

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

**December 31, 2010 and 2009**

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

## Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-7
Basic Financial Statements:	
Statement of Net Assets	8-9
Statements of Revenues, Expenses and Changes in Net Assets	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-22
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenses, and Changes in Net Assets – Budget and Actual	23
Notes to Required Supplementary Information – Budgetary Reporting	24
Schedule of Funding Progress for the Retiree Health Plan	25
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 <i>Government Auditing Standards</i>	26-27
Schedule of Findings	28-31

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

**OFFICIALS**

**December 31, 2010**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Johnson	Mayor	December 31, 2011
Phil Jaren	Councilman	December 31, 2011
Bob Richter	Councilman	December 31, 2011
Stan Lowe	Councilman	December 31, 2012
Nancy Shillington	Councilman	December 31, 2013
Corey Rasch	Councilman	December 31, 2014
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 statements of net assets of the Bancroft Municipal Utilities (the Utility), a component unit of the City of Bancroft, Iowa, as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets and cash flows for the years 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 audits.

Except as discussed in the following paragraph, we conducted our audits 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 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 adjustments, if any, as might have been determined to be necessary had we been able to observe the physical inventory 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, 2010 and 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 audits.

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 23 through 25 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, 2010. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased by 5%, or approximately \$86,000 over 2009 revenues.
- ◆ The Utility's expenses increased by 10%, or approximately \$135,000 from 2009 to 2010.
- ◆ The Utility's net assets increased by 8%, or \$313,656 from December 31, 2009 to December 31, 2010.

### 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.

The Statements of Net Assets present all of the Utility's assets and liabilities, with the difference between the two reported as "net assets". 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 Revenues, Expenses and Changes in Net Assets presents information showing how the Utility's net assets have changed during the years presented. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future years.

## 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>2010</u>	<u>2009</u>
Current assets	\$ 1,679,403	1372,464
Other assets	509,457	456,944
Capital assets at cost, less accumulated depreciation	<u>2,486,636</u>	<u>2,602,761</u>
Total assets	<u>4,675,496</u>	<u>4,432,169</u>
Current liabilities	301,767	254,324
Long-term debt	<u>258,716</u>	<u>376,488</u>
Total liabilities	<u>560,483</u>	<u>630,812</u>
Net assets:		
Invested in capital assets, net of related debts	2,113,020	2,111,273
Restricted	154,025	129,939
Unrestricted	<u>1,847,968</u>	<u>1,560,145</u>
Total net assets	<u>4,115,013</u>	<u>3,801,357</u>
Total liabilities and net assets	<u>\$ 4,675,496</u>	<u>4,432,169</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, 2010 and 2009 is presented below:

	<u>Changes in Net Assets</u>	
	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 1,859,436	1,773,839
Operating expenses	<u>1,473,046</u>	<u>1,337,573</u>
Total operating revenue	386,390	436,266
Net non-operating income (expenses)	<u>818</u>	<u>(8,689)</u>

Income before transfers and contributions	387,208	427,577
Transfers and contributions	<u>(73,552)</u>	<u>(77,001)</u>
Increase in net assets	313,656	350,576
Net assets, beginning of year	<u>3,801,357</u>	<u>3,450,781</u>
Net assets, end of year	<u>\$ 4,115,013</u>	<u>3,801,357</u>

The Statements of Revenues, Expenses and Changes in Net Assets reflect an increase in net assets of \$313,656 in 2010, as compared to \$350,576 in 2009.

The Utility's operating revenues increased approximately \$86,000 over 2009 revenues.

The Utility's operating expenses increased approximately \$135,000 in 2010 over 2009.

### **CAPITAL ASSETS**

At December 31, 2010, the Utility had approximately \$2,487,000 invested in capital assets, net of accumulated depreciation of \$3,576,000. Bancroft Municipal Utilities had depreciation expense of \$184,587 in 2010. Major additions to the capital assets in 2010 included additions to the transmission system totaling \$47,134.

### **DEBT ADMINISTRATION**

At December 31, 2010, the Utility had \$380,000 in debt outstanding, a decrease of \$120,000 from 2009. The table below summarizes outstanding debt by type.

	<u>2010</u>	<u>2009</u>
2008 Revenue Bond Issue	<u>\$ 380,000</u>	<u>500,000</u>

### **BUDGETARY HIGHLIGHTS**

The Utility did not amend their budget during 2010. 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**

**STATEMENTS OF NET ASSETS**  
**DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 865,846	\$ 684,433
Certificates of Deposit	208,283	223,586
Accounts Receivable	212,891	239,693
Accounts Receivable - City of Bancroft	-	22,915
Accounts Receivable - Other	-	4,839
Accrued Interest Receivable	804	3,638
Prepaid Expenses	9,261	9,068
Inventories	228,293	184,292
<b>Total Current Assets</b>	<b>1,525,378</b>	<b>1,372,464</b>
<b>Capital Assets:</b>		
Capital Assets (Net of Accumulated Depreciation)	2,486,636	2,602,761
<b>Total Capital Assets</b>	<b>2,486,636</b>	<b>2,602,761</b>
<b>Other Assets:</b>		
Common Transmission System - Improvement Fund	213,531	205,093
Emissions Allowance Fund	25,926	28,927
Investments	270,000	90,000
Note Receivable	-	2,985
Restricted Assets:		
Cash and Cash Equivalents - Bond Funds	154,025	129,939
<b>Total Other Assets</b>	<b>663,482</b>	<b>456,944</b>
<b>Total Assets</b>	<b>\$ 4,675,496</b>	<b>\$ 4,432,169</b>

See Notes to Financial Statements

	<u>2010</u>	<u>2009</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 118,791	\$ 97,066
Accounts Payable - City of Bancroft	31,295	19,301
Accrued Compensated Wages and Absences	20,434	11,073
Customer Deposits and Credit Balances	5,150	5,461
Accrued Interest Payable	1,097	1,423
Revenue Notes - Current	125,000	120,000
<b>Total Current Liabilities</b>	<u>301,767</u>	<u>254,324</u>
<b>Non-Current Liabilities:</b>		
OPEB Liabilities	10,100	5,000
Revenue Notes - Non-Current	248,616	371,488
<b>Total Non-Current Liabilities</b>	<u>258,716</u>	<u>376,488</u>
<b>Total Liabilities</b>	<u>560,483</u>	<u>630,812</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	2,113,020	2,111,273
Restricted for:		
Debt Service	154,025	129,939
Unrestricted	1,847,968	1,560,145
<b>Total Net Assets</b>	<u>4,115,013</u>	<u>3,801,357</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 4,675,496</u></u>	<u><u>\$ 4,432,169</u></u>

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>Operating Revenues:</b>		
Residential and Commerical Sales	\$ 930,327	\$ 875,310
Rural Sales	297,988	320,597
Service Provided to City of Bancroft	25,377	25,920
Service Provided to City of Burt	191,207	183,839
Neal 4 and NIMECA Credits and Steam Service Income	370,297	347,477
Other Sales and Revenue	44,240	20,696
<b>Total Operating Revenues</b>	<b>1,859,436</b>	<b>1,773,839</b>
<b>Operating Expenses:</b>		
Generation and Purchased Power	873,764	760,785
Employee Salaries and Wages	184,816	178,334
Employee Benefits	82,794	75,824
Depreciation	184,587	176,411
Fuel and Oil	5,799	4,553
Supplies and Maintenance	17,574	25,058
Dues and Subscriptions	5,612	5,222
Office Expenses	16,955	21,773
Professional Fees	21,105	8,216
Rents	20,400	24,600
Property Tax and Insurance	38,893	39,125
Sales and Use Tax	1,897	3,181
Miscellaneous	18,850	14,491
<b>Total Operating Expenses</b>	<b>1,473,046</b>	<b>1,337,573</b>
<b>Operating Income (Loss)</b>	<b>386,390</b>	<b>436,266</b>
<b>Non-Operating Revenues (Expenses):</b>		
Interest and Dividend Income	20,507	21,352
Interest Expense	(19,689)	(29,537)
Miscellaneous	-	(504)
<b>Net Non-Operating Revenues (Expenses)</b>	<b>818</b>	<b>(8,689)</b>
<b>Net Income Before Transfers and Contributions</b>	<b>387,208</b>	<b>427,577</b>
Contributions to the City	(45,408)	(54,086)
Transfers to City in Lieu of Property Taxes	(28,144)	(22,915)
<b>Increase in Net Assets</b>	<b>313,656</b>	<b>350,576</b>
<b>Net Assets at Beginning of Period</b>	<b>3,801,357</b>	<b>3,450,781</b>
<b>Net Assets at End of Period</b>	<b>\$ 4,115,013</b>	<b>\$ 3,801,357</b>

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers	1,913,992	1,715,856
Cash Payments to Suppliers for Goods and Services	(1,109,328)	(1,072,574)
Cash Payments to Employees for Services	(175,456)	(177,441)
<b>Net Cash Provided by Operating Activities</b>	<u>629,208</u>	<u>465,841</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Contributions from (to) the City of Bancroft	(45,408)	(51,686)
Contributions from (to) Others	-	(2,400)
Transfers from (to) City in Lieu of Property Taxes	(28,144)	(22,915)
<b>Net Cash Provided by Non-Capital Financing Activities</b>	<u>(73,552)</u>	<u>(77,001)</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchases and Construction of Capital Assets	(68,462)	(78,509)
Interest and Bond Fees Paid	(17,888)	(30,507)
Financing Grants Received	-	513,025
Principial Payments on Long-Term Debt	(120,000)	(445,000)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(206,350)</u>	<u>(40,991)</u>
<b>Cash Flows From Investing Activities:</b>		
Purchases of Certificates of Deposit	(438,038)	(528,230)
Proceeds from Maturities of Certificates of Deposit	249,256	521,526
Proceeds from Redemption of Investments	3,001	29,213
Note Receivable Principal Payments Received	2,985	4,008
(Increase) in Common Transmission System - Improvement Fund	(8,438)	(140,647)
Interest Received	23,341	27,264
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(167,893)</u>	<u>(86,866)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	181,413	260,983
<b>Cash and Cash Equivalents at Beginning of Period</b>	<u>684,433</u>	<u>423,450</u>
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 865,846</u>	<u>684,433</u>

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS - continued**  
**YEARS ENDED DECEMBER 31, 2010 AND 2009**

	2010	2009
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 386,390	436,266
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	184,587	176,411
(Increase) Decrease in Assets:		
Accounts Receivable	54,556	(46,333)
Prepaid Expenses	(193)	2,680
Inventories	(44,001)	(4,184)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	21,725	(93,242)
Accounts Payable - City of Bancroft	11,994	(12,302)
Accrued Compensated Absences	9,361	893
OPEB Liability	5,100	5,000
Customer Deposits and Credit Balances	(311)	652
	\$ 629,208	465,841
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 629,208</b>	<b>465,841</b>

**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 (2) 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**  
**A COMPONENT UNIT OF THE CITY OF BANCROFT, IOWA**

**NOTES TO FINANCIAL STATEMENTS**

Bancroft Municipal Broadband Communication Utility result from charges to customers for sales and services. Operating expenses 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, 2010 and 2009, there were \$2,171 and \$13,423 of accounts receivable that were older than 90 days, respectively. At December 31, 2010 and 2009 the allowance for doubtful accounts has a \$-0- balance.

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, 2010, disbursements exceeded the amount budgeted.

**NOTE 2 - CASH AND INVESTMENTS**

The Utility's deposits in financial institutions at December 31, 2010 and 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.

At December 31, 2010, the Utility had the following investments:

Investment	Fair Value	Maturity
Federal Home Loan Mortgage Corporation	\$ 90,000	August 2034
Government National Mortgage Association	180,000	August 2040
	<u>270,000</u>	

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

**NOTES TO FINANCIAL STATEMENTS**

At December 31, 2009, the Utility had the following investments:

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

Interest rate risk. The Utility's investment policy limits the investment of operating funds (fund 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 397 days, but the maturities shall be consistent with the needs and use of the Utility.

Credit risk. The Utility's FHLMC investment is rated Aaa by Moody's Investor Service. The Utility's GNMA investment is not rated.

Concentration of credit risk. The Utility places no limit on the amount which may be invested in any one issuer. Approximately 5% and 6.5% of the Utility's cash and investments are in the Federal Home Loan Mortgage Corporation as of December 31, 2010 and 2009 respectively. Approximately 10% and -0-% of the Utility's cash and investments are in the Government National Mortgage Association as of December 31, 2010 and 2009 respectively.

**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 \$213,531 and \$205,093 as of December 31, 2010 and 2009, respectively, in this fund.

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets at December 31, 2010 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Plant and equipment	\$ 3,976,017	21,327	-	3,997,344
George Neal Generating Station Unit No. 4	1,258,658	-	2,989	1,255,669
Lehigh-Webster Transmission System	59,663	-	-	59,663
Corn Belt Plant Acquisitions	<u>705,820</u>	<u>47,134</u>	<u>3,034</u>	<u>749,920</u>
Total capital assets being depreciated	<u>6,000,158</u>	<u>68,461</u>	<u>6,023</u>	<u>6,062,596</u>

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

**NOTES TO FINANCIAL STATEMENTS**

Less accumulated depreciation for:				
Plant and equipment	2,030,479	128,328	-	2,158,807
George Neal Generating Station Unit No. 4	1,029,384	35,876	2,989	1,062,271
Lehigh-Webster Transmission System	41,087	1,627	-	42,714
Corn Belt Plant Acquisitions	<u>296,447</u>	<u>18,755</u>	<u>3,034</u>	<u>312,168</u>
Total accumulated depreciation	<u>3,397,397</u>	<u>184,586</u>	<u>6,023</u>	<u>3,575,960</u>
Net capital assets	<u>\$ 2,602,761</u>			<u>\$ 2,486,636</u>

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	\$ <u>31,547</u>	-	<u>31,547</u>	-
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	59,981	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>

**NOTE 5 – LONG-TERM DEBT**

Changes in the long-term debt for the year ended December 31, 2010 and 2009 are as follows:

	2010			
	<u>Beginning Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Ending Balance</u>
2008 Revenue Bonds	<u>\$ 500,000</u>	<u>-</u>	<u>120,000</u>	<u>\$ 380,000</u>

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

**NOTES TO FINANCIAL STATEMENTS**

	2009			
	Beginning Balance	Issued	Paid	Ending Balance
2008 Revenue Bonds	\$ 615,000	-	115,000	\$ 500,000
2008 Notes Payable – Burt Project	330,000	-	330,000	-
	945,000	-	445,000	500,000

As of December 31, 2010 and 2009, the Utility’s long-term indebtedness consisted of the 2008 Revenue Bonds. The bonds bear interest ranging from 3.25% to 3.60% with interest due each June and December 1 and principal due each December 1. The revenue bonds that were used to finance the infrastructure to provide Burt with electricity were paid in full in 2009.

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

<u>Year Ending December 31,</u>	Revenue Bonds		<u>Total</u>
	Principal	Interest	
2011	\$ 125,000	13,305	138,305
2012	125,000	9,055	134,055
2013	130,000	4,680	134,680
	\$ 380,000	27,040	407,040

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 bonds when there shall be insufficient money in the Sinking Fund or Reserve Fund. To the extent not required for the payment of principal and interest, the funds may be used to pay the cost of extraordinary maintenance or repairs, renewals and replacements not included in the annual budget, payment of rentals on any part of the Utility or payments due for any property purchased as a part of the Utility, and for capital improvements to the Utility. Whenever it shall become necessary to use money in the Improvement Fund, the payments required above shall be continued or resumed until it shall have been restored to the required minimum amount.

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

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

**NOTES TO FINANCIAL STATEMENTS**

**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 4.50% (4.30% through June 30, 2010) of their annual salary and the Utility is required to contribute 6.95% (6.65% through June 30, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2010, 2009, and 2008 were \$13,061, \$11,646, and \$10,943 respectively, equal to the required contributions for each year.

**NOTE 7 – COMPENSATED ABSENCES**

Utility employees accumulate a limited amount of earned but unused personal time off hours for subsequent use or for payment upon termination, retirement, or death. Employees can carry over no more than 330 hours of unused personal time off from one calendar year to next. The Utility's approximate liability for earned but unused vacation was \$13,257 and \$8,247 as of December 31, 2010 and 2009, respectively. These amounts have been accrued and are reflected 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 Sewer and Water Funds. The Utility subsequently remits to the Sewer and Water Funds the amounts billed on their behalf. Amounts billed by the Utility and due to the City were \$23,301 and \$19,301 for sewer and water fees as of December 31, 2010 and 2009 respectively. 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.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**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)**

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical benefits for 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 coverage is administered by Wellmark. Retirees under age 65 pay the same premium for the medical benefit 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	\$ 5,295
Interest on net OPEB Obligation	125
Adjust to ARC	<u>(320)</u>
Annual OPEB cost	5,100
Contributions made	<u>0</u>
Change in net OPEB obligation	5,100
Net OPEB obligation beginning of year	<u>5,000</u>
Net OPEB obligation end of year	<u>\$ 10,100</u>

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, 2010.

For the year ended December 31, 2010, the Utility contributed \$38,857 to the medical plan. Plan members eligible for benefits contributed \$-0- of the premium costs.

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

**NOTES TO FINANCIAL STATEMENTS**

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, 2010 are summarized as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Year ended December 31, 2009	\$ 5,000	0%	\$ 5,000
Year ended December 31, 2010	\$ 5,100	0%	\$ 10,100

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the years ended December 31, 2010 and 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 \$185,000 and \$179,000 for the years ended December 31, 2010 and 2009. The ratio of the UAAL to covered payroll was 27% and 28% as of December 31, 2010 and 2009. As of December 31, 2010, 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, will present multiyear 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 medial 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. Annual retirement and termination probabilities were developed based on a 2006 Society of Actuaries study.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2010**

	Actual	Original and Final Budget	Final to Actual Variance
<b>Revenues:</b>			
Use of money and property	\$ 20,507	35,000	(14,493)
Charges for services	1,815,196	1,275,000	540,196
Miscellaneous	44,240	75,000	(30,760)
	<u>1,879,943</u>	<u>1,385,000</u>	<u>494,943</u>
<b>Expenses</b>	<u>1,492,735</u>	<u>1,207,520</u>	<u>(285,215)</u>
<b>Excess of receipts over disbursements</b>	387,208	177,480	209,728
<b>Transfers</b>	<u>(73,552)</u>	<u>-</u>	<u>(73,552)</u>
<b>Excess of receipts over disbursements and transfers</b>	313,656	177,480	136,176
<b>Net Assets at beginning of period</b>	<u>3,801,357</u>	<u>3,306,517</u>	<u>494,840</u>
<b>Net Assets at end of period</b>	<u><u>\$ 4,115,013</u></u>	<u><u>3,483,997</u></u>	<u><u>631,016</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, 2010**

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, 2010, 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, 2010**

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%
2010	July 1, 2009	\$ -0-	\$ 50,517	\$ 50,517	0.00%	\$185,000	27.0%

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, 2010 and have issued our report thereon dated December 5, 2011. Except for not observing the taking of the physical inventories at December 31, 2009 and 2008, because those dates were prior to our engagement as the 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.

**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-10, I-B-10, I-C-10 and I-D-10 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 deficiencies listed as I-E-10 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, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of 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, 2010**

**Part I: Findings Related to the Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

I-A-10 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted 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-10 Physical Count of Inventory – A proper system of internal controls would include a physical count of inventory at least once per year, if not more often. The Utility did not perform a physical inventory 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 continue to count inventory at least annually.

Conclusion - Response accepted.

I-C-10 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.

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, 2010**

I-D-10 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-10 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, 2010**

**Part II: Other Findings Related to Statutory Reporting:**

II-A-10 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 14, 2009.

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-10 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-10 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

II-D-10 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	\$ 492
Nancy Shillington, Councilman Owner, Shillington Hardware	Hardware and Supplies	792

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-10 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.

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

**SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2010**

II-F-10 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 Chapter 372.13 of the Code of Iowa. The Utility held a closed session in June, 2010, in which it failed to document a roll-call vote upon entering the closed session. Iowa Code Chapter 21.5(2) requires the vote of each member on the question of holding the closed session be announced publicly at the open session and entered in the minutes. We also noted numerous occasions when the minutes 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. Closed sessions should be conducted pursuant to duly documented roll-call votes. All council minutes should be signed.

Response - Expenditures will be published in accordance with the Code of Iowa. Roll-call votes will be announced and documented as required by the Code of Iowa for closed session meetings.

Conclusion – Response accepted.

II-G-10 Deposits and Investments – We noted no instances noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-10 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.