

**SANBORN ELECTRIC AND  
TELECOMMUNICATIONS UTILITY**

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

**December 31, 2010 and 2009**

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

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

**OFFICIALS**

**December 31, 2010**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Trustees</b>		
James P. Cravens	Chairman	June 30, 2013
Terry Boelter	Secretary	June 30, 2015
Rick Maranell	Trustee	June 30, 2011
<b>Utility Officials</b>		
Jim Zeutenhorst	General Manager	Indefinite

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements 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, 2010 and 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 audits.

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

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, 2010 and 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 16, 2011 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 considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 7 and 24 through 26 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. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming opinions on the financial statements that collectively comprise the Sanborn Electric and Telecommunications Utility's basic financial statements. The supplementary

information on pages 27 to 28 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 16, 2011

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2010. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues increased 10%, or approximately \$204,000 from 2009 to 2010.
- ◆ The Utility's operating expenses increased 11%, or approximately \$181,000 from 2009 to 2010.
- ◆ The Utility's net assets increased approximately 5% or approximately \$211,000 during 2010.

### 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:

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 2010, total assets increased by approximately \$101,000 and liabilities decreased by \$110,000 resulting in the increase in net assets of approximately \$211,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2010	2009
Current and other assets	\$ 2,166	1,969
Capital assets (net of depreciation)	4,995	5,137
Other assets	<u>1,326</u>	<u>1,280</u>
Total assets	<u>8,487</u>	<u>8,386</u>
Long-term debt outstanding	4,028	4,167
Other liabilities	<u>425</u>	<u>396</u>
Total liabilities	<u>4,453</u>	<u>4,563</u>
Net assets:		
Invested in capital assets, net of related debt	1,490	1,495
Restricted	793	791
Unrestricted	<u>1,751</u>	<u>1,537</u>
Total net assets	<u>4,034</u>	<u>3,823</u>
Total liabilities and net assets	<u>\$ 8,487</u>	<u>8,386</u>

#### INDIVIDUAL MAJOR FUND ANALYSIS

As Sanborn Electric and Telecommunications Utility completed the year, it reported net assets of \$4.0 million, an increase of approximately \$211,000 over last year's total of \$3.8 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 operations generating margins that were better than expected.

Changes in Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2010	2009
Operating revenues	\$ 2,103	1,899
Operating expenses	<u>1,763</u>	<u>1,582</u>
Operating income	340	317
Net non-operating revenues (expenses)	(70)	(24)
Other financing sources (uses)	<u>(59)</u>	<u>260</u>
Change in net assets	211	553
Net assets, beginning of year	<u>3,823</u>	<u>3,270</u>
Net assets, end of year	<u>\$ 4,034</u>	<u>3,823</u>

### **BUDGETARY HIGHLIGHTS**

Sanborn Electric and Telecommunications Utility did not amend its budget during the year. The Utility's disbursements were within budgeted limits for 2010.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At December 31, 2010, Sanborn Electric and Telecommunications Utility had approximately \$5.0 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a decrease (including additions and deletions net of depreciation) of approximately \$142,000 or 3% under last year.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2010	2009
Land, buildings and improvements	\$ 55	58
Equipment and vehicles	2,154	2,218
Substation	<u>2,786</u>	<u>2,861</u>
Total	<u>\$ 4,995</u>	<u>5,137</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 \$205,233 in 2010 and total accumulated depreciation of \$2,568,789 at December 31, 2010.

### **LONG TERM DEBT/LIABILITIES**

At December 31, 2010, the Utility had \$4,165,000 in revenue bonds outstanding compared to \$4,300,000 at December 31, 2009, as shown below.

Outstanding Debt of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2010	2009
Revenue bonds	\$ 4,165	4,300

**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 those concerns in mind, management anticipates that Sanborn will be able to maintain the current base rates utilizing a power cost adjustment in 2011, despite anticipated higher expenses. The Utility does not anticipate the need for any additional bonding in 2011. The Utility continues to work with its partners to maximize electric utility revenues while limiting expenses. Due to the recent development of large snow pack in the Rockies, and larger than average rainfall in the Missouri River Basin, there is some possibility of the drought-adder portion of the Utility wholesale electric rate being lowered in the next three to five years.

**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 Main Street, Sanborn, Iowa.

## **BASIC FINANCIAL STATEMENTS**

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

**STATEMENTS OF NET ASSETS  
AS OF DECEMBER 31:**

	2010	2009
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,804,469	\$ 1,622,234
Accounts Receivable - Trade	235,250	223,372
Accrued Interest Receivable	3,021	3,021
Prepaid Expenses	3,585	3,345
Inventories	119,707	116,928
<b>Total Current Assets</b>	<b>2,166,032</b>	<b>1,968,900</b>
 <b>Capital Assets:</b>		
Capital Assets (Net of Accumulated Depreciation)	4,995,045	5,137,182
<b>Total Capital Assets</b>	<b>4,995,045</b>	<b>5,137,182</b>
 <b>Other Assets:</b>		
Investment in Joint Ventures	464,950	413,132
Restricted Assets:		
Cash and Cash Equivalents - Note Funds	660,285	657,718
Cash and Cash Equivalents - LIHEAP Funds	11,364	14,901
Investment - Note Funds	132,880	132,880
Bond Discounts (Net of Accumulated Amortization)	56,796	60,971
<b>Total Other Assets</b>	<b>1,326,275</b>	<b>1,279,602</b>
 <b>Total Assets</b>	<b>\$ 8,487,352</b>	<b>\$ 8,385,684</b>

See Notes to Financial Statements

	<u>2010</u>	<u>2009</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 144,159	\$ 92,428
Accounts Payable - City of Sanborn	21,917	18,978
Accrued Compensated Absences	5,728	7,990
Customer Deposits and Credit Balances	33,232	56,032
Accrued Interest Payable	68,825	71,190
Deferred Revenue	11,364	14,901
Revenue Notes - Current	140,000	135,000
<b>Total Current Liabilities</b>	<u>425,225</u>	<u>396,519</u>
<b>Non-Current Liabilities:</b>		
OPEB Liabilities	3,346	1,673
Revenue Notes - Non-Current	4,025,000	4,165,000
<b>Total Non-Current Liabilities</b>	<u>4,028,346</u>	<u>4,166,673</u>
<b>Total Liabilities</b>	<u>4,453,571</u>	<u>4,563,192</u>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	1,490,330	1,494,900
Restricted for:		
Debt Service	793,165	790,598
Unrestricted	1,750,286	1,536,994
<b>Total Net Assets</b>	<u>4,033,781</u>	<u>3,822,492</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 8,487,352</u></u>	<u><u>\$ 8,385,684</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  
FOR THE YEARS ENDED DECEMBER 31:**

	2010	2009
<b>Operating Revenues:</b>		
Electric Energy Sales	\$ 2,045,942	\$ 1,880,183
Other Sales	57,017	18,328
<b>Total Operating Revenues</b>	<b>2,102,959</b>	<b>1,898,511</b>
 <b>Operating Expenses:</b>		
Power Production	1,248,750	1,121,278
Distribution	96,037	104,656
Commercial	52,321	49,089
Sales	-	280
Administrative and General	365,600	306,373
<b>Total Operating Expenses</b>	<b>1,762,708</b>	<b>1,581,676</b>
 <b>Operating Income</b>	<b>340,251</b>	<b>316,835</b>
 <b>Non-Operating Revenues (Expenses):</b>		
Interest and Dividend Income	27,665	33,746
Joint Venture Net Income	108,189	48,774
Gain on Disposal of Assets	-	18,275
Interest Expense	(205,736)	(125,221)
<b>Net Non-Operating (Expenses)</b>	<b>(69,882)</b>	<b>(24,426)</b>
 <b>Net Income Before Transfers and Contributed Capital</b>	<b>270,369</b>	<b>292,409</b>
Transfers to Other Entities	(83,091)	(75,946)
Contributed Capital	24,011	336,417
 <b>Increase in Net Assets</b>	<b>211,289</b>	<b>552,880</b>
 <b>Net Assets at Beginning of Period</b>	<b>3,822,492</b>	<b>3,269,612</b>
 <b>Net Assets at End of Period</b>	<b>\$ 4,033,781</b>	<b>\$ 3,822,492</b>

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31:**

	2010	2009
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers	\$ 2,064,743	\$ 1,849,936
Cash Payments to Suppliers for Goods and Services	(1,299,240)	(1,430,761)
Cash Payments to Employees for Services	(207,172)	(191,225)
<b>Net Cash Provided by Operating Activities</b>	<b>558,331</b>	<b>227,950</b>
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Transfers to Other Entities	(83,091)	(75,946)
<b>Net Cash (Used) by Non-Capital Financing Activities</b>	<b>(83,091)</b>	<b>(75,946)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Capital Received from Joint Ventures	56,371	190,585
Purchases and Construction of Capital Assets	(63,096)	(490,650)
Proceeds from Disposal of Capital Assets	-	18,275
Contributed Capital	24,011	336,418
Principal Paid on Revenue Notes	(135,000)	(130,000)
Interest Paid on Revenue Notes	(203,926)	(210,104)
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(321,640)</b>	<b>(285,476)</b>
<b>Cash Flows From Investing Activities:</b>		
Interest and Dividends on Investments	27,665	34,338
<b>Net Cash Provided by Investing Activities</b>	<b>27,665</b>	<b>34,338</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	181,265	(99,134)
<b>Cash and Cash Equivalents at Beginning of Period</b>	2,294,853	2,393,987
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 2,476,118</b>	<b>\$ 2,294,853</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:</b>		
Cash and Cash Equivalents	\$ 1,804,469	\$ 1,622,234
Cash and Cash Equivalents - Restricted Note Funds	660,285	657,718
Cash and Cash Equivalents - Restricted LIHEAP Funds	11,364	14,901
<b>Total Cash and Cash Equivalents</b>	<b>\$ 2,476,118</b>	<b>\$ 2,294,853</b>

See Notes to Financial Statements

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

**STATEMENTS OF CASH FLOWS - continued  
FOR THE YEARS ENDED DECEMBER 31:**

	2010	2009
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 340,251	\$ 316,835
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	205,233	153,796
(Increase) Decrease in Assets:		
Accounts Receivable	(11,878)	(58,670)
Prepaid Expenses	(240)	1,565
Inventories	(2,779)	(16,406)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	51,731	(216,413)
Accounts Payable - City of Sanborn	2,939	34,086
Accrued Compensated Absences	(2,262)	1,390
OPEB Liability	1,673	1,673
Customer Deposits and Credit Balances	(22,800)	9,086
Deferred Revenue	(3,537)	1,008
	\$ 558,331	\$ 227,950

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.

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**  
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**NOTES TO FINANCIAL STATEMENTS**

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

**Interest Capitalization**

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

**Assets, Liabilities and Net Assets**

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

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

Accounts Receivable and Allowance for Doubtful Accounts – Accounts receivable as of December 31, 2010 and 2009 consisted of approximately 810 and 1,020 uncollateralized accounts, respectively. Accounts receivable balances older than 90 days for the Utility were approximately \$18,874 and \$15,224 for the years ended December 31, 2010 and 2009 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 1.50% per month penalty is charged for accounts older than 30 days.

The allowance for uncollectible accounts had a balance as of December 31, 2010 and 2009 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.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
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**NOTES TO FINANCIAL STATEMENTS**

**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.

**NOTE 2 - CASH AND INVESTMENTS**

The Utility's deposits in financial institutions at December 31, 2010 and 2009 (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, 2010 and 2009, 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 (TCA), 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. TCA 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 TCA reflects the most recent audited amounts as of June 30, 2010. Audited financial statements of TCA are available at their office located at 102 South Eastern, Sanborn, Iowa. Summary financial information of the joint venture as of December 31, 2010 and 2009 is as follows:

	2010	2009
Assets	<u>\$ 1,291,323</u>	<u>1,311,074</u>
Liabilities	416,740	315,493
Equity	<u>874,583</u>	<u>995,581</u>
Total liabilities and equity	<u>\$ 1,291,323</u>	<u>1,311,074</u>

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY**  
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**NOTES TO FINANCIAL STATEMENTS**

	2010	2009
Operating revenue	\$ 2,697,113	2,754,868
Less operating expenses	2,117,353	2,236,190
Operating income	579,760	518,678
Interest income	13,567	17,528
Increase in net assets	\$ 593,327	\$ 536,206

The Utility's investment in TCA is classified as follows as of December 31, 2010 and 2009:

	2010	2009
Total investment in joint venture	192,469	140,443
Less amount restricted for debt service	132,880	132,880
Investment in joint venture - unrestricted	\$ 59,589	7,563

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 5.79% share as of December 31, 2010 and a 5.68% share as of December 31, 2009, 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, 2010 and 2009 is as follows:

	2010	2009
Assets	\$ 7,418,329	7,610,578
Liabilities	417,267	464,875
Equity	7,001,062	7,145,703
Total liabilities and equity	\$ 7,418,329	7,610,578
	2010	2009
Operating revenue	\$ 1,018,376	902,409
Less operating expenses	\$ 1,243,205	1,148,786
Operating loss	(224,829)	(246,377)
Other income	80,188	129,208
Decrease in net assets	\$ (144,641)	\$ (117,169)

The Utilities investment in MBMECA is classified as follows as of December 31, 2010 and 2009:

	2010	2009
Investment in joint venture	\$ 405,361	405,569

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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets at December 31, 2010 and 2009 is as follows:

	<u>December 31, 2010</u>			
	Balance January 1, 2010	Additions	Retirements	Balance December 31, 2010
Capital Assets Being Depreciated:				
Buildings	190,782	-	-	190,782
Machinery, Equipment, Transmission and Distribution System	1,963,789	45,044	-	2,008,832
Vehicles	214,623	-	-	214,623
Office Equipment	19,052	667	-	19,720
Cable and Internet System	1,458,114	-	-	1,458,114
Telephone System	792,550	-	-	792,550
Substation	2,861,827	17,385	-	2,879,212
Total Capital Assets Being Depreciated	<u>7,500,737</u>	<u>63,096</u>	<u>-</u>	<u>7,563,833</u>
Less Accumulated Depreciation for:				
Buildings	132,629	3,475	-	136,104
Machinery, Equipment, Transmission and Distribution System	1,544,564	42,172	-	1,586,736
Vehicles	78,530	10,822	-	89,352
Office Equipment	12,743	2,279	-	15,022
Cable and Internet System	381,756	48,604	-	430,360
Telephone System	191,939	26,418	-	218,357
Substation	21,394	71,463	-	92,857
Total Accumulated Depreciation	<u>2,363,555</u>	<u>205,233</u>	<u>-</u>	<u>2,568,788</u>
Total Capital Assets, Net	<u>\$ 5,137,182</u>			<u>4,995,045</u>

December 31, 2009

	Balance January 1, 2009	Additions	Retirements	Balance December 31, 2009
Capital Assets Not Being Depreciated:				
Construction Work in Progress	<u>\$ 2,311,560</u>	<u>550,267</u>	<u>2,861,827</u>	<u>-</u>

Capital Assets Being Depreciated:

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**NOTES TO FINANCIAL STATEMENTS**

Buildings	190,782	-	-	190,782
Machinery, Equipment, Transmission and Distribution System	1,939,397	24,391	-	1,963,789
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	<u>4,673,497</u>	<u>2,889,712</u>	<u>62,472</u>	<u>7,500,737</u>
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>

**NOTE 5 – LONG-TERM DEBT**

A summary of changes in long-term debt for the years ended at December 31, 2010 and 2009 is as follows:

	<u>December 31, 2010</u>			
	Balance January 1, 2010	Issuances	Redemptions	Balance December 31, 2010
2001 Electric Revenue Notes	\$ 755,000	-	90,000	665,000
2008 Electric Revenue Bonds	2,775,000	-	30,000	2,745,000
2004 Telecommunications Revenue Note	770,000	-	15,000	755,000
Totals	<u>\$ 4,300,000</u>	<u>-</u>	<u>135,000</u>	<u>4,165,000</u>

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**NOTES TO FINANCIAL STATEMENTS**

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>

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% Principal	Interest	Interest 3.10 – 4.85% Principal	Interest	Interest 2.60 – 5.35% Principal	Interest	Principal	Interest
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>\$665,000</u>	<u>\$134,155</u>	<u>\$2,745,000</u>	<u>\$1,572,859</u>	<u>\$755,000</u>	<u>\$207,753</u>	<u>\$4,165,000</u>	<u>\$1,914,767</u>

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**NOTES TO FINANCIAL STATEMENTS**

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 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, 2010 and 2009:

	2010	2009
Funds maintained by the Utility	\$ 660,285	657,718
Restricted portion of investment in joint ventures	132,880	132,880
Restricted note funds	\$ 793,165	790,598

Total interest costs were \$205,736 in 2010 and \$212,723 in 2009 (of which \$87,500 was capitalized).

**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 \$5,728 and \$7,990 as of December 31, 2010 and 2009, respectively. These amounts have been accrued and are reflected on the attached financial statements.

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

**NOTE 7 - PENSION AND RETIREMENT BENEFITS**

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS

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**NOTES TO FINANCIAL STATEMENTS**

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 4.50% (4.30% through June 30, 2010) of their annual salary and the Utility is required to contribute 6.95% (6.65% through June 30, 2010) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2010, 2009, and 2007 were \$12,518, \$10,491, and \$9,800 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.

**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 the remaining \$56,216 paid in 2010. The completed substation project was added to fixed assets and will be depreciated over 40 years.

**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.

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**NOTES TO FINANCIAL STATEMENTS**

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, 2010, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

	2010
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	1,673
Net OPEB obligation, end of year	\$ 3,346

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, 2010.

For the year ended December 31, 2010, the Utility did not contribute to the medical plan.

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, 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2010	\$ 1,673	0%	3,346

Funded Status and Funding Progress. As of January 1, 2009, the most recent actuarial valuation date for the period January 1, 2010 through December 31, 2010, 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 \$188,000 and the ratio of the UAAL to covered payroll was 9%. As of December 31, 2010, 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

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**NOTES TO FINANCIAL STATEMENTS**

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. 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, 2010 and 2009, one customer of Sanborn Electric and Telecommunications Utility accounted for approximately 20% and 25%, respectively, 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 16, 2011, the date the financial statements were issued.

The Utility issued \$590,000 of Refunding Bonds on February 22, 2011. The Refunding Bonds were used to pay the cost of refunding the outstanding balance of the 2001 Electric Revenue Notes. The newly issued bonds will have interest rates of 0.9% to 2.3% and will mature in February 2016. The future minimum payments required under the agreement are as follows:

<u>Year Ended</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ -0-	9,565
2012	110,000	9,565
2013	115,000	8,575
2014	120,000	7,195
2015	120,000	5,275
2016	<u>125,000</u>	<u>2,875</u>
	<u>\$ 590,000</u>	<u>43,050</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
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**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND  
CHANGES IN BALANCES - BUDGET AND ACTUAL - (CASH BASIS)  
FOR THE YEAR ENDED DECEMBER 31, 2010**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Final Budget	Variance Between Cash Basis and Final Budget
<b>Receipts:</b>					
Charges for Services	\$ 2,102,959	\$ (38,216)	\$ 2,064,743	\$ 1,882,750	\$ 181,993
Use of Money and Property	27,665	-	27,665	35,000	(7,335)
Miscellaneous	108,189	(171,285)	(63,096)	899,250	(962,346)
<b>Total Revenues</b>	<u>2,238,813</u>	<u>(209,501)</u>	<u>2,029,312</u>	<u>2,817,000</u>	<u>(787,688)</u>
<b>Disbursements</b>	<u>1,968,444</u>	<u>7,163</u>	<u>1,975,607</u>	<u>2,735,225</u>	<u>(759,618)</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	270,369	(216,664)	53,705	81,775	(28,070)
<b>Other Financing Sources (Uses) Net</b>	<u>(59,080)</u>	<u>-</u>	<u>(59,080)</u>	<u>(78,000)</u>	<u>18,920</u>
<b>Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)</b>	211,289	(216,664)	(5,375)	3,775	(9,150)
<b>Net Assets at Beginning of Period</b>	<u>3,822,492</u>	<u>(1,527,639)</u>	<u>2,294,853</u>	<u>1,736,881</u>	<u>557,972</u>
<b>Net Assets at End of Period</b>	<u>\$ 4,033,781</u>	<u>\$ (1,744,303)</u>	<u>\$ 2,289,478</u>	<u>\$ 1,740,656</u>	<u>\$ 548,822</u>

See Accompanying Independent Auditor's Report

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**

**BUDGETARY COMPARISON**

**FOR THE YEAR ENDED DECEMBER 31, 2010**

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 were within budgeted limits for the year ended December 31, 2010.

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
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**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**

**SCHEDULE OF FUNDING PROGRESS FOR THE  
RETIREE HEALTH PLAN**

Year Ended December 31,	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
2009	Jan 1, 2009	\$ -0-	\$ 17,062	\$ 17,062	0.00%	\$ 174,122	10%
2010	Jan 1, 2009	\$ -0-	\$ 17,062	\$ 17,062	0.00%	\$ 187,957	9%

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.

See Accompanying Independent Auditor's Report

**OTHER SUPPLEMENTARY INFORMATION**

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
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**SCHEDULES OF OPERATING REVENUES  
FOR THE YEARS ENDED DECEMBER 31:**

	2010	2009
<b>Electric Energy Sales:</b>		
Residential	\$ 512,342	\$ 467,391
Residential - All Electric	157,014	150,309
Industrial	1,108,673	1,008,197
Commercial	178,935	162,974
Commercial - All Electric	15,591	16,836
Public Authorities	72,451	73,475
Security Lights	936	1,001
	<b>Total Electric Energy Sales</b>	<b>1,880,183</b>
	2,045,942	1,880,183
<b>Other Sales:</b>		
Labor	9,855	680
Other Revenues	47,162	17,648
	<b>Total Other Sales</b>	<b>18,328</b>
	57,017	18,328
<b>Total Sales</b>	<b>\$ 2,102,959</b>	<b>\$ 1,898,511</b>

See Accompanying Independent Auditor's Report

**SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY  
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**SCHEDULES OF OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31:**

	2010	2009
<b>Power Production Expenses:</b>		
Plant Labor	\$ 34,233	\$ 36,404
Supplies	25,243	24,988
Purchased Power	1,189,274	1,059,886
<b>Total Power Production Expenses</b>	<b>1,248,750</b>	<b>1,121,278</b>
<b>Distribution Expenses:</b>		
Supervision Labor	54,204	58,693
Station and Line Labor	34,466	19,793
Miscellaneous Distribution	4,758	25,545
Street Lighting and Metering	2,609	626
<b>Total Distribution Expenses</b>	<b>96,037</b>	<b>104,657</b>
<b>Commercial Expenses:</b>		
Accounting and Collection Labor	50,758	47,374
Supplies	1,563	1,715
<b>Total Commercial Expenses</b>	<b>52,321</b>	<b>49,089</b>
<b>Sales Expenses:</b>		
Merchandise and Labor for Resale	-	280
<b>Administrative and General Expenses:</b>		
Advertising	2,830	3,756
City Hall	5,865	5,138
Depreciation	205,233	153,796
Dues and Subscriptions	6,556	4,332
Employee Benefits	56,518	48,645
Insurance	14,235	18,359
OPEB Expense	1,673	1,673
Meeting	2,042	2,928
Miscellaneous General	5,329	10,545
Office Supplies	5,050	4,551
Outside Services	18,379	14,814
Salaries and Wages	31,249	30,352
Transportation	10,364	7,330
Uniforms	277	153
<b>Total Administrative and General Expenses</b>	<b>365,600</b>	<b>306,372</b>
<b>Total Operating Expenses</b>	<b>\$ 1,762,708</b>	<b>\$ 1,581,676</b>

See Accompanying Independent Auditor's Report

**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, 2010, and have issued our report thereon dated September 16, 2011. 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**

Management of Sanborn Electric and Telecommunication Utility is responsible for establishing and maintaining effective internal control over financial reporting. 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 preceding paragraph and was not designed to identify all deficiencies in internal control over financial 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 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 deficiencies described at I-A-10 and I-B-10 in the Schedule of Findings to be material weaknesses.

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 I-C-10 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*.

Comments involving statutory and other legal matters about the Utility's operations for the year ended December 31, 2010, 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. This report is not intended 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 Sanborn Electric and Telecommunications Utility during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

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

September 16, 2011

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

**SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2010**

**Part I: Findings Related to the General Purpose Financial Statements**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

I-A-10 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.

I-B-10 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.

I-C-10 Credit Cards – The Utility has credit cards available for use by employees while on Utility business. The Utility has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – We recommend the Utility adopt a formal written policy to regulate the use of Utility credit cards. The policy should address who controls credit cards, who is authorized to use credit cards and for what purposes, and specify the types of supporting documentation required to substantiate charges.

Response – We will adopt a formal credit card policy in a Board Resolution.

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, 2010**

**Part II: Other Findings Related to Statutory Reporting:**

- II-A-10 Certified Budget - Disbursements during the year ended December 31, 2010 did not exceed any of the budget.
- II-B-10 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-10 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-10 Business Transactions – No business transactions between the Utility and Utility officials or employees were noted.
- II-E-10 Bond Coverage – Surety bond coverage of Utility officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes – No transactions were noted that we believe should have been approved in the Board minutes but were not.
- II-G-10 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- II-H-10 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.