

**SANBORN ELECTRIC AND
TELECOMMUNICATIONS UTILITY**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS**

December 31, 2008 and 2007

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

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

OFFICIALS

December 31, 2008

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Trustees		
James P. Cravens	Chairman	June 30, 2013
Terry Boelter	Secretary	June 30, 2009
Charles Schroeck	Trustee	June 30, 2011
Utility Officials		
Jim Zeutenhorst	General Manager	Indefinite



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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Sanborn Electric and Telecommunications Utility
Sanborn, Iowa

We have audited the accompanying financial statements for the business type activity of Sanborn Electric and Telecommunications Utility (the Utility), a component unit of the City of Sanborn, Iowa, as of and for the year ended December 31, 2008, which collectively comprise the Utility's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Sanborn Electric and Telecommunications Utility as of December 31, 2007, were audited by other auditors whose opinion dated September 4, 2008 expressed an unqualified opinion on those statements.

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 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, 2008 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, 2008 and the changes in its financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 2009 on our consideration of the Sanborn Electric and Telecommunication Utility's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations,

contracts and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be 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 7 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the Sanborn Electric and Telecommunications Utility's basic financial statements. The supplementary information on pages 26 to 27 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.

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

September 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Sanborn Electric and Telecommunications Utility (the Utility) provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2008. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased 7%, or approximately \$110,000, from 2007 to 2008.
- ◆ Operating expenses increased 8%, or approximately \$105,000, from 2007 to 2008.
- ◆ The Utility's net assets increased 14%, or approximately \$402,000 during 2008.

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 Utility's financial activities.

Fund financial statements report the Utility's operations by providing information about its most significant fund.

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

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

The Other Supplementary Information in schedules 1 through 2 provides detailed information about operating revenues and expenses

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Fund Financial Statements

The Sanborn Electric and Telecommunications Utility utilizes one kind of fund:

- 1) Proprietary funds account for the Utility's enterprise activities. Enterprise funds are used to report business type activities. The Utility maintains one Enterprise Fund to provide

information for its activities. The electric fund is considered to be a major fund of the utility.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. In 2008 capital assets increased by 95% and represent 58% of total assets. This increase is due to continued work on the substation project. Total assets increased by approximately \$3,326,000 and liabilities increased by \$2,942,000 resulting in the increase in net assets of approximately \$403,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Current and other assets	\$ 2,074	\$ 1,290
Capital assets (net of depreciation)	4,713	2,417
Other assets	1,347	1,100
Total assets	8,134	4,807
Long-term debt outstanding	4,300	1,630
Other liabilities	564	310
Total liabilities	4,864	1,940
Net assets:		
Invested in capital assets, net of related debt	283	692
Restricted	712	554
Unrestricted	2,275	1,621
Total net assets	3,270	2,867
Total Liabilities and Net Assets	\$ 8,134	\$ 4,807

INDIVIDUAL MAJOR FUND ANALYSIS

As Sanborn Electric and Telecommunications Utility completed the year, it reported a combined fund balance of \$3.3 million, an increase of more than \$403,000 over last year's total of \$2.9 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

The following analysis focuses on the change in net assets for Sanborn Electric and Telecommunications Utility.

The increase in the fund balance was mainly the result of increased utility rates providing increased revenues to the utilities. The increased revenues lessened the effect of the increased expenses during the year and allowed Sanborn Electric and Telecommunications Utility to maintain its level of profitability.

Changes in Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Operating revenues	\$ 1,660	\$ 1,550
Operating expenses	1,386	1,281
Operating income	274	269
Net Non-Operating Revenues (Expenses)	204	199
Other financing sources (Uses)	-75	-77
Change in Net Assets	403	391
Net assets beginning of year	2,867	2,476
Net assets end of year	\$ 3,270	\$ 2,867

BUDGETARY HIGHLIGHTS

Sanborn Electric and Telecommunications Utility did not amend its budget during the year nor did the Utility exceed the budgeted limits for expenditures.

CAPTIAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2008, Sanborn Electric and Telecommunications Utility had approximately \$4.7 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$2,296,000 or 95% over last year.

Capital Assets of Business Type Activities at Year End (Expressed in Thousands)		
	Year ended December 31,	
	2008	2007
Land, buildings and improvements	\$ 62	\$ 62
Equipment and vehicles	2,339	2,287
Construction in Progress	2,312	67
Total	\$ 4,713	\$ 2,417

The largest additions to capital assets were continued capitalized expenses associated with the construction of the new substation.

Sanborn Electric and Telecommunications Utility had depreciation expense of \$129,507 in 2008 and total accumulated depreciation of \$2,272,231 at December 31, 2008.

LONG TERM DEBT/LIABILITIES

At December 31, 2008, the Utility had \$4,430,000 in revenue bonds outstanding compared to \$1,725,000 at December 31, 2007, as shown below.

	Outstanding debt of Business Type Activities at Year End (Expressed in Thousands)	
	Year ended December 31,	
	2008	2007
Revenue Bonds	\$ 4,430	\$ 1,725

Debt increased as the Utility issued \$2,800,000 in revenue bonds to finance the construction of a new substation.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The Utility continued to improve its financial position during the current year. However the current condition of the economy in the state continues to be a concern. Keeping these concerns in mind management anticipates that Sanborn will be able to maintain the current base rates utilizing a power cost adjustment in 2009 despite anticipated higher expenses. We do not anticipate the need for any additional bonding in 2009 and we will complete the new substation project. We continue to work with our partners to maximize our electric utility revenues while limiting our expenses and as such a proposed plan to lease transmission lines to the Missouri River Energy Services will stabilize our power supply into the future while providing revenue to the utilities.

CONTACTING THE UTILITY’S’ FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of Sanborn Electric and Telecommunications Utility’s finances and to provide accountability for the money the Utility receives. If you have questions about this report or need additional financial information, contact the Utility’s administration office at 102 State 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, 2008 AND 2007**

	2008	2007
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 1,800,707	\$ 1,105,663
Accounts Receivable - Trade	164,703	84,426
Accounts Receivable - Other	-	4,000
Accrued Interest Receivable	3,613	5,799
Prepaid Expenses	4,910	3,793
Inventories	100,521	85,805
Total Current Assets	2,074,454	1,289,486
Capital Assets:		
Capital assets (net of accumulated depreciation)	2,401,266	2,349,056
Construction work in process	2,311,560	67,474
	4,712,826	2,416,530
Other Assets:		
Investment in Joint Ventures	554,944	530,690
Restricted Assets:		
Cash and Cash Equivalents - Note Funds	579,387	421,033
Cash and Cash Equivalents - LIHEAP Funds	13,893	4,509
Investment - Note Funds	132,880	132,880
Bond Discounts (Net of Accumulated Amortization)	65,145	11,688
Total Other Assets	1,346,249	1,100,800
Total Assets	8,133,529	4,806,816

See Notes to Financial Statements

	<u>2008</u>	<u>2007</u>
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 240,669	\$ 120,688
Accounts Payable - City of Sanborn	53,064	16,244
Accrued Compensated Absences	6,599	4,982
Customer Deposits and Credit Balances	46,946	44,621
Accrued Interest Payable	72,746	23,798
Deferred Revenue	13,893	4,509
Revenue Notes - Current	130,000	95,000
Total Current Liabilities	<u>563,917</u>	<u>309,842</u>
Non-Current Liabilities:		
Revenue Notes - Non-Current	<u>4,300,000</u>	<u>1,630,000</u>
Total Liabilities	<u>4,863,917</u>	<u>1,939,842</u>
Net Assets		
Invested in capital assets, net of related debt	282,826	691,530
Restricted for:		
Debt Service	712,267	553,913
Unrestricted	<u>2,274,519</u>	<u>1,621,531</u>
Total Net Assets	<u>3,269,612</u>	<u>2,866,974</u>
Total Liabilities and Net Assets	<u>\$ 8,133,529</u>	<u>\$ 4,806,816</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, 2008 AND 2007**

	2008	2007
Operating Revenues:		
Electric Energy Sales	\$ 1,655,574	\$ 1,526,927
Other Sales	4,192	22,914
Total Operating Revenues	1,659,766	1,549,841
 Operating Expenses:		
Power Production	950,087	870,970
Distribution	94,431	101,958
Commercial	46,863	36,122
Sales	20	728
Administrative and General	294,978	271,031
Total Operating Expenses	1,386,379	1,280,809
 Operating Income (Loss)	273,387	269,032
 Non-Operating Revenues (Expenses):		
Interest and Dividend Income	64,419	59,964
Joint Venture Net Income	230,395	217,973
Gain on Disposal of Assets	-	14,237
Interest Expense	(90,308)	(93,526)
Net Non-Operating Revenues (Expenses)	204,506	198,648
 Net Income Before Transfers	477,893	467,680
Transfers (to) Other Entities	(75,255)	(76,902)
 Increase in Net Assets	402,638	390,778
 Net Assets at Beginning of Period	2,866,974	2,476,196
 Net Assets at End of Period	\$ 3,269,612	\$ 2,866,974

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Cash Flows From Operating Activities:		
Cash Received from Customers	\$ 1,595,194	\$ 1,559,677
Cash Payments to Suppliers for Goods and Services	(919,762)	(966,150)
Cash Payments to Employees for Services	(191,979)	(177,160)
Net Cash Provided by Operating Activities	483,453	416,367
Cash Flows From Non-Capital Financing Activities:		
Transfers (to) Other Entities	(75,255)	(76,902)
Cash Flows From Capital and Related Financing Activities:		
Capital (Contributed to) Received From Joint Ventures	206,141	104,660
Purchases and Construction of Capital Assets	(2,377,898)	(124,738)
Proceeds from Disposal of Capital Assets	-	10,237
Acquisition of unamortized discount	(56,000)	-
Proceeds from issuance of Revenue Notes	2,800,000	-
Principal Paid on Revenue Notes	(95,000)	(90,000)
Interest Paid on Revenue Notes	(89,264)	(93,827)
Net Cash Provided (Used) by Capital and Related Financing Activities	387,979	(193,668)
Cash Flows From Investing Activities:		
Interest and Dividends on Investments	66,605	57,212
Net Increase in Cash and Cash Equivalents	862,782	203,009
Cash and Cash Equivalents at Beginning of Period	1,531,205	1,328,196
Cash and Cash Equivalents at End of Period	\$ 2,393,987	\$ 1,531,205
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:		
Cash and Cash Equivalents	\$ 1,800,707	\$ 1,105,663
Cash and Cash Equivalents - Restricted Note Funds	579,387	421,033
Cash and Cash Equivalents - Restricted LIHEAP Funds	13,893	4,509
Total Cash and Cash Equivalents	\$ 2,393,987	\$ 1,531,205

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

**STATEMENTS OF CASH FLOWS - continued
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income	\$ 273,387	\$ 269,032
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Depreciation	132,049	124,244
(Increase) Decrease in Assets:		
Accounts Receivable	(76,277)	41,036
Prepaid Expenses	(1,117)	(255)
Inventories	(14,716)	(6,781)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	119,981	20,767
Accounts Payable - City of Sanborn	36,820	(1,305)
Accrued Compensated Absences	1,617	829
Customer Deposits and Credit Balances	2,325	(28,979)
Deferred Revenue	9,384	(2,221)
	\$ 483,453	\$ 416,367
Net Cash Provided by Operating Activities	\$ 483,453	\$ 416,367

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sanborn Electric and Telecommunications Utility (the Utility) is a component unit of the City of Sanborn, Iowa, whose funds are reported under separate cover utilizing a fiscal year ending June 30. The Board of Trustees operates the Utility by the authority of 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 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 Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

Fund Financial Statements – Sanborn Electric and Telecommunications Utility utilizes one fund (its major fund) to account for the electric utilities provided to the community's residents and to account for the Utility's investment in Community Cable Television Agency of O'Brien County that provides customers television, internet, and telephone service.

Measurement Focus and Basis of Accounting

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues for Sanborn Electric and Telecommunications Utility result from charges to customers for sales and services. Operating expenses include cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Assets, Liabilities and Net Assets - continued

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable as of December 31, 2008 and 2007 consisted of approximately 1020 uncollateralized accounts. Accounts receivable balances older than 90 days for the Utility were approximately \$9,000 for the years ended December 31, 2008 and 2007 respectively.

The Utility uses the allowance method to account for uncollectible accounts receivable.

Management uses its judgment based primarily on the length of time specific accounts have been outstanding in determining the estimated allowance for doubtful accounts and related accounts receivable write offs. A 1.5% per month penalty is charged for accounts older than 30 days.

The allowance for uncollectible accounts had a balance as of December 31, 2008 and 2007 of -0-.

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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2008 and 2007 (including certificates of deposit totaling \$957,500) 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; warrants or improvement certificates of a drainage district.

As of December 31, 2008 and 2007, the Utility had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

NOTE 3 – INVESTMENT IN JOINT VENTURES

The Utility is a participant in the Community Cable Television Agency of O'Brien County (the Agency), a joint venture with the Cities of Primghar, Hartley and Paullina 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 30, 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, 2008. Audited financial statements of the Agency are available at their office located at 102 South Eastern, Sanborn, Iowa. Summary financial information of the joint venture as of December 31, 2008 and 2007 is as follows:

	2008	2007
Assets	<u>\$ 1,473,317</u>	<u>\$ 1,278,372</u>
Liabilities	435,121	351,268
Equity	<u>1,038,196</u>	<u>927,104</u>
Total Liabilities and Equity	<u>\$ 1,473,317</u>	<u>\$ 1,278,372</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENT IN JOINT VENTURES – continued

	2008	2007
Operating Revenue	\$ 2,941,954	\$ 2,794,255
Less: Operating Expenses	2,316,289	2,114,180
Operating Income	625,665	680,075
Interest Income	30,492	35,740
Increase in Net Assets	656,157	715,815

The Utility's investment in the Agency is classified as follows as of December 31, 2008 and 2007:

	2008	2007
Total Investment in Joint Venture	\$ 280,657	\$ 259,408
Less Amount Restricted for Debt Service	(132,880)	(132,880)
Investment in Joint Venture – Unrestricted	\$ 147,777	\$ 126,528

The City is also a participant in the Missouri Basin Municipal Electric Cooperative Association (MBMECA), a joint venture for the construction and maintenance of power lines from the power source to the Northwest Iowa Power Cooperative (NIPCO). The construction of the lines is accomplished by NIPCO and there are no actual dedicated lines, but rather an agreement which guarantees the municipalities the right to draw power over the lines at a raw power cost without transmission charges. The Utility owned a 5.61% share as of December 31, 2008 and a 5.48% share as of December 31, 2007, with twelve other cities sharing in their ownership at varying percentages. The Utility's investment in the joint venture is accounted for by the equity method. Separately issued audited financial statements of the joint venture are available from MBMECA.

Summary financial information of MCMECA as of and for the year ended December 31, 2008 and 2007 is as follows:

	2008	2007
Assets	\$ 7,541,799	\$ 7,773,917
Liabilities	278,927	398,691
Equity	7,262,872	7,375,226
Total Liabilities and Equity	\$ 7,541,799	\$ 7,773,917

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

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – INVESTMENT IN JOINT VENTURES – continued

	2008	2007
Operating Revenue	\$ 955,472	\$ 971,654
Less: Operating Expenses	1,199,905	1,207,602
Operating Loss	(244,433)	(235,948)
Interest Income	132,079	175,399
Increase in Net Assets	\$ (112,354)	\$ (60,549)

The Utilities investment in MBMECA is classified as follows as of December 31, 2008 and 2007:

	2008	2007
Investment in Joint Ventures	\$ 407,167	\$ 404,162

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2008 and 2007 is as follows:

	December 31, 2008			Balance December 31, 2008
	Balance December 31, 2007	Additions	Retirements	
Capital Assets Not Being Depreciated:				
Construction work in progress	\$ 67,474	\$ 2,244,086	\$ -	\$ 2,311,560
Capital Assets Being Depreciated:				
Buildings	\$ 187,744	3,038	-	\$190,782
Machinery, Equipment, Transmission and Distribution System	1,911,618	27,779	-	1,939,397
Vehicles	124,422	149,825	-	274,247
Office Equipment	17,332	1,075	-	18,407
Cable and Internet System	1,458,114	0	-	1,458,114
Telephone System	792,550	0	-	792,550
Total Capital Assets Being Depreciated	4,491,780	181,717	-	4,673,497
Less Accumulated Depreciation for:				
Buildings	125,610	3,459	-	129,069

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS - continued

	Balance December 31, 2007	Additions	Retirements	Balance December 31, 2008
Machinery, Equipment, Transmission and Distribution System	1,464,958	39,174	-	1,504,132
Vehicles	116,459	10,153	-	126,612
Office Equipment	12,046	1,699	-	13,745
Cable and Internet System	284,548	48,604	-	333,152
Telephone System	139,103	26,418	-	165,521
Total Accumulated Depreciation	<u>2,142,724</u>	<u>129,507</u>	<u>-</u>	<u>2,272,231</u>
 Total Capital Assets, Net	 <u>\$ 2,416,530</u>	 <u>\$ 2,296,296</u>	 <u>-</u>	 <u>\$ 4,712,826</u>
 <u>December 31, 2007</u>				
	Balance January 1, 2007	Additions	Retirements	Balance December 31, 2007
Capital Assets Not Being Depreciated:				
Construction work in progress	<u>\$ -</u>	<u>\$ 67,474</u>	<u>\$ -</u>	<u>\$ 67,474</u>
Capital Assets Being Depreciated:				
Buildings	189,798	-	2,054	187,744
Machinery, Equipment, Transmission and Distribution System	1,942,640	55,438	86,460	1,911,618
Vehicles	182,922	-	58,500	124,422
Office Equipment	35,078	1,825	19,571	17,332
Cable and Internet System	1,458,114	-	-	1,458,114
Telephone System	792,550	-	-	792,550
Total Capital Assets Being Depreciated	<u>4,601,102</u>	<u>57,263</u>	<u>166,585</u>	<u>4,491,780</u>
Less Accumulated Depreciation for:				
Buildings	123,999	3,665	2,054	125,610
Machinery, Equipment, Transmission and Distribution System	1,512,575	38,843	86,460	1,464,958
Vehicles	169,801	5,158	58,500	116,459
Office Equipment	30,061	1,556	19,571	12,046

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS - continued

	Balance January 1, 2007	Additions	Retirements	Balance December 31, 2007
Cable and Internet System	235,944	48,604	-	284,548
Telephone System	112,685	26,418	-	139,103
Total Accumulated Depreciation	<u>2,185,065</u>	<u>124,244</u>	<u>166,585</u>	<u>2,142,724</u>
Total Capital Assets, Net	<u>\$ 2,416,037</u>	<u>\$ 493</u>	<u>\$ -</u>	<u>\$ 2,416,530</u>

NOTE 5 – LONG-TERM DEBT

A summary of changes in long-term debt for the years ended at December 31, 2008 and 2007 is as follows:

December 31, 2008

	Balance January 1, 2008	Issuances	Redemptions	Balance December 31, 2008
2001 Electric Revenue Notes	\$ 930,000	-	85,000	\$845,000
2008 Electric Revenue Bonds	-	2,800,000	-	2,800,000
2004 Telecommunications Revenue Note	795,000	-	10,000	785,000
Totals	<u>\$ 1,725,000</u>	<u>2,800,000</u>	<u>95,000</u>	<u>\$4,430,000</u>

December 31, 2007

	Balance January 1, 2007	Issuances	Redemptions	Balance December 31, 2007
2001 Electric Revenue Notes	\$ 1,010,000	-	80,000	\$ 930,000
2004 Telecommunications Revenue Note	805,000	-	10,000	795,000
Totals	<u>\$ 1,815,000</u>	<u>-</u>	<u>90,000</u>	<u>\$ 1,725,000</u>

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT - continued

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

Year Ending December 31,	Series 2001		Series 2008		2004 Telecommunications		Total	
	Interest Principal	4.65%-5.60% Interest	Interest Principal	3.10% - 4.85% Interest	Interest Principal	2.60% - 5.35% Interest	Principal	Interest
2009	90,000	45,625	25,000	63,108	15,000	40,966	130,000	149,699
2010	90,000	40,990	30,000	125,442	15,000	40,329	135,000	206,761
2011	95,000	36,310	30,000	124,453	15,000	39,661	140,000	200,424
2012	100,000	31,275	30,000	123,403	15,000	38,964	145,000	193,642
2013	110,000	25,925	25,000	122,293	20,000	38,118	155,000	186,336
2014	115,000	19,985	30,000	121,317	20,000	37,123	165,000	178,425
2015	120,000	13,660	30,000	120,088	20,000	36,098	170,000	169,846
2016	125,000	7,000	35,000	118,827	665,000	17,789	825,000	143,616
2017	-	-	165,000	117,323	-	-	165,000	117,323
2018	-	-	175,000	110,475	-	-	175,000	110,475
2019	-	-	180,000	103,037	-	-	180,000	103,037
2020	-	-	190,000	95,298	-	-	190,000	95,298
2021	-	-	200,000	86,938	-	-	200,000	86,938
2022	-	-	205,000	77,937	-	-	205,000	77,937
2023	-	-	215,000	68,610	-	-	215,000	68,610
2024	-	-	225,000	58,720	-	-	225,000	58,720
2025	-	-	235,000	48,258	-	-	235,000	48,258
2026	-	-	245,000	37,212	-	-	245,000	37,212
2027	-	-	260,000	25,575	-	-	260,000	25,575
2028	-	-	270,000	13,095	-	-	270,000	13,095
	<u>\$ 845,000</u>	<u>\$ 220,770</u>	<u>\$2,800,000</u>	<u>\$1,761,409</u>	<u>\$785,000</u>	<u>\$289,048</u>	<u>\$4,430,000</u>	<u>\$2,271,227</u>

The resolutions providing for the issuance of the above revenue capital load 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.
- 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.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT - continued

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, 2008 and 2007:

	2008	2007
Funds Maintained by the Utility	\$ 579,387	\$ 421,033
Restricted Portion of Investment in Joint Venture –	132,880	132,880
Restricted Note Funds	\$ 712,267	\$ 553,913

Total interest costs were \$140,755 (of which \$50,474 was capitalized) and \$93,526 in 2008 and 2007, respectively. No interest costs were capitalized in 2007.

NOTE 6 – 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 \$6,599 and \$4,982 as of December 31, 2008 and 2007, 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 recorded on the attached financial statements.

NOTE 7 - 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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 7 - PENSION AND RETIREMENT BENEFITS - continued

report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 4.10% (3.90% through June 30, 2008) of their annual salary and the Utility is required to contribute 6.35% (6.05% through June 30, 2008) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2008, 2007, and 2006 were \$9,800, \$10,058, and 9,135 respectively, equal to the required contributions for each year.

NOTE 8 – 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 9 – 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 calendar years.

NOTE 10 – COMMITMENTS

The Utility has entered into construction contracts totaling \$2,097,675 relating to the substation project. As of December 31, 2008, costs of approximately \$1,664,735 relating to these contracts had been incurred and paid. The remaining \$432,940 will be paid as work on the project progresses.

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, 2008**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Final Budget	Variance Between Cash Basis and Final Budget
Receipts:					
Charges for Services	\$ 1,659,766	\$ (64,572)	\$ 1,595,194	\$ 1,527,200	\$ 67,994
Use of Money and Property	64,419	2,186	66,605	55,000	11,605
Miscellaneous	230,395	(24,254)	206,141	99,500	106,641
Total Revenues	<u>1,954,580</u>	<u>(86,640)</u>	<u>1,867,940</u>	<u>1,681,700</u>	<u>186,240</u>
Disbursements	<u>1,476,687</u>	<u>2,253,216</u>	<u>3,729,903</u>	<u>5,062,790</u>	<u>(1,332,887)</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	477,893	(2,339,856)	(1,861,963)	(3,381,090)	1,519,127
Other Financing Sources (Uses), Net	<u>(75,255)</u>	<u>2,800,000</u>	<u>2,724,745</u>	<u>3,422,000</u>	<u>(697,255)</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)	402,638	460,144	862,782	40,910	821,872
Net Assets at Beginning of Period	<u>2,866,974</u>	<u>(1,335,769)</u>	<u>1,531,205</u>	<u>1,623,096</u>	<u>(91,891)</u>
Net Assets at End of Period	<u><u>\$ 3,269,612</u></u>	<u><u>\$ (875,625)</u></u>	<u><u>\$ 2,393,987</u></u>	<u><u>\$ 1,664,006</u></u>	<u><u>\$ 729,981</u></u>

See Notes to Financial Statements

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

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

YEAR ENDED DECEMBER 31, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for their financial statements.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

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. The Utility utilizes only the business-type function. During the year, there were no amendments to the budget.

Disbursements were within budgeted limits for the year ended December 31, 2008.

OTHER SUPPLEMENTARY INFORMATION

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

**SCHEDULES OF OPERATING REVENUES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Electric Energy Sales:		
Residential	\$ 446,114	\$ 431,345
Residential - All Electric	142,326	119,927
Industrial	819,049	738,087
Commercial	157,185	144,411
Commercial - All Electric	20,369	23,991
Public Authorities	69,459	68,026
Security Lights	1,072	1,140
	1,655,574	1,526,927
 Other Sales:		
Merchandise	(6)	3,830
Labor	690	1,965
Other Revenues	3,508	17,119
	4,192	22,914
 Total Sales	1,659,766	1,549,841

See Notes to Financial Statements

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

**SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
Power Production Expenses:		
Plant Labor	\$ 34,159	\$ 33,230
Supplies	20,756	18,124
Purchased Power	895,172	819,616
Total Power Production Expenses	950,087	870,970
Distribution Expenses:		
Supervision Labor	54,260	49,851
Station and Line Labor	30,323	33,138
Miscellaneous Distribution	6,432	14,542
Street Lighting and Metering	3,416	4,427
Total Distribution Expenses	94,431	101,958
Commercial Expenses:		
Accounting and Collection Labor	45,368	33,438
Supplies	1,495	2,684
Total Commercial Expenses	46,863	36,122
Sales Expenses:		
Merchandise and Labor for Resale	20	728
Administrative and General Expenses:		
Advertising	3,598	3,655
City Hall	6,536	4,771
Depreciation	129,507	124,244
Dues and Subscriptions	8,269	8,312
Employee Benefits	48,537	49,910
Insurance	20,350	18,051
Meeting	2,815	5,016
Miscellaneous General	4,940	2,572
Office Supplies	3,313	4,169
Outside Services	27,535	10,973
Salaries and Wages	29,487	28,332
Transportation	9,623	10,804
Uniform	468	222
Total Administrative and General Expenses	294,978	271,031
Total Operating Expenses	\$ 1,386,379	\$ 1,280,809

See Notes to Financial Statements



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

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

To the Board of Trustees of
Sanborn Electric and Telecommunications Utility:

We have audited the financial statements of Sanborn Electric and Telecommunication Utility, a component unit of the City of Sanborn, Iowa, as of and for the year ended December 31, 2008, and have issued our report thereon dated September 2, 2009. 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 Planning

In planning and performing our audit, we considered Sanborn Electric and Telecommunication Utility's (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, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Utility's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the Utility's internal control. We consider the deficiencies described in II-A-08 and II-B-08 of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Utility's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the deficiencies described in II-A-08 and II-B-08 are material weakness. Prior year significant deficiencies have been resolved except for II-A-08 and II-B-08.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of Utility. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Utility's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's response we did not audit the response and express no opinion on it.

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. The report is not intended and should not be used by anyone other than these specified parties.

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

September 2, 2009

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

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2008**

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant control deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements including material weaknesses.
- (c) The audit did not disclose any non-compliance, which is material to the financial statements.

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

**SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2008**

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

08-II-A 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 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 – This is difficult with the minimal number of staff but we will continue to work on better segregation of duties.

Conclusion - Response accepted.

08-II-B Adjusting Journal Entries – We identified a material adjustment that was necessary for accounts payable. A proper system of internal controls is capable of identifying and correcting the general ledger accounts in a timely manner.

Recommendation – We recommend that in your process of reconciling the month end balances, special attention should be given to areas susceptible to large adjustments.

Response – We perform regular reconciliations of all general ledger accounts and even though a proposed adjustment was material in amount it only affected balance sheet accounts and had no effect on our net assets for the year. We will however continue to reconcile all significant accounts that could affect our financial statements.

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, 2008**

Part III: Other Findings Related to Statutory Reporting:

- III-A-08 Certified Budget - Disbursements during the year ended December 31, 2008 were within budgeted limits.

- III-B-08 Questionable Disbursement - We noted no questionable disbursements in regard to the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- III-C-08 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

- III-D-08 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

- III-E-08 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.

- III-F-08 Board Minutes - No transactions were found that we believe should have been approved in the trustee minutes but were not.

- III-G-08 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

- III-H-08 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.