

**SANBORN ELECTRIC AND
TELECOMMUNICATIONS UTILITY**

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

December 31, 2009 and 2008

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

Table of Contents

| | <u>Page</u> |
|--|----------------|
| Officials | 1 |
| Independent Auditor's Report | 2-3 |
| Management's Discussion and Analysis | 4-7 |
| Basic Financial Statements: | |
| | <u>Exhibit</u> |
| Statements of Net Assets | A 8-9 |
| Statements of Revenues, Expenses and Changes in Net Assets | B 10 |
| Statements of Cash Flows | C 11-12 |
| Notes to Financial Statements | 13-26 |
| Required Supplementary Information: | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual – (Cash Basis) | 27 |
| Notes to Required Supplementary Information – Budgetary Reporting | 28 |
| Notes to Required Supplementary Information – Schedule of Funding Progress for the Retiree Health Plan | 29 |
| Other Supplementary Information: | |
| Schedules of Operating Revenues | 30 |
| Schedules of Operating Expenses | 31 |
| Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 32-33 |
| Schedule of Findings | 34-37 |

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

OFFICIALS

December 31, 2009

| <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, 2015 |
| Rick Maranell | 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, 2009, 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.

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.

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, 2009 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 27, 2010 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 27 through 29 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 30 to 31 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 27, 2010

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, 2009. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2009 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased 14%, or approximately \$239,000, from 2008 to 2009.
- ◆ Operating expenses increased 14%, or approximately \$196,000, from 2008 to 2009.
- ◆ The Utility's net assets increased 17%, or approximately \$553,000 during 2009.

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 and the funding progress for the retiree health care plan.

The two schedules in Other Supplementary Information provide 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 2009, capital assets increased by 9% and represent 61% of total assets. This increase is due to continued work on the substation project. Total assets increased by approximately \$252,000 and liabilities decreased by \$301,000 resulting in the increase in net assets of approximately \$553,000 dollars during the year.

| Net Assets of Business Type Activities (Expressed in Thousands) | | |
|--|-------------------------|----------|
| | Year ended December 31, | |
| | 2009 | 2008 |
| Current and other assets | \$ 1,969 | \$ 2,074 |
| Capital assets (net of depreciation) | 5,137 | 4,713 |
| Other assets | 1,280 | 1,347 |
| Total assets | 8,386 | 8,134 |
| Long-term debt outstanding | 4,167 | 4,300 |
| Other liabilities | 396 | 564 |
| Total liabilities | 4,563 | 4,864 |
| Net assets: | | |
| Invested in capital assets, net of related debt | 1,495 | 862 |
| Restricted | 791 | 712 |
| Unrestricted | 1,537 | 1,696 |
| Total net assets | 3,823 | 3,270 |
| Total liabilities and net assets | \$ 8,386 | \$ 8,134 |

INDIVIDUAL MAJOR FUND ANALYSIS

As Sanborn Electric and Telecommunications Utility completed the year, it reported net assets of \$3.8 million, an increase of approximately \$550,000 over last year's total of \$3.3 million.

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

The increase in net assets was mainly the result of contributed capital assets as a result of certain features at the new substation. Operating income improved as well in 2009.

| Changes in Net Assets of Business Type Activities (Expressed in Thousands) | | |
|---|-------------------------|-----------------|
| | Year ended December 31, | |
| | 2009 | 2008 |
| Operating revenues | \$ 1,899 | \$ 1,660 |
| Operating expenses | 1,582 | 1,386 |
| Operating income | 317 | 274 |
| Net non-operating revenues (expenses) | (24) | 204 |
| Other financing sources (uses) | 260 | (75) |
| Change in net assets | 553 | 403 |
| Net assets beginning of year | 3,270 | 2,867 |
| Net assets end of year | <u>\$ 3,823</u> | <u>\$ 3,270</u> |

BUDGETARY HIGHLIGHTS

Sanborn Electric and Telecommunications Utility did not amend its budget during the year. It did however, exceed the budgeted expenditures in fiscal year 2009.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2009, Sanborn Electric and Telecommunications Utility had approximately \$5.1 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is an increase (including additions and deletions net of depreciation) of approximately \$424,000 or 9% over last year.

| Capital Assets of Business Type Activities at Year End (Expressed in Thousands) | | |
|--|-------------------------|-----------------|
| | Year ended December 31, | |
| | 2009 | 2008 |
| Land, buildings and improvements | \$ 58 | \$ 62 |
| Equipment and vehicles | 2,218 | 2,339 |
| Construction in progress | 2,793 | 2,312 |
| Total | <u>\$ 5,069</u> | <u>\$ 4,713</u> |

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

Sanborn Electric and Telecommunications Utility had depreciation expense of \$153,796 in 2009 and total accumulated depreciation of \$2,363,555 at December 31, 2009.

LONG TERM DEBT/LIABILITIES

At December 31, 2009, the Utility had \$4,300,000 in revenue bonds outstanding compared to \$4,430,000 at December 31, 2008, as shown below.

| | Outstanding debt of Business Type Activities at Year End (Expressed in Thousands) | |
|---------------|--|----------|
| | Year ended December 31, | |
| | 2009 | 2008 |
| Revenue Bonds | \$ 4,300 | \$ 4,430 |

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 2010, despite anticipated higher expenses. The Utility does not anticipate the need for any additional bonding in 2010 and will complete the new substation project. The Utility continues to work with its partners to maximize electric utility revenues while limiting expenses. A proposed plan to lease transmission lines to the Missouri River Energy Services will stabilize 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, 2009 AND 2008**

| | 2009 | 2008 |
|--|--------------|--------------|
| Assets | | |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 1,622,234 | \$ 1,800,707 |
| Accounts Receivable - Trade | 223,372 | 164,703 |
| Accrued Interest Receivable | 3,021 | 3,613 |
| Prepaid Expenses | 3,345 | 4,910 |
| Inventories | 116,928 | 100,521 |
| Total Current Assets | 1,968,900 | 2,074,454 |
| Capital Assets: | | |
| Capital Assets (Net of Accumulated Depreciation) | 5,137,182 | 2,401,266 |
| Construction Work in Process | - | 2,311,560 |
| Total Capital Assets | 5,137,182 | 4,712,826 |
| Other Assets: | | |
| Investment in Joint Ventures | 413,132 | 554,944 |
| Restricted Assets: | | |
| Cash and Cash Equivalents - Note Funds | 657,718 | 579,387 |
| Cash and Cash Equivalents - LIHEAP Funds | 14,901 | 13,893 |
| Investment - Note Funds | 132,880 | 132,880 |
| Bond Discounts (Net of Accumulated Amortization) | 60,971 | 65,145 |
| Total Other Assets | 1,279,602 | 1,346,249 |
| Total Assets | \$ 8,385,684 | \$ 8,133,529 |

See Notes to Financial Statements

| | <u>2009</u> | <u>2008</u> |
|---|----------------------------|----------------------------|
| Liabilities | | |
| Current Liabilities: | | |
| Accounts Payable and Accrued Liabilities | \$ 92,428 | \$ 240,669 |
| Accounts Payable - City of Sanborn | 18,978 | 53,064 |
| Accrued Compensated Absences | 7,990 | 6,599 |
| Customer Deposits and Credit Balances | 56,032 | 46,946 |
| Accrued Interest Payable | 71,190 | 72,746 |
| Deferred Revenue | 14,901 | 13,893 |
| Revenue Notes - Current | 135,000 | 130,000 |
| Total Current Liabilities | <u>396,519</u> | <u>563,917</u> |
| Non-Current Liabilities: | | |
| OPEB Liabilities | 1,673 | - |
| Revenue Notes - Non-Current | 4,165,000 | 4,300,000 |
| Total Non-Current Liabilities | <u>4,166,673</u> | <u>4,300,000</u> |
| Total Liabilities | <u>4,563,192</u> | <u>4,863,917</u> |
| Net Assets | | |
| Invested in Capital Assets, Net of Related Debt | 1,494,900 | 862,213 |
| Restricted for: | | |
| Debt Service | 790,598 | 712,267 |
| Unrestricted | 1,536,994 | 1,695,132 |
| Total Net Assets | <u>3,822,492</u> | <u>3,269,612</u> |
| Total Liabilities and Net Assets | <u><u>\$ 8,385,684</u></u> | <u><u>\$ 8,133,529</u></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, 2009 AND 2008**

| | 2009 | 2008 |
|--|---------------------|---------------------|
| Operating Revenues: | | |
| Electric Energy Sales | \$ 1,880,183 | \$ 1,655,574 |
| Other Sales | 18,328 | 4,192 |
| Total Operating Revenues | 1,898,511 | 1,659,766 |
| Operating Expenses: | | |
| Power Production | 1,121,278 | 950,087 |
| Distribution | 104,656 | 94,431 |
| Commercial | 49,089 | 46,863 |
| Sales | 280 | 20 |
| Administrative and General | 306,373 | 294,978 |
| Total Operating Expenses | 1,581,676 | 1,386,379 |
| Operating Income (Loss) | 316,835 | 273,387 |
| Non-Operating Revenues (Expenses): | | |
| Interest and Dividend Income | 33,746 | 64,419 |
| Joint Venture Net Income | 48,774 | 230,395 |
| Gain on Disposal of Assets | 18,275 | - |
| Interest Expense | (125,221) | (90,308) |
| Net Non-Operating Revenues (Expenses) | (24,426) | 204,506 |
| Net Income Before Transfers and Contributed Capital | 292,409 | 477,893 |
| Transfers to Other Entities | (75,946) | (75,255) |
| Contributed Capital | 336,417 | - |
| Increase in Net Assets | 552,880 | 402,638 |
| Net Assets at Beginning of Period | 3,269,612 | 2,866,974 |
| Net Assets at End of Period | \$ 3,822,492 | \$ 3,269,612 |

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, 2009 AND 2008**

| | 2009 | 2008 |
|---|---------------------|---------------------|
| Cash Flows From Operating Activities: | | |
| Cash Received from Customers | \$ 1,849,936 | \$ 1,595,194 |
| Cash Payments to Suppliers for Goods and Services | (1,430,761) | (919,762) |
| Cash Payments to Employees for Services | (191,225) | (191,979) |
| Net Cash Provided by Operating Activities | 227,950 | 483,453 |
| Cash Flows From Non-Capital Financing Activities: | | |
| Transfers to Other Entities | (75,946) | (75,255) |
| Cash Flows From Capital and Related Financing Activities: | | |
| Capital Received from Joint Ventures | 190,585 | 206,141 |
| Purchases and Construction of Capital Assets | (490,650) | (2,377,898) |
| Proceeds from Disposal of Capital Assets | 18,275 | - |
| Contributed Capital | 336,418 | - |
| Acquisition of Unamortized Discount | - | (56,000) |
| Proceeds from Issuance of Revenue Notes | - | 2,800,000 |
| Principal Paid on Revenue Notes | (130,000) | (95,000) |
| Interest Paid on Revenue Notes | (210,104) | (89,264) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | (285,476) | 387,979 |
| Cash Flows From Investing Activities: | | |
| Interest and Dividends on Investments | 34,338 | 66,605 |
| Net Increase (Decrease) in Cash and Cash Equivalents | (99,134) | 862,782 |
| Cash and Cash Equivalents at Beginning of Period | 2,393,987 | 1,531,205 |
| Cash and Cash Equivalents at End of Period | \$ 2,294,853 | \$ 2,393,987 |
| Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets: | | |
| Cash and Cash Equivalents | \$ 1,622,234 | \$ 1,800,707 |
| Cash and Cash Equivalents - Restricted Note Funds | 657,718 | 579,387 |
| Cash and Cash Equivalents - Restricted LIHEAP Funds | 14,901 | 13,893 |
| Total Cash and Cash Equivalents | \$ 2,294,853 | \$ 2,393,987 |

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS - continued
YEARS ENDED DECEMBER 31, 2009 AND 2008**

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating Income | \$ 316,835 | \$ 273,387 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | |
| Depreciation | 153,796 | 132,049 |
| (Increase) Decrease in Assets: | | |
| Accounts Receivable | (58,670) | (76,277) |
| Prepaid Expenses | 1,565 | (1,117) |
| Inventories | (16,406) | (14,716) |
| Increase (Decrease) in Liabilities | | |
| Accounts Payable and Accrued Liabilities | (216,413) | 119,981 |
| Accounts Payable - City of Sanborn | 34,086 | 36,820 |
| Accrued Compensated Absences | 1,390 | 1,617 |
| OPEB Liability | 1,673 | - |
| Customer Deposits and Credit Balances | 9,086 | 2,325 |
| Deferred Revenue | 1,008 | 9,384 |
| | \$ 227,950 | \$ 483,453 |
| Net Cash Provided by Operating Activities | \$ 227,950 | \$ 483,453 |

See Notes to Financial Statements

**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 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 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 (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utility to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utility. The Utility has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

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, which provides 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, 2009 and 2008 consisted of approximately 1,020 uncollateralized accounts. Accounts receivable balances older than 90 days for the Utility were approximately \$15,224 and \$9,000 for the years ended December 31, 2009 and 2008 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, 2009 and 2008 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

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, 2009 and 2008 (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 ensure there will be no loss of public funds.

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

As of December 31, 2009 and 2008, 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, 2009. 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, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|------------------------------|--------------|--------------|
| Assets | \$ 1,311,074 | \$ 1,473,317 |
| Liabilities | 315,493 | 435,121 |
| Equity | 995,581 | 1,038,196 |
| Total Liabilities and Equity | \$ 1,311,074 | \$ 1,473,317 |

**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

| | <u>2009</u> | <u>2008</u> |
|-------------------------|-------------------|-------------------|
| Operating Revenue | \$ 2,754,868 | \$ 2,941,954 |
| Less Operating Expenses | <u>2,236,190</u> | <u>2,316,289</u> |
| Operating Income | 518,678 | 625,665 |
| Interest Income | <u>17,528</u> | <u>30,492</u> |
| Increase in Net Assets | <u>\$ 536,206</u> | <u>\$ 656,157</u> |

The Utility's investment in the Agency is classified as follows as of December 31, 2009 and 2008:

| | <u>2009</u> | <u>2008</u> |
|--|-----------------|-------------------|
| Total Investment in Joint Venture | \$ 140,443 | \$ 280,657 |
| Less Amount Restricted for Debt Service | <u>132,880</u> | <u>132,880</u> |
| Investment in Joint Venture – Unrestricted | <u>\$ 7,563</u> | <u>\$ 147,777</u> |

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 5.68% share as of December 31, 2009 and a 5.61% share as of December 31, 2008, 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 MBMECA as of and for the years ended December 31, 2009 and 2008 is as follows:

| | <u>2009</u> | <u>2008</u> |
|------------------------------|---------------------|---------------------|
| Assets | <u>\$ 7,610,578</u> | <u>\$ 7,541,799</u> |
| Liabilities | 464,875 | 278,927 |
| Equity | <u>7,145,703</u> | <u>7,262,872</u> |
| Total Liabilities and Equity | <u>\$ 7,610,578</u> | <u>\$ 7,541,799</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

| | 2009 | 2008 |
|--------------------------|--------------|--------------|
| Operating Revenue | \$ 902,409 | \$ 955,472 |
| Less: Operating Expenses | 1,148,786 | 1,199,905 |
| Operating Loss | (246,377) | (244,433) |
| Interest Income | 129,208 | 132,079 |
| Decrease in Net Assets | \$ (117,169) | \$ (112,354) |

The Utilities investment in MBMECA is classified as follows as of December 31, 2009 and 2008:

| | 2009 | 2008 |
|-----------------------------|------------|------------|
| Investment in Joint Venture | \$ 405,569 | \$ 407,167 |

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2009 and 2008 is as follows:

December 31, 2009

| | Balance December 31, 2008 | Additions | Retirements | Balance December 31, 2009 |
|---|---------------------------------|------------|--------------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Construction Work in Progress | \$ 2,311,560 | \$ 550,267 | \$ 2,861,827 | \$ - |
| Capital Assets Being Depreciated: | | | | |
| Buildings | \$ 190,782 | \$ - | \$ - | \$ 190,782 |
| Machinery, Equipment, Transmission and Distribution System | 1,939,397 | 24,391 | - | 1,963,788 |
| Vehicles | 274,247 | - | 59,624 | 214,623 |
| Office Equipment | 18,407 | 3,493 | 2,848 | 19,052 |
| Cable and Internet System | 1,458,114 | - | - | 1,458,114 |
| Telephone System | 792,550 | - | - | 792,550 |
| Substation | - | 2,861,828 | - | 2,861,827 |
| Total Capital Assets Being Depreciated | 4,673,497 | 2,889,712 | 62,472 | 7,500,737 |

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS - continued

Less Accumulated Depreciation for:

| | | | | |
|---|---------------------|----------------|---------------|---------------------|
| Buildings | 129,069 | 3,560 | - | 132,629 |
| Machinery, Equipment, Transmission and Distribution System | 1,504,132 | 40,432 | - | 1,544,564 |
| Vehicles | 126,612 | 11,542 | 59,624 | 78,530 |
| Office Equipment | 13,745 | 1,846 | 2,848 | 12,743 |
| Cable and Internet System | 333,152 | 48,604 | - | 381,756 |
| Telephone System | 165,521 | 26,418 | - | 191,939 |
| Substation | - | 21,394 | - | 21,394 |
| Total Accumulated Depreciation | <u>2,272,231</u> | <u>153,796</u> | <u>62,472</u> | <u>2,363,555</u> |
| Total Capital Assets, Net | <u>\$ 4,712,826</u> | | | <u>\$ 5,137,182</u> |

December 31, 2008

| | Balance December 31, 2007 | Additions | Retirements | Balance December 31, 2008 |
|---|---------------------------------|---------------------|-------------|---------------------------------|
| Capital Assets Not Being Depreciated: | | | | |
| Construction Work in Progress | <u>\$ 67,474</u> | <u>\$ 2,244,086</u> | <u>\$ -</u> | <u>\$ 2,311,560</u> |
| 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 | - | - | 1,458,114 |
| Telephone System | 792,550 | - | - | 792,550 |
| Total Capital Assets Being Depreciated | <u>4,491,780</u> | <u>181,717</u> | <u>-</u> | <u>4,673,497</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings | 125,610 | 3,459 | - | 129,069 |
| Machinery, Equipment, Transmission and Distribution System | 1,464,958 | 39,174 | - | 1,504,132 |

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

NOTES TO FINANCIAL STATEMENTS

NOTE 4 – CAPITAL ASSETS - continued

| | | | | |
|--------------------------------|---------------------|----------------|----------|---------------------|
| 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>\$ 4,712,826</u> |

NOTE 5 – LONG-TERM DEBT

A summary of changes in long-term debt for the years ended at December 31, 2009 and 2008 is as follows:

December 31, 2009

| | Balance January 1, 2009 | Issuances | Redemptions | Balance December 31, 2009 |
|--------------------------------------|-------------------------------|-------------|-------------------|---------------------------------|
| 2001 Electric Revenue Notes | \$ 845,000 | \$ - | \$ 90,000 | \$ 755,000 |
| 2008 Electric Revenue Bonds | 2,800,000 | - | 25,000 | 2,775,000 |
| 2004 Telecommunications Revenue Note | 785,000 | - | 15,000 | 770,000 |
| Totals | <u>\$ 4,430,000</u> | <u>\$ -</u> | <u>\$ 130,000</u> | <u>\$ 4,300,000</u> |

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> |

**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 Electric | | Series 2008 Electric | | 2004 Telecommunications | | Total | |
|-----------------------------|-------------------------|-----------------------|-------------------------|-----------------------|----------------------------|-----------------------|--------------------|--------------------|
| | Interest 4.65 – 5.60% | Interest 4.65 – 5.60% | Interest 3.10 – 4.85% | Interest 3.10 – 4.85% | Interest 2.60 – 5.35% | Interest 2.60 – 5.35% | Principal | Interest |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 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>\$755,000</u> | <u>\$175,145</u> | <u>\$2,775,000</u> | <u>\$1,698,301</u> | <u>\$770,000</u> | <u>\$248,082</u> | <u>\$4,300,000</u> | <u>\$2,121,528</u> |

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.
- 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

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

NOTES TO FINANCIAL STATEMENTS

NOTE 5 – LONG-TERM DEBT - continued

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 are 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, 2009 and 2008:

| | 2009 | 2008 |
|---|------------|------------|
| Funds Maintained by the Utility | \$ 657,718 | \$ 579,387 |
| Restricted Portion of Investment in Joint Venture | 132,880 | 132,880 |
| Restricted Note Funds | \$ 790,598 | \$ 712,267 |

Total interest costs were \$212,723 (of which \$87,500 was capitalized) and \$140,755 in 2009 and 2008, respectively.

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 \$7,990 and \$6,599 as of December 31, 2009 and 2008, 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.

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

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

Plan members are required to contribute 4.30% (4.10% through June 30, 2009) of their annual salary and the Utility is required to contribute 6.65% (6.35% through June 30, 2009) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2009, 2008, and 2007 were \$ 10,491 \$9,800, and \$10,058 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, errors and omissions, injuries to employees, natural disasters, and theft of, damage to and destruction of assets. These risks are covered by the purchase of commercial insurance. The Utility assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three calendar years.

NOTE 10 – SUBSTATION CONSTRUCTION

The Utility has entered into construction contracts totaling \$2,092,808 relating to the substation project. The project was substantially completed in 2009, with \$56,216 remaining to be paid to close out the contracts. This remaining balance will be paid as project punch lists are cleared up and retainages released.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Sanborn Electric and Telecommunications Utility implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* for the year ended December 31, 2009.

Plan Description. The Utility operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 3 retired members in the plan. Participants must be age 55 or older at retirement.

The medical coverage is administered by Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit subsidy. The implicit subsidies result in an OPEB liability.

Funding Policy. The contribution requirements of plan members are established and may be amended by the Utility. The Utility currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation. The Utility’s annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility’s annual OPEB cost for the year ended December 31, 2009, the amount actually contributed to the plan and changes in the Utility’s net OPEB obligation:

| | 2009 |
|--|----------|
| Annual required contribution | \$ 1,673 |
| Interest on net OPEB obligation | - |
| Adjustment to annual required contribution | - |
| Annual OPEB cost | 1,673 |
| Net OPEB obligation beginning of year | - |
| Net OPEB obligation end of year | \$ 1,673 |

For calculation of the net OPEB obligation, the actuary has set the transition day as January 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended December 31, 2009.

For the year ended December 31, 2009, the Utility did not contribute to the medical plan.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continued

The Utility’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of December 31, 2009 are summarized as follows:

| Year Ended | Annual OPEB Cost | Annual OPEB Cost Contributed | Net OPEB Obligation |
|-------------------|------------------|---------------------------------|------------------------|
| December 31, 2009 | \$ 1,673 | \$ 0 | \$ 1,673 |

Funded Status and Funding Progress. As of January 1, 2009, the most recent actuarial valuation date for the period January 1, 2009 through December 31, 2009, the actuarial accrued liability was \$17,062, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$17,062. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$170,000 and the ratio of the UAAL to covered payroll was 10%. As of December 31, 2009, there were no trust fund assets.

Actuarial Methods and Assumptions. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of the January 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

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

NOTES TO FINANCIAL STATEMENTS

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) - continued

Mortality rates are from the RP2000 Combined Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed based on national averages.

Projected claim costs of the medical plan are \$684 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 12 – CONCENTRATIONS

For the years ended December 31, 2009 and 2008, one customer of Sanborn Electric and Telecommunications Utility accounted for approximately 25% of the total electricity sales.

NOTE 13 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 27, 2010 the date the financial statements were issued.

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, 2009**

| | Actual Accrual Basis | Accrual Adjustments | Actual Cash Basis | Final Budget | Variance Between Cash Basis and Final Budget |
|--|----------------------------|------------------------|-------------------------|---------------------|--|
| Receipts: | | | | | |
| Charges for Services | \$ 1,898,511 | \$ (48,575) | \$ 1,849,936 | \$ 1,724,450 | \$ 125,486 |
| Use of Money and Property | 33,746 | 592 | 34,338 | 45,000 | (10,662) |
| Miscellaneous | 67,049 | 141,811 | 208,860 | 89,750 | 119,110 |
| Total Revenues | <u>1,999,306</u> | <u>93,828</u> | <u>2,093,134</u> | <u>1,859,200</u> | <u>233,934</u> |
| | | | | | |
| Disbursements | <u>1,706,897</u> | <u>745,842</u> | <u>2,452,739</u> | <u>2,175,977</u> | <u>276,762</u> |
| | | | | | |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | 292,409 | (652,014) | (359,605) | (316,777) | (42,828) |
| | | | | | |
| Other Financing Sources (Uses) Net | <u>260,471</u> | <u>-</u> | <u>260,471</u> | <u>(78,000)</u> | <u>338,471</u> |
| | | | | | |
| Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses) | 552,880 | (652,014) | (99,134) | (394,777) | 295,643 |
| | | | | | |
| Net Assets at Beginning of Period | <u>3,269,612</u> | <u>(875,625)</u> | <u>2,393,987</u> | <u>2,131,658</u> | <u>262,329</u> |
| | | | | | |
| Net Assets at End of Period | <u>\$ 3,822,492</u> | <u>\$ (1,527,639)</u> | <u>\$ 2,294,853</u> | <u>\$ 1,736,881</u> | <u>\$ 557,972</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 COMPARISON**

YEAR ENDED DECEMBER 31, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for 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 exceeded the budgeted limits for the year ended December 31, 2009.

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

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –
SCHEDULE OF FUNDING PROGRESS FOR THE
RETIREE HEALTH PLAN
(In Thousands)**

YEAR ENDED DECEMBER 31, 2009

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (b) | Unfunded AAL (UAAL) (c) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (b-a)/c |
|-----------------------------|--|--|-----------------------------------|------------------------------|-------------------------------|---|
| January 1, 2009 | \$ -0- | \$ 17,062 | \$ 17,062 | 0.00% | \$174,000 | 10% |

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

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, 2009 AND 2008**

| | 2009 | 2008 |
|-------------------------------|--------------|--------------|
| Electric Energy Sales: | | |
| Residential | \$ 467,391 | \$ 446,114 |
| Residential - All Electric | 150,309 | 142,326 |
| Industrial | 1,008,197 | 819,049 |
| Commercial | 162,974 | 157,185 |
| Commercial - All Electric | 16,836 | 20,369 |
| Public Authorities | 73,475 | 69,459 |
| Security Lights | 1,001 | 1,072 |
| | 1,880,183 | 1,655,574 |
| Other Sales: | | |
| Labor | 680 | 690 |
| Other Revenues | 17,648 | 3,502 |
| | 18,328 | 4,192 |
| Total Sales | \$ 1,898,511 | \$ 1,659,766 |

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, 2009 AND 2008**

| | 2009 | 2008 |
|--|--------------|--------------|
| Power Production Expenses: | | |
| Plant Labor | \$ 36,404 | \$ 34,159 |
| Supplies | 24,988 | 20,756 |
| Purchased Power | 1,059,886 | 895,172 |
| Total Power Production Expenses | 1,121,278 | 950,087 |
| Distribution Expenses: | | |
| Supervision Labor | 58,693 | 54,260 |
| Station and Line Labor | 19,793 | 30,323 |
| Miscellaneous Distribution | 25,545 | 6,432 |
| Street Lighting and Metering | 626 | 3,416 |
| Total Distribution Expenses | 104,657 | 94,431 |
| Commercial Expenses: | | |
| Accounting and Collection Labor | 47,374 | 45,368 |
| Supplies | 1,715 | 1,495 |
| Total Commercial Expenses | 49,089 | 46,863 |
| Sales Expenses: | | |
| Merchandise and Labor for Resale | 280 | 20 |
| Administrative and General Expenses: | | |
| Advertising | 3,756 | 3,598 |
| City Hall | 5,138 | 6,536 |
| Depreciation | 153,796 | 129,507 |
| Dues and Subscriptions | 4,332 | 8,269 |
| Employee Benefits | 48,645 | 48,537 |
| Insurance | 18,359 | 20,350 |
| OPEB Expense | 1,673 | - |
| Meeting | 2,928 | 2,815 |
| Miscellaneous General | 10,545 | 4,940 |
| Office Supplies | 4,551 | 3,313 |
| Outside Services | 14,814 | 27,535 |
| Salaries and Wages | 30,352 | 29,487 |
| Transportation | 7,330 | 9,623 |
| Uniforms | 153 | 468 |
| Total Administrative and General Expenses | 306,372 | 294,978 |
| Total Operating Expenses | \$ 1,581,676 | \$ 1,386,379 |

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, 2009, and have issued our report thereon dated September 27, 2010. 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 as a basis for designing 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we believe to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described at II-B-09 in the Schedule of Findings to be a material weakness.

A *significant* deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described at II-A-09 in the Schedule of Findings to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free 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*. We did however identify certain immaterial instances of noncompliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2009, 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 27, 2010

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

**SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2009**

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, 2009**

Part II: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

II-A-09 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.

II-B-09 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, 2009**

Part III: Other Findings Related to Statutory Reporting:

III-A-09 Certified Budget - Disbursements during the year ended December 31, 2009 exceeded the amounts budgeted. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if needed.

Conclusion – Response accepted.

III-B-09 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-09 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

III-D-09 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.

III-E-09 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-09 Board Minutes - We noted that for the month of July a list of the bills was not included with the board minutes for the Trustees to approve.

Recommendation – Chapter 380.4 of the Code of Iowa and the Utility's internal control system require that the Utility's expenditures be published with a description of the purpose for the expenditure. We recommend that the Utility implement a procedure to verify and document that all expenditures are published in accordance with the Code of Iowa.

Response – We have regularly published our expenditures as required, however due to an oversight we did not publish the expenditures that would normally have been published in July. We will review our procedures to ensure that all future expenditures are published as required.

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, 2009**

III-G-09 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

III-H-09 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.