

**SANBORN ELECTRIC AND
TELECOMMUNICATIONS UTILITY**

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

YEARS ENDED DECEMBER 31, 2005 AND 2004

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**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

OFFICIALS

Name	Title	Term Expires
Board of Trustees		
James P. Cravens	Chairman	June 30, 2007
Terry Boelter	Secretary	June 30, 2009
Charles Schroeck	Trustee	June 30, 2011
Utility Officials		
Jim Zeutenhorst	General Manager	Indefinite

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Sanborn Electric and Telecommunications Utility

We have audited the accompanying financial statements of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2005 and 2004, as listed in the table of contents. These financial statements are the responsibility of the Utility's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 opinion.

As discussed in Note 1, the financial statements present only the Sanborn Electric and Telecommunications Utility and do not purport to, and do not, present fairly the financial position of the City of Sanborn, Iowa, as of December 31, 2005 and 2004, and the changes in its financial position and cash flows, where applicable, for the years then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of December 31, 2005 and 2004, and the changes in its financial position and its cash flows thereof for the years then ended in conformity with U.S. generally accepted accounting principles.

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
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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 accordance with Government Auditing Standards, we have also issued a report dated May 31, 2006 on our consideration of the Sanborn Electric and Telecommunications Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 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, consisting 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 performed for the purpose of forming opinions on the aforementioned financial statements that collectively comprise the Sanborn Electric and Telecommunications Utility's basic financial statements. The supplementary information on pages 22 to 23 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 aforementioned basic financial statements taken as a whole.


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

May 31, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of Sanborn Electric and Telecommunications Utility provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2005. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Utility's cash and cash equivalents increased 21.5%, or approximately \$124,000, from December 31, 2004 to December 31, 2005.
- Operating revenue increased 10.7%, or approximately \$128,000, from 2004 to 2005.
- Operating expenses increased 3.1%, or approximately \$34,000, from 2004 to 2005.
- The Utility's total net assets increased 9.6%, or approximately \$189,000, from December 31, 2004 to December 31, 2005.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as other requirements as follows:

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

The Basic Financial Statements consist of a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows. These statements provide information about the activities of the Utility, on a comparative basis, including resources held by the Utility but restricted for specific purposes by creditors, contributors, grantors or enabling legislation.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, and Supplementary Information provides detailed information about the operations of the Utility.

REPORTING THE UTILITY AS A WHOLE

The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets

One of the most important questions asked about the Utility's finances is "Is the Utility as a whole better or worse off as a result of the year's activities?" The statement of net assets, and the statement of revenues, expenses and changes in net assets report information about the Utility's resources and its activities in a way that helps answer this question. These statements include all assets (restricted and unrestricted) and all liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Utility's net assets and changes in them. The Utility's total net assets – the difference between assets and liabilities – is one measure of the Utility's financial health or financial position. Over time, increases or decreases in the Utility's net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating. Other non-financial factors, such as changes in the Utility's customer base, changes in legislation and regulations, measures of the quantity and quality of services provided to its customers and local economic factors should also be considered to assess the overall financial health of the Utility.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

Financial Analysis of the Utility

The Utility's net assets are the difference between its assets and liabilities reported in the statements of net assets. The Utility's total net assets increased by \$188,994 (9.6%) from 2004 to 2005.

Assets, Liabilities and Net Assets

	<u>2005</u>	<u>2004</u>
Assets		
Current Assets -----	\$ 905,201	\$ 750,099
Net Capital Assets -----	2,667,766	2,769,296
Assets Whose Use is Limited and Other Assets -----	<u>730,323</u>	<u>675,628</u>
Total Assets	<u>4,303,290</u>	<u>4,195,023</u>
Liabilities		
Current Liabilities -----	326,098	321,825
Net Long-Term Debt -----	<u>1,815,000</u>	<u>1,900,000</u>
Total Liabilities	<u>2,141,098</u>	<u>2,221,825</u>

Financial Analysis of the Utility (Continued)**Assets, Liabilities and Net Assets (Continued)**

	<u>2005</u>	<u>2004</u>
Net Assets		
Invested in Capital Assets, Net of Related Debt -----	767,766	789,296
Restricted -----	535,387	466,344
Unrestricted -----	859,039	717,558
Total Net Assets	<u>\$ 2,162,192</u>	<u>\$ 1,973,198</u>

Restricted net assets increased by \$69,043 from 2004 to 2005. The increase is due to long-term debt retirement provisions.

Revenues, Expenses and Change in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenues -----	\$ 1,323,437	\$ 1,195,248
Operating Expenses -----	<u>1,119,332</u>	<u>1,085,826</u>
Operating Income (Loss) -----	204,105	109,422
Net Non-Operating Revenues (Expenses) -----	<u>52,102</u>	<u>(3,541)</u>
Net Income (Loss) Before Transfers -----	256,207	105,881
Transfers from (to) Other Entities -----	<u>(67,213)</u>	<u>(66,850)</u>
Increase (Decrease) in Net Assets -----	188,994	39,031
Net Assets at Beginning of Period -----	<u>1,973,198</u>	<u>1,934,167</u>
Net Assets at End of Period -----	<u>\$ 2,162,192</u>	<u>\$ 1,973,198</u>

Operating Revenues are the Utility's primary source of revenue and are generated from electric energy sales and other services to customers. For 2005, operating revenues increased \$128,189 from 2004 due primarily to a rate increase and an increase in total electric energy usage.

Operating Expenses represent the Utility's costs to provide electric energy and services to customers. For 2005, operating expenses increased by \$33,506 from 2004 due primarily to increases in purchased power costs.

Net Non-Operating Revenues (Expenses) include interest and dividend income, joint venture income, and interest expense. For 2005, the total non-operating revenues exceeded non-operating expenses by \$52,102 due primarily to an increase in joint venture income.

Transfers to Other Entities include transfers to the City of Sanborn and donations to local entities.

Budgetary Highlights

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearings. The budget may be amended during the year utilizing similar statutorily prescribed procedures. For the year ended December 31, 2005, there were no amendments to the original budget. In addition, the Utility's total disbursements for the year did not exceed the amounts budgeted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2005, the Utility had \$2,667,766 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the financial statements. In 2005, the Utility acquired or constructed capital assets costing \$31,893, financed by cash and cash equivalents.

Debt Administration

At December 31, 2005, the Utility had \$1,900,000 in long-term debt compared to \$1,980,000 last year.

	<u>2005</u>	<u>2004</u>
2001 Electric Revenue Notes -----	\$ 1,085,000	\$ 1,155,000
2004 Telecommunications Revenue Notes -----	<u>815,000</u>	<u>825,000</u>
Total Long-Term Debt -----	<u>\$ 1,900,000</u>	<u>\$ 1,980,000</u>

The Utility's formal debt issuances are subject to limitations imposed by state law. There have been no changes in the Utility's debt ratings during the past two years. More detailed information about the Utility's long-term liabilities is presented in Note 6 to the financial statements.

ECONOMIC FACTORS

The Utility continued to improve its financial position during the current year. However, the current condition of the economy in the state continues to be a concern for Utility officials. Some of the realities that may potentially become challenges for the Utility to meet are:

- Expenses will continue to increase.
- Facilities at the Utility require constant maintenance and upkeep.
- Technology continues to expand and current technology becomes outdated, presenting an ongoing challenge to maintain up-to-date technology at a reasonable cost.

The Utility anticipates the current year will be much like the last and will maintain a close watch over resources to maintain the Utility's ability to react to unknown issues.

CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide readers with a general overview of the Utility's finances and to show the Utility's accountability for the money it receives. If you have questions about this report and or need additional financial information, contact the Utility's administration office at 102 Main Street, Sanborn, Iowa.

BASIC FINANCIAL STATEMENTS

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**STATEMENTS OF NET ASSETS
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Assets				
Current Assets:				
Cash and Cash Equivalents -----	\$ 699,753	\$ 575,801	105,901	96,912
Accounts Receivable -----	128,202	112,762	49,194	50,603
Accrued Interest Receivable -----	3,047	2,647	3,069	2,634
Prepaid Expenses -----	3,499	3,499	51,520	56,804
Inventories -----	70,700	55,390	27,030	28,449
Total Current Assets	<u>905,201</u>	<u>750,099</u>	<u>85,000</u>	<u>80,000</u>
Assets Whose Use is Limited (Note 3):				
Advances for Transmission Capacity -----	161,330	164,555	326,098	321,825
Cash -----	4,384	6,423		
Total Assets Whose Use is Limited	<u>165,714</u>	<u>170,978</u>	<u>1,900,000</u>	<u>1,980,000</u>
Capital Assets (Note 4):			<u>(85,000)</u>	<u>(80,000)</u>
Capital Assets -----	5,061,798	5,029,905	1,815,000	1,900,000
Less Accumulated Depreciation -----	(2,394,032)	(2,260,609)		
Net Capital Assets	<u>2,667,766</u>	<u>2,769,296</u>	<u>2,141,098</u>	<u>2,221,825</u>
Other Assets:				
Restricted Note Funds (Note 6) -----	535,387	466,344	767,766	789,296
Investment in Joint Venture (Note 5) -----	14,784	22,494	535,387	466,344
Bond Discounts, Net of Accumulated Amortization of \$2,062 and \$688 for 2005 and 2004, Respectively -----	14,438	15,812	859,039	717,558
Total Other Assets	<u>564,609</u>	<u>504,650</u>	<u>\$2,162,192</u>	<u>\$1,973,198</u>
Total Assets	<u>4,303,290</u>	<u>4,195,023</u>		

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Operating Revenues:		
Electric Energy Sales -----	\$ 1,315,526	\$ 1,186,106
Other Sales -----	7,911	9,142
Total Operating Revenues	1,323,437	1,195,248
Operating Expenses:		
Power Production -----	711,768	655,639
Distribution -----	94,352	97,663
Commercial -----	44,690	49,678
Sales -----	535	949
Administrative and General -----	267,987	281,897
Total Operating Expenses	1,119,332	1,085,826
Operating Income (Loss)	204,105	109,422
Non-Operating Revenues (Expenses):		
Interest and Dividend Income -----	36,098	21,586
Joint Venture Net Income (Loss) (Note 5) -----	117,902	72,917
Interest Expense -----	(101,898)	(98,044)
Net Non-Operating Revenues (Expenses)	52,102	(3,541)
Net Income (Loss) Before Transfers	256,207	105,881
Transfers from (to) Other Entities -----	(67,213)	(66,850)
Increase (Decrease) in Net Assets	188,994	39,031
Net Assets at Beginning of Period	1,973,198	1,934,167
Net Assets at End of Period	\$ 2,162,192	\$ 1,973,198

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

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**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Cash Flows From Operating Activities:		
Cash Received from Customers -----	\$ 1,300,674	\$ 1,161,006
Cash Payments to Suppliers for Goods and Services -----	(815,884)	(747,102)
Cash Payments to Employees for Services -----	(177,320)	(189,841)
Net Cash Provided (Used) for Operating Activities	307,470	224,063
Cash Flows From Non-Capital Financing Activities:		
Transfers from (to) Other Entities -----	(67,213)	(66,850)
Cash Flows From Capital and Related Financing Activities:		
Purchases and Construction of Capital Assets -----	(31,893)	(116,689)
Proceeds from Long-Term Debt -----	-	808,500
Principal Payments on Long-Term Debt -----	(80,000)	(770,000)
Interest Payments on Long-Term Debt -----	(101,942)	(102,485)
Net Cash Provided (Used) by Capital and Related Financing Activities	(213,835)	(180,674)
Cash Flows From Investing Activities:		
Interest and Dividends on Investments -----	35,698	22,079
Net Cash (Contributed to) Received From Restricted Note Funds -----	(394)	(172,453)
Capital (Contributed to) Received From Joint Ventures -----	56,962	38,094
Net (Increase) Decrease in Advances for Transmission Capacity -----	3,225	21,159
Net Cash Provided (Used) by Investing Activities	95,491	(91,121)
Net Increase (Decrease) in Cash and Cash Equivalents	121,913	(114,582)
Cash and Cash Equivalents at Beginning of Period	582,224	696,806
Cash and Cash Equivalents at End of Period	\$ 704,137	\$ 582,224
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:		
Cash and Cash Equivalents -----	\$ 699,753	\$ 575,801
Cash Limited for a Specific Purpose -----	4,384	6,423
Total Cash and Cash Equivalents	\$ 704,137	\$ 582,224

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss) -----	\$ 204,105	\$ 109,422
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation -----	133,423	134,317
(Increase) Decrease in Assets:		
Accounts Receivable -----	(15,440)	(15,707)
Prepaid Expenses -----	-	(213)
Inventories -----	(15,310)	941
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Liabilities -----	8,989	14,493
Accounts Payable - City of Sanborn -----	(1,409)	(998)
Accrued Compensated Absences -----	435	343
Meter Deposits and Credit Balances -----	(5,284)	(21,022)
Deferred Revenue -----	(2,039)	2,487
 Net Cash Provided (Used) by Operating Activities	 \$ 307,470	 \$ 224,063

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanborn Electric and Telecommunications Utility is a component unit of the City of Sanborn whose funds are reported under separate cover utilizing a fiscal year ending June 30. The City, which is a political subdivision of Iowa, was first incorporated in 1880 and operates under the Home Rule provisions of the Constitution of Iowa. The board of trustees operates the Utility by the authority of Chapter 388 of the Code of Iowa. The Utility provides electric service to the residents and businesses of the City of Sanborn. Cable television, internet and telephone service is provided through the Utility's involvement with the Community Cable Television Agency of O'Brien County. The board of trustees are appointed by the mayor and approved by the city council to six-year terms.

Reporting Entity

For financial reporting purposes, the Sanborn Electric and Telecommunications Utility has included all funds, organizations, agencies, boards, commissions and authorities. The Utility has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utility are such that exclusion would cause the Utility's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Sanborn Electric and Telecommunications Utility has no component units which meet the Governmental Accounting Standard Board criteria.

Measurement Focus and Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Revenues are recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Utility applies all applicable GASB pronouncements for proprietary funds as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Interest Capitalization

The Utility capitalizes interest costs incurred on funds used to construct capital assets. The capitalized interest is recorded as part of the asset to which it relates and is written off over the asset's estimated useful life.

Assets, Liabilities and Net Assets

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

Cash and Cash Equivalents – The Utility considers savings accounts and all other highly liquid investments with a maturity of three months or less when purchased as well as all certificates of deposit to be cash equivalents.

Accounts Receivable – The Utility considers accounts receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Capital Assets – Capital Assets are carried at cost. The Utility computes depreciation on buildings and equipment using the straight-line method. Lives for the buildings are twenty to fifty years, while the equipment lives range from three to thirty years.

Statement of Revenues, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be ongoing, major or central to the production of Utility sales are reported as operating revenues and expenses. Peripheral or incidental transactions are reported as non-operating revenues and expenses.

Use of Net Assets

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

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2005 and 2004 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 Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of drainage district.

As of December 31, 2005 and 2004, the Utility had no investments as defined above other than certificates of deposit.

NOTE 3 – ASSETS WHOSE USE IS LIMITED

- A. Advances for Transmission Capacity - These funds were established by thirteen municipal utilities to help jointly construct transmission facilities to enable them to transmit their power needs from the Missouri Basin area to their respective communities.
- B. Cash - The Utility participates in the Low-Income Home Energy Assistance Program (LIHEAP) with Upper Des Moines Opportunity, Inc. LIHEAP helps homeowners and renters pay for a portion of their primary heating costs for the winter heating season. The assistance is based on household income, household size, type of fuel and type of housing. The amount of funds that have been received but have not been applied to a customer account as of the year-end are reflected in this category.

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2005 and 2004 is as follows:

	Balance December 31, 2004	Additions	Deletions	Balance December 31, 2005
Capital Assets Being Depreciated:				
Buildings -----	\$ 189,798	\$ -	\$ -	\$ 189,798
Machinery, Equipment, Transmission and Distribution System -----	2,376,915	31,893	-	2,408,808
Vehicles -----	178,755	-	-	178,755
Office Equipment -----	33,773	-	-	33,773
Cable and Internet System -----	1,458,114	-	-	1,458,114
Telephone System -----	<u>792,550</u>	<u>-</u>	<u>-</u>	<u>792,550</u>
Total Capital Assets Being Depreciated	<u>5,029,905</u>	<u>31,893</u>	<u>-</u>	<u>5,061,798</u>
Less Accumulated Depreciation for:				
Buildings -----	115,757	4,419	-	120,176
Machinery, Equipment, Transmission and Distribution System -----	1,757,252	48,141	-	1,805,393
Vehicles -----	160,733	4,326	-	165,059
Office Equipment -----	28,283	1,515	-	29,798
Cable and Internet System -----	138,736	48,604	-	187,340
Telephone System -----	<u>59,848</u>	<u>26,418</u>	<u>-</u>	<u>86,266</u>
Total Accumulated Depreciation	<u>2,260,609</u>	<u>133,423</u>	<u>-</u>	<u>2,394,032</u>
 Total Capital Assets, Net	 <u>\$ 2,769,296</u>	 <u>\$(101,530)</u>	 <u>\$ -</u>	 <u>\$ 2,667,766</u>

NOTE 5 – INVESTMENT IN JOINT VENTURE

A joint agreement creating Community Cable Television Agency of O'Brien County (the Agency) was signed in September, 1998. The parties involved are the cities of Sanborn (represented by the Utility), Primghar, Hartley and Paullina. The Agency was formed to provide cable television, telephone and internet services to the citizens of the participating communities. The Agency operates on a fiscal year ending each June 30th and is audited separately. As a result, the Utility's share of the net income (loss) of the Agency reflects the most recent audited amounts as of June 30, 2005. Audited financial statements of the Agency are available at their office located at 102 Main Street, Sanborn, Iowa.

The Utility's investment is classified as follows as of December 31, 2005 and 2004:

	2005	2004
Total Investment in Joint Venture -----	\$ 137,133	\$ 76,193
Less Amounts Restricted for Debt Service -----	<u>(122,349)</u>	<u>(53,699)</u>
Investment in Joint Venture – Unrestricted -----	<u>\$ 14,784</u>	<u>\$ 22,494</u>

NOTE 6 – LONG-TERM DEBT

A summary of changes in long-term debt for the year ended December 31, 2005 is as follows:

	Balance December 31, 2004			Issuances	Redemptions	Balance December 31, 2005
2001 Electric Revenue Notes -----	\$ 1,155,000	\$ -	\$ 70,000	\$ -	\$ 70,000	\$ 1,085,000
2004 Telecommunications Revenue Notes -----	<u>825,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>815,000</u>
Totals	<u>\$ 1,980,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ -</u>	<u>\$ 80,000</u>	<u>\$ 1,900,000</u>

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

Year Ending Dec. 31,	2001 Electric Revenue Capital Loan Notes		2004 Telecommunications Revenue Capital Loan Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 75,000	\$ 55,875	\$ 10,000	\$ 42,187	\$ 85,000	\$ 98,062
2007	80,000	51,980	10,000	41,848	90,000	93,828
2008	85,000	47,792	10,000	41,472	95,000	89,264
2009	90,000	43,308	15,000	40,966	105,000	84,274
2010	90,000	38,650	15,000	40,329	105,000	78,979
2011	95,000	33,793	15,000	39,661	110,000	73,454
2012	100,000	28,600	15,000	38,964	115,000	67,564
2013	110,000	22,955	20,000	38,117	130,000	61,072
2014	115,000	16,822	20,000	37,123	135,000	53,945
2015	120,000	10,330	20,000	36,097	140,000	46,427
2016	<u>125,000</u>	<u>3,500</u>	<u>665,000</u>	<u>17,789</u>	<u>790,000</u>	<u>21,289</u>
Totals	<u>\$ 1,085,000</u>	<u>\$ 353,605</u>	<u>\$ 815,000</u>	<u>\$ 414,553</u>	<u>\$ 1,900,000</u>	<u>\$ 768,158</u>

The 2001 electric revenue capital loan notes are dated February 2, 2001 and bear interest rates ranging from 4.65% to 5.60%. The 2004 telecommunications revenue capital loan notes are dated July 1, 2004 and bear interest rates ranging from 2.60% to 5.35%.

The resolutions providing for the issuance of the above revenue capital loan 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 a Sinking Fund for the purpose of making the note principal and interest payments when due.

NOTE 6 – LONG-TERM DEBT (CONTINUED)

- (c) Monthly transfers equal to 25% of the monthly transfers to the Sinking Fund shall be made to the Reserve Fund until specified minimum balances have been accumulated. This Reserve Fund is restricted for the purpose of making principal and interest payments when there are insufficient funds available in the Sinking Fund.
- (d) Monthly transfers shall be made to the Improvement Fund until specified minimum balances have been accumulated. Amounts in this fund are restricted for the purpose of making principal and interest payments when there shall be insufficient funds in the Sinking and Reserve Funds, paying for extraordinary maintenance and repairs, and paying for capital improvements and related systems expenses.

Restricted Note Funds

The Sinking Funds, Reserve Funds and Improvement Funds are combined and shown as Restricted Note Funds on the statements of net assets as follows as of December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Funds Maintained by the Utility -----	\$ 413,038	\$ 412,645
Restricted Portion of Investment in Joint Venture – Note 5 -----	<u>122,349</u>	<u>53,699</u>
Restricted Note Funds -----	<u>\$ 535,387</u>	<u>\$ 466,344</u>

Total interest costs were \$101,898 and \$98,044 in 2005 and 2004, respectively. No interest costs were capitalized.

NOTE 7 - COMPENSATED ABSENCES

Utility employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. Employees can carry over no more than 160 hours of unused vacation time from one calendar year to the next. The Utility's approximate liability for earned but unused vacation was \$3,069 and \$2,634 as of December 31, 2005 and 2004, respectively. These amounts have been accrued and are reflected on the attached financial statements.

Utility employees earn sick and personal leave days for subsequent use. The maximum accumulation is 120 days (960 hours) of sick leave and 2 days (16 hours) of personal leave. Employees are not paid for unused sick or personal leave upon termination, retirement, or death. Accordingly, no accrual for unused sick or personal leave has been record on the attached financial statements.

NOTE 8 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 3.70% of their annual salary and the Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2005 and 2004 were \$9,359 and \$8,803, respectively, equal to the required contributions for each year.

NOTE 9 - RELATED PARTY TRANSACTIONS

The Sanborn Savings Bank, Sanborn, Iowa is the official depository of the Sanborn Electric and Telecommunications Utility. One of the officers of the bank is on the board of trustees of the Sanborn Electric and Telecommunications Utility.

The Utility purchases commercial insurance from the agency that employs a member of the board of trustees.

NOTE 10 - CONCENTRATION OF CREDIT RISK

Sanborn Electric and Telecommunications Utility provides services to the residents and businesses of Sanborn, Iowa. The Utility grants credit to these customers.

NOTE 11 – RECLASSIFICATION

Certain items in the statement of net assets as of December 31, 2004 were reclassified to conform to the presentation as of December 31, 2005.

NOTE 12 - RISK MANAGEMENT

The Utility is exposed to various risks of loss related to torts; theft of, 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 Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three years.

REQUIRED SUPPLEMENTARY INFORMATION

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS)
YEAR ENDED DECEMBER 31, 2005**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	* Original and Final Budget	Variance Between Cash Basis and Final Budget
Receipts:					
Charges for Service	\$ 1,323,437	\$ (22,763)	\$ 1,300,674	\$ 1,231,200	\$ 69,474
Use of Money and Property	36,098	(400)	35,698	17,500	18,198
Miscellaneous	117,902	(60,941)	56,961	81,250	(24,289)
Total Revenues	1,477,437	(84,104)	1,393,333	1,329,950	63,383
Disbursements	1,221,230	(30,203)	1,191,027	1,219,226	(28,199)
Excess (Deficiency) of Receipts Over (Under) Disbursements	256,207	(53,901)	202,306	110,724	91,582
Other Financing Sources (Uses), Net	(67,213)	109,562	42,349	(78,000)	120,349
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)	188,994	55,661	244,655	32,724	211,931
Balance at Beginning of Period	1,973,198	(978,329)	994,869	1,061,998	(67,129)
Balance at End of Period	\$ 2,162,192	\$ (922,668)	\$ 1,239,524	\$ 1,094,722	\$ 144,802

* The original budget was not amended during the year ended December 31, 2005.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
BUDGETARY REPORTING**

DECEMBER 31, 2005

In accordance with the Code of Iowa, the Utility annually adopts a budget on the cash basis following required public notice and hearing for the enterprise fund. 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 and non-program. The Utility utilizes only the business-type function. During the year, there were no amendments to the budget.

For the year ended December 31, 2005, disbursements did not exceed the amounts budgeted.

SUPPLEMENTARY INFORMATION

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULES OF OPERATING REVENUES
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Electric Energy Sales:		
Residential -----	\$ 376,992	\$ 329,460
Residential - All Electric -----	97,290	81,947
Industrial -----	610,819	452,958
Commercial -----	132,187	140,297
Commercial - All Electric -----	28,076	86,797
Public Authorities -----	69,044	93,717
Security Lights -----	1,118	930
	1,315,526	1,186,106
Other Sales:		
Merchandise -----	5,441	3,946
Labor -----	1,415	1,395
Other Revenues -----	1,055	3,801
	7,911	9,142
Total Sales	\$ 1,323,437	\$ 1,195,248

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2005 AND 2004**

	2005	2004
Power Production Expenses:		
Plant Labor -----	\$ 31,588	\$ 29,477
Supplies -----	17,874	17,770
Purchased Power -----	662,306	608,392
Total Power Production Expenses	711,768	655,639
Distribution Expenses:		
Supervision Labor -----	48,576	44,239
Station and Line Labor -----	32,049	44,085
Miscellaneous Distribution -----	12,545	7,169
Street Lighting and Metering -----	1,182	2,170
Total Distribution Expenses	94,352	97,663
Commercial Expenses:		
Accounting and Collection Labor -----	42,948	48,026
Supplies -----	1,742	1,652
Total Commercial Expenses	44,690	49,678
Sales Expenses:		
Merchandise and Labor for Resale -----	535	949
Administrative and General Expenses:		
Advertising -----	3,347	3,063
City Hall -----	5,060	2,551
Depreciation -----	133,423	134,317
Dues and Subscriptions -----	8,587	8,365
Employee Benefits -----	47,582	48,103
Insurance -----	14,963	14,506
Meeting -----	2,032	6,347
Miscellaneous General -----	1,532	1,200
Office Supplies -----	2,836	3,778
Outside Services -----	15,769	24,490
Salaries and Wages -----	25,812	24,700
Transportation -----	7,044	8,880
Uniform -----	-	1,597
Total Administrative and General Expenses	267,987	281,897
Total Operating Expenses	\$ 1,119,332	\$ 1,085,826

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Board of Trustees of
Sanborn Electric and Telecommunications Utility

We have audited the financial statements of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated May 31, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. Comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have not been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion 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 Utility'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 the accompanying Schedule of Findings.

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

Internal Control Over Financial Reporting (Continued)

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 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-04 is a material weakness. The prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and customers of Sanborn Electric and Telecommunications Utility and other parties to whom the Utility 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 Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



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

May 31, 2006

SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2005

Part I: Findings Related to the Financial Statements:

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 the same person performs most of the accounting functions.

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

Response – The Utility will take steps to try to cross train existing staff and will try to divide certain accounting tasks between office personnel.

Conclusion – Response accepted.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA**

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2005**

Part II: Other Findings Relating to Statutory Reporting:

- II-A-05 Official Depositories – A resolution naming official depositories has been approved by the Utility. The maximum deposit amounts stated in the resolution do not appear to have been exceeded during the year ended December 31, 2005.
- II-B-05 Certified Budget – Disbursements for the year ended December 31, 2005 did not exceed the amounts budgeted.
- II-C-05 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-D-05 Travel Expense – No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-E-05 Business Transactions – Other than as disclosed in note 9 to the financial statements, no business transactions between the Utility and Utility officials or employees were noted.
- II-F-05 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-05 Board Minutes – No transactions were found that we believe should have been approved in the board minutes but were not.
- II-H-05 Revenue Notes – No violations of the provisions of the revenue notes were noted.
- II-I-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utility's investment policy were noted.
- II-J-05 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.