

**SANBORN ELECTRIC AND  
TELECOMMUNICATIONS UTILITY**

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

**December 31, 2012 and 2011**

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

## Table of Contents

	<u>Page</u>
Officials	1
Independent Auditor's Report	2-3
Management's Discussion and Analysis	4-7
Basic Financial Statements:	
Balance Sheets	8-9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-23
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual – (Cash Basis)	24
Notes to Required Supplementary Information – Budgetary Reporting	25
Notes to Required Supplementary Information – Schedule of Funding Progress for the Retiree Health Plan	26
Supplementary Information:	
Schedules of Operating Revenues	27
Schedules of Operating Expenses	28
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29-30
Schedule of Findings	31-32

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

**OFFICIALS**

**December 31, 2012**

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
<b>Board of Trustees</b>		
James P. Cravens	Chairman	June 30, 2013
Terry Boelter	Secretary	June 30, 2015
Rick Maranell	Trustee	June 30, 2017
<b>Utility Officials</b>		
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

### **Report on the Financial Statements**

We have audited the accompanying financial statements for the major fund of Sanborn Electric and Telecommunications Utility, a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position for the major fund of Sanborn Electric and Telecommunications Utility, as of December 31,

2012 and 2011, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-7 and 24-26 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, who considers it to be an essential part of 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 auditing standards generally accepted in the United States of America, which consisted 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

**Other Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Utility's basic financial statements. The accompanying statements of operating revenues and expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of operating revenues and expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of operating revenues and expenses are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013 on our consideration of Sanborn Electric and Telecommunications Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Bancroft Municipal Utilities' internal control over financial reporting and compliance.

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

September 24, 2013

---

---

## 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, 2012. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

### 2012 FINANCIAL HIGHLIGHTS

- ◆ The Utility's operating revenues decreased less than 1%, or approximately \$3,000 from 2011 to 2012. This is a result of steady sales and rates.
- ◆ The Utility's operating expenses decreased less than 1%, or approximately \$13,000 from 2011 to 2012. With similar usage, expenses such as purchased power remained steady.
- ◆ Despite the reduced revenue and expenses, the Utility's net position increased approximately 3% or approximately \$108,000 during 2012. The increase was attributed mainly to investment earnings from the Utility's joint ventures.

### 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 schedules contained in the 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 position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows.

The condensed statement of net position, shown below, shows how assets and liabilities have changed over the past two years. In 2012, total assets decreased by approximately \$15,500 and liabilities decreased by \$123,000 resulting in the increase in net position of approximately \$107,500 dollars during the year.

Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Current and other assets	\$ 2,047	2,028
Capital assets (net of depreciation)	4,691	4,823
Other assets	<u>1,558</u>	<u>1,462</u>
Total assets	<u>8,297</u>	<u>8,313</u>
Long-term debt outstanding	3,682	3,833
Other liabilities	<u>437</u>	<u>410</u>
Total liabilities	<u>4,119</u>	<u>4,243</u>
Net position:		
Net investment in capital assets	1,466	1,441
Restricted	826	801
Unrestricted	<u>1,886</u>	<u>1,828</u>
Total net position	<u>4,178</u>	<u>4,070</u>
Total liabilities and net position	<u>\$ 8,297</u>	<u>8,313</u>

#### INDIVIDUAL MAJOR FUND ANALYSIS

As Sanborn Electric and Telecommunications Utility completed the year, it reported net position of \$4.2 million.

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

Net position remained improved slightly in 2012 as was budgeted for and anticipated by management.

Changes in Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Operating revenues	\$ 2,014	2,018
Operating expenses	<u>1,800</u>	<u>1,814</u>
Operating income	214	204

Net non-operating revenues (expenses)	(9)	64
Transfers	(97)	(232)
Contributed capital	-	-
Change in net position	<u>108</u>	<u>36</u>
Net position, beginning of year	<u>4,070</u>	<u>4,034</u>
Net position, end of year	<u>\$ 4,178</u>	<u>4,070</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 2012.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At December 31, 2012, Sanborn Electric and Telecommunications Utility had approximately \$4.7 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a decrease (including additions and deletions net of depreciation) of approximately \$132,000 or 3% under last year.

Capital Assets of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Buildings and improvements	\$ 48	51
Equipment and vehicles	2,001	2,058
Substation	<u>2,642</u>	<u>2,714</u>
Total	<u>\$ 4,691</u>	<u>4,823</u>

Additions to the capital assets for 2012 were mainly additional distribution equipment.

Sanborn Electric and Telecommunications Utility had depreciation expense of \$207,779 and total accumulated depreciation of \$2,983,593 at December 31, 2012.

## LONG TERM DEBT/LIABILITIES

At December 31, 2012, the Utility had \$3,890,000 in revenue bonds outstanding compared to \$4,045,000 at December 31, 2011, as shown below. The reduction in revenue bonds resulted from paying the bonds and required in the original bond agreements.

Outstanding Debt of Business Type Activities (Expressed in Thousands)		
	Year ended December 31,	
	2012	2011
Revenue bonds	<u>\$ 3,890</u>	<u>4,045</u>

## **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 will have a rate study completed and anticipate a rate increase of approximately 3% as a result. The Utility does not anticipate the need for any additional bonding in 2013 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:**

	2012	2011
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and Cash Equivalents	\$ 1,707,676	1,661,083
Accounts Receivable - Trade	229,420	250,799
Accrued Interest Receivable	2,701	1,662
Prepaid Expenses	3,738	3,446
Inventories	103,341	110,710
<b>Total Current Assets</b>	<b>2,046,876</b>	<b>2,027,700</b>
 <b>Capital Assets:</b>		
Capital Assets (net of Accumulated Depreciation)	4,691,427	4,823,270
<b>Total Capital Assets</b>	<b>4,691,427</b>	<b>4,823,270</b>
 <b>Other Assets:</b>		
Investment in Joint Ventures	531,386	439,051
Restricted Assets:		
Cash and Cash Equivalents - Note Funds	665,337	662,901
Cash and Cash Equivalents - Revolving loan fund	27,595	5,505
Cash and Cash Equivalents - LIHEAP Funds	9,295	6,983
Investment - Note Funds	132,880	132,880
Economic Development Loans Receivable	192,500	214,500
<b>Total Other Assets</b>	<b>1,558,993</b>	<b>1,461,820</b>
 <b>Total Assets</b>	 <b>\$ 8,297,296</b>	 <b>8,312,790</b>

	<u>2012</u>	<u>2011</u>
<b>Liabilities</b>		
<b>Current Liabilities:</b>		
Accounts Payable and Accrued Liabilities	\$ 138,519	133,773
Accounts Payable - City of Sanborn	20,748	22,596
Accrued Compensated Absences	6,639	6,141
Customer Deposits and Credit Balances	45,337	27,675
Accrued Interest Payable	56,525	57,439
Deferred Revenue	9,295	6,983
Revenue Notes - Current	160,000	155,000
<b>Total Current Liabilities</b>	<u>437,063</u>	<u>409,607</u>
<b>Non-Current Liabilities:</b>		
OPEB Liabilities	7,714	5,019
Revenue Notes - Non-Current (net of Bond Discounts)	3,674,285	3,827,750
<b>Total Non-Current Liabilities</b>	<u>3,681,999</u>	<u>3,832,769</u>
<b>Total Liabilities</b>	<u>4,119,062</u>	<u>4,242,376</u>
<b>Net Position</b>		
Net investment in capital assets	1,466,764	1,441,171
Restricted for:		
Debt Service	798,217	795,781
Revolving Loan Fund	27,595	5,505
Unrestricted	1,885,658	1,827,957
<b>Total Net Position</b>	<u>4,178,234</u>	<u>4,070,414</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 8,297,296</u>	<u>8,312,790</u>

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

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31:**

	2012	2011
<b>Operating Revenues:</b>		
Electric Energy Sales	\$ 2,007,865	2,006,303
Other Sales	6,497	11,251
<b>Total Operating Revenues</b>	<b>2,014,362</b>	<b>2,017,554</b>
 <b>Operating Expenses:</b>		
Power Production	1,257,515	1,251,488
Distribution	101,792	126,224
Commercial	58,772	52,661
Sales	-	-
Administrative and General	382,419	383,399
<b>Total Operating Expenses</b>	<b>1,800,498</b>	<b>1,813,772</b>
 <b>Operating Income</b>	<b>213,864</b>	<b>203,782</b>
 <b>Non-Operating Revenues (Expenses):</b>		
Interest and Dividend Income	17,379	21,621
Joint Venture Net Income	149,656	29,163
Gain on Disposal of Assets	-	20,175
Interest Expense	(176,502)	(182,753)
Grant Income	-	176,000
<b>Net Non-Operating (Expenses)</b>	<b>(9,467)</b>	<b>64,206</b>
 <b>Net Income Before Transfers and Contributed Capital</b>	<b>204,397</b>	<b>267,988</b>
Transfers to Other Entities	(96,578)	(231,355)
Contributed Capital	-	-
 <b>Increase in Net Position</b>	<b>107,820</b>	<b>36,633</b>
 <b>Net Position at Beginning of Period</b>	<b>4,070,414</b>	<b>4,033,781</b>
 <b>Net Position at End of Period</b>	<b>\$ 4,178,234</b>	<b>4,070,414</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:**

	2012	2011
<b>Cash Flows From Operating Activities:</b>		
Cash Received from Customers	\$ 2,055,715	1,992,068
Cash Payments to Suppliers for Goods and Services	(1,357,499)	(1,395,266)
Cash Payments to Employees for Services	(222,052)	(209,967)
<b>Net Cash Provided by Operating Activities</b>	<b>476,164</b>	<b>386,835</b>
<b>Cash Flows From Non-Capital Financing Activities:</b>		
Transfers to Other Entities	(96,578)	(231,355)
<b>Net Cash (Used) by Non-Capital Financing Activities</b>	<b>(96,578)</b>	<b>(231,355)</b>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Capital Received from Joint Ventures	57,321	55,062
Purchases and Construction of Capital Assets	(76,974)	(35,250)
Proceeds from Disposal of Capital Assets	-	20,175
Revenue bond proceeds	-	590,000
Principal Paid on Revenue Notes	(155,000)	(710,000)
Interest Paid on Revenue Notes	(170,881)	(199,593)
Grant income	-	176,000
<b>Net Cash (Used) by Capital and Related Financing Activities</b>	<b>(345,534)</b>	<b>(103,606)</b>
<b>Cash Flows From Investing Activities:</b>		
Interest and Dividends on Investments	17,379	22,980
Principal Disbursed on Economic Development Loan	-	(220,000)
Principal Received on Economic Development Loan	22,000	5,500
<b>Net Cash Provided (Used) by Investing Activities</b>	<b>39,379</b>	<b>(191,520)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	73,431	(139,646)
<b>Cash and Cash Equivalents at Beginning of Period</b>	2,336,472	2,476,118
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 2,409,903</b>	<b>2,336,472</b>
<b>Reconciliation of Cash and Cash Equivalents to the Statements of Net Position:</b>		
Cash and Cash Equivalents	\$ 1,707,676	1,661,083
Cash and Cash Equivalents - Restricted Note Funds	665,337	662,901
Cash and Cash Equivalents - Restricted Revolving Loan Funds	27,595	5,505
Cash and Cash Equivalents - Restricted LIHEAP Funds	9,295	6,983
<b>Total Cash and Cash Equivalents</b>	<b>\$ 2,409,903</b>	<b>2,336,472</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:**

	2012	2011
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income	\$ 213,864	203,782
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	207,779	207,025
(Increase) Decrease in Assets:		
Accounts Receivable	21,379	(15,549)
Prepaid Expenses	(292)	139
Inventories	7,369	8,997
Increase (Decrease) in Liabilities		
Accounts Payable and Accrued Liabilities	4,746	(10,386)
Accounts Payable - City of Sanborn	(1,848)	679
Accrued Compensated Absences	498	413
OPEB Liability	2,695	1,673
Customer Deposits and Credit Balances	17,662	(5,557)
Deferred Revenue	2,312	(4,381)
	\$ 476,164	386,835

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 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**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 position**

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

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, 2012 and 2011 consisted of approximately 849 and 830 uncollateralized accounts, respectively. Accounts receivable balances older than 90 days for the Utility were approximately \$24,347 and \$20,708 for the years ended December 31, 2012 and 2011 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, 2012 and 2011 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 Position**

The Utility's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - CASH AND INVESTMENTS**

The Utility's deposits in financial institutions at December 31, 2012 and 2011 (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, 2012 and 2011, 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, 2012. 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, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Assets	<u>\$ 1,469,461</u>	<u>1,296,106</u>
Liabilities	256,314	242,730
Equity	<u>1,213,147</u>	<u>1,053,376</u>
Total liabilities and equity	<u>\$ 1,469,461</u>	<u>1,296,106</u>
	<u>2012</u>	<u>2011</u>
Operating revenue	\$ 2,771,556	2,649,028
Less operating expenses	<u>2,269,579</u>	<u>2,136,288</u>
Operating income	501,977	512,740
Interest income	7,335	9,730
Increase in net position	<u>\$ 509,312</u>	<u>\$ 522,470</u>

The Utility's investment in TCA is classified as follows as of December 31, 2012 and 2011:

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

**NOTES TO FINANCIAL STATEMENTS**

	2012	2011
Total investment in joint venture	280,589	212,323
Less amount restricted for debt service	132,880	132,880
Investment in joint venture - unrestricted	\$ 147,709	79,443

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 4.81% and 4.63% share as of December 31, 2012 and 2011, respectively. That equates to a 4.81% and 4.63% share as of December 31, 2012 and 2011 respectively, 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, 2012 and 2011 is as follows:

	2012	2011
Assets	\$ 8,435,383	8,660,677
Liabilities	451,732	890,681
Equity	7,983,651	7,769,996
Total liabilities and equity	\$ 8,435,383	8,660,677
	2012	2011
Operating revenue	\$ 1,383,241	1,203,919
Less operating expenses	\$ 1,333,583	1,356,717
Operating income (loss)	49,658	(152,798)
Other income	72,952	53,288
Increase (decrease) in net position	\$ 122,610	(99,510)

The Utilities investment in MBMECA is classified as follows as of December 31, 2012 and 2011:

	2012	2011
Investment in joint venture	\$ 383,677	359,608

**NOTE 4 – CAPITAL ASSETS**

A summary of capital assets at December 31, 2012 and 2011 is as follows:

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

**NOTES TO FINANCIAL STATEMENTS**

December 31, 2012

	Balance January 1, 2012	Additions	Retirements	Balance December 31, 2012
<b>Capital Assets Being Depreciated:</b>				
Buildings	\$ 190,782	-	-	190,782
Machinery, Equipment, Transmission and Distribution System	2,044,082	62,279	-	2,106,361
Vehicles	214,623	10,054	-	224,677
Office Equipment	19,720	3,603	-	23,323
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	<u>7,599,083</u>	<u>75,936</u>	<u>-</u>	<u>7,675,019</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	139,579	3,322	-	142,901
Machinery, Equipment, Transmission and Distribution System	1,630,598	44,949	-	1,675,547
Vehicles	99,757	10,861	-	110,618
Office Equipment	17,302	1,645	-	18,947
Cable and Internet System	478,964	48,604	-	527,568
Telephone System	244,776	26,418	-	271,194
Substation	164,837	71,980	-	236,817
Total Accumulated Depreciation	<u>2,775,813</u>	<u>207,779</u>	<u>-</u>	<u>2,983,592</u>
Total Capital Assets, Net	<u>\$ 4,823,270</u>			<u>4,691,427</u>

December 31, 2011

	Balance January 1, 2011	Additions	Retirements	Balance December 31, 2011
<b>Capital Assets Being Depreciated:</b>				
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

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

**NOTES TO FINANCIAL STATEMENTS**

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

**NOTE 5 – LONG-TERM DEBT**

A summary of changes in long-term debt for the years ended at December 31, 2012 and 2011 is as follows:

December 31, 2012

	Balance January 1, 2012	Issuances	Redemptions	Balance December 31, 2012
2008 Electric Revenue Bonds	2,715,000	-	30,000	2,685,000
2011 Electric Revenue Refunding Bonds	590,000	-	110,000	480,000
2004 Telecommunications Revenue Note	740,000	-	15,000	725,000
Totals	\$ 4,045,000	-	155,000	3,890,000

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 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

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

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

**NOTES TO FINANCIAL STATEMENTS**

Year Ending December 31,	Series 2011 Electric		Series 2008 Electric		Series 2004 Telecommunications		Total	
	Interest 0.90 – 2.30% Principal	Interest	Interest 3.10 – 4.85% Principal	Interest	Interest 2.60 – 5.35% Principal	Interest	Principal	Interest
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
2018-2022	-	-	950,000	473,685	-	-	950,000	473,685
2023-2027	-	-	1,180,000	238,375	-	-	1,180,000	238,375
2028	-	-	270,000	13,095	-	-	270,000	13,095
	<u>\$480,000</u>	<u>\$19,633</u>	<u>\$2,685,000</u>	<u>\$1,325,003</u>	<u>\$725,000</u>	<u>\$129,128</u>	<u>\$3,890,000</u>	<u>\$1,473,764</u>

The resolutions providing for the issuance of the above revenue capital loan notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a Sinking Fund for the purpose of making the note principal and interest payments when due.
- c) Monthly transfers equal to 25% of the monthly transfers to the Sinking Fund shall be made to the Reserve Fund until specified minimum balances have been accumulated. This 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 position as follows as of December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Funds maintained by the Utility	\$ 665,337	662,901
Restricted portion of investment in joint ventures	132,880	132,880
Restricted note funds	<u>\$ 798,217</u>	<u>795,781</u>

Total interest costs were \$176,502 in 2012 and \$182,753 in 2011.

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

**NOTES TO FINANCIAL STATEMENTS**

**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 \$6,639 and \$6,141 as of December 31, 2012 and 2011, 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 5.78% (5.38% through June 30, 2012) of their annual salary and the Utility is required to contribute 8.67% (8.07% through June 30, 2012) of annual covered payroll. Contribution requirements are established by State statute. The Utility's contributions to IPERS for the years ended December 31, 2012, 2011, and 2010 were \$17,574, \$14,493, and \$12,518 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**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, 2012 and 2011, the outstanding balance due to the Utility under this agreement was \$192,500 and \$214,500, respectively.

The Utility also has a bank account restricted specifically to make loans and receive loan payments with a balance as of December 31, 2012 and 2011 of \$27,595 and \$5,505 respectively.

**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 4 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.

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

**NOTES TO FINANCIAL STATEMENTS**

The following table shows the components of the Utility's annual OPEB cost for the years ended December 31, 2012 and 2011, the amounts actually contributed to the plan, and changes in the Utility's net OPEB obligation.

	2012	2011
Annual required contribution	\$ 2,693	1,673
Interest on net OPEB obligation	201	-
Adjustment to annual required contribution	(199)	-
Annual OPEB cost	2,695	1,673
Net OPEB obligation, beginning of year	5,019	3,346
Net OPEB obligation, end of year	\$ 7,714	5,019

For calculation of the net OPEB obligation, the actuary has set the measurement date as January 1, 2012. 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, 2012 and 2011.

For the years ended December 31, 2012 and 2011, 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, 2012 and 2011 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	\$ 1,674	0%	5,020
December 31, 2012	\$ 2,694	0%	7,714

Funded Status and Funding Progress. As of January 1, 2012, the most recent actuarial valuation date for the period January 1, 2012 through December 31, 2012 and January 1, 2011 through December 31, 2011, the actuarial accrued liability was \$27,940, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,940. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$182,000 and the ratio of the UAAL to covered payroll was 15%. As of December 31, 2012 and 2011, 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

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

**NOTES TO FINANCIAL STATEMENTS**

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, 2012 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 \$755 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, 2012 and 2011, one customer of Sanborn Electric and Telecommunications Utility accounted for approximately 21% and 24%, 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, September 24, 2013, 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, 2012**

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Original and Final Budget	Variance Between Cash Basis and Final Budget
<b>Receipts:</b>					
Charges for Services	\$ 2,014,362	41,353	2,055,715	2,025,750	29,965
Use of Money and Property	17,379	-	17,379	35,000	(17,621)
Miscellaneous	149,656	(70,335)	79,321	890,000	(810,679)
<b>Total Revenues</b>	<u>2,181,397</u>	<u>(28,982)</u>	<u>2,152,415</u>	<u>2,950,750</u>	<u>(798,335)</u>
<b>Disbursements</b>	<u>1,977,000</u>	<u>22,785</u>	<u>1,999,785</u>	<u>2,823,750</u>	<u>823,965</u>
<b>Excess (Deficiency) of Receipts Over (Under) Disbursements</b>	204,397	(51,767)	152,630	127,000	25,630
<b>Other Financing Sources (Uses) Net</b>	<u>(96,578)</u>	<u>17,379</u>	<u>(79,199)</u>	<u>(85,000)</u>	<u>5,801</u>
<b>Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing (Uses)</b>	107,819	(34,388)	73,431	42,000	31,431
<b>Net Position at Beginning of Period</b>	<u>4,070,414</u>	<u>(1,733,942)</u>	<u>2,336,472</u>	<u>2,182,486</u>	<u>153,986</u>
<b>Net Position at End of Period</b>	<u><u>\$ 4,178,233</u></u>	<u><u>(1,768,330)</u></u>	<u><u>2,409,903</u></u>	<u><u>2,224,486</u></u>	<u><u>185,417</u></u>

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 COMPARISON  
FOR THE YEAR ENDED DECEMBER 31, 2012**

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, 2012.

**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%
2012	Jan 1, 2012	\$ -0-	\$ 27,940	\$ 27,940	0.00%	\$ 181,866	15.4%

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:**

	2012	2011
<b>Electric Energy Sales:</b>		
Residential	\$ 510,046	516,845
Residential - All Electric	146,433	167,797
Industrial	1,100,399	1,051,117
Commercial	166,389	178,633
Commercial - All Electric	15,961	18,207
Public Authorities	67,749	72,826
Security Lights	888	878
	2,007,865	2,006,303
 <b>Other Sales:</b>		
Labor	1,185	905
Other Revenues	5,312	10,346
	6,497	11,251
 <b>Total Sales</b>	\$ 2,014,362	2,017,554

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:**

	2012	2011
<b>Power Production Expenses:</b>		
Plant Labor	\$ 37,327	35,697
Supplies	22,209	27,134
Purchased Power	1,197,979	1,188,657
<b>Total Power Production Expenses</b>	1,257,515	1,251,488
<b>Distribution Expenses:</b>		
Supervision Labor	57,291	55,637
Station and Line Labor	37,364	35,661
Miscellaneous Distribution	6,843	33,341
Street Lighting and Metering	294	1,585
<b>Total Distribution Expenses</b>	101,792	126,224
<b>Commercial Expenses:</b>		
Accounting and Collection Labor	57,252	51,239
Supplies	1,520	1,422
<b>Total Commercial Expenses</b>	58,772	52,661
<b>Administrative and General Expenses:</b>		
Advertising	3,477	3,113
City Hall	5,534	5,891
Depreciation	207,779	207,025
Dues and Subscriptions	4,293	6,804
Employee Benefits	66,936	62,365
Insurance	13,459	14,062
OPEB Expense	2,695	1,673
Meeting	1,540	2,111
Miscellaneous General	4,925	6,106
Office Supplies	5,994	4,157
Outside Services	22,844	28,219
Salaries and Wages	33,316	32,147
Transportation	9,457	9,573
Uniforms	170	153
<b>Total Administrative and General Expenses</b>	382,419	383,399
<b>Total Operating Expenses</b>	\$ 1,800,498	1,813,772

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements for the major fund of Sanborn Electric and Telecommunication Utility, a component unit of the City of Sanborn, Iowa, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements and have issued our report thereon dated September 24, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Sanborn Electric and Telecommunication Utilities (the Utility) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Utility's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency listed as I-A-12 on the accompanying 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 from 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 or other matters that are required to be reported under *Government Auditing Standards*.

### **Sanborn Electric and Telecommunication Utilities' Response to Findings**

Sanborn Electric and Telecommunication Utilities' response to the findings identified in our audit is described in the accompanying schedule of findings. The Utility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

September 24, 2013

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

**SCHEDULE OF FINDINGS  
YEAR ENDED DECEMBER 31, 2012**

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

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**SIGNIFICANT CONTROL DEFICIENCIES:**

I-A-12 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.

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

**SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED DECEMBER 31, 2012**

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

- II-A-12 Certified Budget - Disbursements during the year ended December 31, 2012 were within the budgeted limits.
- II-B-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-12 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-12 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-12 Board Minutes – No transactions were noted that we believe should have been approved in the Board minutes but were not.
- II-G-12 Revenue Bonds – No violations of revenue bond resolution requirements were noted.
- II-H-12 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.