

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

**December 31, 2011 and 2010**

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

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

**OFFICIALS**

**December 31, 2011**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Tom Johnson	Mayor	December 31, 2015
Phil Jaren	Councilman	December 31, 2015
Robert Richter	Councilman	December 31, 2015
Stan Lowe	Councilman	December 31, 2013
Nancy Shillington	Councilman	December 31, 2013
Corey Rasch	Councilman	December 31, 2013
Brian Hatten	Utility Superintendent	
Timothy Rowlet	Utility Clerk	
Scott Buchanan	Attorney	



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

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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Trustees  
Bancroft Municipal Utilities  
Bancroft, Iowa

We have audited the accompanying balance sheets of Bancroft Municipal Utilities (the Utility), a component unit of the City of Bancroft, Iowa, as of and for the years ended December 31, 2011 and 2010, 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.

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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of December 31, 2011 and 2010 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 September 19, 2012 on our consideration of the Bancroft Municipal Utilities' 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 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.

Accounting principles generally accepted in the United States of America require that the 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about

the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

September 19, 2012

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

### 2011 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues decreased by 1%, or approximately \$36,000 from 2010 revenues.
- ◆ The Utility's expenses increased by 6%, or approximately \$84,828 from 2010 to 2011.
- ◆ The Utility's net assets increased by nearly 5%, or \$192,552 from December 31, 2010 to December 31, 2011.

### 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>2011</u>	<u>2010</u>
Current assets	\$ 1,647,365	1,525,378
Other assets	637,389	663,482
Capital assets at cost, less accumulated depreciation	<u>2,513,145</u>	<u>2,486,636</u>
Total assets	<u>4,797,899</u>	<u>4,675,496</u>
Current liabilities	349,088	301,767
Long-term debt	<u>141,246</u>	<u>258,716</u>
Total liabilities	<u>490,334</u>	<u>560,483</u>
Net assets:		
Invested in capital assets, net of related debts	2,178,983	2,113,020
Restricted	177,671	154,025
Unrestricted	<u>1,950,911</u>	<u>1,847,968</u>
Total net assets	<u>4,307,565</u>	<u>4,115,013</u>
Total liabilities and net assets	<u>\$ 4,797,899</u>	<u>4,675,496</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, 2011 and 2010 is presented below:

	<u>Changes in Net Assets</u>	
	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 1,823,637	1,859,436
Operating expenses	<u>1,557,874</u>	<u>1,473,046</u>
Total operating revenue	265,763	386,390
Net non-operating income	<u>5,635</u>	<u>818</u>

Income before transfers and contributions	271,398	387,208
Transfers and contributions	<u>(78,846)</u>	<u>(73,552)</u>
Increase in net assets	192,552	313,656
Net assets, beginning of year	<u>4,115,013</u>	<u>3,801,357</u>
Net assets, end of year	<u>\$ 4,307,565</u>	<u>4,115,013</u>

The Statements of Revenues, Expenses and Changes in Net Assets reflect an increase in net assets of \$192,552 in 2011, as compared to \$313,656 in 2010.

The Utility's operating revenues decreased approximately \$36,000 from 2010 revenues. The kWh sold to commercial, residential and rural customers declined in 2011 while sales to the City of Burt increased. These changes resulted in the overall reduction in revenue.

While the total kWh sold decreased in 2011, market forces caused the price per kWh to increase and result in an overall increase in expenses for the Utility.

### **CAPITAL ASSETS**

At December 31, 2011, the Utility had approximately \$2.5 million invested in capital assets, net of accumulated depreciation of \$3.7 million. Bancroft Municipal Utilities had depreciation expense of \$183,098 in 2011. Major additions to the capital assets in 2011 included a pickup, a lift station project, and the scrubber project at Neal 4.

### **DEBT ADMINISTRATION**

At December 31, 2011, the Utility had \$255,000 in debt outstanding, a decrease of \$125,000 from 2010. The table below summarizes outstanding debt by type.

	<u>2011</u>	<u>2010</u>
2008 Revenue Bond Issue	<u>\$ 255,000</u>	<u>380,000</u>

### **BUDGETARY HIGHLIGHTS**

The Utility did not amend their budget during 2011. Expenses for the year did not exceed budgeted limits.

### **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.
- ◆ We anticipate that our portion of the Scrubber Project at the NEAL 4 generation plant will be very expensive but that the cost should be able to be covered with our regular cash flows and reserves.

- ◆ We hope to have a rate study that will verify that our rates are appropriate.

### **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**

**BALANCE SHEETS**  
**DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,006,557	\$ 865,846
Certificates of Deposit	186,588	208,283
Accounts Receivable	213,778	212,891
Accrued Interest Receivable	1,863	804
Prepaid Expenses	8,564	9,261
Inventories	230,015	228,293
<b>Total Current Assets</b>	1,647,365	1,525,378
<b>Capital Assets:</b>		
Capital Assets (Net of Accumulated Depreciation)	2,513,145	2,486,636
<b>Total Capital Assets</b>	2,513,145	2,486,636
<b>Other Assets:</b>		
Common Transmission System - Improvement Fund	189,704	213,531
Emmissions Allowance Fund	21,239	25,926
Wheelan #2 Reserve Fund	14,432	-
Investments	234,343	270,000
Restricted Assets:		
Cash and Cash Equivalents - Bond Funds	177,671	154,025
<b>Total Other Assets</b>	637,389	663,482
<b>Total Assets</b>	\$ 4,797,899	\$ 4,675,496

See Notes to Financial Statements

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

**BALANCE SHEETS**  
**DECEMBER 31, 2011 AND 2010**

	2011	2010
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 167,087	\$ 118,791
Accounts Payable - City of Bancroft	31,004	31,295
Accrued Compensated Wages and Absences	19,369	20,434
Customer Deposits and Credit Balances	5,882	5,150
Accrued Interest Payable	746	1,097
Revenue Notes - Current	125,000	125,000
<b>Total Current Liabilities</b>	349,088	301,767
<b>Non-Current Liabilities:</b>		
OPEB Liabilities	15,502	10,100
Revenue Notes - Non-Current	125,744	248,616
<b>Total Non-Current Liabilities</b>	141,246	258,716
<b>Total Liabilities</b>	490,334	560,483
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	2,262,401	2,113,020
Restricted for:		
Debt Service	177,671	154,025
Unrestricted	1,867,493	1,847,968
<b>Total Net Assets</b>	4,307,565	4,115,013
<b>Total Liabilities and Net Assets</b>	\$ 4,797,899	\$ 4,675,496

**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, 2011 AND 2010**

	2011	2010
<b>Operating Revenues:</b>		
Residential and Commerical Sales	\$ 918,344	\$ 930,327
Rural Sales	249,393	297,988
Service Provided to City of Bancroft	25,784	25,377
Service Provided to City of Burt	225,733	191,207
Neal 4 and NIMECA Credits and Steam Service Income	364,542	370,297
Other Sales and Revenue	39,841	44,240
<b>Total Operating Revenues</b>	<b>1,823,637</b>	<b>1,859,436</b>
<b>Operating Expenses:</b>		
Generation and Purchased Power	938,009	873,764
Employee Salaries and Wages	192,198	184,816
Employee Benefits	68,867	82,794
Depreciation	183,098	184,587
Fuel and Oil	7,034	5,799
Supplies and Maintenance	36,222	17,574
Dues and Subscriptions	5,735	5,612
Office Expenses	20,068	16,955
Professional Fees	26,472	21,105
Rents	21,976	20,400
Property Tax and Insurance	44,443	38,893
Sales and Use Tax	2,666	1,897
Miscellaneous	11,086	18,850
<b>Total Operating Expenses</b>	<b>1,557,874</b>	<b>1,473,046</b>
<b>Operating Income</b>	<b>265,763</b>	<b>386,390</b>
<b>Non-Operating Revenues (Expenses):</b>		
Interest and Dividend Income	21,326	20,507
Interest Expense	(15,691)	(19,689)
Miscellaneous	-	-
<b>Net Non-Operating Revenues</b>	<b>5,635</b>	<b>818</b>
<b>Net Income Before Transfers and Contributions</b>	<b>271,398</b>	<b>387,208</b>
Contributions to the City	(24,164)	(20,031)
Transfers to City in Lieu of Property Taxes	(54,682)	(53,521)
<b>Increase in Net Assets</b>	<b>192,552</b>	<b>313,656</b>
<b>Net Assets at Beginning of Period</b>	<b>4,115,013</b>	<b>3,801,357</b>
<b>Net Assets at End of Period</b>	<b>\$ 4,307,565</b>	<b>\$ 4,115,013</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, 2011 AND 2010**

	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers	1,822,748	1,913,992
Cash Payments to Suppliers for Goods and Services	(1,129,462)	(1,109,328)
Cash Payments to Employees for Services	(193,263)	(175,456)
<b>Net Cash Provided by Operating Activities</b>	<b>500,023</b>	<b>629,208</b>
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Contributions to the City of Bancroft	(24,164)	(70,785)
Transfers to City in Lieu of Property Taxes	(54,682)	(2,767)
<b>Net Cash Used by Non-Capital Financing Activities</b>	<b>(78,846)</b>	<b>(73,552)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Purchases and Construction of Capital Assets	(209,607)	(68,462)
Interest and Bond Fees Paid	(13,914)	(17,888)
Principal Payments on Long-Term Debt	(125,000)	(120,000)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<b>(348,521)</b>	<b>(206,350)</b>
<b>Cash Flows From Investing Activities:</b>		
Purchases of Certificates of Deposit	(364,259)	(438,038)
Proceeds from Maturities of Certificates of Deposit	362,308	249,256
Proceeds from Redemption of Investments	40,344	3,001
Note Receivable Principal Payments Received	-	2,985
Withdrawals from Common Transmission System - Improvement Fund	48,697	(8,438)
Deposits to Common Transmission System - Improvement Fund	(24,870)	-
Deposits to Wheelen #2 Reserve Fund	(14,432)	-
Interest Received	20,267	23,341
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>68,055</b>	<b>(167,893)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	140,711	181,413
<b>Cash and Cash Equivalents at Beginning of Period</b>	865,846	684,433
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 1,006,557</b>	<b>865,846</b>

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, 2011 AND 2010**

	2011	2010
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 265,763	386,390
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	183,098	184,587
(Increase) Decrease in Assets:		
Accounts Receivable	(887)	54,556
Prepaid Expenses	697	(193)
Inventories	(1,722)	(44,001)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	48,296	21,725
Accounts Payable - City of Bancroft	(291)	11,994
Accrued Compensated Absences	(1,065)	9,361
OPEB Liability	5,402	5,100
Customer Deposits and Credit Balances	732	(311)
	\$ 500,023	629,208
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 500,023</b>	<b>629,208</b>

See Notes to Financial Statements

**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.

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

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2011 and 2010, there were \$2,302 and \$2,171 of accounts receivable that were older than 90 days, respectively. At December 31, 2011 and 2010 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 Neal 4 and NIMECA Credits and Steam Service Income, purchased power, fuel and oil, and depreciation expense.

**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.

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2011, disbursements did not exceed the amount budgeted.

**NOTE 2 - CASH AND INVESTMENTS**

The Utility's deposits in financial institutions at December 31, 2011 and 2010 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. The fair value is determined based on quoted prices in active markets for identical assets (Level 1).

At December 31, 2011, the Utility had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
Federal Home Loan Mortgage Corporation (FHLMC)	\$ 64,326	August 2034
Government National Mortgage Association (GNMA)	169,823	August 2040
	<u>\$ 234,149</u>	

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS**

Credit risk. The Utility's FHLMC investment is rated Aaa / Negative 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 3.5% and 5.0% of the Utility's cash and investments are in the Federal Home Loan Mortgage Corporation as of December 31, 2011 and 2010 respectively. Approximately 9% and 10% of the Utility's cash and investments are in the Government National Mortgage Association as of December 31, 2011 and 2010 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 \$189,704 and \$213,531 as of December 31, 2011 and 2010, respectively, in this fund.

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets at December 31, 2011 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 9,863	-	-	9,863
Construction in progress	<u>-</u>	<u>83,418</u>	<u>-</u>	<u>83,418</u>
Total capital assets not being depreciated	9,863	83,418	-	93,281
Capital assets being depreciated:				
Plant and equipment	3,990,176	93,385	24,437	4,059,124
George Neal Generating Station Unit No. 4	1,255,669	5,253	-	1,260,922
Lehigh-Webster Transmission System	56,968	-	-	56,968
Corn Belt Plant Acquisitions	<u>749,920</u>	<u>27,551</u>	<u>7,178</u>	<u>770,293</u>
Total capital assets being depreciated	<u>6,052,733</u>	<u>126,189</u>	<u>31,615</u>	<u>6,147,307</u>
Less accumulated depreciation for:				
Plant and equipment	2,158,807	124,692	24,437	2,259,062
George Neal Generating Station Unit No. 4	1,062,271	35,951	-	1,098,223
Lehigh-Webster Transmission System	42,714	1,628	-	44,342
Corn Belt Plant Acquisitions	<u>312,168</u>	<u>20,827</u>	<u>7,178</u>	<u>325,816</u>
Total accumulated depreciation	<u>3,575,960</u>	<u>183,098</u>	<u>31,615</u>	<u>3,727,443</u>

**BANCROFT MUNICIPAL UTILITIES**  
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**NOTES TO FINANCIAL STATEMENTS**

Net capital assets being depreciated	<u>\$ 2,476,773</u>	<u>2,419,864</u>
Net capital assets	<u>\$ 2,486,636</u>	<u>2,429,727</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 9,863	-	-	9,863
Total capital assets not being depreciated	9,863	-	-	9,863
Capital assets being depreciated:				
Plant and equipment	\$ 3,968,849	21,327	-	3,990,176
George Neal Generating Station Unit No. 4	1,258,658	-	2,989	1,255,669
Lehigh-Webster Transmission System	56,968	-	-	56,968
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>5,990,295</u>	<u>68,461</u>	<u>6,023</u>	<u>6,052,733</u>
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 being depreciated	<u>\$ 2,592,898</u>			<u>2,476,773</u>
Net capital assets	<u>\$ 2,602,761</u>			<u>2,486,636</u>

**NOTE 5 – LONG-TERM DEBT**

Changes in the long-term debt for the year ended December 31, 2011 and 2010 are as follows:

	<u>2011</u>			
	<u>Beginning Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Ending Balance</u>
2008 Revenue Bonds	<u>\$ 380,000</u>	<u>-</u>	<u>125,000</u>	<u>255,000</u>
	<u>2010</u>			
	<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>

As of December 31, 2011 and 2010, 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.

**BANCROFT MUNICIPAL UTILITIES**  
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**NOTES TO FINANCIAL STATEMENTS**

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

<u>Year Ending</u> <u>December 31,</u>	<u>Revenue Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2012	\$ 125,000	9,055	134,055
2013	130,000	4,680	134,680
	<u>\$ 255,000</u>	<u>13,735</u>	<u>268,735</u>

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

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

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

Improvement Fund – A minimum of \$2,000 shall be deposited in the Improvement Fund each month until \$160,000 has been accumulated. Once the required balance has been reached, no further deposits in the Fund need to be made except to maintain it at such level. Money in the Improvement Fund shall be used solely for the purpose of paying principal and interest on the 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 provision also requires the Utility to generate net revenues equal to or exceeding 125% of the principal and interest requirements for the year.

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

**NOTE 6 - PENSION AND RETIREMENT BENEFITS**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits, which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

**BANCROFT MUNICIPAL UTILITIES**  
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**NOTES TO FINANCIAL STATEMENTS**

Plan members are required to contribute 5.38% (4.50% through June 30, 2011) of their annual salary and the Utility is required to contribute 8.07% (6.95% through June 30, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2011, 2010, and 2009 were \$14,349, \$13,061, and \$11,646 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 \$15,819 and \$13,257 as of December 31, 2011 and 2010, 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 \$22,723 and \$23,301 for sewer and water fees as of December 31, 2011 and 2010 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 to the City are included in the balance sheets as Accounts 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. In addition, the Utility grants back to the City a calculated amount for street light expense to cover any remaining expense relating to property taxes.

**NOTE 10 – RISK MANAGEMENT**

The Utility is exposed to various risks of loss related to torts, errors and omissions, injuries to employees, natural disasters, and theft of, damage to and destruction of assets. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**BANCROFT MUNICIPAL UTILITIES  
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**NOTES TO FINANCIAL STATEMENTS**

**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 years ended December 31, 2011 and 2010, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 5,533	5,295
Interest on net OPEB Obligation	253	125
Adjust to ARC	<u>(384)</u>	<u>(320)</u>
Annual OPEB cost	5,402	5,100
Contributions made	<u>-</u>	<u>-</u>
Change in net OPEB obligation	5,402	5,100
Net OPEB obligation beginning of year	<u>10,100</u>	<u>5,000</u>
Net OPEB obligation end of year	<u>\$ 15,502</u>	<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, 2011 and 2010.

For the years ended December 31, 2011 and 2010, the Utility contributed \$32,424 and \$38,857 to the medical plan, respectively. Plan members eligible for benefits contributed \$-0- of the premium costs.

The Utility’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2011, 2010 and 2009 are summarized as follows:

**BANCROFT MUNICIPAL UTILITIES**  
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**NOTES TO FINANCIAL STATEMENTS**

	Annual <u>OPEB Cost</u>	Percentage of Annual OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
Year ended December 31, 2011	\$ 5,402	0%	\$ 15,502
Year ended December 31, 2010	\$ 5,100	0%	\$ 10,100
Year ended December 31, 2009	\$ 5,000	0%	\$ 5,000

Funded Status and Funding Progress. As of July 1, 2009, the most recent actuarial valuation date for the years ended December 31, 2011 and 2010, the actuarial accrued liability was \$46,854, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$46,854. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$195,000 and \$184,000 for the years ended December 31, 2011 and 2010. The ratio of the UAAL to covered payroll was 24% and 27% as of December 31, 2011 and 2010. As of December 31, 2011, 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.

**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

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

**NOTES TO FINANCIAL STATEMENTS**

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 September 19, 2012, the date these financial statements were issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**BANCROFT MUNICIPAL UTILITIES**  
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**BUDGETARY COMPARISON SCHEDULE OF REVENUES, EXPENSES,**  
**AND CHANGES IN NET ASSETS - BUDGET AND ACTUAL**  
**YEAR ENDED DECEMBER 31, 2011**

	Actual	Original and Final Budget	Final to Actual Variance
<b>Revenues:</b>			
Use of money and property	\$ 21,326	24,000	(2,674)
Charges for services	1,783,796	1,260,000	523,796
Miscellaneous	39,841	568,775	(528,934)
	<u>1,844,963</u>	<u>1,852,775</u>	<u>(7,812)</u>
<b>Expenses</b>	<u>1,573,565</u>	<u>1,651,650</u>	<u>78,085</u>
<b>Excess of receipts over disbursements</b>	271,398	201,125	70,273
<b>Transfers</b>	<u>(78,846)</u>	<u>-</u>	<u>(78,846)</u>
<b>Excess of receipts over disbursements and transfers</b>	192,552	201,125	(8,573)
<b>Net Assets at beginning of period</b>	<u>4,115,013</u>	<u>3,979,153</u>	<u>135,860</u>
<b>Net Assets at end of period</b>	<u><u>\$ 4,307,565</u></u>	<u><u>4,180,278</u></u>	<u><u>127,287</u></u>

See Accompanying Independent Auditor's Report

**BANCROFT MUNICIPAL UTILITIES**  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING**

**YEAR ENDED DECEMBER 31, 2011**

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, 2011, disbursements did not exceed the amounts budgeted.

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

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)
2011	July 1, 2009	\$ -0-	\$ 46,854	\$ 46,854	0.00%	\$195,000	24.0%
2010	July 1, 2009	\$ -0-	\$ 49,991	\$ 49,991	0.00%	\$185,000	27.0%
2009	July 1, 2009	\$ -0-	\$ 50,517	\$ 50,517	0.00%	\$179,000	28.0%

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



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

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**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 accompanying financial statements of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the year ended December 31, 2011 and have issued our report thereon dated September 19, 2012. 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 Reporting**

The management of Bancroft Municipal Utilities' (the Utility) is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered 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 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 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 believe 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 Utility's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed as I-A-11, I-B-11 on the accompanying Schedule of Findings to be material weaknesses in internal control over financial reporting.

## 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, 2011 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 responses, we did not audit the responses and 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 customers of Bancroft Municipal Utilities and other parties to whom the Utility may report. This 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.*

September 19, 2012

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

**SCHEDULE OF FINDINGS**  
**YEAR ENDED DECEMBER 31, 2011**

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

I-A-11 Segregation of Duties – There is a lack of segregation of duties with respect to most of the accounting functions.

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. We noted the same person performs most of the accounting functions.

Cause – Bancroft Municipal Utilities is not a large entity; therefore their staff includes a small number of office employees.

Effect – The lack of a segregation of duties is a material weakness that may result in a material misstatement of the financial statements, and provides greater opportunity for fraudulent activity to go undetected.

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-11 Accounts Payable – An accounts payable listing was not generated on a monthly basis; therefore the general ledger balance was not reconciled.

Criteria – A properly operating system of internal controls should detect and correct material misstatements in a timely manner. An important tool to detect misstatements is a monthly reconciliation of the accounts payable listing to the general ledger.

Cause – Utility personnel were not aware of the importance of this internal control procedure.

Effect – Without monthly reconciliations, a significant misstatement of the liabilities could exist and remain undetected.

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

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

**SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

Response – We will implement the recommendation. We will to contact our software vendor to obtain assistance in generating month-end payables listings and will include monthly reconciliations in our internal control procedures.

Conclusion - Response accepted.

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

**SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

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

II-A-11 Certified Budget - Disbursements during the year ended December 31, 2011 did not exceed the amounts budgeted. The Utility did not comply with the requirement to approve the budget prior to December 12; the budget was not approved until December 29, 2010.

Criteria – Chapter 384.2 of the Code of Iowa states, in part, that “After notice and hearing in the same manner as required for the city’s regular budget under section 384.16, the utility budget must be approved by resolution of the council not later than twenty days prior to the beginning of the calendar year for which the budget applies.”

Cause – The Utility experienced staff shortages just prior to the budget deadline, which contributed to the failure to obtain timely budget approval.

Effect – Failure to timely approve the budget may result in disbursements being made without formal approval.

Recommendation – In accordance with Code Chapter 384.2, the budget should be approved prior to the December 12 deadline.

Response - We will implement the recommendations.

Conclusion – Response accepted.

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

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

<u>Name, Title, and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Phil Jaren, Councilman Owner, Office Etc.	Office Supplies and Equipment	\$ 738
Nancy Shillington, Councilman Owner, Shillington Hardware	Hardware and Supplies	1,647

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 compliance with the Code of Iowa.

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

**SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2011**

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

II-F-11 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Although minutes of the Board meetings were published, in two instances, the published list of claims did not include a description as required by Chapter 372.13 of the Code of Iowa.

The Utility held a closed session on September 22, 2011. However, the minutes record did not document the specific information regarding the closed session required by Chapter 21 of the Code of Iowa, commonly known as the open-meetings law.

Criteria – Chapter 388.4 of the Iowa Code requires utilities to timely publish a statement of the proceedings of the board which includes “a list of all claims allowed, showing the name of the person or firm making the claim, the reason for the claim, and the amount of the claim.” Chapter 21.5 of the Iowa Code states that a closed session may be held only to the extent it is necessary under one of the exemptions listed in section 21.5(1). Further, the reason for the closed session must be publicly announced at the open session by reference to the specific exemption and this information must be documented in the minutes.

Cause – Failure to list the reason for claims in the published minutes was a clerical error. Failure to document the reason for the closed session was also an oversight.

Effect – Publishing partial or insufficient information to the public does not provide citizens with adequate information to understand Utility business.

Recommendation – In addition to the name of the person or firm making a claim and the amount of the claim, published minutes should include the reason for the claim in the list of claims allowed. The Iowa Code Section that permits a closed session should be documented in the minutes.

Response - Information on expenditures will be published in accordance with the Code of Iowa. The applicable Iowa Code Section 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 of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

II-H-11 Revenue Bonds – We noted no instances of noncompliance with bond covenants.