

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

December 31, 2012 and 2011

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:	
Balance Sheets	8-9
Statements of Revenues, Expenses and Changes in Net Position	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 Position – 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	28-30

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

OFFICIALS

December 31, 2012

<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

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Bancroft Municipal Utilities
Bancroft, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements for the major fund of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position for the major fund of Bancroft Municipal Utilities, as of December 31, 2012 and 2011, and the

respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, and the schedule of funding progress for the Retiree Health Plan on pages 4-7 and 23-25 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, who considers it to be an essential part of 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013 on our consideration of Bancroft Municipal Utilities' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bancroft Municipal Utilities' internal control over financial reporting and compliance.

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

September 20, 2013

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, 2012. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased by 1%, or approximately \$11,500 from 2011 revenues. The increase was driven primarily by increased commercial use. Sales to the City of Burt also increased in 2012 over 2011.
- ◆ The Utility's operating expenses increased by 1%, or approximately \$15,000 from 2011 to 2012 due mainly to increased purchased power and Neal 4 operating expenses.
- ◆ The Utility's net position increased by nearly 4%, or \$174,790 from December 31, 2011 to December 31, 2012.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position, 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 Position and the Statement of Revenues, Expenses and Change in Net Position

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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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 Position present all of the Utility's assets and liabilities, with the difference between the two reported as "net position". Over time, increases or decreases in the Utility's net position 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 Position presents information showing how the Utility's net position have changed during the years presented. All changes in net position 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 Position

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

	<u>2012</u>	<u>2011</u>
Current assets	\$ 1,363,121	1,647,365
Other assets	733,422	637,389
Capital assets at cost, less accumulated depreciation	<u>2,872,804</u>	<u>2,513,145</u>
Total assets	<u>4,969,347</u>	<u>4,797,899</u>
Current liabilities	469,807	349,088
Long-term debt	<u>17,185</u>	<u>141,246</u>
Total liabilities	<u>486,992</u>	<u>490,334</u>
Net Position:		
Invested in capital assets, net of related debts	2,742,804	2,178,983
Restricted	201,723	177,671
Unrestricted	<u>1,537,828</u>	<u>1,950,911</u>
Total net position	<u>4,482,355</u>	<u>4,307,565</u>
Total liabilities and net position	<u>\$ 4,969,347</u>	<u>4,797,899</u>

Statements of Revenues, Expenses, and Change in Net Position

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 position for the years ended December 31, 2012 and 2011 is presented below:

	<u>Changes in Net Position</u>	
	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 1,835,101	1,823,637
Operating expenses	<u>1,572,599</u>	<u>1,557,874</u>

Total operating revenue	262,502	265,763
Net non-operating income	<u>9,839</u>	<u>5,635</u>
Income before transfers and contributions	272,341	271,398
Transfers and contributions	<u>(97,551)</u>	<u>(78,846)</u>
Increase in net position	174,790	192,552
Net position, beginning of year	<u>4,307,565</u>	<u>4,115,013</u>
Net position, end of year	<u>\$ 4,482,355</u>	<u>4,307,565</u>

The Statements of Revenues, Expenses and Changes in Net Position reflect a decrease in net position of \$174,790 in 2012, as compared to \$192,552 in 2011.

The Utility's operating revenues increased approximately \$11,500(approximately 1%) from 2011 revenues.

CAPITAL ASSETS

At December 31, 2012, the Utility had approximately \$2.9 million invested in capital assets, net of accumulated depreciation of \$3.9 million. Bancroft Municipal Utilities had depreciation expense of \$176,218 in 2012.

DEBT ADMINISTRATION

At December 31, 2012, the Utility had \$130,000 in debt outstanding, a decrease of \$125,000 from 2011. The table below summarizes outstanding debt by type.

	<u>2012</u>	<u>2011</u>
2008 Revenue Bond Issue	<u>\$ 130,000</u>	<u>255,000</u>

BUDGETARY HIGHLIGHTS

The Utility did not amend their budget during 2012. 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.
- ◆ Work will continue on the scrubber project at the NEAL 4 and is expected to be completed in December. The Utility will be able to afford its share of the project cost without bonding through the use of regular cash flows and established reserves.
- ◆ A rate study will be conducted to 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, 2012 AND 2011

	2012	2011
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 892,714	\$ 1,006,557
Certificates of Deposit	-	186,588
Accounts Receivable	210,750	213,778
Accrued Interest Receivable	1,863	1,863
Prepaid Expenses	10,275	8,564
Inventories	247,519	230,015
Total Current Assets	1,363,121	1,647,365
Capital Assets:		
Capital Assets (Net of Accumulated Depreciation)	2,872,804	2,513,145
Total Capital Assets	2,872,804	2,513,145
Other Assets:		
Common Transmission System - Improvement Fund	188,851	189,704
Emissions Allowance Fund	21,544	21,239
Wheelan #2 Reserve Fund	34,360	14,432
Investments	286,944	234,343
Restricted Assets:		
Cash and Cash Equivalents - Bond Funds	201,723	177,671
Total Other Assets	733,422	637,389
Total Assets	\$ 4,969,347	\$ 4,797,899

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

BALANCE SHEETS
DECEMBER 31, 2012 AND 2011

	2012	2011
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 286,992	\$ 167,087
Accounts Payable - City of Bancroft	31,178	31,004
Accrued Compensated Wages and Absences	16,493	19,369
Customer Deposits and Credit Balances	4,758	5,882
Accrued Interest Payable	386	746
Revenue Notes - Current	130,000	125,000
Total Current Liabilities	469,807	349,088
Non-Current Liabilities:		
OPEB Liabilities	17,185	15,502
Revenue Notes - Non-Current	-	125,744
Total Non-Current Liabilities	17,185	141,246
Total Liabilities	486,992	490,334
Net Position		
Net investment in capital assets	2,742,804	2,262,401
Restricted for:		
Debt Service	201,723	177,671
Unrestricted	1,537,828	1,867,493
Total Net Position	4,482,355	4,307,565
Total Liabilities and Net Position	\$ 4,969,347	\$ 4,797,899

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

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating Revenues:		
Residential and Commerical Sales	\$ 926,965	\$ 918,344
Rural Sales	273,219	249,393
Service Provided to City of Bancroft	25,784	25,784
Service Provided to City of Burt	230,820	225,733
Neal 4 and NIMECA Credits and Steam Service Income	352,490	364,542
Other Sales and Revenue	25,823	39,841
Total Operating Revenues	1,835,101	1,823,637
Operating Expenses:		
Generation and Purchased Power	1,006,173	938,009
Employee Salaries and Wages	170,002	192,198
Employee Benefits	62,171	68,867
Depreciation	176,218	183,098
Fuel and Oil	7,375	7,034
Supplies and Maintenance	24,953	36,222
Dues and Subscriptions	5,229	5,735
Office Expenses	17,923	20,068
Professional Fees	16,192	26,472
Rents	21,900	21,976
Property Tax and Insurance	45,031	44,443
Sales and Use Tax	2,275	2,666
Miscellaneous	17,157	11,086
Total Operating Expenses	1,572,599	1,557,874
Operating Income	262,502	265,763
Non-Operating Revenues (Expenses):		
Interest and Dividend Income	21,202	21,326
Interest Expense	(11,363)	(15,691)
Miscellaneous	-	-
Net Non-Operating Revenues	9,839	5,635
Net Income Before Transfers and Contributions	272,341	271,398
Contributions to the City	(25,890)	(24,164)
Transfers to City in Lieu of Property Taxes	(71,661)	(54,682)
Increase in Net Position	174,790	192,552
Net Position at Beginning of Period	4,307,565	4,115,013
Net Position at End of Period	\$ 4,482,355	\$ 4,307,565

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, 2012 AND 2011

	2012	2011
Cash Flows From Operating Activities:		
Cash Received from Customers	1,838,129	1,822,748
Cash Payments to Suppliers for Goods and Services	(1,124,502)	(1,129,462)
Cash Payments to Employees for Services	(173,330)	(193,263)
Net Cash Provided by Operating Activities	540,297	500,023
Cash Flows From Non-Capital Financing Activities:		
Contributions to the City of Bancroft	(25,890)	(24,164)
Transfers to City in Lieu of Property Taxes	(71,661)	(54,682)
Net Cash Used by Non-Capital Financing Activities	(97,551)	(78,846)
Cash Flows From Capital and Related Financing Activities:		
Purchases and Construction of Capital Assets	(533,752)	(209,607)
Interest and Bond Fees Paid	(9,595)	(13,914)
Principal Payments on Long-Term Debt	(125,000)	(125,000)
Net Cash Used by Capital and Related Financing Activities	(668,347)	(348,521)
Cash Flows From Investing Activities:		
Purchases of Certificates of Deposit	(111,939)	(364,259)
Proceeds from Maturities of Certificates of Deposit	274,475	362,308
Proceeds (Purchases) of Investments	106,867	40,344
Note Receivable Principal Payments Received	(159,773)	-
Withdrawals from Common Transmission System - Improvement Fund	23,654	48,697
Deposits to Common Transmission System - Improvement Fund	(22,800)	(24,870)
Deposits to Wheelen #2 Reserve Fund	(19,928)	(14,432)
Interest Received	21,202	20,267
Net Cash Provided (Used) by Investing Activities	111,758	68,055
Net Increase in Cash and Cash Equivalents	(113,843)	140,711
Cash and Cash Equivalents at Beginning of Period	1,006,557	865,846
Cash and Cash Equivalents at End of Period	\$ 892,714	1,006,557

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, 2012 AND 2011

	2012	2011
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 262,504	265,763
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	176,218	183,098
(Increase) Decrease in Assets:		
Accounts Receivable	3,028	(887)
Prepaid Expenses	(1,711)	697
Inventories	(17,504)	(1,722)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	119,905	48,296
Accounts Payable - City of Bancroft	174	(291)
Accrued Compensated Absences	(2,876)	(1,065)
OPEB Liability	1,683	5,402
Customer Deposits and Credit Balances	(1,124)	732
	\$ 540,297	500,023

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 Position

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

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, 2012 and 2011, there were \$4,910 and \$2,302 of accounts receivable that were older than 90 days, respectively. At December 31, 2012 and 2011 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 Position 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 Position 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 Position

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

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2012, disbursements did not exceed the amount budgeted.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2012 and 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The 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, 2012, the Utility had the following investments:

<u>Investment</u>	<u>Fair Value</u>	<u>Maturity</u>
Federal National Mortgage Association (FNMA)	\$ 22,818	December 2041
Federal Home Loan Mortgage Corporation (FHLMC)	35,563	December 2032
Federal Home Loan Mortgage Corporation (FHLMC)	27,639	March 2037
Government National Mortgage Association (GNMA)	16,803	March 2033
Government National Mortgage Association (GNMA)	44,980	February 2033
Government National Mortgage Association (GNMA)	<u>139,141</u>	August 2040
	<u>\$ 286,944</u>	

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)	<u>170,017</u>	August 2040
	<u>\$ 234,343</u>	

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

NOTES TO FINANCIAL STATEMENTS

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.

Credit risk. The Utility's investments in FNMA and FHLMC are 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 9% and 10% of the Utility's cash and investments are in the Government National Mortgage Association as of December 31, 2012 and 2011 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 \$188,851 and \$189,704 as of December 31, 2012 and 2011, respectively, in this fund.

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2012 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>83,418</u>	<u>504,838</u>	-	<u>588,256</u>
Total capital assets not being depreciated	93,281	504,838	-	598,119
Capital assets being depreciated:				
Plant and equipment	4,059,124	2,266	-	4,061,390
George Neal Generating Station Unit No. 4	1,260,922	-	-	1,260,922
Lehigh-Webster Transmission System	56,968	-	-	56,968
Corn Belt Plant Acquisitions	<u>770,293</u>	<u>28,771</u>	<u>7,447</u>	<u>791,619</u>
Total capital assets being depreciated	<u>6,147,307</u>	<u>31,037</u>	<u>7,447</u>	<u>6,170,899</u>
Less accumulated depreciation for:				
Plant and equipment	2,259,062	122,357	-	2,381,419
George Neal Generating Station Unit No. 4	1,098,223	36,026	-	1,134,249
Lehigh-Webster Transmission System	44,342	1,628	-	45,970

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

NOTES TO FINANCIAL STATEMENTS

Corn Belt Plant Acquisitions	<u>325,816</u>	<u>16,207</u>	<u>7,447</u>	<u>334,576</u>
Total accumulated depreciation	<u>3,727,443</u>	<u>176,218</u>	<u>7,447</u>	<u>3,896,214</u>
Net capital assets being depreciated	<u>\$ 2,419,864</u>			<u>2,274,685</u>
Net capital assets	<u>\$ 2,513,145</u>			<u>2,872,804</u>

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>
Net capital assets being depreciated	<u>\$ 2,476,773</u>			<u>2,419,864</u>
Net capital assets	<u>\$ 2,486,636</u>			<u>2,513,145</u>

NOTE 5 – LONG-TERM DEBT

Changes in the long-term debt for the year ended December 31, 2012 and 2011 are as follows:

	<u>2012</u>			
	<u>Beginning Balance</u>	<u>Issued</u>	<u>Paid</u>	<u>Ending Balance</u>
2008 Revenue Bonds	<u>\$ 255,000</u>	<u>-</u>	<u>125,000</u>	<u>130,000</u>

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

NOTES TO FINANCIAL STATEMENTS

	2011			
	Beginning Balance	Issued	Paid	Ending Balance
2008 Revenue Bonds	\$ 380,000	-	125,000	255,000

As of December 31, 2012 and 2011, the Utility’s long-term indebtedness consisted of the 2008 Revenue Bonds. The bonds bear interest ranging from 3.5% to 3.60% with interest due each June and December 1 and principal due each December 1.

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

	Revenue Bonds		
Year Ending December 31, 2013	Principal	Interest	Total
	130,000	4,680	134,680
	\$ 130,000	4,680	134,680

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.

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 5.78% (5.38% through June 30, 2012) of their annual salary and the Utility is required to contribute 8.67% (8.07% through June 30, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2012, 2011, and 2010 were \$13,889, \$14,349, and \$13,061 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 \$12,266 and \$15,819 as of December 31, 2012 and 2011, 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 \$23,222 and \$22,723 for sewer and water fees as of December 31, 2012 and 2011 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 5% of annual gross revenues. These transfers are reflected on the Statement of Revenues, Expenses and Changes in Net Position 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.

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 5 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, 2012 and 2011, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

	<u>2012</u>	<u>2011</u>
Annual required contribution	\$ 2,018	5,533
Interest on net OPEB Obligation	388	253
Adjust to ARC	<u>(723)</u>	<u>(384)</u>
Annual OPEB cost	1,683	5,402
Contributions made	<u>-</u>	<u>-</u>
Change in net OPEB obligation	1,683	5,402
Net OPEB obligation beginning of year	<u>15,502</u>	<u>10,100</u>
Net OPEB obligation end of year	<u>\$ 17,185</u>	<u>15,502</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, 2012 and 2011.

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

NOTES TO FINANCIAL STATEMENTS

For the years ended December 31, 2012 and 2011, the Utility contributed \$30,908 and \$32,424 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, 2012, 2011 and 2010 are summarized as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Year ended December 31, 2012	\$ 1,683	0%	\$ 17,185
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, 2012, the most recent actuarial valuation date for the years ended December 31, 2012 and 2011, the actuarial accrued liability was \$34,495, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$34,495. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$170,000 and \$193,000 for the years ended December 31, 2012 and 2011. The ratio of the UAAL to covered payroll was 20% and 18% as of December 31, 2012 and 2011. As of December 31, 2012, 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, 2012 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.

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

NOTES TO FINANCIAL STATEMENTS

Projected claim costs of the medical plan are \$98.09 per month for retirees. Benefits are not related to salary levels. The UAAL is being amortized using valuation annual interest rate over 30 years.

NOTE 12 – CONCENTRATIONS

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

NOTE 13 – SUBSEQUENT EVENTS

Management has evaluated events and transactions for potential recognition or disclosure through September 20, 2013, 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 POSITION - BUDGET AND ACTUAL
YEAR ENDED DECEMBER 31, 2012**

	Actual	Original and Final Budget	Final to Actual Variance
Revenues:			
Use of money and property	\$ 21,202	16,000	5,202
Charges for services	1,809,278	1,773,100	36,178
Miscellaneous	25,823	25,000	823
	<u>1,856,303</u>	<u>1,814,100</u>	<u>42,203</u>
Expenses	<u>1,583,962</u>	<u>1,708,600</u>	<u>124,638</u>
Excess of receipts over disbursements	272,341	105,500	166,841
Transfers	<u>(97,551)</u>	<u>-</u>	<u>(97,551)</u>
Excess of receipts over disbursements and transfers	174,790	105,500	69,290
Net Position at beginning of period	<u>4,307,565</u>	<u>4,180,278</u>	<u>127,287</u>
Net Position at end of period	<u><u>\$ 4,482,355</u></u>	<u><u>4,285,778</u></u>	<u><u>196,577</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, 2012

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, 2012, disbursements did not exceed 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,	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)
2012	July 1, 2012	\$ -0-	\$ 34,495	\$ 34,495	0.00%	\$170,000	20.3%
2011	July 1, 2009	\$ -0-	\$ 46,854	\$ 46,854	0.00%	\$193,000	24.3%
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

**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, in accordance with the 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, the financial statements for the major fund of Bancroft Municipal Utilities, a component unit of the City of Bancroft, Iowa, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements and have issued our report thereon dated September 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bancroft Municipal Utilities' (the Utility) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies listed as I-A-12 and I-B-12 on the accompanying schedule of findings to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency listed as I-C-12 on the accompany 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 from 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 or other matters that are required to be reported under *Government Auditing Standards*.

Bancroft Municipal Utilities' Response to Findings

Bancroft Municipal Utilities' response to the findings identified in our audit is described in the accompanying schedule of findings. The Utility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 20, 2013

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

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2012

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

I-A-12 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-12 Material Adjustment – The audit of the financial statements revealed one adjustment that was material to the financial statements. The entry corrected the posting for the NEAL 4 Scrubber project.

Criteria – A system of internal controls is to identify and detect and correct material adjustments.

Cause – The capital portion of the Neal 4 billings were not identified when posting the monthly billing.

Effect – The Utility's capital assets were understated during the 2012 year and the operating expenses were overstated during that time.

Recommendation – Identify the portion of the Neal 4 billing that is for capital expenditures and record them as such.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Response – We will record Neal 4 capital expenditures as you have recommended.

Conclusion - Response accepted.

I-C-12 Audit Report Preparation – We did not note staff or management with the necessary background and familiarity with accounting principles generally accepted in the United States of America.

Criteria – A proper system of internal controls assumes that the project or the project’s management has the knowledge of accounting principles sufficient to prepare statements in accordance with accounting principles generally accepted in the United States of America.

Effect – Required footnote disclosures may be omitted and not detected by the Organization.

Recommendation – We recommend that management make every effort to familiarize themselves with appropriate accounting standards.

Response – We have reviewed procedures and plan to become more familiar with proper accounting standards.

Conclusion - Response accepted.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2012**

Part II: Other Findings Related to Statutory Reporting:

- II-A-12 Certified Budget - Disbursements during the year ended December 31, 2012 did not exceed the amounts budgeted.
- II-B-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-12 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	\$ 415
Nancy Shillington, Councilman Owner, Shillington Hardware	Hardware and Supplies	1,550

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.

- II-E-12 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-12 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-12 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-12 Revenue Bonds – We noted no instances of noncompliance with bond covenants.