CITY OF SANBORN, IOWA

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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CITY OF SANBORN, IOWA

OFFICIALS

Name	Title	Term Expires
	(Before January 2006)	
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 2006)	
Thomas Ginger	Mayor	January 2008
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 2010
Dennis Van Veldhuizen, Sr.	Council Member	January 2010
Jim Zeutenhorst	City Administrator	Appointed
Brian Pals	Clerk	Appointed
Candice Lyman	Deputy Clerk/Accountant	Appointed
Daniel DeKoter	Attorney	Appointed

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P.O. Box 237
515 1st Ave. East
Spencer, Iowa 51301

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, 2006, 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 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.

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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, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2006 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 and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 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 certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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, 2005 (which are not presented herein), and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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 fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Higgins + Associates, P.C.

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

October 11, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Total receipts decreased 29%, or approximately $1,747,000, from fiscal year 2005 to fiscal year 2006. A decrease in note and bond proceeds of $2,072,000 was the major factor in the overall decrease.
- Disbursements decreased 30%, or approximately $1,715,000, from fiscal year 2005 to fiscal year 2006. A decrease in business type activities disbursements of approximately $1,320,000 was the major factor in the overall decrease.
- The City's total cash basis net assets increased 14%, or approximately $267,000, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities increased approximately $95,000 and the net assets of the business type activities increased by approximately $172,000.

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 rental 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2. Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains 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 statement for proprietary funds is 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 $95,000 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, 2006	2005
Receipts and Transfers:		
Program Receipts:		
Charges for Services	$ 202	$ 196
Operating Grants, Contributions and Restricted Interest	226	308
Capital Grants, Contributions and Restricted Interest	237	373
General Receipts:		
Property Tax	583	579
Local Option Sales Tax	87	87
Grants and Contributions Not Restricted to Specific Purposes	47	58
Unrestricted Interest on Investments	34	15
Miscellaneous	8	29
Sale of Assets	18	32
Note Proceeds	-	516
Transfers, Net	99	83
Total Receipts and Transfers	1,541	2,276
Disbursements:		
Public Safety	156	205
Public Works	158	163
Health and Social Services	-	-
Culture and Recreation	263	286
Community and Economic Development	116	303
General Government	109	132
Debt Service	214	209
Capital Projects	430	543
Total Disbursements	1,446	1,841
Increase (Decrease) in Cash Basis Net Assets	95	435
Cash Basis Net Assets Beginning of Year	1,042	607
Cash Basis Net Assets End of Year	$ 1,137	$ 1,042

The City's total receipts and transfers for governmental activities decreased by 32%, or approximately $735,000. The significant decrease in receipts was primarily the result of note proceeds received in the prior year.

The total cost of all programs and services decreased by approximately $395,000, or 21%, due primarily to a decrease in public safety, community and economic development, and capital projects disbursements.

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, 2006	2005
Receipts:		
Program Receipts:		
Charges for Services:		
Water	$ 191	$ 193
Gas	1,957	1,588
Sewer Rental	487	293
Solid Waste Collection	81	80
Capital Grants, Contributions and Restricted Interest	-	11
General Receipts:		
Unrestricted Interest on Investments	26	19
Note Proceeds	2	1,558
Total Receipts	2,744	3,742
Disbursements and Transfers:		
Water	212	926
Gas	1,800	1,442
Sewer Rental	380	1,349
Solid Waste Collection	81	77
Transfers, Net	99	83
Total Disbursements and Transfers	2,572	3,877
Increase (Decrease) in Cash Basis Net Assets	172	(135)
Cash Basis Net Assets Beginning of Year	863	998
Cash Basis Net Assets End of Year	$ 1,035	$ 863

Total business type activities receipts for the fiscal year were $2.744 million compared to $3.742 million last year. This overall decrease was mainly due to a decrease in note proceeds of approximately $1,556,000, an increase of gas receipts of approximately $369,000, and an increase in sewer rental receipts of approximately $194,000. Total disbursements and transfers for the fiscal year were $2.572 million compared to $3.877 million last year. This overall decrease was mainly due to a decrease in water fund anticipatory warrants redeemed of approximately $638,000, an increase in gas fund disbursements of approximately $358,000, and a decrease in sewer capital project disbursements of approximately $1,023,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sanborn completed the year, its governmental funds reported a combined fund balance of approximately $1,137,000, an increase of approximately $95,000 over last year's total of approximately $1,042,000. 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 $234,000 from the prior year to approximately $695,000. This increase was mainly due to library building fund donations received in the current year of approximately $210,000.
- The Road Use Tax Fund cash balance increased approximately $7,200 from the prior year to approximately $19,500.
- The Urban Renewal Tax Increment Fund cash balance decreased by approximately $263,000 from the prior year to approximately $14,000. The decrease was the result of capital projects disbursements in the current year.
- The Local Option Sales Tax Fund cash balance increased approximately $60,000 from the prior year to approximately $133,000. This increase was mainly due to a reduction in disbursements in the current year.
- The Debt Service Fund cash balance increased by approximately $23,000 from the prior year to approximately $65,000. This increase was mainly due to the collection of special assessment receipts in the current year of approximately $19,000.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased by approximately $20,000 from the prior year to approximately $215,000, due primarily to a decrease in grant receipts.
- The Gas Fund cash balance increased by approximately $79,000 from the prior year to approximately $661,000, due mainly to current year receipts and financing sources exceeding current year disbursements and financing uses.
- The Sewer Rental Fund cash balance increased by approximately $113,000 from the prior year to approximately $141,000, due primarily to a reduction in capital project disbursements in the current year.
- The Solid Waste Collection cash balance increased by approximately $200 from the prior year to approximately $19,400.

BUDGETARY HIGHLIGHTS

The City of Sanborn had a budget amendment which was approved on May 22, 2006. The amendment provided for a total of $635,000 of additional disbursements in certain City departments. The amendment also provided for a total of $600,000 of additional charges for services receipts.

DEBT ADMINISTRATION

At June 30, 2006, the City had $2,232,000 in notes and other long-term debt, compared to $2,464,000 last year, as shown below.

Outstanding Debt at Year-End
(Expressed in Thousands)

	June 30, 2006	June 30, 2005
General Obligation Notes	$ 835	$ 1,005
Revenue Notes and Bonds	1,397	1,459
Total	$ 2,232	$ 2,464

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 $835,000 is significantly below its constitutional debt limit of $2,184,517.

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 2007 budget, tax rates, and fees charged for various City activities.

One of those factors is the economy. Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2005 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2006.

These indicators were taken into account when adopting the budget for fiscal year 2007. Total budgeted receipts are approximately $3,546,000, budgeted other financing sources are $700,000 and budgeted disbursements are approximately $4,746,000. If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately $500,000 by the close of fiscal year 2007.

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.

BASIC FINANCIAL STATEMENTS

CITY OF SANBORN, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	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	$ 156,047	$ 34,981	$ -	$ -	$ (121,066)	$ -	$ (121,066)
Public Works	158,089	-	-	132,423	(25,666)	-	(25,666)
Health and Social Services	-	-	-	-	-	-	-
Culture and Recreation	263,336	160,576	223,459	-	120,699	-	120,699
Community and Economic Development	115,815	-	-	104,593	(11,222)	-	(11,222)
General Government	109,260	6,140	-	-	(103,120)	-	(103,120)
Debt Service	213,768	-	2,796	-	(210,972)	-	(210,972)
Capital Projects	430,159	-	-	-	(430,159)	-	(430,159)
Total Governmental Activities	1,446,474	201,697	226,255	237,016	(781,506)	-	(781,506)
Business Type Activities:							
Water	212,351	191,127	-	-	-	(21,224)	(21,224)
Gas	1,800,266	1,956,937	-	-	-	156,671	156,671
Sewer Rental	379,857	487,579	-	-	-	107,722	107,722
Solid Waste Collection	80,882	80,855	-	-	-	(27)	(27)
Total Business Type Activities	2,473,356	2,716,498	-	-	-	243,142	243,142
Total	$ 3,919,830	$ 2,918,195	$ 226,255	$ 237,016	(781,506)	243,142	(538,364)
General Receipts:							
Property Tax Levied For:							
General Purposes					147,748	-	147,748
Insurance					23,489	-	23,489
Tax Increment Financing					274,714	-	274,714
Debt Service					77,155	-	77,155
Employee Benefits					59,538	-	59,538
Local Option Sales Tax					86,993	-	86,993
Grants and Contributions Not Restricted to Specific Purposes					47,500	-	47,500
Unrestricted Interest on Investments					34,011	26,413	60,424
Note Proceeds					-	2,000	2,000
Miscellaneous					8,133	-	8,133
Sale of Assets					18,490	-	18,490
Transfers					99,100	(99,100)	-
Total General Receipts and Transfers					876,871	(70,687)	806,184
Change in Cash Basis Net Assets					95,365	172,455	267,820
Cash Basis Net Assets Beginning of Year					1,041,699	863,214	1,904,913
Cash Basis Net Assets End of Year					$ 1,137,064	$ 1,035,669	$ 2,172,733

See Notes to Financial Statements

CITY OF SANBORN, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS - PRIMARY GOVERNMENT (CONTINUED)
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Activities	Business Type Activities	Total
Cash Basis Net Assets:			
Restricted:	$ 19,547	$ -	$ 19,547
Streets	14,235	-	14,235
Urban Renewal Purposes	64,588	94,846	159,434
Debt Service	787	-	787
Other Purposes	1,037,907	940,823	1,978,730
Unrestricted	$ 1,137,064	$ 1,035,669	$ 2,172,733
Total Cash Basis Net Assets			

CITY OF SANBORN, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Special Revenue					
	General	Road Use Tax	Urban Renewal Tax Increment	Local Option Sales Tax	Debt Service	Nonmajor	Total
Receipts:							
Property Tax	$ 171,237	$ -	$ -	$ -	$ 77,155	$ 59,538	$ 307,930
Tax Increment Financing Collections	-	-	274,714	-	-	-	274,714
Other City Tax	-	-	-	86,993	-	-	86,993
Licenses and Permits	2,640	-	-	-	-	-	2,640
Use of Money and Property	70,897	-	2,760	3,084	2,796	6,105	85,642
Intergovernmental	61,171	113,281	-	-	-	95,968	270,420
Charges for Service	140,143	-	-	-	-	-	140,143
Special Assessments	-	-	-	-	19,142	-	19,142
Miscellaneous	233,900	-	-	-	-	21,215	255,115
Total Receipts	679,988	113,281	277,474	90,077	99,093	182,826	1,442,739
Disbursements:							
Operating:							
Public Safety	125,710	-	-	-	-	30,337	156,047
Public Works	36,000	106,029	-	-	-	16,060	158,089
Health and Social Services	-	-	-	-	-	-	-
Culture and Recreation	250,307	-	-	-	-	13,029	263,336
Community and Economic Development	68	-	-	25,028	-	90,719	115,815
General Government	104,947	-	-	-	-	4,313	109,260
Debt Service	-	-	-	-	213,768	-	213,768
Capital Projects	-	-	430,159	-	-	-	430,159
Total Disbursements	517,032	106,029	430,159	25,028	213,768	154,458	1,446,474
Excess (Deficiency) of Receipts Over (Under) Disbursements	162,956	7,252	(152,685)	65,049	(114,675)	28,368	(3,735)
Other Financing Sources (Uses):							
Operating Transfers In (Out)	71,100	-	(110,036)	(5,251)	138,036	5,251	99,100
Note Proceeds	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	71,100	-	(110,036)	(5,251)	138,036	5,251	99,100
Net Change in Cash Balances	234,056	7,252	(262,721)	59,798	23,361	33,619	95,365
Cash Balances Beginning of Year	460,978	12,295	276,956	73,586	41,227	176,657	1,041,699
Cash Balances End of Year	$ 695,034	$ 19,547	$ 14,235	$ 133,384	$ 64,588	$ 210,276	$ 1,137,064
Cash Basis Fund Balances:							
Reserved for Debt Service	$ -	$ -	$ -	$ -	$ 64,588	$ -	$ 64,588
Unreserved:							
General Fund	695,034	-	-	-	-	-	695,034
Special Revenue Funds	-	19,547	14,235	133,384	-	210,276	377,442
Total Cash Basis Fund Balances	$ 695,034	$ 19,547	$ 14,235	$ 133,384	$ 64,588	$ 210,276	$ 1,137,064

See Notes to Financial Statements

CITY OF SANBORN, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Enterprise Funds				
	Water	Gas	Sewer Rental	Solid Waste Collection	Total
Operating Receipts:					
Use of Money and Property	$ -	$ 1,890	$ -	$ -	$ 1,890
Charges for Service	191,127	1,955,047	487,579	80,855	2,714,608
Total Operating Receipts	191,127	1,956,937	487,579	80,855	2,716,498
Operating Disbursements:					
Business Type Activities	157,683	1,800,266	261,668	80,882	2,300,499
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	33,444	156,671	225,911	(27)	415,999
Non-operating Receipts (Disbursements):					
Intergovernmental	-	-	-	-	-
Interest on Investments	6,256	16,167	3,752	238	26,413
Revenue Note Proceeds	-	-	2,000	-	2,000
Debt Service	(54,668)	-	(63,738)	-	(118,406)
Capital Projects	-	-	(54,451)	-	(54,451)
Total Non-operating Receipts (Disbursements)	(48,412)	16,167	(112,437)	238	(144,444)
Excess (Deficiency) of Receipts Over (Under) Disbursements	(14,968)	172,838	113,474	211	271,555
Other Financing Sources (Uses):					
Operating Transfers In (Out)	(5,100)	(94,000)	-	-	(99,100)
Net Change in Cash Balances	(20,068)	78,838	113,474	211	172,455
Cash Balances at Beginning of Year	235,034	581,765	27,234	19,181	863,214
Cash Balances at End of Year	$ 214,966	$ 660,603	$ 140,708	$ 19,392	$ 1,035,669
Cash Basis Fund Balances:					
Reserved for Debt Service	$ 88,699	$ -	$ 6,147	$ -	$ 94,846
Unreserved	126,267	660,603	134,561	19,392	940,823
Total Cash Basis Fund Balances	$ 214,966	$ 660,603	$ 140,708	$ 19,392	$ 1,035,669

See Notes to Financial Statements

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 and recreation, community and economic development, and general administrative services. The City also provides water, gas, sewer rental and solid waste collection for its citizens.

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 forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

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 service.

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 urban renewal 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, 2006, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

NOTE 2 – CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2006 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
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	90,000	3,555	75,000	40,768	165,000	44,323
2012-2016	-	-	421,000	160,325	421,000	160,325
2017-2021	-	-	396,000	72,835	396,000	72,835
2022-2025	-	-	229,000	17,430	229,000	17,430
Total	$ 835,000	$ 102,315	$ 1,397,000	$ 478,208	$ 2,232,000	$ 580,523

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

(a) The notes and bonds will only be redeemed from the future earnings of the enterprise activity and the note and bond 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 - PENSION AND RETIREMENT BENEFITS

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2006, 2005 and 2004 were $28,782, $26,872, and $27,141, respectively, equal to the required contributions for each year.

NOTE 5 – 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 disbursements by the City until used or paid. The City's approximate liability for earned vacation at June 30, 2006 was $19,261. This liability has been computed based on rates of pay in effect at June 30, 2006.

NOTE 6 – 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, 2006:

Cash Balance at July 1, 2005	$ 7,398
Add Receipts	117,268
Less Disbursements	(118,191)
Cash Balance at June 30, 2006	$ 6,475

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 7 – RELATED PARTY TRANSACTIONS

The City had business transactions between the City and City officials, totaling $4,156 during the year ended June 30, 2006.

NOTE 8 – 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, 2006:

	Amount	% of Total
Sale of Water	$ 59,664	31%
Sale of Gas	1,069,379	55%
Sewer Rental Fees and Assessments	318,016	65%

NOTE 9 – 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 10 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise – Gas	$ 66,000
General	Enterprise – Water	5,100
Debt Service	Special Revenue – Urban Renewal Tax Increment	138,036
Special Revenue:		
Housing Grant	Special Revenue – Local Option Sales Tax	1,251
Employee Benefits	Special Revenue – Local Option Sales Tax	4,000
Urban Renewal Tax Increment	Enterprise – Gas	28,000
Total		$ 242,387

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

CITY OF SANBORN, IOWA

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original	Budgeted Amounts Final	Final to Total Variance
Receipts:						
Property Tax	$ 307,930	$ -	$ 307,930	$ 307,930	$ 307,930	$ -
Tax Increment Financing Collections	274,714	-	274,714	274,000	274,000	714
Other City Tax	86,993	-	86,993	94,501	94,501	(7,508)
Licenses and Permits	2,640	-	2,640	2,825	2,825	(185)
Use of Money and Property	85,642	28,303	113,945	61,800	61,800	52,145
Intergovernmental	270,420	-	270,420	345,225	345,225	(74,805)
Charges for Service	140,143	2,714,608	2,854,751	2,021,550	2,621,550	233,201
Special Assessments	19,142	-	19,142	7,500	7,500	11,642
Miscellaneous	255,115	-	255,115	23,250	23,250	231,865
Total Receipts	1,442,739	2,742,911	4,185,650	3,138,581	3,738,581	447,069
Disbursements:						
Public Safety	156,047	-	156,047	216,525	216,525	60,478
Public Works	158,089	-	158,089	169,900	194,900	36,811
Health and Social Services	-	-	-	1,000	1,000	1,000
Culture and Recreation	263,336	-	263,336	330,325	330,325	66,989
Community and Economic Development	115,815	-	115,815	363,000	363,000	247,185
General Government	109,260	-	109,260	125,100	135,100	25,840
Debt Service	213,768	-	213,768	212,613	212,613	(1,155)
Capital Projects	430,159	-	430,159	637,500	637,500	207,341
Business Type Activities	-	2,473,356	2,473,356	1,812,870	2,412,870	(60,486)
Total Disbursements	1,446,474	2,473,356	3,919,830	3,868,833	4,503,833	584,003
Excess (Deficiency) of Receipts Over (Under) Disbursements	(3,735)	269,555	265,820	(730,252)	(765,252)	1,031,072
Other Financing Sources, Net	99,100	(97,100)	2,000	400,000	400,000	(398,000)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	95,365	172,455	267,820	(330,252)	(365,252)	633,072
Balance - Beginning of Period	1,041,699	863,214	1,904,913	1,594,657	1,594,657	310,256
Balance - End of Period	$ 1,137,064	$ 1,035,669	$ 2,172,733	$ 1,264,405	$ 1,229,405	$ 943,328

See Accompanying Independent Auditors' Report

CITY OF SANBORN, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon ten major classes of disbursements, known as functions, not by fund. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the 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 $635,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the debt service and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS - PRIMARY GOVERNMENT
AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue					
	Low - Moderate Housing	Housing Grant	Day Care / Preschool Grant	Employee Benefits	Development	Total
Receipts:						
Property Tax	$ -	$ -	$ -	$ 59,538	$ -	$ 59,538
Use of Money and Property	367	-	-	-	5,738	6,105
Intergovernmental	-	74,807	21,161	-	-	95,968
Miscellaneous	-	8,625	-	-	12,590	21,215
Total Receipts	367	83,432	21,161	59,538	18,328	182,826
Disbursements:						
Operating:						
Public Safety	-	-	-	30,337	-	30,337
Public Works	-	-	-	16,060	-	16,060
Culture and Recreation	-	-	-	13,029	-	13,029
Community and Economic Development	-	61,866	21,161	-	7,692	90,719
General Government	-	-	-	4,313	-	4,313
Total Disbursements	-	61,866	21,161	63,739	7,692	154,458
Excess (Deficiency) of Receipts Over (Under) Disbursements	367	21,566	-	(4,201)	10,636	28,368
Other Financing Sources (Uses):						
Operating Transfers In (Out)	-	1,251	-	4,000	-	5,251
Net Change in Cash Balances	367	22,817	-	(201)	10,636	33,619
Cash Balances Beginning of Year	11,958	(22,817)	-	988	186,528	176,657
Cash Balances End of Year	$ 12,325	$ -	$ -	$ 787	$ 197,164	$ 210,276
Cash Basis Fund Balances:						
Unreserved:						
Special Revenue Funds	$ 12,325	$ -		$ 787	$ 197,164	$ 210,276

CITY OF SANBORN, IOWA

SCHEDULE OF INDEBTEDNESS - PRIMARY GOVERNMENT
YEAR ENDED JUNE 30, 2006

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	$ 310,000	$ -	$ 55,000	$ 255,000	$ 15,088	$ -
Street and Storm Sewer Improvements --	July 1, 2000	5.20% - 5.70%	300,000	185,000	-	35,000	150,000	10,367	-
Street and Utility Improvements ----------	June 15, 2004	1.90% - 3.95%	585,000	510,000	-	80,000	430,000	17,113	-
Total General Obligation Notes				$ 1,005,000	$ -	$ 170,000	$ 835,000	$ 42,568	$ -
Revenue Notes and Bonds:									
Sewer ----------	June 9, 2004	3.00%	916,000	$ 914,000	$ 2,000	$ 34,000	$ 882,000	$ 27,448	$ -
Water ----------	June 15, 2004	2.15% - 5.30%	575,000	545,000	-	30,000	515,000	24,268	-
				$ 1,459,000	$ 2,000	$ 64,000	$ 1,397,000	$ 51,716	$ -

CITY OF SANBORN, IOWA

BOND AND NOTE MATURITIES - PRIMARY GOVERNMENT
JUNE 30, 2006

	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		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Total
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
		$ 255,000		$ 150,000		$ 430,000	$ 835,000

	Revenue Notes and Bonds				
	Water		Sewer		
	Date of Issue June 15, 2004		Date of Issue June 9, 2004		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total
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%	60,000	60,000
		$ 515,000		$ 882,000	$1,397,000

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

	Years Ended June 30,			
	2006	2005	2004	2003
Receipts:				
Property Tax	$ 307,930	$ 310,156	$ 318,618	$ 316,319
Tax Increment Financing Collections	274,714	268,794	251,102	235,347
Other City Tax	86,993	86,705	83,314	84,696
Licenses and Permits	2,640	2,295	2,617	2,300
Use of Money and Property	85,642	65,244	57,984	46,741
Intergovernmental	270,420	410,820	337,336	470,666
Charges for Service	140,143	136,521	145,180	127,419
Special Assessments	19,142	24,963	77,065	14,587
Miscellaneous	255,115	370,801	53,799	42,177
Total Receipts	$ 1,442,739	$ 1,676,299	$ 1,327,015	$ 1,340,252
Disbursements:				
Operating:				
Public Safety	$ 156,047	$ 205,530	$ 182,565	$ 153,944
Public Works	158,089	163,125	609,805	239,587
Health and Social Services	-	-	1,000	-
Culture and Recreation	263,336	286,071	253,035	239,738
Community and Economic Development	115,815	302,720	442,190	432,916
General Government	109,260	131,803	154,852	125,728
Debt Service	213,768	208,664	232,014	227,023
Capital Projects	430,159	21,103	-	-
Total Disbursements	$ 1,446,474	$ 1,319,016	$ 1,875,461	$ 1,418,936

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& ASSOCIATES, P.C.
The CPA firm that helps your small business thrive

P.O. Box 237
515 1st Ave. East
Spencer, Iowa 51301

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Sanborn, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's primary government financial statements listed in the table of contents and have issued our report thereon dated October 11, 2006. 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 an opinion 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 reportable 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-06 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 and Other Matters

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 or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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.

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

October 11, 2006

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Financial Statements:

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

I-A-06 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 try to segregate duties between office staff by reviewing operating procedures to have more internal control.

Conclusion – Response accepted.

Part II: Findings Related to Statutory Reporting:

II-A-06 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, 2006.

II-B-06 Certified Budget – Although the budget was amended on May 22, 2006, the amendment occurred after disbursements exceeded the original budget for the business type activities function. Also, total disbursements for the year ended June 30, 2006 exceeded the amounts budgeted (per the amended budget) in the debt service 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 – The City will try to amend the budget before disbursements are exceeded and will make sure the amended budget has disbursements high enough not to exceed the budget.

Conclusion – Response accepted.

II-C-06 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-06 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-06 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, Son and daughter-in-law own Visser Gravel & Excavating, Inc.	Materials and Contract Services	$ 4,156

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions listed above may represent a possible conflict of interest since total transactions were more than $2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

Response – The City will try to split work amongst different companies to reduce business transactions between the City and City officials' affiliations and will check with legal counsel on this situation to find out if it is a problem.

Conclusion – Response accepted.

II-F-06 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-06 Council Minutes – We were unable to obtain documentation of council approval as required by Chapter 372.13(6) of the Code of Iowa for one of the disbursements selected for testing.

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

Recommendation – All disbursements should be approved by the City council and this approval should be documented in the minutes. The City should publish annual individual salaries as required.

Response – The City will make a dedicated effort to make sure all disbursements are approved by the Council in the minutes and City staff will inform the Council on the Attorney General's opinion to publish salaries.

Conclusion –Response accepted.

II-H-06 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-06 Revenue Notes – The City has complied with the revenue bond and note resolutions.

II-J-06 Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City receives and retains only a copy of the front of each cancelled check.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City will contact the bank to obtain images of both sides of cancelled checks.

Conclusion – Response accepted.