

CITY OF SANBORN, IOWA

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

JUNE 30, 2011

**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		4-9
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	11
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Governmental Funds	C	12
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	13
Reconciliation of the Statement of Cash Receipts, Disbursements and Changes in Cash Balances to the Statement of Activities and Net Assets – Proprietary Funds	E	14
Notes to Financial Statements		15-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		26
Notes to Required Supplementary Information – Budgetary Reporting		27

Other Supplementary Information:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	28
Schedule of Indebtedness	2	29
Bond and Note Maturities	3	30
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4	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		34-38

CITY OF SANBORN, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Thomas Ginger	Mayor	January 2014
Duane Van Veldhuizen	Mayor Pro-tem	January 2012
Aaron Alons	Council Member	January 2012
Brian Visser	Council Member	January 2012
Ron Schott	Council Member	January 2014
Michael Benner	Council Member	January 2014
Jim Zeutenhorst	City Administrator	Appointed
Becki Hurtig	Clerk	Appointed
Candice Lyman	Deputy Clerk/Accountant	Appointed
Daniel DeKoter	Attorney	Appointed



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

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Sanborn, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City of Sanborn's (the City) basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As described in Note 11, the City has chosen to present condensed financial information for its discretely presented component unit since complete financial statements, presented in accordance with accounting standards generally accepted in the United States of America, for the component unit for the year ended December 31, 2010, which was also audited by us, are available. The report, dated September 16, 2011, expressed an unqualified opinion on the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund, and the aggregate remaining information of the City of Sanborn as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2012 on our consideration of the City of Sanborn's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 26 through 27 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 inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sanborn's basic financial statements. We have previously audited the City's financial statements for the two years ended June 30, 2010 (none of which are presented herein). We issued unqualified opinions on those financial statements. The primary government financial statements for the four years ended June 30, 2008 (none of which are presented herein) were audited by other auditors. Those audit reports expressed unqualified opinions on the primary government financial statements for the four years ended June 30, 2008. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the primary government's basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the aforementioned primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned primary government financial statements taken as a whole.

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

March 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Sanborn, Iowa provides this Management's Discussion and Analysis of its primary government financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The City's total receipts for governmental activities decreased by approximately \$1.3 million, reflecting the 2010 receipt of a \$1.5 million bond issuance. Receipts in other categories remained relatively static.
- Disbursements from the City's governmental activities increased by approximately \$1.2 million in fiscal year 2011 from fiscal year 2010. Disbursements increased by approximately \$182,000 in community and economic development, decreased by \$74,000 in debt service, decreased \$130,000 in public safety and decreased by \$684,000 in capital projects from June 30, 2011 to June 30, 2010. Culture and recreation expenditures increased by approximately \$1,841,000 due to disbursements related to the Aquatic Center.
- The City's total cash basis net assets decreased \$1.2 million from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased by approximately \$1,160,000 and the assets of the business type activities decreased by approximately \$45,000.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds, the City's indebtedness, and the Governmental Funds' cash receipts and disbursements for the year.

BASIS OF ACCOUNTING

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

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

Fund Financial Statements

The City has two kinds of funds:

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

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

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business-type activities. The City maintains four Enterprise Funds to provide separate information for the water, gas, sewer rental and solid waste collection funds. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

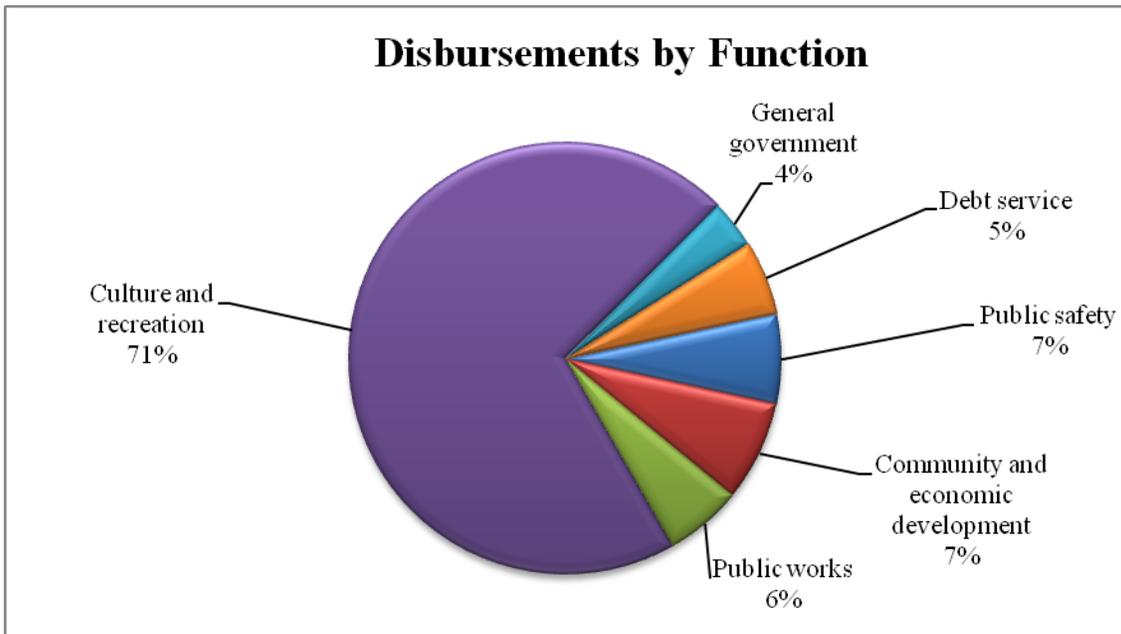
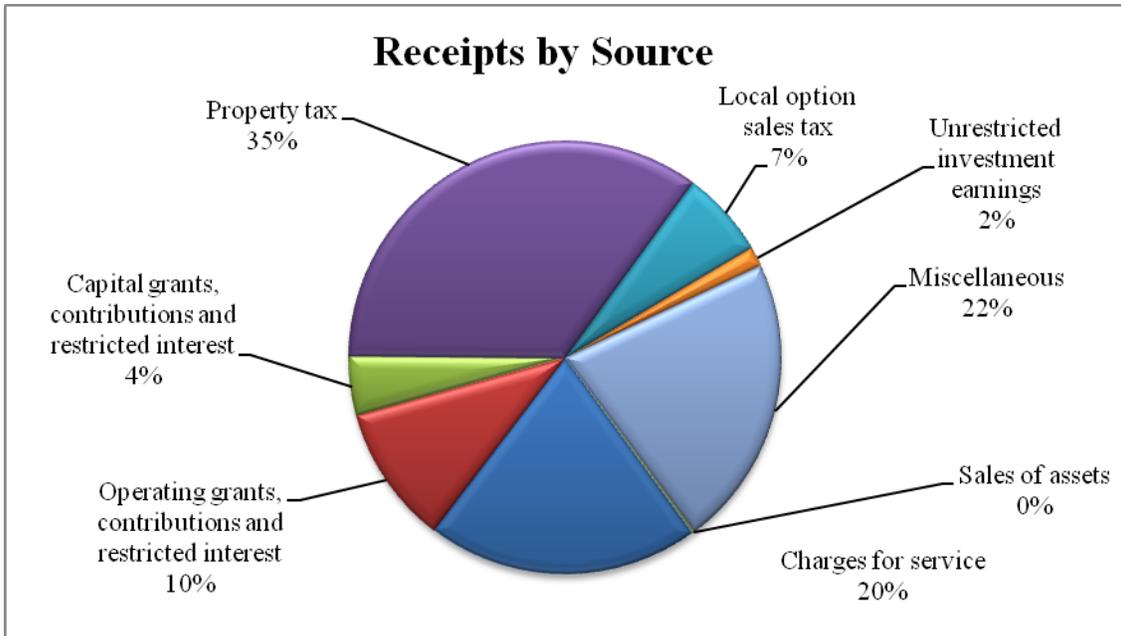
The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago by approximately \$1.2 million from a year ago. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30.	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 416	367
Operating grants, contributions and restricted interest	211	228
Capital grants, contributions and restricted interest	90	-
General receipts:		
Property tax	710	673
Local option sales tax	123	88
Unrestricted investment earnings	30	13
Bonds issued	-	1,500
Miscellaneous	453	467
Sales of assets	4	3
Total receipts	<u>2,037</u>	<u>3,339</u>
Disbursements:		
Public Safety	224	354
Public works	195	173
Culture and recreation	2,363	523
Community and economic development	253	70
General government	120	121
Debt service	187	261
Capital projects	-	684
Total disbursements	<u>3,342</u>	<u>2,186</u>
Change in cash basis before transfers	(1,305)	1,153
Transfers, net	144	236
Change in cash basis net assets	(1,161)	1,389
Cash basis net assets beginning of year	<u>2,315</u>	<u>926</u>
Cash basis net assets end of year	<u>\$ 1,154</u>	<u>2,315</u>



The City's total receipts for governmental activities decreased by approximately \$1.3 million. The total cost of all programs and services increased by approximately \$1,156,000, or 53%, primarily due to capital projects expenditures.

Changes in Cash Basis Net Assets of Business-Type Activities (Expressed in Thousands)		
	Year ended June 30.	
	2011	2010
Receipts:		
Charges for service:		
Water	\$ 243	198
Gas	1,215	1,471
Sewer rental	504	494
Solid waste collection	112	105
Unrestricted interest on investments	10	13
Total receipts	<u>2,084</u>	<u>2,281</u>
Disbursements:		
Water	260	221
Gas	1,042	1,318
Sewer rental	562	459
Solid waste collection	121	104
Total receipts	<u>1,985</u>	<u>2,102</u>
Change in cash basis before transfers	99	179
Transfers, net	<u>(144)</u>	<u>(236)</u>
Change in cash basis net assets	(45)	(57)
Cash basis net assets beginning of year	<u>1,328</u>	<u>1,385</u>
Cash basis net assets end of year	<u>\$ 1,283</u>	<u>1,328</u>

Total business type activities receipts for the fiscal year decreased approximately \$197,000 from last year, from approximately \$2.28 million to \$2.08 million. Disbursements declined as well as receipts mainly due to reduced costs of gas.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Sanborn completed the year, its governmental funds reported a combined fund balance of \$1,086,642, a decrease of more than \$1,157,000 from last year's total of \$2,243,983. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund decreased by \$1,065,245 during the year. This decrease was mainly the result of the construction of the aquatic center.
- The Urban Renewal Tax Increment Fund decreased by \$136,230, primarily because of transfers to finance capital projects in the City's urban renewal area.
- The Development Fund increased \$136,180 due to a transfer from other funds during the year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund decreased \$6,313 due to disbursements for capital assets during the year.
- The Sewer Fund decreased \$61,334 due mainly to capital additions made during the year.
- The Gas Fund increased \$27,042 over the previous year due to its regular operations.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 23, 2011 resulting in an increase in operating disbursements for Public Works and Business-Type Activities of \$125,000. The City's actual disbursements were within budgeted limits for the year ended June 30, 2011.

DEBT ADMINISTRATION

At June 30, 2011, the City had approximately \$2,816,000 in bonds and other long-term debt, compared to approximately \$3,021,000 last year, as shown below.

	Outstanding Debt at Year-End (Expressed in Thousands)	
	Year ended June 30.	
	2011	2010
General obligation bonds and notes	\$ 1,770	\$ 1,900
Revenue bonds and notes	1,046	1,121
Total receipts and transfers	<u>\$ 2,816</u>	<u>\$ 3,021</u>

Debt decreased as a result of making scheduled payments on notes and bonds.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$1.77 million is 64% of the City's constitutional debt limit of \$2.77 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In completing the fiscal year 2012 budget the elected and appointed officials of Sanborn considered many factors. Those factors included the economy, employment rates, operating expenses, capital projects, and other government mandates.

These factors resulted in budgeted revenues of \$4,378,401 and budgeted disbursements of \$4,627,043. These levels are 8% and 30% lower than their respective budgeted levels for fiscal year 2011.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

CITY OF SANBORN, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	223,884	47,970	-	-
Public works	195,442	-	131,679	-
Culture and recreation	2,363,203	361,218	-	90,311
Community and economic development	252,458	-	-	-
General government	120,051	7,250	78,838	-
Debt service	186,808	-	-	-
Total government activities	3,341,846	416,438	210,517	90,311
Business type activities:				
Water	260,238	242,701	-	-
Gas	1,041,822	1,214,840	-	-
Sewer rental	561,945	504,164	-	-
Solid waste collection	121,195	111,728	-	-
Total business type activities	1,985,200	2,073,433	-	-
Total	5,327,046	2,489,871	210,517	90,311

General Receipts

Property tax levied for:
General purposes
Tax increment financing
Debt service
Employee benefits
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Sales of assets
Transfers in (out)
Total general receipts and transfers
Change in cash basis net assets
Cash beginning of year
Cash end of year

Cash Basis Net Assets

Restricted
Expendable
Streets
Urban renewal purposes
Debt service
Other purposes
Unrestricted

See notes to financial statements.

Exhibit A

<u>Net (Disbursements) Receipts and Changes in Cash</u>		
<u>Governmental</u>	<u>Business Type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
(175,914)	-	(175,914)
(63,763)	-	(63,763)
(1,911,674)	-	(1,911,674)
(252,458)	-	(252,458)
(33,963)	-	(33,963)
(186,808)	-	(186,808)
<u>(2,624,580)</u>	<u>-</u>	<u>(2,624,580)</u>
-	(17,537)	(17,537)
-	173,018	173,018
-	(57,781)	(57,781)
-	(9,467)	(9,467)
<u>-</u>	<u>88,233</u>	<u>88,233</u>
<u>(2,624,580)</u>	<u>88,233</u>	<u>(2,536,347)</u>
214,469	-	214,469
338,326	-	338,326
82,361	-	82,361
75,365	-	75,365
122,582	-	122,582
29,677	10,893	40,570
453,390	-	453,390
3,600	-	3,600
144,275	(144,275)	-
<u>1,464,045</u>	<u>(133,382)</u>	<u>1,330,663</u>
(1,160,535)	(45,149)	(1,205,684)
<u>2,314,818</u>	<u>1,327,911</u>	<u>3,642,729</u>
<u>1,154,283</u>	<u>1,282,762</u>	<u>2,437,045</u>
3,939	-	3,939
164,199	-	164,199
52,116	100,820	152,936
9,379	-	9,379
924,650	1,181,942	2,106,592
<u>1,154,283</u>	<u>1,282,762</u>	<u>2,437,045</u>

CITY OF SANBORN, IOWA

Exhibit B

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue			Nonmajor Governmental Funds	Total
	General	Urban Renewal Tax Increment	Development		
Receipts:					
Property tax	\$ 214,469	-	-	157,726	372,195
Tax increment financing	-	338,326	-	-	338,326
Other city tax	9,893	-	-	122,582	132,475
Licenses and permits	1,970	-	-	-	1,970
Use of money and property	27,813	1,849	2,724	1,289	33,675
Intergovernmental	86,028	-	-	214,800	300,828
Charges for service	416,438	-	-	-	416,438
Miscellaneous	435,623	-	-	-	435,623
	1,192,234	340,175	2,724	496,397	2,031,530
Disbursements:					
Public safety	187,690	-	-	36,194	223,884
Public works	36,000	-	-	159,442	195,442
Culture and recreation	2,348,438	-	-	14,765	2,363,203
Community and economic development	-	6,951	38,269	207,238	252,458
General government	120,051	-	-	-	120,051
Debt service	-	-	-	186,808	186,808
	2,692,179	6,951	38,269	604,447	3,341,846
Excess (deficiency) of receipts over (under) disbursements	(1,499,945)	333,224	(35,545)	(108,050)	(1,310,316)
Other financing sources (uses):					
Sales of assets	3,600	-	-	-	3,600
Operating transfers in	452,600	-	171,725	136,004	760,329
Operating transfers out	(21,500)	(469,454)	-	(120,000)	(610,954)
	434,700	(469,454)	171,725	16,004	152,975
Net change in cash balances	(1,065,245)	(136,230)	136,180	(92,046)	(1,157,341)
Balance beginning of year	1,470,162	300,429	182,225	291,167	2,243,983
Balance end of year	\$ 404,917	164,199	318,405	199,121	1,086,642
Cash Basis Fund Balance					
Restricted for:					
Urban renewal purposes	\$ -	164,199	-	-	164,199
Debt service	-	-	-	52,116	52,116
Other purposes	-	-	318,405	147,005	465,410
Assigned for:					
Library	31,540	-	-	-	31,540
Ambulance	8,000	-	-	-	8,000
Unassigned	365,377	-	-	-	365,377
Total cash basis fund balances	\$ 404,917	164,199	318,405	199,121	1,086,642

See notes to financial statements.

CITY OF SANBORN, IOWA

Exhibit C

Reconciliation of the Statement of
Cash Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets - Cash Basis
Governmental Funds

As of and for the year ended June 30, 2011

Total governmental funds cash balances \$ 1,086,642

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets - Cash Basis are different because:*

The Internal Service Fund is used by management to charge the cost of using city equipment to individual funds. This portion of the cash basis net assets of the Internal Service Fund are included in governmental activities in the Statement of Activities and Net Assets - Cash Basis.

67,641

Cash basis net assets of governmental activities

1,154,283

Net change in cash balances (1,157,341)

*Amounts reported for governmental activities in the Statement of Activities
and Net Assets - Cash Basis are different because:*

The Internal Service fund is used by management to charge the costs of the use of city equipment to individual funds. This portion of change in the cash basis net assets of the Internal Service Fund is reported with the governmental activities.

(3,194)

Change in cash balance of governmental activities

\$ (1,160,535)

See notes to financial statements.

CITY OF SANBORN, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise Funds				Total
	Water	Gas	Sewer Rental	Non-Major Solid Waste Collection	
Receipts					
Use of money and property	\$ -	1,945	-	-	1,945
Charges for service	242,701	1,212,895	504,164	111,728	2,071,488
	242,701	1,214,840	504,164	111,728	2,073,433
Disbursements					
Total operating disbursements	158,515	1,028,502	398,298	121,195	1,706,510
	158,515	1,028,502	398,298	121,195	1,706,510
Excess of operating receipts over operating disbursements	84,186	186,338	105,866	(9,467)	366,923
Non-operating receipts (disbursements):					
Interest on investments	1,224	6,799	1,447	329	9,799
Debt service	(53,688)	-	(63,920)	-	(117,608)
Capital projects	(34,035)	(13,320)	(99,727)	-	(147,082)
Excess (deficiency) of receipts over (under) disbursements	(2,313)	179,817	(56,334)	(9,138)	112,032
Other financing sources (uses):					
Operating transfers in	-	171,725	-	-	171,725
Operating transfers out	(4,000)	(324,500)	(5,000)	(10,000)	(343,500)
	(4,000)	(152,775)	(5,000)	(10,000)	(171,775)
Net change in cash balances	(6,313)	27,042	(61,334)	(19,138)	(59,743)
Balance beginning of year	53,756	832,023	262,318	(11,145)	1,136,952
Balance end of year	\$ 47,443	859,065	200,984	(30,283)	1,077,209
Cash Basis Fund Balances					
Restricted for debt service	\$ 100,383	-	437	-	100,820
Unrestricted	(52,940)	859,065	200,547	(30,283)	976,389
	\$ 47,443	859,065	200,984	(30,283)	1,077,209

See notes to financial statements.

Exhibit D

<u>Internal Service Fund</u>	
<u>Equipment Replacement</u>	<u>Total</u>
3,000	4,945
-	2,071,488
<u>3,000</u>	<u>2,076,433</u>
14,000	1,720,510
<u>14,000</u>	<u>1,720,510</u>
(11,000)	355,923
-	9,799
-	(117,608)
-	(147,082)
<u>(11,000)</u>	<u>101,032</u>
49,000	220,725
(26,600)	(370,100)
<u>22,400</u>	<u>(149,375)</u>
11,400	(48,343)
<u>261,794</u>	<u>1,398,746</u>
<u>273,194</u>	<u>1,350,403</u>
-	100,820
<u>273,194</u>	<u>1,249,583</u>
<u>273,194</u>	<u>1,350,403</u>

CITY OF SANBORN, IOWA

Exhibit E

Reconciliation of the Statement of
Cash Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets-Cash Basis
Proprietary Funds

As of and for the year ended June 30, 2011

Total enterprise funds cash balances \$ 1,077,209

*Amounts reported for business-type activities in the Statement of Activities
and Net Assets - Cash Basis are different because:*

The Internal Service Fund is used by management to charge the costs of using city equipment to individual funds. This portion of the cash basis net assets of the Internal Service Fund are included in business-type activities in the Statement of Activities and Net Assets - Cash Basis.

205,553

Cash basis net assets of business type activities

1,282,762

Net change in cash balances (59,743)

*Amounts reported for business-type activities in the Statement of Activities
and Net Assets - Cash Basis are different because:*

The Internal Service fund is used by management to charge the costs of the use of city equipment to individual funds. This portion of the change in cash basis net assets in the Internal Service Fund is reported with the enterprise activities in the Statement of Activities and Net Assets - Cash Basis.

14,594

Change in cash balance of business-type activities

\$ (45,149)

See notes to financial statements.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Sanborn is a political subdivision of the State of Iowa located in O'Brien County. It was first incorporated in 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, gas, sewer rental and solid waste collection services to its citizens.

A. Reporting Entity

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

Discretely Presented Component Unit

The Sanborn Electric and Telecommunications Utility, established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a Board of Trustees appointed by the Mayor and approved by the City Council to six-year terms. 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. In accordance with the criteria set by the Governmental Accounting Standards Board, the Utility meets the definition of a component unit which should be discretely presented. Condensed financial statements presented in Note 11 were prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles. Complete financial statements for the year ended December 31, 2010, can be obtained from the Municipal Utilities administration office, 102 Main Street, Sanborn, Iowa. The City has the following component unit based on these criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

of the following boards and commissions: Northwest Iowa Landfill Association, E-911 Board, Northwest Iowa League of Cities Board, Northern Municipal Distributors Group, O'Brien County Economic Development Board, Vector Safety Board and the Northwest Iowa Planning Commission.

B. Basis of Presentation

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

This Statement of Activities and Net Assets - Cash Basis also presents the City's nonfiduciary net assets. Net assets are reported in two categories:

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

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

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

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

The City reports the following major governmental funds:

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

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Special Revenue:

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

The Development Fund is used to account for lot sales in the City's housing development.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system. Included with the Water Fund cash basis net assets is \$5,831 set aside in a Water Revenue Bond Sinking Fund, \$66,748 in a Reserve Fund, and \$27,804 in an Improvement Fund. These special funds are established as required by the bond agreement.

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

The Enterprise, Sewer Fund accounts for operation and maintenance of the City's waste water treatment and sanitary sewer system. Included with the Sewer Rental Fund cash basis net assets is \$437 set aside in the Sewer Revenue Bond Sinking Fund.

The City also reports the following additional proprietary type fund:

The Equipment Replacement Fund is used to accumulate funds for capital equipment additions the City may need in the future.

C. Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) **Cash and Investments**

The City's deposits in banks at June 30, 2011 (which include certificates of deposit totaling \$952,279) were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

At June 30, 2011, the City had the following investments:

Type	Carrying Amount	Fair Value
United States Savings Bonds Series EE – mature July 2034	\$ <u>13,738</u>	\$ <u>13,738</u>

Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

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

Year Ending June 30.	General Obligation Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 240,000	43,058	76,000	38,098	316,000	81,155
2013	240,000	39,498	82,000	35,327	322,000	74,825
2014	245,000	35,218	83,000	32,247	328,000	67,465
2015	250,000	29,995	89,000	29,078	339,000	59,073
2016	255,000	23,845	91,000	25,575	346,000	49,420
2017	540,000	25,169	396,000	72,835	936,000	98,005
2025	-	-	229,000	17,430	229,000	17,430
	<u>\$ 1,770,000</u>	<u>196,783</u>	<u>1,046,000</u>	<u>250,590</u>	<u>2,816,000</u>	<u>447,373</u>

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$575,000 in water revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of water improvements and extensions. The notes are payable solely from water customer net receipts and are payable through 2019. The total principal and interest remaining to be paid on the notes is \$433,970. For the current year, principal and interest paid and total customer net receipts were \$53,688 and \$84,186 respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$916,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of sewer improvements and extensions. The notes are payable solely from sewer customer

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$862,620. For the current year, principal and interest paid and total customer net receipts were \$62,080 and \$105,866 respectively.

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

- (a) The notes and bonds will only be redeemed from the future earnings of the enterprise activity and the note and bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue note and sewer revenue bond sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due. At June 30, 2011, the water revenue bond sinking account was \$5,831, which was sufficient to meet the bond requirement. The sewer revenue bond sinking account was underfunded by \$4,720, and held a balance of \$437.
- (c) A deposit in the amount of \$56,978 shall be made to a water revenue note reserve account within the Enterprise Funds upon the delivery of the water revenue notes. The water reserve account had a cash balance at June 30, 2011 of \$66,748.
- (d) Additional monthly transfers of \$1,000 to a water improvement account shall be made until a balance of \$25,000 is accumulated. The improvement reserve account had a balance of \$27,804 at June 30, 2011. This account is restricted for the purpose of covering any deficiencies in the sinking or reserve accounts, or paying for improvements and extensions of the water utility.
- (e) The Water Revenue Notes require the system generate net revenues sufficient to pay 125% of the average remaining annual principal and interest installments due to maturity.
- (f) The Sewer Bonds require the system generate net revenues sufficient to pay 110% of the highest annual principal and interest installments due to maturity.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	General Obligation Bonds	Revenue Bonds	Total
Balance, beginning of year	\$ 1,900,000	1,121,000	3,021,000
Additions	-	-	-
Decreases	130,000	75,000	205,000
Balance, end of year	<u>\$ 1,770,000</u>	<u>1,046,000</u>	<u>2,816,000</u>

Interest rates on the general obligation bonds range from 1.00 to 4.20%. Interest rates on the revenue bonds range from 3.00 to 5.30%.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual salary and the City is required to contribute 6.95% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were \$35,486, \$35,296, and \$32,639 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses. There are 18 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$351 for single coverage and \$836 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed the entire cost of the plan, a total of \$96,773.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon retirement, termination or death. Earned but unused sick leave hours are for subsequent use only. These accumulations are not recognized as expenditures by the City until they are used or paid. The City's approximate liability for earned vacation at June 30, 2011 was \$24,087. This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) Economic Dependency

The Water, Sewer and Gas enterprise funds of the City of Sanborn derived the following receipts from Associated Milk Producers, Inc. for the fiscal year ended June 30, 2011:

	<u>Amount</u>	<u>Percent of Total</u>
Sale of Water	\$ 90,295	37%
Sale of Gas	674,252	55%
Sewer Rental Fees and Assessments	308,615	75%

(8) Interfund Transfers

The detail of interfund transfers, for the year ended June 30, 2011 is as follows:

<u>Transfer In</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue Fund-LOST	\$ 110,000
	Internal Service Fund-Equipment Replacement	26,600
	Enterprise Fund - Gas	<u>316,000</u>
		452,600
Special Revenue Fund- Economic Development	Tax Increment Financing	171,725
Enterprise Fund – Gas	Tax Increment Financing	171,725
Debt Service	Tax Increment Financing	116,004
Special Revenue Fund- Low to Moderate Housing	Tax Increment Financing	10,000
Special Revenue-Employee Benefits	Special Revenue Fund-LOST	10,000

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Internal Service Fund-		
Equipment Replacement	General Fund	21,500
	Enterprise Fund-Water	4,000
	Enterprise Fund-Sewer	5,000
	Enterprise Fund-Gas	8,500
	Enterprise Fund-Solid Waste	<u>10,000</u>
		<u>49,000</u>
	Total	<u>\$ 809,329</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the funds.

(9) Risk Management

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

(10) Related Party Transactions

The City had business transactions between the City and City officials totaling \$12,419 during the year ended June 30, 2011.

(11) Property Tax

Property taxes are recognized as income when received in accordance with the cash basis of accounting. The property tax calendar is as follows for the City of Sanborn. Property tax becomes a lien on property as of July 1, 2010 and is payable in September 2010 and March 2011 of the fiscal year. The valuation for the taxes was based on January 1, 2008 assessed property valuations, and are based on a certified budget from March of 2010.

(12) Sanborn Electric and Telecommunications Utilities

The Sanborn Electric and Telecommunications Utilities (Utility) provides electric and telecommunication services for the City of Sanborn, Iowa. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for its discretely presented component unit. Following is the condensed financial information, presented in accordance with accounting standards generally accepted in the United States of America, for the Utility for the year ended December 31, 2010.

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Condensed Statement of Net Assets

Assets:	
Current assets	\$ 2,166,032
Capital assets, net of accumulated depreciation	4,995,045
Other	<u>1,326,275</u>
Total assets	<u>8,487,352</u>
Liabilities:	
Long-term debt outstanding	4,025,000
Other liabilities	<u>428,571</u>
Total liabilities	<u>4,453,571</u>
Net assets:	
Invested in capital assets, net of related debt	1,490,330
Restricted-expendable	793,165
Unrestricted	<u>1,750,286</u>
Total net assets	<u>4,033,781</u>
Total liabilities and net assets	<u>\$ 8,487,352</u>

Condensed Statement of Revenue, Expenses and Changes in Net Assets

Operating revenues:	
Electric energy sales	\$ 2,045,942
Other Sales	<u>57,017</u>
Total operating revenues	<u>2,102,959</u>
Operating expenses:	
Power production	1,043,517
Distribution and commercial	148,358
Depreciation	205,233
General and administrative	<u>365,600</u>
Total operating expenses	<u>1,762,708</u>
Operating income	<u>340,251</u>
Non-operating revenues (expenses):	
Total non-operating revenue and (expense)	<u>(69,882)</u>
Net income before transfers	<u>270,369</u>
Transfers to City	(83,091)
Contributed capital	<u>24,011</u>
Increase in net assets	211,289
Net assets at beginning of year	<u>3,822,492</u>
Net assets at end of year	<u>\$ 4,033,781</u>

CITY OF SANBORN, IOWA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Condensed Statement of Cash Flows

Cash flows from operating activities	\$ 558,331
Cash flows from non-capital financing activities	(83,091)
Cash flows from capital and related financing activities	(321,640)
Cash flows from investing activities	<u>27,665</u>
Increase in cash	181,265
Cash, beginning of year	<u>2,294,853</u>
Cash, end of year	<u><u>2,476,118</u></u>

(13) Deficit Fund Balance

The City reported deficit balances of \$14,184, and \$30,283 in the Housing and Solid Waste Funds respectively, at June 30, 2011. The deficit fund balance in the Housing Fund was the result of the housing expenses exceeding the grants dollars received. This deficit will be eliminated by future grant receipts. The deficit in the Solid Waste Fund is due in part to savings accumulated in the Equipment Replacement Fund.

(14) Subsequent Events

Management has evaluated events and transactions through March 19, 2012, the date the financial statements were issued, for potential recognition or disclosure in the financial statements.

Required Supplementary Information

CITY OF SANBORN, IOWA
 BUDGETARY COMPARISON SCHEDULE
 OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES
 BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 372,195	-	372,195
Tax Increment Financing Collections	338,326	-	338,326
Other city taxes	132,475	-	132,475
Licenses and permits	1,970	-	1,970
Use of money and property	33,675	14,744	48,419
Intergovernmental	300,828	-	300,828
Charges for service	416,438	2,071,488	2,487,926
Special assessments	-	-	-
Miscellaneous	435,623	-	435,623
	<u>2,031,530</u>	<u>2,086,232</u>	<u>4,117,762</u>
Disbursements:			
Program			
Public safety	223,884	-	223,884
Public works	195,442	-	195,442
Culture and recreation	2,363,203	-	2,363,203
Community and economic development	252,458	-	252,458
General government	120,051	-	120,051
Debt service	186,808	-	186,808
Business type activities	-	1,985,200	1,985,200
	<u>3,341,846</u>	<u>1,985,200</u>	<u>5,327,046</u>
Excess (deficiency) of receipts over disbursements	(1,310,316)	101,032	(1,209,284)
Other financing sources (uses), net	<u>152,975</u>	<u>(149,375)</u>	<u>3,600</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,157,341)	(48,343)	(1,205,684)
Balance beginning of year	<u>2,243,983</u>	<u>1,398,746</u>	<u>3,642,729</u>
Balance end of year	<u>\$ 1,086,642</u>	<u>1,350,403</u>	<u>2,437,045</u>

See accompanying independent auditor's report

Budgeted Amounts		Final to Net Variance
Original	Final	
370,891	370,891	1,304
343,450	343,450	(5,124)
87,503	87,503	44,972
5,575	5,575	(3,605)
37,200	37,200	11,219
756,175	756,175	(455,347)
3,062,465	3,062,465	(574,539)
10,000	10,000	(10,000)
76,500	76,500	359,123
4,749,759	4,749,759	(631,997)

459,950	459,950	236,066
198,475	248,475	53,033
2,887,750	2,887,750	524,547
495,300	495,300	242,842
137,950	137,950	17,899
191,163	191,163	4,355
2,106,908	2,181,908	196,708
6,477,496	6,602,496	1,275,450

(1,727,737) (1,852,737) 643,453

40,000	40,000	(36,400)
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(1,687,737) (1,812,737) 607,053

3,974,089	3,974,089	(331,360)
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2,286,352	2,161,352	275,693
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CITY OF SANBORN, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

June 30, 2011

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

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

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$125,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements did not exceed the budgeted amounts.

Other Supplementary Information

CITY OF SANBORN, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue		
	LOST	Low-Moderate Housing	Road Use Tax
Receipts:			
Property tax	\$ -	\$ -	\$ -
Other city tax	122,582	-	-
Use of money and property	859	142	-
Intergovernmental	-	-	124,489
	<u>123,441</u>	<u>142</u>	<u>124,489</u>
Disbursements:			
Public safety	-	-	-
Public works	-	-	141,573
Culture and recreation	-	-	-
Community and economic development	90,741	-	-
Debt Service	-	-	-
	<u>90,741</u>	<u>-</u>	<u>141,573</u>
Excess (deficiency) of receipts over (under) disbursements	32,700	142	(17,084)
Other financing sources (uses):			
Operating transfers in	-	10,000	-
Operating transfers out	(120,000)	-	-
Net change in cash balances:	(87,300)	10,142	(17,084)
Balance beginning of year	<u>192,252</u>	<u>32,778</u>	<u>21,022</u>
Balance end of year	<u>\$ 104,952</u>	<u>\$ 42,920</u>	<u>\$ 3,938</u>
Cash basis fund balance			
Restricted for:			
Debt Service	\$ -	\$ -	\$ -
Other purposes	104,952	42,920	3,938
	<u>\$ 104,952</u>	<u>\$ 42,920</u>	<u>\$ 3,938</u>

See accompanying independent auditor's report.

Employees Benefits	Housing	Debt Service	Total
\$ 75,365	\$ -	\$ 82,361	\$ 157,726
-	-	-	122,582
-	-	288	1,289
-	90,311	-	214,800
<u>75,365</u>	<u>90,311</u>	<u>82,649</u>	<u>496,397</u>
36,194	-	-	36,194
17,869	-	-	159,442
14,765	-	-	14,765
12,135	104,362	-	207,238
-	-	186,808	186,808
<u>80,963</u>	<u>104,362</u>	<u>186,808</u>	<u>604,447</u>
(5,598)	(14,051)	(104,159)	(108,050)
10,000	-	116,004	136,004
-	-	-	(120,000)
4,402	(14,051)	11,845	(92,046)
4,977	(133)	40,271	291,167
<u>\$ 9,379</u>	<u>\$ (14,184)</u>	<u>\$ 52,116</u>	<u>\$ 199,121</u>
\$ -	\$ -	\$ 52,116	\$ 52,116
9,379	(14,184)	-	147,005
<u>\$ 9,379</u>	<u>\$ (14,184)</u>	<u>\$ 52,116</u>	<u>\$ 199,121</u>

CITY OF SANBORN, IOWA
 SCHEDULE OF INDEBTEDNESS
 YEAR ENDED JUNE 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes and bonds:			
Street and Utility Improvements	June 15, 2004	3.55 - 3.95 %	\$ 585,000
Street and Utility Improvements and Refunding of Notes	June 15, 2007	3.75 - 4.20 %	735,000
Swimming Pool Bonds	March 9, 2010	1.00 - 3.10 %	1,500,000
Revenue notes and bonds:			
Sewer Revenue Bond	June 9, 2004	3.00 %	\$ 916,000
Water Revenue Bond	June 15, 2004	4.00 - 5.30%	575,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 90,000	-	90,000	-	3,555	-
310,000	-	40,000	270,000	12,523	-
1,500,000	-	-	1,500,000	37,381	-
<u>\$ 1,900,000</u>	<u>-</u>	<u>130,000</u>	<u>1,770,000</u>	<u>53,459</u>	<u>-</u>
\$ 736,000	-	40,000	696,000	22,080	-
385,000	-	35,000	350,000	18,688	-
<u>\$ 1,121,000</u>	<u>-</u>	<u>75,000</u>	<u>1,046,000</u>	<u>40,768</u>	<u>-</u>

CITY OF SANBORN, IOWA

Schedule 3

BOND AND NOTE MATURITIES

JUNE 30, 2011

General Obligation Notes and Bonds for Street and Utility Improvements and Refunding of Notes					
Year Ending June 30,	Issued June 15, 2004		Issued June 15, 2007		Total General Obligation Notes and Bonds
	Interest Rates	Amount	Interest Rates	Amount	
2012	3.90%	40,000	1.00%	200,000	240,000
2013	3.95%	40,000	1.35%	200,000	240,000
2014	4.05%	45,000	1.70%	200,000	245,000
2015	4.10%	45,000	2.10%	205,000	250,000
2016	4.15%	50,000	2.50%	205,000	255,000
2017	4.20%	50,000	2.80%	215,000	265,000
2018		-	3.10%	275,000	275,000
		<u>\$ 270,000</u>		<u>\$ 1,500,000</u>	<u>\$ 1,770,000</u>

Year Ending June 30,	Revenue Bond - Water Issued June 15, 2004		Revenue Bond - Sewer Issued June 9, 2004		Total Revenue Notes and Bonds
	Interest Rates	Amount	Interest Rates	Amount	
2012	4.40%	35,000	3.00%	41,000	76,000
2013	4.55%	40,000	3.00%	42,000	82,000
2014	4.70%	40,000	3.00%	43,000	83,000
2015	4.85%	45,000	3.00%	44,000	89,000
2016	5.00%	45,000	3.00%	46,000	91,000
2017	5.10%	45,000	3.00%	47,000	92,000
2018	5.20%	50,000	3.00%	49,000	99,000
2019	5.30%	50,000	3.00%	50,000	100,000
2020			3.00%	52,000	52,000
2021			3.00%	53,000	53,000
2022			3.00%	55,000	55,000
2023			3.00%	56,000	56,000
2024			3.00%	58,000	58,000
2025			3.00%	60,000	60,000
		<u>\$ 350,000</u>		<u>\$ 696,000</u>	<u>\$ 1,046,000</u>

See accompanying independent auditor's report.

CITY OF SANBORN, IOWA

Schedule 4

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

FOR THE SEVEN YEARS ENDED JUNE 30:

	2011	2010	2009	2008	2007	2006	2005
Receipts							
Property tax	\$ 372,195	342,061	333,419	314,787	300,436	307,930	310,156
Tax increment financing collections	338,326	330,923	316,767	322,536	300,923	274,714	268,794
Other city tax	132,475	98,389	160,293	119,993	110,846	86,993	86,705
Licenses and permits	1,970	2,240	2,006	3,309	2,025	2,640	2,295
Use of money and property	33,675	12,398	24,453	91,992	101,889	85,642	65,244
Intergovernmental	300,828	227,850	171,152	205,972	339,906	270,420	410,820
Charges for service	416,438	367,092	321,482	211,599	147,033	140,143	136,521
Special assessments	-	-	-	14,245	13,242	19,142	24,963
Miscellaneous	435,623	455,086	160,653	123,736	95,980	255,115	370,801
	<u>\$ 2,031,530</u>	<u>1,836,039</u>	<u>1,490,225</u>	<u>1,408,169</u>	<u>1,412,280</u>	<u>1,442,739</u>	<u>1,676,299</u>
Disbursements:							
Operating:							
Public safety	\$ 223,884	355,630	237,193	206,137	325,424	156,047	205,530
Public works	195,442	173,525	178,391	173,930	193,169	158,089	163,125
Culture and recreation	2,363,203	522,902	470,737	563,835	662,809	263,336	286,071
Community and economic developmen	252,458	69,672	53,122	174,789	110,066	115,815	302,720
General government	120,051	120,855	129,655	114,919	116,409	109,260	131,803
Debt service	186,808	260,690	258,958	266,006	522,856	213,768	208,664
Capital projects	-	682,839	274,250	416,338	26,337	430,159	21,103
	<u>\$ 3,341,846</u>	<u>2,186,113</u>	<u>1,602,306</u>	<u>1,915,954</u>	<u>1,957,070</u>	<u>1,446,474</u>	<u>1,319,016</u>

See accompanying independent auditor's report



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 Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Sanborn, Iowa (the City) as of and for the year ended June 30, 2011 and have issued our report thereon dated March 19, 2012. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with the cash receipts and disbursements method of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Sanborn's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Sanborn's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 was not designed to identify all deficiencies in internal control over financing reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting that we consider 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 the 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described as item I-A-11 in the accompanying 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 deficiencies in internal control, described as item I-B-11 and I-C-11 in the accompanying Schedule of Findings, to be significant deficiencies in internal control over financial reporting.

Compliance and Other Matters

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

The City of Sanborn's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Sanborn's responses and, accordingly, we express no opinion on them.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sanborn during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

March 19, 2012

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2011

Part I: Findings Related to the Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties - We noted that the cash receipts function and the recording of the cash receipts is, on occasion, performed by the same person.

Criteria - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Cause - The City of Sanborn is a small municipality; therefore their staff includes a small number of office employees.

Effect - The lack of a proper segregation of duties is a material weakness that may result in a material misstatement of the financial statements, and provides greater opportunity for fraudulent activity to go undetected.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its operating procedures to obtain the maximum internal control possible with existing personnel, and utilize administrative personnel to provide additional control through oversight and review.

Response - We will review our operating procedures and to the extent possible, segregate duties among our staff.

Conclusion – Response accepted.

I-B-11 Leased Real Estate – We noted that the City has entered into a real estate lease agreement for the rental of farm ground without completing any written documents.

Criteria - Commitments such as lease agreements should be recorded in a formal document to provide for communication to the public and to facilitate periodic review, as necessary.

Cause – The City did not judge that a written lease agreement was necessary, given that the amount of rental income was immaterial.

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2011

Effect – Insufficient documentation of commitments or agreements between the City and other parties may result in the City receiving less than full value for the rental of its property.

Recommendation – It may benefit the City to routinely reevaluate its lease agreements in order to obtain the maximum benefit for the City. A written agreement would allow for open discussion of the terms of the agreement and an adjustment to the rent amount, should one be justified. These agreements should be placed on file for reference, should any problems arise in the landlord-tenant relationship.

Response – We believe our verbal agreement has provided the most value from the farm ground to the City. The lease arrangement for the farm ground will soon be terminated, as the City will be using this land for a water well.

Conclusion – Response accepted.

I-C-11 Vacation hours - While all vacation usage was documented, in one instance the timely approval of such documentation was not evident.

Criteria – Matters relating to payroll, such as the usage of vacation benefits, should be reviewed and approved in a timely manner.

Cause – Traditional practices in City Hall led to this issue.

Effect – There is a lack of control over vacation usage/paid time off as a result of this issue.

Recommendation – We recommend the City implement procedures to contemporaneously document the approval of all employees' vacation usage.

Response – We have implemented timely documentation of the usage of paid time off and the timely approval of that usage.

Conclusion – Response accepted.

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2011

Part II: Other Findings Related to Statutory Reporting:

- II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 did not exceed any of the budgeted functions.
- II-B-11 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.
- II-C-11 Travel Expense - No disbursements of City money for travel expense of spouses of City officials or employees were noted.
- II-D-11 Business Transactions - Certain business transactions between the City and its officials or employees were noted. Purchases from Sanborn Propane exceeded the exemption threshold, and the City did not follow the bid-letting process for these purchases.

Name, Title and Business Connection	Transaction Description	Amount
Michael Dummett, employee employed on limited basis by Bill's Floor and Carpet Service, which is owned by his father	cleaning services	\$ 443
Aaron Allons, Council Member, part-owner of Sanborn Propane Service	propane and repair services	\$ 11,975

Criteria – Chapter 362.5 of the Code of Iowa prohibits any city officer or employee from having an interest in any contract or job of work for the City, with a limited number of exceptions. Chapter 362.5(11) of the Code permits transactions with a City officer or employee given that the total purchases benefiting the officer or employee do not exceed a cumulative total purchase price of \$2,500 in a fiscal year. Failing that, the City is required to follow a bid-letting process for services in which there is a conflict of interest.

Cause – Municipal governments located in a small community have a limited number of vendors and providers from which to choose.

Effect – The City may pay in excess of fair value for goods and services.

Recommendation – You should consult with the City Attorney in regards to this matter to determine a resolution.

Response – While we did not follow the bid-letting process, Sanborn Propane Service is the only supplier in town that offers delivery service, which is necessary for City operations. We will consult our attorney regarding this matter.

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2011

Conclusion – Response accepted.

- II-E-11 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-11 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-H-11 Revenue Bonds and Notes – The Water Revenue Notes Series 2004 require that sufficient monthly transfers be made to a separate water revenue sinking account for the purpose of making the note principal and interest payments when due. At June 30, 2011, the sewer revenue bond sinking account was underfunded by \$4,720.

Criteria – Sufficient monthly transfers shall be made to a separate sewer revenue bond sinking account within the Enterprise Funds for the purpose of making the note principal and interest payments when due.

Cause – The transfers to the sinking account were made on July 1 rather than prior to June 30 as required due to a timing error.

Effect – Failure to maintain the required balance in the sinking fund account is a violation of the bond agreement.

Recommendation – The monthly transfers should be made when due.

Response – We will make the necessary transfer of funds as required.

Conclusion – Response accepted.

- II-I-11 Financial Condition – As of June 30, 2011, the Housing Fund had a deficit balance of \$14,184 and the Solid Waste Fund had a deficit balance of \$30,283.

Criteria – A Fund with a deficit fund balance does not appear to be in a strong financial condition.

Cause – The timing of grant receipts did not correspond with related disbursements made from the Housing Fund. The Solid Waste Fund has been saving money in the Equipment Replacement Fund.

CITY OF SANBORN, IOWA

SCHEDULE OF FINDINGS

June 30, 2011

Effect – The funds were not in good financial condition at June 30, 2011.

Recommendation – The City should investigate alternatives to eliminate these deficits.

Response – The Housing Fund deficit was due to reimbursement type grants which were used to fund the housing activities. The deficit will be eliminated when all grant reimbursements have been collected. The Solid Waste Fund deficit was due in part to transferring money to the Equipment Replacement Fund for future needs.

Conclusion – Response accepted.