SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY

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

December 31, 2011 and 2010

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, 2011

Name	Title	Term Expires
	Board of Trustees	
James P. Cravens	Chairman	June 30, 2013
Terry Boelter	Secretary	June 30, 2015
Rick Maranell	Trustee	June 30, 2017
	Utility Officials	
Jim Zeutenhorst	General Manager	Indefinite

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the balance sheets of Sanborn Electric and Telecommunications Utility (the Utility), a component unit of the City of Sanborn, Iowa, as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. 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 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 our audits provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of December 31, 2011 and 2010 and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2012 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 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 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.

Accounting principles generally accepted in the United States require Management's Discussion and Analysis, the Budgetary Comparison Information and the Schedule of Funding Progress for the Retiree Health Plan on pages 4 through 7 and 25 through 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with accounting procedures generally

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accepted in the United States, which consisted principally of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the required supplementary information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 included in the Schedules of Operating Revenues and the Schedules of Operating Expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

August 9, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Sanborn Electric and Telecommunications Utility (the Utility) provides this Management's Discussion and Analysis of the Utility's financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2011. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- The Utility's operating revenues decreased 4%, or approximately $85,000 from 2010 to 2011 as a result of the mild weather in 2011.
- The Utility's operating expenses increased 3%, or approximately $51,000 from 2010 to 2011 due to inflation and increased transmission costs.
- Despite the reduced revenue and increased expenses, the Utility's net assets increased approximately 1% or approximately $36,000 during 2011.

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 2011, total assets decreased by approximately $118,000 and liabilities decreased by $154,000 resulting in the increase in net assets of approximately $36,000 dollars during the year.

Net Assets of Business Type Activities (Expressed in Thousands)	Year ended December 31,	
	2011	2010
Current and other assets	$ 2,028	2,166
Capital assets (net of depreciation)	4,823	4,995
Other assets	1,462	1,270
Total assets	8,313	8,431
Long-term debt outstanding	3,833	4,972
Other liabilities	410	425
Total liabilities	4,243	4,397
Net assets:		
Invested in capital assets, net of related debt	1,441	1,490
Restricted	801	793
Unrestricted	1,828	1,751
Total net assets	4,070	4,034
Total liabilities and net assets	$ 8,313	8,431

INDIVIDUAL MAJOR FUND ANALYSIS

As Sanborn Electric and Telecommunications Utility completed the year, it reported net assets of $4.0 million.

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

Net assets remained steady in 2011 as was budgeted for and anticipated by management.

Changes in Net Assets of Business Type Activities (Expressed in Thousands)	Year ended December 31,	
	2011	2010
Operating revenues	$ 2,018	2,103
Operating expenses	1,814	1,763
Operating income	204	340

Net non-operating revenues (expenses)	64	(70)
Transfers	(232)	(83)
Contributed capital	-	24
Change in net assets	36	211
Net assets, beginning of year	4,034	3,823
Net assets, end of year	$ 4,070	4,034

BUDGETARY HIGHLIGHTS

Sanborn Electric and Telecommunications Utility did not amend its budget during the year. The Utility's disbursements were within budgeted limits for 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At December 31, 2011, Sanborn Electric and Telecommunications Utility had approximately $4.8 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 $170,000 or 3% under last year.

Capital Assets of Business Type Activities
(Expressed in Thousands)

	Year ended December 31,	
	2011	2010
Buildings and improvements	$ 51	55
Equipment and vehicles	2,058	2,154
Substation	2,714	2,786
Total	$ 4,823	4,995

Additions to the capital assets for 2011 were mainly additional distribution equipment.

Sanborn Electric and Telecommunications Utility had depreciation expense of $207,025 in 2011 and total accumulated depreciation of $2,775,813 at December 31, 2011.

LONG TERM DEBT/LIABILITIES

At December 31, 2011, the Utility had $4,045,000 in revenue bonds outstanding compared to $4,165,000 at December 31, 2010, as shown below.

Outstanding Debt of Business Type Activities
(Expressed in Thousands)

	Year ended December 31,	
	2011	2010
Revenue bonds	$ 4,045	4,165

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 2012, despite anticipated higher expenses. The Utility does not anticipate the need for any additional bonding in 2012 but will look to refund bonds that are currently outstanding if an interest savings can be achieved. The Utility continues to work with its electricity providers to maximize electric utility revenues while limiting expenses.

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

BALANCE SHEETS
AS OF DECEMBER 31:

	2011	2010
Assets		
Current Assets:		
Cash and Cash Equivalents	$ 1,661,083	1,804,469
Accounts Receivable - Trade	250,799	235,250
Accrued Interest Receivable	1,662	3,021
Prepaid Expenses	3,446	3,585
Inventories	110,710	119,707
Total Current Assets	2,027,700	2,166,032
Capital Assets:		
Capital Assets (net of Accumulated Depreciation)	4,823,270	4,995,045
Total Capital Assets	4,823,270	4,995,045
Other Assets:		
Investment in Joint Ventures	439,051	464,950
Restricted Assets:		
Cash and Cash Equivalents - Note Funds	668,406	660,285
Cash and Cash Equivalents - LIHEAP Funds	6,983	11,364
Investment - Note Funds	132,880	132,880
Economic Development Loans Receivable	214,500	-
Total Other Assets	1,461,820	1,269,479
Total Assets	$ 8,312,790	8,430,556

See Notes to Financial Statements

	2011	2010
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	$ 133,773	144,159
Accounts Payable - City of Sanborn	22,596	21,917
Accrued Compensated Absences	6,141	5,728
Customer Deposits and Credit Balances	27,675	33,232
Accrued Interest Payable	57,439	68,825
Deferred Revenue	6,983	11,364
Revenue Notes - Current	155,000	140,000
Total Current Liabilities	409,607	425,225
Non-Current Liabilities:		
OPEB Liabilities	5,019	3,346
Revenue Notes - Non-Current (net of Bond Discounts)	3,827,750	3,968,204
Total Non-Current Liabilities	3,832,769	3,971,550
Total Liabilities	4,242,376	4,396,775
Net Assets		
Invested in Capital Assets, Net of Related Debt	1,441,171	1,490,330
Restricted for:		
Debt Service	795,781	793,165
Revolving Loan Fund	5,505	-
Unrestricted	1,827,957	1,750,286
Total Net Assets	4,070,414	4,033,781
Total Liabilities and Net Assets	$ 8,312,790	8,430,556

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:

	2011	2010
Operating Revenues:		
Electric Energy Sales	$ 2,006,303	2,045,942
Other Sales	11,251	57,017
Total Operating Revenues	2,017,554	2,102,959
Operating Expenses:		
Power Production	1,251,488	1,248,750
Distribution	126,224	96,037
Commercial	52,661	52,321
Sales	-	-
Administrative and General	383,399	365,600
Total Operating Expenses	1,813,772	1,762,708
Operating Income	203,782	340,251
Non-Operating Revenues (Expenses):		
Interest and Dividend Income	21,621	27,665
Joint Venture Net Income	29,163	108,189
Gain on Disposal of Assets	20,175	-
Interest Expense	(182,753)	(205,736)
Grant Income	176,000	-
Net Non-Operating (Expenses)	64,206	(69,882)
Net Income Before Transfers and Contributed Capital	267,988	270,369
Transfers to Other Entities	(231,355)	(83,091)
Contributed Capital	-	24,011
Increase in Net Assets	36,633	211,289
Net Assets at Beginning of Period	4,033,781	3,822,492
Net Assets at End of Period	$ 4,070,414	4,033,781

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:

	2011	2010
Cash Flows From Operating Activities:		
Cash Received from Customers	$ 1,992,068	2,064,743
Cash Payments to Suppliers for Goods and Services	(1,395,266)	(1,299,240)
Cash Payments to Employees for Services	(209,967)	(207,172)
Net Cash Provided by Operating Activities	386,835	558,331
Cash Flows From Non-Capital Financing Activities:		
Transfers to Other Entities	(231,355)	(83,091)
Net Cash (Used) by Non-Capital Financing Activities	(231,355)	(83,091)
Cash Flows From Capital and Related Financing Activities:		
Capital Received from Joint Ventures	55,062	56,371
Purchases and Construction of Capital Assets	(35,250)	(63,096)
Proceeds from Disposal of Capital Assets	20,175	-
Contributed Capital	-	24,011
Revenue bond proceeds	590,000	-
Principal Paid on Revenue Notes	(710,000)	(135,000)
Interest Paid on Revenue Notes	(199,593)	(203,926)
Grant income	176,000	-
Net Cash (Used) by Capital and Related Financing Activities	(103,606)	(321,640)
Cash Flows From Investing Activities:		
Interest and Dividends on Investments	22,980	27,665
Principal Disbursed on Economic Development Loan	(220,000)	-
Principal Received on Economic Development Loan	5,500	-
Net Cash Provided (Used) by Investing Activities	(191,520)	27,665
Net Increase (Decrease) in Cash and Cash Equivalents	(139,646)	181,265
Cash and Cash Equivalents at Beginning of Period	2,476,118	2,294,853
Cash and Cash Equivalents at End of Period	$ 2,336,472	2,476,118
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets:		
Cash and Cash Equivalents	$ 1,661,083	1,804,469
Cash and Cash Equivalents - Restricted Note Funds	668,406	660,285
Cash and Cash Equivalents - Restricted LIHEAP Funds	6,983	11,364
Total Cash and Cash Equivalents	$ 2,336,472	2,476,118

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:

	2011	2010
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 203,782	340,251
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	207,025	205,233
(Increase) Decrease in Assets:		
Accounts Receivable	(15,549)	(11,878)
Notes Receivable		
Prepaid Expenses	139	(240)
Inventories	8,997	(2,779)
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	(10,386)	51,731
Accounts Payable - City of Sanborn	679	2,939
Accrued Compensated Absences	413	(2,262)
OPEB Liability	1,673	1,673
Customer Deposits and Credit Balances	(5,557)	(22,800)
Deferred Revenue	(4,381)	(3,537)
Net Cash Provided by Operating Activities	$ 386,835	558,331

See 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 is 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.

Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. 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.

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

Use of Estimates

The preparation of financial statements in conformity with 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, 2011 and 2010 consisted of approximately 830 and 810 uncollateralized accounts, respectively. Accounts receivable balances older than 90 days for the Utility were approximately $20,708 and $18,874 for the years ended December 31, 2011 and 2010 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, 2011 and 2010 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.

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, 2011 and 2010 (including certificates of deposit totaling $957,500 and $957,500 respectively) 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, 2011 and 2010, 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 partner 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 of TCA reflects the most recent audited amounts as of June 30, 2011. 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, 2011 and 2010 is as follows:

	2011	2010
Assets	$ 1,296,106	1,291,323
Liabilities	242,730	416,740
Equity	1,053,376	874,583
Total liabilities and equity	$ 1,296,106	1,291,323

	2011	2010
Operating revenue	$ 2,649,028	2,697,113
Less operating expenses	2,136,288	2,117,353
Operating income	512,740	579,760
Interest income	9,730	13,567
Increase in net assets	$ 522,470	$ 593,327

The Utility's investment in TCA is classified as follows as of December 31, 2011 and 2010:

	2011	2010
Total investment in joint venture	212,323	192,469
Less amount restricted for debt service	132,880	132,880
Investment in joint venture - unrestricted	$ 79,443	59,589

The City is also a partner 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 4.63% share as of December 31, 2011 and a 5.79% share as of December 31, 2010, with twelve other cities sharing in their ownership at varying percentages. 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, 2011 and 2010 is as follows:

	2011	2010
Assets	$ 8,660,677	7,418,329
Liabilities	890,681	417,267
Equity	7,769,996	7,001,062
Total liabilities and equity	$ 8,660,677	7,418,329

	2011	2010
Operating revenue	$ 1,203,919	1,018,376
Less operating expenses	$ 1,356,717	1,243,205
Operating loss	(152,798)	(224,829)
Other income	53,288	80,188
Decrease in net assets	$ (99,510)	(144,641)

The Utilities investment in MBMECA is classified as follows as of December 31, 2011 and 2010:

	2011	2010
Investment in joint venture	$ 359,608	405,361

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2011 and 2010 is as follows:

December 31, 2011

	Balance January 1, 2011	Additions	Retirements	Balance December 31, 2011
Capital Assets Being Depreciated:				
Buildings	$ 190,782	-	-	190,782

Machinery, Equipment, Transmission and Distribution System	2,008,832	35,250	-	2,044,082
Vehicles	214,623	-	-	214,623
Office Equipment	19,720	-	-	19,720
Cable and Internet System	1,458,114	-	-	1,458,114
Telephone System	792,550	-	-	792,550
Substation	2,879,212	-	-	2,879,212
Total Capital Assets Being Depreciated	7,563,833	35,250	-	7,599,083
Less Accumulated Depreciation for:				
Buildings	136,104	3,475	-	139,579
Machinery, Equipment, Transmission and Distribution System	1,586,736	43,862	-	1,630,598
Vehicles	89,352	10,405	-	99,757
Office Equipment	15,022	2,280	-	17,302
Cable and Internet System	430,360	48,604	-	478,964
Telephone System	218,357	26,419		244,776
Substation	92,857	71,980	-	164,837
Total Accumulated Depreciation	2,568,788	207,025	-	2,775,813
Total Capital Assets, Net	$ 4,995,045			4,823,270

December 31, 2010

	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	7,500,737	63,096	-	7,563,833
Less Accumulated Depreciation for:				
Buildings	132,629	3,475	-	136,104
Machinery, Equipment, Transmission and	1,544,564	42,172	-	1,586,736

Distribution System				
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	2,363,555	205,233	-	2,568,788
Total Capital Assets, Net	$ 5,137,182			4,995,045

NOTE 5 – LONG-TERM DEBT

A summary of changes in long-term debt for the years ended at December 31, 2011 and 2010 is as follows:

December 31, 2011

	Balance January 1, 2011	Issuances	Redemptions	Balance December 31, 2011
2001 Electric Revenue Notes	$ 665,000	-	665,000	-
2008 Electric Revenue Bonds	2,745,000	-	30,000	2,715,000
2011 Electric Revenue Refunding Bonds	-	590,000	-	590,000
2004 Telecommunications Revenue Note	755,000	-	15,000	740,000
Totals	$ 4,165,000	590,000	710,000	4,045,000

December 31, 2010

	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	$ 4,300,000	-	135,000	4,165,000

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

	Series 2011 Electric		Series 2008 Electric		Series 2004 Telecommunications			
Year Ending December 31,	Interest 0.90 – 2.30%		Interest 3.10 – 4.85%		Interest 2.60 – 5.35%		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	110,000	9,070	30,000	123,403	15,000	38,964	155,000	171,437

2013	115,000	7,885	25,000	122,293	20,000	38,118	160,000	168,296
2014	120,000	6,235	30,000	121,317	20,000	37,123	170,000	164,675
2015	120,000	4,075	30,000	120,088	20,000	36,098	170,000	160,261
2016	125,000	1,438	35,000	118,827	665,000	17,789	825,000	138,054
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
	$590,000	$28,703	$2,715,000	$1,448,406	$740,000	$168,092	$4,045,000	$1,645,201

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 not sufficient 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, 2011 and 2010:

	2011	2010
Funds maintained by the Utility	$ 662,901	660,285
Restricted portion of investment in joint ventures	132,880	132,880
Restricted note funds	$ 795,781	793,165

Total interest costs were $182,753 in 2011 and $205,736 in 2010.

Refunding Bonds

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. Interest savings for the Utility resulting from the issuance of the Refunding Bonds will be approximately $70,000.

NOTE 6 – COMPENSATED ABSENCES

Utility employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. Employees can carry over no more than 160 hours of unused vacation time from one calendar year to the next. The Utility's approximate liability for earned but unused vacation was $6,141 and $5,728 as of December 31, 2011 and 2010, respectively. These amounts have been accrued and are reflected on the attached financial statements.

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

NOTE 7 - PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.38% (4.50% through June 30, 2011) of their annual salary and the Utility is required to contribute 8.07% (6.95% through June 30, 2011) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to

IPERS for the years ended December 31, 2011, 2010, and 2009 were $14,493, $12,518, and $10,491 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 – USDA GRANT PROGRAM

On September 28, 2011, the Utility received a grant from the USDA Rural Development in the amount of $176,000 under the Rural Economic Development Loan and Grant program. The Utility was required to match this grant with $44,000 of Utility funds. The Utility was required to create a revolving loan fund (see Note 11) with the grant dollars and with the local match. Should the Utility decide to discontinue the revolving loan fund, the original grant is repayable to the USDA Rural Development.

NOTE 11 – REVOLVING LOAN FUND

With grant proceeds received from the USDA Rural Development Loan and Grant program, the Utility established a revolving loan fund in 2011 (see Note 10.) The Utility lent money from this fund to one local business in 2011. As of December 31, 2011, the outstanding balance due to the Utility under this agreement was $214,500.

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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

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

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

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

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2011 and 2010, the amounts actually contributed to the plan, and changes in the Utility's net OPEB obligation.

	2011	2010
Annual required contribution	$ 1,673	1,673
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	-	-
Annual OPEB cost	1,673	1,673
Net OPEB obligation, beginning of year	3,346	1,673
Net OPEB obligation, end of year	$ 5,019	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 years ended December 31, 2011 and 2010.

For the years ended December 31, 2011 and 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, 2011 and 2010 are summarized as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2009	$ 1,673	0%	1,673
December 31, 2010	$ 1,673	0%	3,346
December 31, 2011	$ 1,673	0%	5,019

Funded Status and Funding Progress. As of January 1, 2009, the most recent actuarial valuation date for the period January 1, 2011 through December 31, 2011 and 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 $210,000 and the ratio of the UAAL to covered payroll was 8%. As of December 31, 2011 and 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 for the Retiree Health Plan, presented as required supplementary information in the section following the Notes to Financial Statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

As of the January 1, 2009 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4% discount rate based on the Utility's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate. 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 13 – CONCENTRATIONS

For the years ended December 31, 2011 and 2010, one customer of Sanborn Electric and Telecommunications Utility accounted for approximately 24% and 20%, respectively, of the total electricity sales.

NOTE 14 - SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through August 9, 2012, the date the financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL - (CASH BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2011

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Final Budget	Variance Between Cash Basis and Final Budget
Receipts:					
Charges for Services	$ 2,017,554	(25,486)	1,992,068	1,982,750	9,318
Use of Money and Property	21,621	1,359	22,980	35,000	(12,020)
Miscellaneous	225,338	25,899	251,237	814,250	(563,013)
Total Revenues	2,264,513	1,772	2,266,285	2,832,000	(565,715)
Disbursements	1,996,525	178,051	2,174,576	2,777,542	602,966
Excess (Deficiency) of Receipts Over (Under) Disbursements	267,988	(176,279)	91,709	54,458	37,251
Other Financing Sources (Uses) Net	(231,355)	-	(231,355)	(178,000)	(53,355)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)	36,633	(176,279)	(139,646)	(123,542)	(16,104)
Net Assets at Beginning of Period	4,033,781	(1,557,663)	2,476,118	2,355,728	120,390
Net Assets at End of Period	$ 4,070,414	(1,733,942)	2,336,472	2,232,186	104,286

See Accompanying Independent Auditor's Report

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –

BUDGETARY COMPARISION
FOR THE YEAR ENDED DECEMBER 31, 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 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 nine major classes of disbursements known as functions, not by fund. 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. 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, 2011.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –

SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN

Year Ended December 31,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	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%
2011	Jan 1, 2009	$ -0-	$ 17,062	$ 17,062	0.00%	$ 210,380	8%

See Note 12 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
A COMPONENT UNIT OF THE CITY OF SANBORN, IOWA

SCHEDULES OF OPERATING REVENUES
FOR THE YEARS ENDED DECEMBER 31:

	2011	2010
Electric Energy Sales:		
Residential	$ 516,845	512,342
Residential - All Electric	167,797	157,014
Industrial	1,051,117	1,108,673
Commercial	178,633	178,935
Commercial - All Electric	18,207	15,591
Public Authorities	72,826	72,451
Security Lights	878	936
Total Electric Energy Sales	2,006,303	2,045,942
Other Sales:		
Labor	905	9,855
Other Revenues	10,346	47,162
Total Other Sales	11,251	57,017
Total Sales	$ 2,017,554	2,102,959

See Accompanying Independent Auditor's Report

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

SCHEDULES OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31:

	2011	2,010
Power Production Expenses:		
Plant Labor	$ 35,697	34,233
Supplies	27,134	25,243
Purchased Power	1,188,657	1,189,274
Total Power Production Expenses	1,251,488	1,248,750
Distribution Expenses:		
Supervision Labor	55,637	54,204
Station and Line Labor	35,661	34,466
Miscellaneous Distribution	33,341	4,758
Street Lighting and Metering	1,585	2,609
Total Distribution Expenses	126,224	96,037
Commercial Expenses:		
Accounting and Collection Labor	51,239	50,758
Supplies	1,422	1,563
Total Commercial Expenses	52,661	52,321
Administrative and General Expenses:		
Advertising	3,113	2,830
City Hall	5,891	5,865
Depreciation	207,025	205,233
Dues and Subscriptions	6,804	6,556
Employee Benefits	62,365	56,518
Insurance	14,062	14,235
OPEB Expense	1,673	1,673
Meeting	2,111	2,042
Miscellaneous General	6,106	5,329
Office Supplies	4,157	5,050
Outside Services	28,219	18,379
Salaries and Wages	32,147	31,249
Transportation	9,573	10,364
Uniforms	153	277
Total Administrative and General Expenses	383,399	365,600
Total Operating Expenses	$ 1,813,772	1,762,708

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 Board of Trustees of
Sanborn Electric and Telecommunications Utility:

We have audited the accompanying 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, 2011, and have issued our report thereon dated August 9, 2012. 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.

Internal Control Over Financial Planning

The 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 a deficiency in internal control over financial reporting that we believe to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Utility's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described at I-A-11 the Schedule of Findings to be a material weakness.

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

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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, 2011, 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 response to the finding identified in our audit is 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.

August 9, 2012

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

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2011

Part I: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

I-A-11 Segregation of Duties – There is a lack of segregation of duties with respect to the accounting functions.

Criteria - 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 employee performs most of the accounting functions.

Cause – Sanborn Electric and Telecommunications Utility is not a large entity; therefore their staff includes a small number of office employees.

Effect – The lack of 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 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.

SCHEDULE OF FINDINGS (CONTINUED)
YEAR ENDED DECEMBER 31, 2011

Part II: Other Findings Related to Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended December 31, 2011 were within the budgeted limits.

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 expenses of spouses of Utility officials or employees were noted.

II-D-11 Business Transactions – Business transactions between the Utility and Utility officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description
James P. Craven, Chairman President, Sanborn Savings Bank	Sanborn Savings Bank Utility Depository

The Code of Iowa provides certain exceptions to the prohibition of transactions with related parties. Chapter 362.5(3)(b) of the Code of Iowa lists the "designation of a bank or trust company as a depository, paying agent, or for investment of funds" as an exception to the Related Party Transaction rules. The transactions with the Board Chairman appear to qualify under this exception, and therefore do not represent a conflict of interest.

II-E-11 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-11 Board Minutes – No transactions were noted that we believe should have been approved in the Board minutes but were not.

II-G-11 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

II-H-11 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.