

**CITY OF SANBORN, IOWA
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2005

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CITY OF SANBORN, IOWA

OFFICIALS

Name	Title	Term Expires
(Before January 2005)		
Thomas Ginger	Mayor	January 2006
Duane Van Veldhuizen	Mayor Pro tem	January 2008
Edwin Visser	Council Member	January 2008
Tim Devitt	Council Member	January 2008
Ron Schott	Council Member	January 2006
Dennis Van Veldhuizen, Sr.	Council Member	January 2006
(After January 2005)		
Thomas Ginger	Mayor	January 2006
Duane Van Veldhuizen	Mayor Pro tem	January 2008
Edwin Visser	Council Member	January 2008
Tim Devitt	Council Member	January 2008
Ron Schott	Council Member	January 2006
Dennis Van Veldhuizen, Sr.	Council Member	January 2006
Jim Zeutenhorst	City Administrator	Appointed
Brian Pals	Clerk	Appointed
Candice Lyman	Deputy Clerk/Accountant	Appointed
Daniel DeKoter	Attorney	Appointed

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sanborn, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's primary government basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sanborn's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

These financial statements include financial data only for the primary government. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. Inclusion of financial data of the City's component unit would be required if the City intended to present financial statements in accordance with generally accepted accounting principles.

Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-round tax planning
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For your convenience:

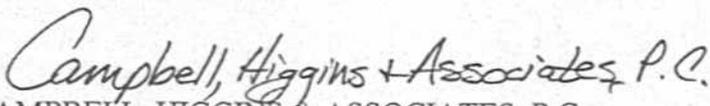
- Direct access to the principle ... always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the primary government of the City of Sanborn, Iowa, as of June 30, 2005, and the respective changes in cash basis financial position for the year ended in conformity with the basis of accounting described in note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2005 on our consideration of the City of Sanborn's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 20 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sanborn's primary government basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2004 (which are not presented herein), and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is stated fairly in all material respects in relation to the basic financial statements taken as a whole.


CAMPBELL, HIGGINS & ASSOCIATES, P.C.
Certified Public Accountants

October 28, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sanborn provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Total receipts increased 74%, or approximately \$2,523,000, from fiscal year 2004 to fiscal year 2005. An increase in note and bond proceeds of \$2,074,000 was the major factor in the overall increase.
- Disbursements increased 32%, or approximately \$1,381,000, from fiscal year 2004 to fiscal year 2005. An increase in business type activities disbursements of approximately \$1,415,000 was the major factor in the overall increase.
- The City's total cash basis net assets increased 19%, or approximately \$300,000, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities increased approximately \$435,000 and the net assets of the business type activities decreased by approximately \$135,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-Wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the water, gas, sewer and solid waste collection systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Urban Renewal Tax Increment, and Local Option Sales Tax and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains four Enterprise Funds to provide separate information for the water, gas, sewer rental and solid waste collection funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased approximately \$435,000 from a year ago. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year Ended June 30.	
	2005	2004
Receipts and Transfers:		
Program Receipts:		
Charges for Services -----	\$ 196	\$ 204
Operating Grants, Contributions and Restricted Interest --	308	18
Capital Grants, Contributions and Restricted Interest -----	373	355
General Receipts:		
Property Tax -----	579	570
Local Option Sales Tax -----	87	83
Grants and Contributions Not Restricted to Specific Purposes -----	58	57
Unrestricted Interest on Investments -----	15	9
Miscellaneous -----	29	20
Sale of Assets -----	32	11
Note Proceeds -----	516	-
Transfers, Net -----	83	48
Total Receipts and Transfers -----	<u>2,276</u>	<u>1,375</u>
Disbursements:		
Public Safety -----	205	182
Public Works -----	163	610
Health and Social Services -----	-	1
Culture and Recreation -----	286	253
Community and Economic Development -----	303	442
General Government -----	132	155
Debt Service -----	209	232
Capital Projects -----	543	-
Total Disbursements -----	<u>1,841</u>	<u>1,875</u>
Increase (Decrease) in Cash Basis Net Assets -----	435	(500)
Cash Basis Net Assets Beginning of Year -----	<u>607</u>	<u>1,107</u>
Cash Basis Net Assets End of Year -----	<u>\$ 1,042</u>	<u>\$ 607</u>

The City's total receipts and transfers for governmental activities increased by 66%, or approximately \$901,000. The significant increase in receipts was primarily the result of note proceeds received in the current year.

The total cost of all programs and services decreased by approximately \$34,000, or 2%.

There were no significant changes in property tax rates for the current year and no significant changes are budgeted for next year.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30.	
	2005	2004
Receipts:		
Program Receipts:		
Charges for Services:		
Water -----	\$ 193	\$ 194
Gas -----	1,588	1,238
Sewer Rental -----	293	270
Solid Waste Collection -----	80	79
Capital Grants, Contributions and Restricted Interest -----	11	290
General Receipts:		
Unrestricted Interest on Investments -----	19	12
Note Proceeds -----	1,558	-
Total Receipts -----	<u>3,742</u>	<u>2,083</u>
Disbursements and Transfers:		
Water -----	926	799
Gas -----	1,442	1,162
Sewer Rental -----	1,349	339
Solid Waste Collection -----	77	77
Transfers, Net -----	83	48
Total Disbursements and Transfers -----	<u>3,877</u>	<u>2,425</u>
Increase (Decrease) in Cash Basis Net Assets -----	(135)	(342)
Cash Basis Net Assets Beginning of Year -----	998	1,340
Cash Basis Net Assets End of Year -----	<u>\$ 863</u>	<u>\$ 998</u>

Total business type activities receipts for the fiscal year were \$3.742 million compared to \$2.083 million last year. This overall increase was mainly due to an increase in note proceeds of approximately \$1,558,000. Total disbursements and transfers for the fiscal year were \$3.877 million compared to \$2.425 million last year. This overall increase was mainly due to a sewer rental fund capital project of approximately \$1,023,000 in the current year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sanborn completed the year, its governmental funds reported a combined fund balance of approximately \$1,042,000, an increase of approximately \$435,000 over last year's total of approximately \$607,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased approximately \$278,000 from the prior year to approximately \$461,000. This increase was mainly due to a large donation received in the current year of approximately \$297,000.
- The Road Use Tax Fund cash balance increased approximately \$400 from the prior year to approximately \$12,300.
- The Urban Renewal Tax Increment Fund cash balance increased by approximately \$80,000 from the prior year to approximately \$277,000. The increase was the result of current year receipts and financing sources exceeding current year disbursements and financing uses.
- The Local Option Sales Tax Fund cash balance decreased approximately \$19,000 from the prior year to approximately \$74,000. This decrease was mainly due to a transfer of \$20,000 to the Debt Service Fund.
- The Debt Service Fund cash balance increased by approximately \$25,000 from the prior year to approximately \$41,000. This increase was mainly due to the collection of special assessment receipts in the current year of approximately \$25,000.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by approximately \$85,000 from the prior year to approximately \$235,000, due primarily to an increase in debt service disbursements.
- The Gas Fund cash balance increased by approximately \$86,000 from the prior year to approximately \$582,000, due mainly to current year receipts and financing sources exceeding current year disbursements and financing uses.
- The Sewer Rental Fund cash balance decreased by approximately \$139,000 from the prior year to approximately \$27,000, due primarily to capital project disbursements exceeding revenue note proceeds in the current year.
- The Solid Waste Collection cash balance increased by approximately \$3,100 from the prior year to approximately \$19,200.

BUDGETARY HIGHLIGHTS

The City of Sanborn had a budget amendment which was approved on May 23, 2005. The amendment provided for a total of \$1,772,000 of additional disbursements in certain City departments. The amendment also provided for a total of \$1,983,000 of additional receipts and financing sources.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$2,464,000 in notes and other long-term debt, compared to \$1,740,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	June 30,	
	2005	2004
General Obligation Notes -----	\$ 1,005	\$ 580
Revenue Notes and Bonds -----	1,459	-
Anticipatory Warrants -----	-	1,160
Total -----	<u>\$ 2,464</u>	<u>\$ 1,740</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1,005,000 is significantly below its constitutional debt limit of \$2,165,814.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget. One of those factors is the economy. The City's total assessed valuations have increased slightly. However, funding from the State has decreased due to the State's budget constraints.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk, 102 Main Street, Sanborn, Iowa.

FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental Activities:							
Public Safety -----	\$ 205,530	\$ 31,595	\$ 200	\$ 43,848	\$ (129,887)	\$ -	\$ (129,887)
Public Works -----	163,125	-	-	137,459	(25,666)	-	(25,666)
Health and Social Services -----	-	-	-	-	-	-	-
Culture and Recreation -----	286,071	159,796	307,058	-	180,783	-	180,783
Community and Economic Development -----	302,720	-	-	191,850	(110,870)	-	(110,870)
General Government -----	131,803	4,395	-	-	(127,408)	-	(127,408)
Debt Service -----	208,664	-	986	-	(207,678)	-	(207,678)
Capital Projects -----	543,042	-	-	-	(543,042)	-	(543,042)
Total Governmental Activities	1,840,955	195,786	308,244	373,157	(963,768)	-	(963,768)
Business Type Activities:							
Water -----	925,533	193,038	-	11,500	-	(720,995)	(720,995)
Gas -----	1,442,081	1,587,626	-	-	-	145,545	145,545
Sewer Rental -----	1,349,049	293,400	-	-	-	(1,055,649)	(1,055,649)
Solid Waste Collection -----	76,985	79,982	-	-	-	2,997	2,997
Total Business Type Activities	3,793,648	2,154,046	-	11,500	-	(1,628,102)	(1,628,102)
Total	\$ 5,634,603	\$ 2,349,832	\$ 308,244	\$ 384,657	(963,768)	(1,628,102)	(2,591,870)
General Receipts:							
Property Tax Levied For:							
General Purposes -----					148,808	-	148,808
Insurance -----					23,723	-	23,723
Tax Increment Financing -----					268,794	-	268,794
Debt Service -----					77,629	-	77,629
Employee Benefits -----					59,996	-	59,996
Local Option Sales Tax -----					86,705	-	86,705
Grants and Contributions Not Restricted to Specific Purposes -----					57,500	-	57,500
Unrestricted Interest on Investments -----					14,627	18,577	33,204
Note Proceeds -----					516,366	1,557,634	2,074,000
Miscellaneous -----					28,945	-	28,945
Sale of Assets -----					32,385	-	32,385
Transfers -----					82,799	(82,799)	-
Total General Receipts and Transfers					1,398,277	1,493,412	2,891,689
Change in Cash Basis Net Assets					434,509	(134,690)	299,819
Cash Basis Net Assets Beginning of Year					607,190	997,904	1,605,094
Cash Basis Net Assets End of Year					\$ 1,041,699	\$ 863,214	\$ 1,904,913

See Notes to Financial Statements

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets:			
Restricted:			
Streets -----	\$ 12,295	\$ -	\$ 12,295
Urban Renewal Purposes -----	276,956	-	276,956
Debt Service -----	41,227	69,612	110,839
Other Purposes -----	988	-	988
Unrestricted -----	710,233	793,602	1,503,835
Total Cash Basis Net Assets	\$ 1,041,699	\$ 863,214	\$ 1,904,913

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	General	Special Revenue			Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax			
Receipts:							
Property Tax	\$ 172,531	\$ -	\$ -	\$ -	\$ 77,629	\$ 59,996	\$ 310,156
Tax Increment Financing Collections	-	-	268,794	-	-	-	268,794
Other City Tax	-	-	-	86,705	-	-	86,705
Licenses and Permits	2,295	-	-	-	-	-	2,295
Use of Money and Property	54,046	-	5,266	1,494	986	3,452	65,244
Intergovernmental	115,153	112,496	31,782	-	-	151,389	410,820
Charges for Service	136,521	-	-	-	-	-	136,521
Special Assessments	-	-	-	-	24,963	-	24,963
Miscellaneous	332,471	-	-	-	-	38,330	370,801
Total Receipts	813,017	112,496	305,842	88,199	103,578	253,167	1,676,299
Disbursements:							
Public Safety	173,321	-	-	-	-	32,209	205,530
Public Works	36,000	112,146	-	-	-	14,979	163,125
Health and Social Services	-	-	-	-	-	-	-
Culture and Recreation	274,182	-	-	-	-	11,889	286,071
Community and Economic Development	-	-	87,277	86,706	-	128,737	302,720
General Government	123,386	-	-	-	-	8,417	131,803
Debt Service	-	-	-	-	208,664	-	208,664
Capital Projects	21,103	-	-	-	-	-	21,103
Total Disbursements	627,992	112,146	87,277	86,706	208,664	196,231	1,319,016
Excess (Deficiency) of Receipts Over (Under) Disbursements	185,025	350	218,565	1,493	(105,086)	56,936	357,283
Other Financing Sources (Uses):							
Operating Transfers In (Out)	82,402	-	(122,306)	(20,000)	130,445	12,258	82,799
Note Proceeds	412,157	-	104,209	-	-	-	516,366
Anticipatory Warrants Redeemed	(401,692)	-	(120,247)	-	-	-	(521,939)
Total Other Financing Sources (Uses)	92,867	-	(138,344)	(20,000)	130,445	12,258	77,226
Net Change in Cash Balances	277,892	350	80,221	(18,507)	25,359	69,194	434,509
Cash Balances Beginning of Year	183,086	11,945	196,735	92,093	15,868	107,463	607,190
Cash Balances End of Year	\$ 460,978	\$ 12,295	\$ 276,956	\$ 73,586	\$ 41,227	\$ 176,657	\$ 1,041,699
Cash Basis Fund Balances:							
Reserved for Debt Service	\$ -	\$ -	\$ -	\$ -	\$ 41,227	\$ -	\$ 41,227
Unreserved:							
General Fund	460,978	-	-	-	-	-	460,978
Special Revenue Funds	-	12,295	276,956	73,586	-	176,657	539,494
Total Cash Basis Fund Balances	\$ 460,978	\$ 12,295	\$ 276,956	\$ 73,586	\$ 41,227	\$ 176,657	\$ 1,041,699

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds				
	Water	Gas	Sewer Rental	Solid Waste Collection	Total
Operating Receipts:					
Use of Money and Property	\$ -	\$ 1,870	\$ -	\$ -	\$ 1,870
Charges for Service	193,038	1,585,756	293,400	79,982	2,152,176
Total Operating Receipts	193,038	1,587,626	293,400	79,982	2,154,046
Operating Disbursements:					
Business Type Activities	222,978	1,442,081	309,593	76,985	2,051,637
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	(29,940)	145,545	(16,193)	2,997	102,409
Non-operating Receipts (Disbursements):					
Intergovernmental	11,500	-	-	-	11,500
Interest on Investments	4,855	9,041	4,539	142	18,577
Revenue Note Proceeds	575,000	-	914,000	-	1,489,000
General Obligation Note Proceeds	68,634	-	-	-	68,634
Anticipatory Warrants Redeemed	(638,061)	-	-	-	(638,061)
Debt Service	(64,494)	-	(16,061)	-	(80,555)
Capital Projects	-	-	(1,023,395)	-	(1,023,395)
Total Non-operating Receipts (Disbursements)	(42,566)	9,041	(120,917)	142	(154,300)
Excess (Deficiency) of Receipts Over (Under) Disbursements	(72,506)	154,586	(137,110)	3,139	(51,891)
Other Financing Sources (Uses):					
Operating Transfers In (Out)	(12,333)	(68,133)	(2,333)	-	(82,799)
Net Change in Cash Balances	(84,839)	86,453	(139,443)	3,139	(134,690)
Cash Balances at Beginning of Year	319,873	495,312	166,677	16,042	997,904
Cash Balances at End of Year	\$ 235,034	\$ 581,765	\$ 27,234	\$ 19,181	\$ 863,214
Cash Basis Fund Balances:					
Reserved for Debt Service	\$ 69,612	\$ -	\$ -	\$ -	\$ 69,612
Unreserved	165,422	581,765	27,234	19,181	793,602
Total Cash Basis Fund Balances	\$ 235,034	\$ 581,765	\$ 27,234	\$ 19,181	\$ 863,214

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sanborn, Iowa is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity

For financial reporting purposes, the City of Sanborn has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set for criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These primary government financial statements present only the amounts of the City of Sanborn and not its component unit – Sanborn Electric and Telecommunications Utility. Disclosures about the component unit are not included because the component unit has been audited separately, and a report has been issued under separate cover. The audited financial statements are available at the Sanborn Electric and Telecommunications Utility office.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Northwest Iowa Landfill Association, E-911 Board, Northwest Iowa League of Cities Board, Northern Municipal Distributors Group, O'Brien County Economic Development Board, Vector Safety Board and the Northwest Iowa Planning Commission.

B. Basis of Presentation

Government-Wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for projects financed by tax increment financing.

The Local Option Sales Tax Fund is used to account for receipts and disbursements relating to local option sales tax.

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

The City reports the following major proprietary funds:

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

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The Sewer Rental Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Collection Fund accounts for the operation and maintenance of the City's solid waste collection activities.

C. Measurement Focus and Basis of Accounting

The City of Sanborn maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2005 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 insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3. For purposes of this report, certificates of deposit are not considered investments as they are subject to withdrawal upon demand.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation notes and revenue notes and bonds are as follows:

Year Ending June 30.	General Obligation Notes		Revenue Notes and Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 170,000	\$ 42,569	\$ 64,000	\$ 51,747	\$ 234,000	\$ 94,316
2007	175,000	36,030	65,000	49,903	240,000	85,933
2008	180,000	28,848	66,000	47,892	246,000	76,740
2009	190,000	21,172	72,000	45,748	262,000	66,920
2010	200,000	12,710	73,000	43,307	273,000	56,017
2011-2015	90,000	3,555	405,000	175,518	495,000	179,073
2016-2020	-	-	434,000	89,950	434,000	89,950
2021-2025	-	-	280,000	25,890	280,000	25,890
Total	<u>\$1,005,000</u>	<u>\$144,884</u>	<u>\$1,459,000</u>	<u>\$529,955</u>	<u>\$2,464,000</u>	<u>\$674,839</u>

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

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water revenue note and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) A deposit in the amount of \$56,978 shall be made to a water revenue note reserve account within the Enterprise Funds upon the delivery of the water revenue notes.
- (d) Additional monthly transfers of \$1,000 to a water improvement account shall be made until a balance of \$25,000 is accumulated. This account is restricted for the purpose of covering any deficiencies in the sinking or reserve accounts, or paying for improvements and extensions of the water utility.

NOTE 4 – ANTICIPATORY WARRANTS

Anticipatory warrants are warrants which are legally drawn on City funds but are not paid for lack of funds, in accordance with Chapter 74 of the Code of Iowa. The warrants bear interest at rates in effect at the time the warrants are first presented for redemption.

The City has issued \$1,160,000 in anticipatory warrants, at 1.75% per annum, for street and water distribution system improvements. Warrant activity for the year ended June 30, 2005 is as follows:

Beginning Balance -----	\$1,160,000
Warrants Issued -----	-
Warrants Redeemed -----	(1,160,000)
Ending Balance -----	<u>\$ -</u>

NOTE 5 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$26,872, \$27,141, and \$25,929, respectively, equal to the required contributions for each year.

NOTE 6 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. Earned but unused sick leave hours are for subsequent use only. These accumulations are not recognized as expenditures by the City until used or paid. The City's approximate liability for earned vacation at June 30, 2005 was \$16,766. This liability has been computed based on rates of pay in effect at June 30, 2005.

NOTE 7 – JOINT VENTURE

The City of Sanborn has a 46% interest in a joint venture with the City of Hartley to provide garbage collection service. The cities participate in the collection of garbage, which is under the general management of one representative of each City Council. The following information summarizes the activity of the joint venture through June 30, 2005:

Cash Balance at July 1, 2004 -----	\$ 5,325
Add Receipts -----	101,035
Less Disbursements -----	(98,962)
Cash Balance at June 30, 2005 -----	<u>\$ 7,398</u>

The City of Sanborn performs no receipts or disbursements functions for this joint venture. The City of Sanborn has a 46% interest in the assets, property and equipment, equity and net income. The above activity is not included in these financial statements.

NOTE 8 – DEFICIT FUND BALANCES

The Special Revenue Fund – Housing Grant Account had a deficit balance of \$22,817 at June 30, 2005. The deficit balance was a result of project costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of grant monies.

NOTE 9 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling \$2,270 during the year ended June 30, 2005.

NOTE 10 – ECONOMIC DEPENDENCY

The Water, Sewer and Gas enterprise funds of the City of Sanborn derived the following receipts from Associated Milk Producers, Inc. for the fiscal year ended June 30, 2005:

	<u>Amount</u>	<u>% of Total</u>
Sale of Water	\$ 65,460	33.9%
Sale of Gas	780,951	49.2%
Sewer Rental Fees	203,278	69.3%

NOTE 11 – RISK MANAGEMENT

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

NOTE 12 – COMMITMENTS

As of June 30, 2005, the City's commitments with contractors were as follows:

Project	Total Contract	Amounts Paid	Remaining Commitment
Wastewater Treatment Facilities Improvements	\$ 1,032,353	\$ 1,006,553	\$ 25,800

NOTE 13 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise - Gas	\$ 68,133
General	Enterprise – Water	7,333
General	Enterprise – Sewer	2,333
General	Debt Service	4,603
Debt Service	Special Revenue – Urban Renewal Tax Increment	115,048
Debt Service	Special Revenue – Local Option Sales Tax	20,000
Special Revenue:		
Low-Moderate Housing	Special Revenue – Urban Renewal Tax Increment	7,258
Enterprise – Water	Special Revenue – Employee Benefits	5,000
Total		<u>\$ 229,708</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources. Transfers also move available resources from funds to those funds with disbursements that need to be paid.

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS - PRIMARY GOVERNMENT
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2005

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Actual Variance
	Funds Actual	Funds Actual		Original	Final	
Receipts:						
Property Tax -----	\$ 310,156	\$ -	\$ 310,156	\$ 309,245	\$ 309,245	\$ 911
Tax Increment Financing Collections -----	268,794	-	268,794	250,000	250,000	18,794
Other City Tax -----	86,705	-	86,705	92,502	92,502	(5,797)
Licenses and Permits -----	2,295	-	2,295	2,535	2,535	(240)
Use of Money and Property -----	65,244	20,447	85,691	66,500	66,500	19,191
Intergovernmental -----	410,820	11,500	422,320	402,000	447,000	(24,680)
Charges for Service -----	136,521	2,152,176	2,288,697	1,506,825	2,306,825	(18,128)
Special Assessments -----	24,963	-	24,963	3,000	3,000	21,963
Miscellaneous -----	370,801	-	370,801	18,250	18,250	352,551
Total Receipts	1,676,299	2,184,123	3,860,422	2,650,857	3,495,857	364,565
Disbursements:						
Public Safety -----	205,530	-	205,530	151,425	201,425	(4,105)
Public Works -----	163,125	-	163,125	168,500	168,500	5,375
Health and Social Services -----	-	-	-	1,000	1,000	1,000
Culture and Recreation -----	286,071	-	286,071	315,375	315,375	29,304
Community and Economic Development -----	302,720	-	302,720	539,750	539,750	237,030
General Government -----	131,803	-	131,803	123,810	133,810	2,007
Debt Service -----	208,664	-	208,664	220,000	220,000	11,336
Capital Projects -----	543,042	-	543,042	312,500	644,500	101,458
Business Type Activities -----	-	3,793,648	3,793,648	2,345,680	3,725,680	(67,968)
Total Disbursements	1,840,955	3,793,648	5,634,603	4,178,040	5,950,040	315,437
Excess (Deficiency) of Receipts Over (Under) Disbursements	(164,656)	(1,609,525)	(1,774,181)	(1,527,183)	(2,454,183)	680,002
Other Financing Sources, Net	599,165	1,474,835	2,074,000	980,000	2,118,000	(44,000)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	434,509	(134,690)	299,819	(547,183)	(336,183)	636,002
Balance - Beginning of Period	607,190	997,904	1,605,094	1,238,359	1,238,359	366,735
Balance - End of Period	\$ 1,041,699	\$ 863,214	\$ 1,904,913	\$ 691,176	\$ 902,176	\$ 1,002,737

CITY OF SANBORN, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING

JUNE 30, 2005

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund or fund type. These ten functions are public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$1,772,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

**COMBINING SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2005**

	Special Revenue				
	Low - Moderate Housing	Housing Grant	Employee Benefits	Development	Total
Receipts:					
Property Tax -----	\$ -	\$ -	\$ 59,996	\$ -	\$ 59,996
Use of Money and Property -----	190	-	-	3,262	3,452
Intergovernmental -----	-	151,389	-	-	151,389
Miscellaneous -----	-	8,679	1,316	28,335	38,330
Total Receipts	190	160,068	61,312	31,597	253,167
Disbursements:					
Operating:					
Public Safety -----	-	-	32,209	-	32,209
Public Works -----	-	-	14,979	-	14,979
Culture and Recreation -----	-	-	11,889	-	11,889
Community and Economic Development -----	-	128,247	-	490	128,737
General Government -----	-	-	8,417	-	8,417
Total Disbursements	-	128,247	67,494	490	196,231
Excess (Deficiency) of Receipts Over (Under) Disbursements	190	31,821	(6,182)	31,107	56,936
Other Financing Sources (Uses):					
Operating Transfers In (Out) -----	7,258	-	5,000	-	12,258
Net Change in Cash Balances	7,448	31,821	(1,182)	31,107	69,194
Cash Balances Beginning of Year	4,510	(54,638)	2,170	155,421	107,463
Cash Balances End of Year	\$ 11,958	\$ (22,817)	\$ 988	\$ 186,528	\$ 176,657
Cash Basis Fund Balances:					
Unreserved:					
Special Revenue Funds -----	\$ 11,958	\$ (22,817)	\$ 988	\$ 186,528	\$ 176,657

SCHEDULE OF INDEBTEDNESS - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2005

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General Obligation Notes:									
Street and Utility Improvements -----	July 1, 1999	4.20% - 5.00%	\$ 600,000	\$ 365,000	\$ -	\$ 55,000	\$ 310,000	\$ 17,645	\$ -
Street and Storm Sewer Improvements --	July 1, 2000	5.20% - 5.70%	300,000	215,000	-	30,000	185,000	12,003	-
Street and Utility Improvements -----	June 15, 2004	1.90% - 3.95%	585,000	-	585,000	75,000	510,000	17,817	-
Total General Obligation Notes				\$ 580,000	\$ 585,000	\$ 160,000	\$ 1,005,000	\$ 47,465	\$ -
Anticipatory Warrants:									
Street and Water Distribution System Improvements -----	June 30, 2003	1.75%	1,160,000	\$ 1,160,000	\$ -	\$ 1,160,000	\$ -	\$ 10,150	\$ -
Revenue Notes and Bonds:									
Water -----	June 15, 2004	2.15% - 5.30%	575,000	\$ -	\$ 575,000	\$ 30,000	\$ 545,000	\$ 23,944	\$ -
Sewer -----	June 9, 2004	3.00%	916,000	-	914,000	-	914,000	13,822	-
				\$ -	\$ 1,489,000	\$ 30,000	\$ 1,459,000	\$ 37,766	\$ -

**BOND AND NOTE MATURITIES - PRIMARY GOVERNMENT
JUNE 30, 2005**

Year Ending June 30,	General Obligation Notes for Street and Utility Improvements						
	Date of Issue July 1, 1999		Date of Issue July 1, 2000		Date of Issue June 15, 2004		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
	2006	4.75%	\$ 55,000	5.50%	\$ 35,000	2.50%	
2007	4.80%	60,000	5.55%	35,000	2.95%	80,000	175,000
2008	4.85%	60,000	5.60%	35,000	3.30%	85,000	180,000
2009	4.90%	65,000	5.65%	40,000	3.55%	85,000	190,000
2010	5.00%	70,000	5.70%	40,000	3.75%	90,000	200,000
2011		-		-	3.95%	90,000	90,000
		<u>\$ 310,000</u>		<u>\$ 185,000</u>		<u>\$ 510,000</u>	<u>\$ 1,005,000</u>

Year Ending June 30,	Revenue Notes and Bonds				
	Water		Sewer		Total
	Date of Issue June 15, 2004		Date of Issue June 9, 2004		
	Interest Rates	Amount	Interest Rates	Amount	
2006	2.75%	\$ 30,000	3.00%	\$ 34,000	\$ 64,000
2007	3.20%	30,000	3.00%	35,000	65,000
2008	3.55%	30,000	3.00%	36,000	66,000
2009	3.80%	35,000	3.00%	37,000	72,000
2010	4.00%	35,000	3.00%	38,000	73,000
2011	4.20%	35,000	3.00%	40,000	75,000
2012	4.40%	35,000	3.00%	41,000	76,000
2013	4.55%	40,000	3.00%	42,000	82,000
2014	4.70%	40,000	3.00%	43,000	83,000
2015	4.85%	45,000	3.00%	44,000	89,000
2016	5.00%	45,000	3.00%	46,000	91,000
2017	5.10%	45,000	3.00%	47,000	92,000
2018	5.20%	50,000	3.00%	49,000	99,000
2019	5.30%	50,000	3.00%	50,000	100,000
2020		-	3.00%	52,000	52,000
2021		-	3.00%	53,000	53,000
2022		-	3.00%	55,000	55,000
2023		-	3.00%	56,000	56,000
2024		-	3.00%	58,000	58,000
2025		-	3.00%	58,000	58,000
		<u>\$ 545,000</u>		<u>\$ 914,000</u>	<u>\$1,459,000</u>

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

	Years Ended June 30,			
	2005	2004	2003	2002
Receipts:				
Property Tax -----	\$ 310,156	\$ 318,618	\$ 316,319	\$ 316,776
Tax Increment Financing Collections -----	268,794	251,102	235,347	171,521
Other City Tax -----	86,705	83,314	84,696	82,142
Licenses and Permits -----	2,295	2,617	2,300	2,440
Use of Money and Property -----	65,244	57,984	46,741	104,145
Intergovernmental -----	410,820	337,336	470,666	407,540
Charges for Service -----	136,521	145,180	127,419	131,671
Special Assessments -----	24,963	77,065	14,587	15,391
Miscellaneous -----	370,801	53,799	42,177	26,274
Total Receipts	\$ 1,676,299	\$ 1,327,015	\$ 1,340,252	\$ 1,257,900
Disbursements:				
Operating:				
Public Safety -----	\$ 205,530	\$ 182,565	\$ 153,944	\$ 142,645
Public Works -----	163,125	609,805	239,587	133,718
Health and Social Services -----	-	1,000	-	1,000
Culture and Recreation -----	286,071	253,035	239,738	253,036
Community and Economic Development -----	302,720	442,190	432,916	283,660
General Government -----	131,803	154,852	125,728	122,398
Debt Service -----	208,664	232,014	227,023	226,270
Capital Projects -----	21,103	-	-	-
Total Disbursements	\$ 1,319,016	\$ 1,875,461	\$ 1,418,936	\$ 1,162,727

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

To the Honorable Mayor and
Members of the City Council:

We have audited the primary government financial statements of the City of Sanborn, Iowa, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 28, 2005. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

Business services that save you money:

- Business & individual tax preparation • Mid-year tax planning • Year-round tax planning
- Pension, estate & retirement planning • Budgeting & financial planning • Financial projections
- Small business management help • Computer consulting • IRS representation • Litigation support

For your convenience:

- Direct access to the principle ... always • Short phone consultations at no cost
- Early morning, evening & Saturday hours • Ten-day turnaround on financial statements
- Meetings at your place or ours

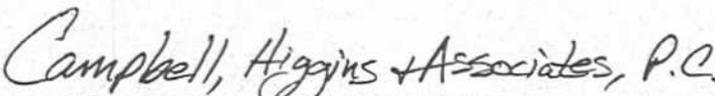
Compliance

As part of obtaining reasonable assurance about whether the City's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the primary government financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sanborn and other parties to whom the city of Sanborn may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City 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.


CAMPBELL, HIGGINS & ASSOCIATES, P.C.
Certified Public Accountants

October 28, 2005

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2005

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

I-A-05 Segregation of Duties – One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one employee performs most of the accounting functions of the City.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response – The City will look into ways to segregate duties between existing office employees.

Conclusion – Response accepted.

Part II: Findings Related to Statutory Reporting:

II-A-05 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution do not appear to have been exceeded during the year ended June 30, 2005.

II-B-05 Certified Budget – Although the budget was amended on May 23, 2005, the amendment occurred after disbursements exceeded the original budget for the public safety, capital projects, and business type activities functions. Also, total disbursements for the year ended June 30, 2005 exceeded the amounts budgeted (per the amended budget) in the public safety and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended in accordance with Chapter 384.18 of the Code of Iowa, care should have been taken to ensure that the amendment is done prior to disbursements exceeding the original budget and that the amendment is sufficient to prevent total disbursements from exceeding the amended budget.

Response – In the future, the City will attempt to amend the budget before disbursements exceed the budget and better estimates will be made to prevent the budget from being exceeded.

Conclusion – Response accepted.

II-C-05 Questionable Disbursements – No disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.

II-D-05 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Edwin Visser, Council Member Owner of Visser Bros. Excavating	Supplies and Contract Services	\$ 2,270

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Council Member listed above do not appear to represent a conflict of interest since total transactions with the individual were less than \$2,500 during the fiscal year.

II-F-05 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation – The City should publish annual individual salaries as required.

Response – The City will look into publishing annual individual salaries.

Conclusion – Response accepted.

II-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-05 Revenue Notes – The City has established the sinking, reserve and improvement accounts required by the revenue and bond note resolutions. However, the required monthly transfers to the sinking accounts were not made for June 2005. Also, the City is not in compliance with the "Net Revenue" requirement of the Sewer Revenue Bonds resolution.

Recommendation – The City should take steps to ensure that it is compliance with all revenue note and bond covenants.

Response – The City will correct the errors with the revenue and bond note resolutions and monitor any new and existing bond covenants for compliance.

Conclusion – Response accepted.

II-J-05 Financial Condition – As of June 30, 2005, the Special Revenue Housing Grant Fund had a deficit balance of \$22,817.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The City will monitor the Fund more closely to eliminate a deficit balance.

Conclusion – Response accepted.