. Total disbursements and transfers for the fiscal year decreased by approximately \$294,000 due to a decrease in transfers during fiscal year 2011.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Bancroft completed the year, its governmental funds reported a combined deficit fund balance of (\$25,567), an increase of approximately \$16,000 from last year's deficit total of \$41,957. The following details the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased approximately \$110,000 from the prior year to a deficit balance of approximately (\$274,000). The City delayed making transfers to the general fund from accumulated LOST proceeds that contributed to this deficit.
- The Urban Renewal Tax Increment Fund cash balance increased by approximately \$138,000 from the prior year to \$248,866. The increase and accumulated fund balance result from collections received to finance developer's agreements entered into by the City and to assist in paying debt issued for projects in the City's Urban Renewal Area.
- The Road Use Tax fund decreased by \$5,300 due to road costs that exceeded road tax collection slightly during the year.
- The Local Option Sales Tax (LOST) Fund cash balance increased approximately \$84,000 from the prior year to \$155,981. The (LOST) fund has increased over the years because the city has not approved transfers to the general and other funds for the community betterment projects and property tax relief the funds have ultimately financed.
- The Development Fund balance of \$35,873 at June 30, 2011 was the result of receiving \$6,100 in cash receipts as budgeted.

- The Debt Service Fund balance decreased \$111,542 to a deficit of (\$177,326) because the taxes levied were not sufficient to make the principal and interest payments due in fiscal year 2011 and appropriate transfers from TIF property taxes had not been made.
- The Capital Project Fund cash balance increased by approximately \$15,000 from the prior year to a deficit balance of (\$4,287). The project received reimbursements for project disbursements made in fiscal year 2010.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased by approximately \$36,000 from the prior year to \$209,047 as a result of net revenues generated from operations.
- The Sewer Fund cash balance increased by approximately \$82,000 from the prior year to \$141,629. The regular operations provided the increase in the sewer fund balance.

BUDGETARY HIGHLIGHTS

The City of Bancroft did not amend its budget for the year ended June 30, 2011. The city exceeded budgeted disbursement limits for the following functions: public safety, culture and recreation, general government, debt service, and capital projects.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$1.8 million in bonds and other long-term debt, compared to approximately \$1.9 million last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2011	2010
General Obligation Capital Loan Notes -----	\$ 625	715
Revenue Bonds -----	<u>1,128</u>	<u>1,194</u>
Total-----	<u>\$ 1,753</u>	<u>1,909</u>

Total debt decreased as a result of paying the City’s debt as scheduled and budgeted. 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 \$625,000 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 2012 budget, tax rates, and fees charged for various City activities. One of those factors is the economy. The City’s total assessed valuation has increased slightly which will result in increased property tax receipts despite a lower levy rate.

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 BANCROFT, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 130,039	39,219	2,900	-
Public works	96,489	-	73,907	-
Health and social services	2,500	-	-	-
Culture and recreation	168,422	18,212	18,557	-
Community and economic development	21,043	-	-	-
General government	66,458	-	-	-
Debt service	120,275	-	-	-
Capital projects	334,514	-	-	349,117
Total government activities	939,740	57,431	95,364	349,117
Business type activities:				
Water	109,788	144,346	-	-
Sewer	72,524	154,654	-	-
Total business type activities	182,312	299,000	-	-
Total	\$ 1,122,052	\$ 356,431	95,364	349,117
General Receipts				
Property tax levied for:				
General purposes				
Insurance				
Debt service				
Employee Benefits				
Tax Increment Financing				
Local option sales tax				
Grants and contributions not restricted to specific purposes				
Unrestricted interest on investments				
Miscellaneous				
Total general receipts and transfers				
Change in cash basis net assets				
Cash beginning of year				
Cash end of year				
Cash Basis Net Assets				
Restricted:				
Expendable:				
Emergency				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				

See notes to financial statements

Exhibit A

Net (Disbursements) Receipts and Changes in Cash		
Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (87,920)	-	\$ (87,920)
(22,582)	-	(22,582)
(2,500)	-	(2,500)
(131,653)	-	(131,653)
(21,043)	-	(21,043)
(66,458)	-	(66,458)
(120,275)	-	(120,275)
14,603	-	14,603
(437,828)	-	(437,828)
-	34,558	34,558
-	82,130	82,130
-	116,688	116,688
(437,828)	116,688	(321,140)
90,818	-	90,818
6,932	-	6,932
6,479	-	6,479
24,759	-	24,759
159,349	-	159,349
83,722	-	83,722
28,144	-	28,144
873	461	1,334
53,142	1,407	54,549
454,218	1,868	456,086
16,390	118,556	134,946
(41,957)	232,120	190,163
\$ (25,567)	350,676	\$ 325,109
\$ 25,568	-	\$ 25,568
248,866	-	248,866
-	51,386	51,386
194,378	-	194,378
(494,379)	299,290	(195,089)
\$ (25,567)	350,676	\$ 325,109

CITY OF BANCROFT, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue			
	General	Urban Renewal Tax Increment	Local Option Sales Tax	Road Use Tax
Receipts:				
Property tax	\$ 97,749	159,350	-	-
Other city tax	-	-	83,722	-
Licenses and permits	2,170	-	-	-
Use of money and property	24,172	-	-	-
Intergovernmental	49,601	-	-	73,907
Charges for service	57,431	-	-	-
Miscellaneous	18,883	-	-	-
	<u>250,006</u>	<u>159,350</u>	<u>83,722</u>	<u>73,907</u>
Disbursements:				
Public safety	117,395	-	-	-
Public works	11,026	-	-	79,222
Health and social services	2,500	-	-	-
Culture and recreation	164,689	-	-	-
Community and economic development	-	21,043	-	-
General government	64,285	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
	<u>359,895</u>	<u>21,043</u>	<u>-</u>	<u>79,222</u>
Net change in cash balances	(109,889)	138,307	83,722	(5,315)
Balance beginning of year	<u>(163,824)</u>	<u>110,559</u>	<u>72,259</u>	<u>(8,170)</u>
Balance end of year	<u>\$ (273,713)</u>	<u>248,866</u>	<u>155,981</u>	<u>(13,485)</u>
Cash Basis Fund Balance				
Restricted for				
Urban renewal purposes	\$ -	248,866	-	-
Other purposes	-	-	155,981	-
Assigned				
Library	17,243	-	-	-
Streets	42,610	-	-	-
Public safety	12,552	-	-	-
Unassigned	<u>(346,118)</u>	<u>-</u>	<u>-</u>	<u>(13,485)</u>
Total cash basis fund balances	<u>\$ (273,713)</u>	<u>248,866</u>	<u>155,981</u>	<u>(13,485)</u>

See notes to financial statements

Exhibit B

<u>Special Revenue</u>		<u>Capital Projects</u>		Other Nonmajor Governmental	
Development	Debt Service	Wastewater Improvements		Fund	Total
-	6,479	-		24,759	\$ 288,337
-	-	-		-	83,722
-	-	-		-	2,170
193	-	-		-	24,365
-	-	349,117		-	472,625
-	-	-		-	57,431
5,943	2,254	400		-	27,480
<u>6,136</u>	<u>8,733</u>	<u>349,517</u>		<u>24,759</u>	<u>956,130</u>
-	-	-		12,644	130,039
-	-	-		6,241	96,489
-	-	-		-	2,500
-	-	-		3,733	168,422
-	-	-		-	21,043
-	-	-		2,173	66,458
-	120,275	-		-	120,275
-	-	334,514		-	334,514
<u>-</u>	<u>120,275</u>	<u>334,514</u>		<u>24,791</u>	<u>939,740</u>
6,136	(111,542)	15,003		(32)	16,390
29,737	(65,784)	(19,290)		2,556	(41,957)
<u>35,873</u>	<u>(177,326)</u>	<u>(4,287)</u>		<u>2,524</u>	<u>\$ (25,567)</u>
-	-	-		-	\$ 248,866
35,873	-	-		2,524	194,378
-	-	-		-	17,243
-	-	-		-	42,610
-	-	-		-	12,552
-	(177,326)	(4,287)		-	(541,216)
<u>35,873</u>	<u>(177,326)</u>	<u>(4,287)</u>		<u>2,524</u>	<u>\$ (25,567)</u>

CITY OF BANCROFT , IOWA

Exhibit C

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Water	Sewer	Total
Receipts			
Charges for service	\$ 144,346	154,654	299,000
	<u>144,346</u>	<u>154,654</u>	<u>299,000</u>
Disbursements			
Total operating disbursements	57,576	19,626	77,202
	<u>57,576</u>	<u>19,626</u>	<u>77,202</u>
Excess of operating receipts over operating disbursements	<u>86,770</u>	<u>135,028</u>	<u>221,798</u>
Non-operating receipts (Disbursements)			
Interest on investments	184	277	461
Miscellaneous	1,387	20	1,407
Debt service	(52,212)	(52,898)	(105,110)
	<u>(50,641)</u>	<u>(52,601)</u>	<u>(103,242)</u>
Net change in cash balances	36,129	82,427	118,556
Balance beginning of year	<u>172,918</u>	<u>59,202</u>	<u>232,120</u>
Balance end of year	<u>\$ 209,047</u>	<u>141,629</u>	<u>350,676</u>
Cash basis fund balances			
Restricted for debt service	11,451	39,935	51,386
Unrestricted	197,596	101,694	299,290
	<u>\$ 209,047</u>	<u>141,629</u>	<u>350,676</u>

See notes to financial statements

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Bancroft, Iowa (the City) 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. The City has two organizations that meet this criteria and are described in the following two paragraphs.

Discretely Presented Component Units

The Bancroft Municipal Utilities Board, established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. In accordance with criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial statements presented in Note 10 were prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. Complete financial statements, for the year ended December 31, 2010 can be obtained from the Municipal Utilities administrative office, 105 East Ramsey, Bancroft, Iowa.

The Low Rent Housing Agency of Bancroft, established under Iowa Code Chapter 403A, is legally separate from the City, but the City Council serves as the appointed board of directors for the organization. In accordance with criteria set by the Governmental Accounting Standards Board, the Low Income Housing Agency meets the definition of a component unit which should be discretely presented. Condensed financial statements presented in Note 11 were prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. The financial statements for the Low Rent Housing Agency of Bancroft were audited by other auditors. Complete financial statements, for the year ended December 31, 2010 can be obtained at City Hall, 105 East Ramsey, Bancroft, Iowa.

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 Statement – 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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City. The City does not have any nonexpendable restricted net assets at June 30, 2011.

Expendable 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 categories. 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. The remaining governmental fund is reported as a nonmajor governmental fund.

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

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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 Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Development Fund is used to account for revolving loans made to local businesses and the collection of repayments and interest as it is paid back.

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

Capital Project Fund

The Wastewater Improvements Fund is used to account for the activity relating to the construction of wastewater system improvements.

The City reports the following major proprietary funds:

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

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's wastewater 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 accounting principles generally accepted in the United States.

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.

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

2) CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2011 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 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.

Interest Rate Risk – The City'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 longer than 197 days, but the maturities shall be consistent with the needs of the City.

The City had no investments at June 30, 2011. For purposes of this report, certificates of deposit are not considered investments as they are subject to withdrawal upon demand.

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 65,000	26,563	68,000	33,840	133,000	60,403
2013	70,000	23,800	71,000	31,800	141,000	55,600
2014	75,000	20,613	73,000	29,670	148,000	50,283
2015	80,000	17,425	75,000	27,480	155,000	44,905
2016	80,000	14,025	77,000	25,230	157,000	39,255
2017-2021	255,000	25,925	423,000	89,970	678,000	115,895
2022-2026	-	-	341,000	26,790	341,000	26,790
Total	<u>\$ 625,000</u>	<u>\$ 128,351</u>	<u>1,128,000</u>	<u>264,780</u>	<u>1,753,000</u>	<u>393,131</u>

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$783,000 of water revenue notes issued in 2004. Proceeds from the notes provided financing for the construction of water system improvements. The notes are payable solely from water customer net receipts and are payable through 2024. The total principal and interest remaining to be paid on the notes is \$625,150. For the current year, principal and interest paid and total customer net receipts were \$50,835 and \$86,770, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,030,000 of sewer revenue notes issued in November 2006. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2026. The total principal and interest remaining to be paid on the notes is \$767,630. For the current year, principal and interest paid and total customer net receipts were \$51,290 and \$135,028, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

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

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

A summary of changes in long term debt for the year ended June 30, 2011 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	715,000	1,194,000	1,909,000
Increases	-	-	-
Decreases	90,000	66,000	156,000
Balance, end of year	625,000	1,128,000	1,753,000

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 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011, 2010, and 2009 were \$9,792, \$8,240, and \$7,742, respectively, equal to the required contributions for each year.

5) OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description. The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 2 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees.

Funding Policy. The contribution requirements of plan members are established and may be amended by the City. The most recent active member monthly premiums for the City and plan members are \$500 for single coverage and \$1,000 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$19,500 and plan members eligible for benefits contributed \$-0- to the plan.

6) 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, 2011 was \$17,441, primarily relating to the General Fund.

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

7) RELATED PARTY TRANSACTIONS

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, 2011 was \$18,000.

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.

9) DEFICIT FUND BALANCES

As of June 30, 2011, the following funds had deficit balances:

Fund	Deficit
General Fund -----	\$ 273,713
Special Revenue Fund, Road Use Tax Account -----	13,485
Debt Service -----	177,326
Capital Projects Fund, Pool Account -----	4,287

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.

10) BANCROFT MUNICIPAL UTILITIES

Bancroft Municipal Utilities (Utility) provides electric services to the city and its residents. As permitted by GASB statement No. 34, the City has opted to present condensed financial information for its discretely presented component unit. Following, is the condensed financial information for the Utility, taken from the Utility's audited statements for the year ended December 31, 2010 which were presented using accounting principles generally accepted in the United States of America.

Condensed Statement of Net Assets	
	Electric
Assets	
Current	1,525,378
Capital assets, net of accumulated depreciation	2,486,636
Other	663,482
Total assets	<u>4,675,496</u>

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Liabilities	
Current liabilities	301,767
Other liabilities	258,616
Total liabilities	560,483
 Net Assets	
Invested in capital assets, net of related	2,113,020
Restricted – expendable	154,025
Unrestricted	1,847,968
Total net assets	4,115,013

Condensed Statement of Income

	Electric
Operating revenues	
Electric	1,815,196
Other	44,240
Total operating revenues	1,859,436
 Operating expenses	
Purchased power	873,764
Depreciation	184,587
Other	414,695
Total operating expenses	1,473,046
 Operating income	 386,390
 Non-operating revenues (expenses):	
Interest income	20,507
Interest expense	(19,689)
Total non-operating revenues (expenses)	818
 Transfers to City	 (73,552)
Increase in net assets	313,656
Net assets beginning of year	3,801,357
Net assets end of year	4,115,013

Condensed Statement of Cash Flows

Cash flows from operating activities	\$ 629,208
Cash flows from non-capital financing activities	(73,552)
Cash flows from capital and related financing activities	(206,350)
Cash flows from investing activities	(167,893)
Net increase in cash and cash equivalents	181,413
Cash - beginning of year	684,433
Cash - end of year	865,846

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

11) LOW RENT HOUSING AGENCY OF BANCROFT

The Low Rent Housing Agency of Bancroft (the Agency) provides low income housing to residents of the City of Bancroft and is a component unit of the City. As permitted by GASB statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. Following, is the condensed financial information for the Agency, taken from the Agency's audited statements for the year ended December 31, 2010 which were presented using accounting principles generally accepted in the United States of America.

Condensed Statement of Net Assets	
Assets	
Current	251,656
Capital assets, net of accumulated depreciation	439,380
Other	5,596
Total assets	696,632
Liabilities	
Current liabilities	16,774
Total liabilities	16,774
Net Assets	
Invested in capital assets, net of related debt	439,380
Unrestricted	240,478
Total net assets	679,858

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	
Operating revenues	
Rent received	48,278
Grants and contributions	61,249
Other	3,455
Total operating revenues	112,982
Operating expenses	
Management fee	23,529
Utilities	41,987
Depreciation	58,883
Other	45,206
Total operating expenses	169,605
Operating (loss)	(56,623)
Non-operating revenues:	
Capital contribution	70,089
Interest income	2,119
Total non-operating revenues	72,208

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Increase in net assets	15,585
Net assets beginning of year	664,273
Net assets end of year	679,858
Cash flows from operating activities	\$ 3,716
Cash flows from non-capital financing activities	70,089
Cash flows from capital and related financing	(90,470)
Cash flows from investing activities	5,596
Net increase in cash and cash equivalents	(11,069)
Cash - beginning of year	142,113
Cash - end of year	131,044

12) LEASE OBLIGATION

The City entered into a lease agreement with the Bancroft Community Foundation effective October 20, 2006. The lease calls for monthly payments of \$212 to a replacement reserve managed by the landlord. The lease also calls for monthly rent payments of \$1,706. The lease term runs through October 31, 2016. The minimum rental payments due under the lease are listed below. Rent expense for the year ended June 30, 2011 amounted to \$23,016 under this agreement.

Rent due for the year ended June 30:	Amount
2012	23,016
2013	23,016
2014	23,016
2015	23,016
2016	23,016
2017	7,672
	122,752

13) PROPERTY TAXES

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Bancroft. Property taxes become liens on property as of July 1, 2010 and are payable in September 2010 and March 2011. The valuation for the taxes was based on January 1, 2009 assessed property valuations, and are based on a certified budget from March of 2010.

14) ACCOUNTING CHANGES / RESTATEMENT

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of the fund type reclassifications is as follows:

CITY OF BANCROFT, IOWA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

	<u>General</u>	<u>Special Revenue Emergency Levy</u>
Balances June 30, 2010 as previously reported	\$ (186,549)	22,725
Change in fund type classification per Implementation of GASB Statement No.54	<u>22,725</u>	<u>(22,725)</u>
Balances July 1, 2010, as restated	<u>(163,824)</u>	<u>-</u>

15) COMMITMENTS

The City has entered into a contract to construct improvements to the City's wastewater system. The total amount of the contract at June 30, 2011 was for \$428,223. The City had paid \$268,144 on the contract through June 30, 2011 leaving a balance due of \$160,079 to be paid as work progresses.

16) SUBSEQUENT EVENTS

Management has evaluated events and transactions through January 26, 2012, the date the financial statements were issued, for potential recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BANCROFT, IOWA

BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 288,337	-	288,337
Other city taxes	83,722	-	83,722
Licenses and permits	2,170	-	2,170
Use of money and property	24,365	461	24,826
Intergovernmental	472,625	-	472,625
Charges for service	57,431	299,000	356,431
Special assessments	2,640	-	2,640
Miscellaneous	24,840	1,407	26,247
	<u>956,130</u>	<u>300,868</u>	<u>1,256,998</u>
Disbursements:			
Program			
Public safety	130,039	-	130,039
Public works	96,489	-	96,489
Health and social services	2,500	-	2,500
Culture and recreation	168,422	-	168,422
Community and economic development	21,043	-	21,043
General government	66,458	-	66,458
Debt service	120,275	-	120,275
Capital projects	334,514	-	334,514
Business type activities	-	182,312	182,312
	<u>939,740</u>	<u>182,312</u>	<u>1,122,052</u>
Excess (deficiency) of receipts over disbursements	16,390	118,556	134,946
Balance beginning of year	<u>(41,957)</u>	<u>232,120</u>	<u>190,163</u>
Balance end of year	<u>\$ (25,567)</u>	<u>350,676</u>	<u>325,109</u>

See accompanying independent auditor's report

<u>Budgeted Amounts</u>	Final
<u>Original and Final</u>	to Net
<u>Budget</u>	<u>Variance</u>
245,311	43,026
78,573	5,149
1,500	670
33,000	(8,174)
74,800	397,825
280,500	75,931
2,000	640
30,000	(3,753)
<u>745,684</u>	<u>511,314</u>
125,350	(4,689)
106,700	10,211
5,100	2,600
112,800	(55,622)
33,500	12,457
33,100	(33,358)
92,000	(28,275)
-	(334,514)
204,800	22,488
<u>713,350</u>	<u>(408,702)</u>
32,334	102,612
<u>227,247</u>	<u>(37,084)</u>
<u>259,581</u>	<u>65,528</u>

CITY OF BANCROFT, IOWA

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

JUNE 30, 2011

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 to 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 nine major classes of disbursements, 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. Functional 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 functional 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, 2011, disbursements exceeded the amounts budgeted in the following functions: public safety, culture and recreation, general government, debt service and capital projects.

OTHER SUPPLEMENTARY INFORMATION

CITY OF BANCROFT, IOWA

SCHEDULE OF INDEBTNESS

YEAR ENDED JUNE 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Swimming Pool	November 1, 2005	4.25%	300,000
Street Improvements	December 1, 2003	4%	240,000
Street Improvements	December 21, 2007	4.25%	475,000
Revenue bonds			
Water	February 6, 2004	3%	\$ 600,000
Water	July 20, 2004	3%	183,000
Sewer	November 10, 2006	3%	\$ 1,030,000

See accompanying independent auditor's report

Schedule 1

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
210,000	-	30,000	180,000	8,925	-
45,000	-	45,000	-	1,800	
460,000	-	15,000	445,000	19,550	-
<u>\$ 715,000</u>	<u>-</u>	<u>90,000</u>	<u>625,000</u>	<u>30,275</u>	<u>\$ -</u>
\$ 429,000	-	27,000	402,000	12,870	\$ -
122,000	-	7,000	115,000	3,965	-
643,000	-	32,000	611,000	19,290	-
<u>\$ 1,194,000</u>	<u>-</u>	<u>66,000</u>	<u>1,128,000</u>	<u>36,125</u>	<u>\$ -</u>

CITY OF BANCROFT, IOWA

Schedule 2

BOND AND NOTE MATURITIES
JUNE 30, 2011

General Obligation Notes					
Year Ending June 30,	Street Improvements Issued December 1, 2007		Swimming Pool Issued November 1, 2005		Total
	Interest Rates	Amount	Interest Rates	Amount	
2012	4.25%	35,000	4.25%	30,000	65,000
2013	4.25%	35,000	4.25%	35,000	70,000
2014	4.25%	40,000	4.25%	35,000	75,000
2015	4.25%	40,000	4.25%	40,000	80,000
2016	4.25%	40,000	4.25%	40,000	80,000
2017	4.25%	60,000			60,000
2018	4.25%	60,000			60,000
2019	4.25%	60,000			60,000
2020	4.25%	45,000			45,000
2021	4.25%	30,000			30,000
		<u>\$ 445,000</u>		<u>\$ 180,000</u>	<u>\$ 625,000</u>

Revenue Bonds							
Year Ending June 30,	Water Issued February 6, 2004		Water Issued July 20, 2004		Sewer Issued November 10, 2006		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2012	3.00%	28,000	3.00%	7,000	3.00%	33,000	68,000
2013	3.00%	29,000	3.00%	8,000	3.00%	34,000	71,000
2014	3.00%	30,000	3.00%	8,000	3.00%	35,000	73,000
2015	3.00%	31,000	3.00%	8,000	3.00%	36,000	75,000
2016	3.00%	32,000	3.00%	8,000	3.00%	37,000	77,000
2017	3.00%	33,000	3.00%	9,000	3.00%	38,000	80,000
2018	3.00%	34,000	3.00%	9,000	3.00%	39,000	82,000
2019	3.00%	35,000	3.00%	9,000	3.00%	40,000	84,000
2020	3.00%	36,000	3.00%	9,000	3.00%	42,000	87,000
2021	3.00%	37,000	3.00%	10,000	3.00%	43,000	90,000
2022	3.00%	38,000	3.00%	10,000	3.00%	44,000	92,000
2023	3.00%	39,000	3.00%	10,000	3.00%	45,000	94,000
2024		-	3.00%	10,000	3.00%	47,000	57,000
2025		-		-	3.00%	48,000	48,000
2026		-		-	3.00%	50,000	50,000
		<u>\$ 402,000</u>		<u>\$ 115,000</u>		<u>\$ 611,000</u>	<u>\$ 1,128,000</u>

See Accompanying Independent Auditor's Report

CITY OF BANCROFT, IOWA

Schedule 3

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

FOR THE YEAR ENDED JUNE 30:

	<u>2011</u>
Receipts	
Property tax	\$ 126,348
Tax increment financing collections	159,349
Other city tax	83,722
Licenses and permits	2,170
Use of money and property	24,365
Intergovernmental	469,725
Charges for service	58,837
Special assessments	2,640
Miscellaneous	28,974
	<u>\$ 956,130</u>
 Disbursements:	
Operating:	
Public safety	\$ 130,039
Public works	96,489
Health and social services	2,500
Culture and recreation	168,422
Community and economic development	21,043
General government	66,458
Debt service	120,275
Capital projects	334,514
	<u>\$ 939,740</u>

See accompanying independent auditor's report



T.P. ANDERSON & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

**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 financial statements of the governmental activities, business type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of the City of Bancroft, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 26, 2012. Our report includes a reference to other auditors. Our report expressed qualified opinions on the financial statements because we were unable to verify the distribution of fund balance as of July 1, 2010. The financial statements were prepared in conformity with the cash receipts and disbursements method of accounting. 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. Other auditors audited the financial statements of the Low Rent Housing Agency of Bancroft, as described in our report on the City of Bancroft's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal

control described as Items II-A-11, II-B-11, II-C-11, II-D-11 and II-E-11 in Part II of the accompanying Schedule of Findings to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Bancroft's 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 Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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 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's 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

January 26, 2012

CITY OF BANCROFT, IOWA

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were issued on the financial statements because we were unable to satisfy ourselves as to the distribution of fund balances by fund as July 1, 2010. The financial statements were prepared on the basis of cash receipts and disbursements, a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

CITY OF BANCROFT, IOWA

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Findings Related to the Financial Statements:

Significant deficiencies:

II-A-11 Segregation of Duties – We noted that one employee performs most of the accounting functions of the City.

Criteria - 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.

Cause – The City of Bancroft is a small municipality; therefore their staff includes a small number of office employees.

Effect – The lack of segregation of duties weakens the City’s internal control system.

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.

II-B-11 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.

Criteria - 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.”

Cause – The library has a separate board that oversees its transactions and historical practices have caused the library to manage its own finances.

Effect – On a regular basis, the City’s accounting records do not reflect the receipts and disbursements received at the library.

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 consider your recommendation.

Conclusion – Response accepted.

CITY OF BANCROFT, IOWA

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

II-C-11 Economic Development Revolving Loans – The City has made loans as part of a revolving loan program. Regular reconciliations of payments received and amounts due to the City under these agreements had not been prepared.

Criteria – Regular reconciliation of receivables, including those from loans made to encourage economic development and job creation, should be prepared and reviewed regularly.

Cause – Historically, no reconciliations have been prepared.

Effect – There was no central location to refer to in determining what, if any, balance loan recipients owe the City.

Recommendation – For better accountability, each outstanding loan should be researched to determine if it has been paid in full or if there is a balance remaining to collect.

Response – We have prepared a reconciliation of amounts owed and collected for our revolving loans as recommended.

Conclusion – Response accepted.

II-D-11 Meter Readings – Certain meters for water/sewer customers are not read on a regular basis, whether it is because of their location, or because the city employee did not turn in the actual reading. For these months when the meters are not read, the usage is estimated by management.

Criteria – Meters are installed to monitor the usage of water and sewer by utility customers. These meters should be read periodically to ensure the proper utility revenue is being billed and collected by the City.

Cause – Certain meters are located inside homes and are not readily available to read. Other past practices at the city, namely allowing employees to read their own meters and turn in the readings, have contributed to the practice of estimating the usage.

Effect – The City may be over or under billing users for water and sewer because the meters have not been read regularly.

Recommendation – For better accountability, meters should be read and the readings documented monthly.

Response – We will work towards having all meters read on a monthly basis.

Conclusion – Response accepted.

CITY OF BANCROFT, IOWA

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

II-E-11 Accrued Vacation – We noted a City employee, employed by the Library, has accumulated accrued vacation in excess of \$9,000, or 13% of the Library’s disbursements for the year ended June 30, 2011.

Criteria – Entities which received a significant percentage of their funding from property taxes should take steps to limit unfunded liabilities such as accrued vacation. Failure to do so may result in a year in which the current tax asking will be significantly less than the amount required to pay current expenses.

Cause – The City has a personnel policy that places a limit on the amount of vacation pay that a City employee may accrue. However, the Library board has not adopted the City’s policy for its employee.

Effect – The Library has accumulated a significant unfunded liability for accrued vacation, despite its limited staff size.

Recommendation – Because it receives approximately 70% of its funding from property taxes, the Library should take steps to limit unfunded liabilities such as accrued vacation.

Response – We will communicate this to the Library Board of Directors and request they adopt a policy that limits the amount of accrued vacation an employee may accumulate.

Conclusion – Response accepted.

CITY OF BANCROFT, IOWA

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part III: Other Findings Related to Statutory Reporting:

III-A-11 Certified Budget – Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the following functions: public safety, culture and recreation, general government, debt service and capital projects.

Criteria - 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.

Cause – The actual versus budgeted expenditures were not reviewed regularly.

Effect – The City did not comply with Chapter 384.20 of the Code of Iowa.

Recommendation – The City should perform a regular review of disbursements and the budget should be amended, if necessary, in accordance with Chapter 384.18 of the Code of Iowa.

Response – We will monitor our disbursements more closely and if necessary, we will amend our budget.

Conclusion – Response accepted.

III-B-11 Questionable Disbursements – No disbursements for questionable items were noted.

III-C-11 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-11 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Nancy Shillington, Council Member Owner of Shillington Hardware.	Supplies	\$ 2,312
Phil Jaren, Council Member Owner of Office Etc.	Supplies	\$ 315

In accordance with Chapter 362.5(11) of the Code of Iowa, transactions with a cumulative total purchase price exceeding \$2,500 in a fiscal year with a City official may represent a conflict of interest. No transactions were noted that exceed the threshold.

III-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

CITY OF BANCROFT, IOWA

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

III-F-11 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.

Criteria – Chapter 372.13 (6) of the Code of Iowa requires that a list of all claims allowed and a summary of all receipts be published with the council minutes. The claims list should show the name, reason, and amount for the claim.

Cause – The City Clerk was not aware of this requirement.

Effect – The City did not comply with the Iowa Code chapter 372.13 (6).

Recommendation – A summary of all receipts and total disbursements by fund should be published each month.

Response – We have implemented your recommendations to publish our disbursements and receipts as required.

Conclusion – Response accepted.

III-G-11 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.

III-H-11 Revenue Bonds – The City has complied with the revenue bond resolutions.

III-I-11 Financial Condition – As of June 30, 2011, the General Fund, Special Revenue Fund – Road Use Tax Account, Debt Service Fund and the Capital Projects Fund – Wastewater Improvements Fund had deficit balances of \$273,713, \$13,485, \$177,326, and \$4,287, respectively.

Criteria – A cash basis fund should have a positive balance in order to be considered to be in a strong financial condition.

Cause – Timely transfers of fund balance were not made to prevent deficit fund balances.

Effect – The City has multiple funds that are not in a sound financial condition.

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

Response – In September 2011, we approved a resolution to transfer fund balance from funds with positive fund balances to those with deficit fund balances.

Conclusion – Response accepted.