SANBORN ELECTRIC AND TELECOMMUNICATIONS UTILITY

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

December 31, 2015 and 2014

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

Name	Title	Term Expires
	Board of Trustees	
James P. Cravens	Chairman	June 30, 2019
Terry Boelter	Secretary	June 30, 2021
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

Report on the Financial Statements

We have audited the accompanying financial statements of Sanborn Electric and Telecommunications Utility (the Utility), a component unit of the City of Sanborn, Iowa, as of and for the years ended December 31, 2015 and 2014, and the related Notes to Financial Statements, which collectively comprise the Utility's 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 U.S. generally accepted accounting principles. 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Utility'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 Utility'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sanborn Electric and Telecommunications Utility, as of December 31, 2015 and 2014, and the

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changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of a Matter

As discussed in Note 15 to the financial statements, Electric and Telecommunications Utility adopted new accounting guidance related to Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions an Amendment of GASB Statement No. 27.* Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the Utility's Proportionate Share of the Net Pension Liability, the Schedule of Utility Contributions, and the Schedule of Funding Progress for the Retiree Health Plan on pages 5-8 and 29-35 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 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 U.S. generally accepted accounting principles, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Sanborn Electric and Telecommunications Utility's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the seven years ended December 31, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates 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 U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 27, 2016 on our consideration of Sanborn Electric and Telecommunications 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 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 Sanborn Electric and Telecommunications Utility's internal control over financial reporting and compliance.

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

September 27, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Sanborn Electric and Telecommunications Utility provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended December 31, 2015. We encourage readers to consider this information in conjunction with the Utility's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- The Utility's operating revenues increased 0.3%, or approximately \$6,000, from 2014 to 2015. This resulted from stable rates and sale of kWh remaining steady in 2015.

- The Utility's operating expenses decreased 2.9%, or approximately \$59,000 from 2014 to 2015. The decrease in expense resulted from decreased purchased power expense.

- The Utility's net position decreased approximately \$47,000 during 2015. This decrease is the net result of approximately \$104,000 of income and a \$150,000 prior period adjustment.

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.

The Fund Financial Statements report the Utility's operations by providing information about the most significant funds.

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, the Utility's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about operating revenues and expenses.

REPORTING THE UTILITY'S FINANCIAL ACTIVITIES

Fund Financial Statements

The Sanborn Electric and Telecommunications Utility has one kind of fund:

Proprietary funds account for the Utility's enterprise activities. These funds report services for which the Utility charges customers for the service it provides. The Utility maintains one enterprise fund to provide information for its activities. This fund is considered to be the major fund of the Utility.

The financial statements required 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, presents financial information on all the Utility's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in the Utility's net position may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

Net Position of Business Type Activities
(Expressed in Thousands)

	Year ended December 31,	
	2015	2014 (not restated)
Current assets	$ 2,228	1,785
Non-current assets	5,671	6,202
Total assets	7,899	7,987
Deferred outflows of resources	45	-
Current liabilities	512	507
Non-current liabilities	3,002	3,055
Total liabilities	3,514	3,562
Deferred inflows of resources	51	-
Net position:		
Net investment in capital assets	2,034	1,890
Restricted	845	785
Unrestricted	1,500	1,750
Total net position	$ 4,379	4,425

Net position of business type activities decreased approximately $47,000, or 1%, under fiscal year 2014 non-restated amount. The largest portion of the Utility's net position is invested in capital assets (land, buildings and improvements, equipment, infrastructure, and vehicles), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets. Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately $1,500,000 at the end of this year.

The Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The beginning net position for business-type activities was restated by approximately $151,000 to retroactively report the net pension liability as of December 31, 2014 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to December 31, 2014. The financial statement amounts for fiscal year 2014 (net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources) were not restated because the information was not available. In the past pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

INDIVIDUAL MAJOR FUND ANALYSIS

The condensed Statements of Revenues, Expenses and Changes in Net Position, shown below, presents financial information showing how the Utility's net position changed during the fiscal year.

Changes in Net Position of Business Type Activities
(Expressed in Thousands)

	Year ended December 31, 2015	2014 (not restated)
Operating revenues	$ 2,204	2,198
Operating expenses	1,949	2,012
Operating income	255	186
Net non-operating revenues (expenses)	18	30
Effect of change in accounting on TCA	(83)	-
Transfers	(86)	(99)
Change in net position	104	117
Net position, beginning of year	4,425	4,308
Prior period adjustment for change in accounting	(150)	-
Net position, end of year	$ 4,379	4,425

The Utility reported a net position of $4.4 million at year end, which is a slight decrease under net position at December 31, 2014. This increase resulted from standard operations and was budgeted for and anticipated by management.

BUDGETARY HIGHLIGHTS

The Utility's disbursements did not exceed the budgeted amounts for the year ended December 31, 2015.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Utility's capital assets include land, buildings and improvements, equipment, infrastructure, and vehicles. Capital assets for the Utility totaled $4.4 million (net of accumulated depreciation) at December 31, 2015. The condensed summary of capital assets shown below presents information on the Utility's capital asset balances.

Capital Assets of Business Type Activities
(Expressed in Thousands)

	Year ended December 31, 2015	2014
Buildings and improvements	$ 44	42
Equipment and vehicles	1,925	1,947
Substation	2,427	2,497
Total	$ 4,396	4,486

Total capital assets (net of accumulated depreciation), decreased by approximately $91,000, or 2.0%, from the prior year. Additions to capital assets for 2015 were primarily comprised of additional distribution equipment.

The Utility had depreciation expense of $223,962 and total accumulated depreciation of $3,610,728 at December 31, 2015.

LONG TERM DEBT

At December 31, 2015, the Utility had $3,090,000 of outstanding revenue bonds, in comparison to $3,285,000 at December 31, 2014. The reduction in revenue bonds resulted from making principal payments on the bonds as required in the original agreements.

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. The Utility anticipates a balanced budget in 2016. 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

STATEMENTS OF NET POSITION
DECEMBER 31:

	2015	2014 (not restated)
Assets		
Current Assets:		
Cash and Cash Equivalents	1,564,576	1,473,968
Accounts Receivable (net of allowance)	201,030	199,878
Interest Receivable	1,471	1,208
Prepaid Expenses	3,414	4,315
Inventories	107,391	105,133
Total Current Assets	1,877,882	1,784,502
Non-Current Assets:		
Investment in Joint Ventures	227,760	712,914
Capital Assets (net of accumulated depreciation)	4,396,129	4,486,405
Note Receivable - City of Sanborn	350,000	-
Restricted Assets:		
Cash and Cash Equivalents - Note Funds	685,764	640,409
Cash and Cash Equivalents - Revolving loan fund	26,531	12,061
Cash and Cash Equivalents - LIHEAP Funds	8,544	9,831
Investments - Note Funds	132,880	132,880
Economic Development Loans Receivable	193,374	208,075
Total Non-Current Assets	6,020,982	6,202,575
Total Assets	7,898,864	7,987,077
Deferred Outflows of Resources:		
Pension Related Deferred Outflows	44,681	-

See notes to financial statements.

	2015	2014 (not restated)
Liabilities		
Current Liabilities:		
Accounts Payable and Accrued Liabilities	155,593	174,631
Accounts Payable - City of Sanborn	27,054	-
Compensated Absences	9,634	8,116
Customer Deposits and Credit Balances	65,789	67,604
Accrued Interest Payable	50,136	51,660
Deferred Revenue	8,544	9,831
Revenue Notes (current)	195,000	195,000
Total Current Liabilities	511,750	506,842
Non-Current Liabilities:		
Revenue Notes (non-current, net of bond discounts)	2,852,828	3,041,768
Net Pension Liability	133,442	-
Net OPEB Liability	16,000	13,100
Total Non-Current Liabilities	3,002,270	3,054,868
Total Liabilities	3,514,020	3,561,710
Deferred Inflows of Resources:		
Unavailable Revenues:		
Pension Related Deferred Inflows	50,891	-
Net Position		
Net Investment in Capital Assets	2,034,065	1,890,046
Restricted for:		
Debt Service	818,644	773,289
Revolving Loan Fund	26,531	12,061
Unrestricted	1,499,394	1,749,971
Total Net Position	4,378,634	4,425,367

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

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

	2015	2014 (not restated)
Operating Revenues:		
Electric Energy Sales	$ 2,179,888	2,191,560
Other Sales	24,224	5,971
Total Operating Revenues	2,204,112	2,197,531
Operating Expenses:		
Power Production	1,316,631	1,390,813
Distribution	126,889	125,990
Commercial	50,060	60,232
Sales	2,555	71
Administrative and General	453,501	435,183
Total Operating Expenses	1,949,636	2,012,289
Operating Income	254,476	185,242
Non-Operating Revenues (Expenses):		
Investment income		
Interest	9,591	11,602
Gain or loss on sale of investment	37,166	
Joint Venture Net Income	105,666	156,808
Interest Expense	(134,680)	(138,634)
Grant Income	-	668
Net Non-Operating Revenues (Expenses)	17,743	30,444
Net Income Before Extrodinary Items and Transfers	272,219	215,686
Extrodinary item: Prior period adjustment - TCA	(82,466)	-
Transfers to Other Entities	(85,776)	(98,658)
Change in Net Position	103,977	117,028
Net Position, Beginning of Year	4,425,367	4,308,339
Prior Period Adjustment for Change in Accounting	(150,710)	-
Net Position, End of Year	$ 4,378,634	4,425,367

See Notes to Financial Statements

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31:

	2015	2014 (not restated)
Cash flows from operating activities:		
Cash received from customers	$ 2,201,145	2,246,022
Cash paid to suppliers	(1,475,506)	(1,548,739)
Cash paid to employees	(251,433)	(235,496)
Net cash provided by operating activities	474,206	461,787
Cash flows from non-capital financing activities:		
Transfers to other entities	(85,776)	(98,658)
Net cash used by non-capital financing activities	(85,776)	(98,658)
Cash flows from capital and related financing activities:		
Cash received from joint ventures	51,580	49,943
Acquisition of capital assets	(133,685)	(162,178)
Principal paid on revenue notes	(195,000)	(190,000)
Interest paid on revenue notes	(130,407)	(133,880)
Grant income	-	668
Net cash used by capital and related financing activities	(407,512)	(435,447)
Cash flows from investing activities:		
Interest and dividends on investments	9,591	11,602
Cash received for sale of investments	493,940	-
Principal lent to City of Sanborn	(350,000)	-
Principal paid on economic development loans	(16,473)	(21,344)
Proceeds from economic development loans	31,170	28,276
Net cash provided by investing activities	168,228	18,534
Net decrease in cash and cash equivalents	149,146	(53,784)
Cash and cash equivalents, beginning of year	2,136,269	2,190,053
Cash and cash equivalents, end of year	$ 2,285,415	2,136,269

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:

		2015	2014 (not restated)
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$	254,476	185,242
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		223,962	217,922
Change in accounts receivable		(1,152)	33,276
Change in prepaid expenses		901	-
Change in inventories		(2,255)	808
Change in accounts payable and accrued liabilities		(19,038)	8,054
Change in accounts payable - City of Sanborn		27,054	(3,931)
Change in compensated absences		1,518	2,514
Change in net OPEB liability		2,900	2,693
Change in customer deposits and credit balances		(1,815)	14,113
Change in deferred revenue		(1,287)	1,096
Change in deferred outflows of resources		(18,386)	-
Change in net pension liability		(43,563)	-
Change in deferred inflows of resources		50,891	-
Net cash provided by operating activities	$	474,206	461,787
Reconciliation of cash and cash equivalents at year end to specific assets included in the Statements of Net Position:			
Current assets:			
Cash and cash equivalents	$	1,564,576	1,473,968
Restricted assets:			
Cash and cash equivalents - note funds		685,764	640,409
Cash and cash equivalents - revolving loan funds		26,531	12,061
Cash and cash equivalents - LIHEAP funds		8,544	9,831
Cash and cash equivalents, end of year	$	2,285,415	2,136,269

See notes to financial statements.

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.

The financial statements of the Utility have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

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 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 as described above.

Basis of Presentation

The accounts of the Utility are organized on the basis of a propriety enterprise funds. The 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 financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

In reporting its financial activity, the Utility applies all GASB pronouncements applicable to proprietary funds.

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 the Utility is charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Use of Estimates

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

Interest Capitalization

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

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, 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 – 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 of $26,180 as of December 31, 2015 and 2014.

Inventories – Inventories are stated at the lower of cost or market using the first-in, first-out method.

Restricted Assets – Funds set aside for payment of revenue notes are classified as restricted assets since their use is restricted by applicable note indentures. Other restricted assets include amounts related to the Utility's revolving loan fund.

Capital Assets – Capital assets are carried at cost. Cost of labor, materials, supervision, and other costs incurred making improvements and replacements to the system, except minor replacements, are charged to the plant accounts while such costs incurred in making normal repairs, minor replacements, and maintaining the assets in efficient operating condition are charged to expense. 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.

Deferred Outflows of Resources – Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Pensions – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources – Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Net Position – In the financial statements, net position is classified as follows:

- Net investment in capital assets – This category of net position consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement in those assets.
- Restricted – This category of net position results when constraints placed on net position use are either externally imposed by outside creditors, others or imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This category of net position consists of net position not meeting the definition of the two proceeding categories. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

NOTE 2 - CASH AND INVESTMENTS

The Utility's deposits in financial institutions at December 31, 2015 and 2014 (including certificates of deposit totaling $820,000 and $920,000, 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; and warrants or improvement certificates of a drainage district.

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, 2015. Audited financial statements of TCA are available at their office located at 102 S Eastern St, Sanborn, IA. Summary financial information of the joint venture as of December 31, 2015 and 2014 is as follows:

	2015	2014 (not restated)
Assets	$ 1,948,529	1,725,971
Deferred Outflows of Resources	51,256	-
Liabilities	(568,723)	(268,395)
Deferred Inflows of Resources	(94,832)	-
Net Position	$ 1,336,230	1,457,576

	2015	2014 (not restated)
Operating Revenues	$ 2,986,162	2,813,375
Operating Expenses	2,491,754	2,313,848
Non-Operating Revenues	5,683	5,117
Change in net position	$ 500,091	504,644

The Utility's investment in TCA is classified as follows as of December 31, 2015 and 2014:

	2015	2014
Total investment in joint venture	$ 227,760	389,020
Less: amount restricted for debt service	132,880	132,880
Investment in joint venture, unrestricted	$ 360,640	256,140

The Utility was 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) through middle of 2015. This venture was discontinued in 2015 as a result of the changing climate in the electric transmission arena. The Utility received a cash payment to close out its interest in this joint venture recognizing a gain of $37,166 for the year ended December 31, 2015.

NOTE 4 – CAPITAL ASSETS

A summary of capital assets at December 31, 2015 and 2014 is as follows:

December 31, 2015

	Balance January 1, 2015	Additions	Retirements	Balance December 31, 2015
Capital Assets Being Depreciated:				
Buildings	$ 190,782	5,643	-	$ 196,425
Machinery, Equipment, Transmission and Distribution System	2,300,343	111,935	-	2,412,278
Vehicles	230,718	15,100	4,167	241,651
Office Equipment	25,618	1,008	-	26,626
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	7,877,337	133,686	4,167	8,006,856
Less Accumulated Depreciation for:				
Buildings	148,980	2,984	-	151,964
Machinery, Equipment, Transmission and Distribution System	1,770,421	54,587	-	1,825,008
Vehicles	119,907	18,036	4,167	133,776
Office Equipment	22,041	1,353	-	23,394
Cable and Internet System	624,775	48,604	-	673,379
Telephone System	324,031	26,418	-	350,449
Substation	380,777	71,980	-	452,757
Total Accumulated Depreciation	3,390,932	223,962	4,167	3,610,727
Total Capital Assets, Net	$ 4,486,405			$ 4,396,129

December 31, 2014

	Balance January 1, 2014	Additions	Retirements	Balance December 31, 2014
Capital Assets Being Depreciated:				
Buildings	$ 190,782	-	-	$ 190,782
Machinery, Equipment, Transmission and Distribution System	2,140,460	159,883	-	2,300,343
Vehicles	230,718	-	-	230,718
Office Equipment	23,323	2,295	-	25,618
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	7,715,159	162,178	-	7,877,337
Less Accumulated Depreciation for:				
Buildings	146,058	2,922	-	148,980
Machinery, Equipment, Transmission and Distribution System	1,721,678	48,743	-	1,770,421
Vehicles	102,375	17,532	-	119,907
Office Equipment	20,318	1,723	-	22,041
Cable and Internet System	576,171	48,604	-	624,775
Telephone System	297,613	26,418		324,031
Substation	308,797	71,980	-	380,777
Total Accumulated Depreciation	3,173,010	217,922	-	3,390,932
Total Capital Assets, Net	$ 4,542,149			$ 4,486,405

NOTE 5 – LONG-TERM DEBT

A summary of changes in long-term debt for the years ended at December 31, 2015 and 2014 is as follows:

December 31, 2015

	Balance January 1, 2015	Issuances	Redemptions	Balance December 31, 2015
2008 Electric Revenue Bonds	$ 2,630,000	-	30,000	$ 2,600,000
2011 Electric Revenue Refunding Bonds	245,000	-	120,000	125,000
2013 Telecommunications Revenue Refunding Bonds	410,000	-	45,000	365,000

NOTES TO FINANCIAL STATEMENTS

Totals	$ 3,285,000	-	$ 195,000	$ 3,090,000

December 31, 2014

	Balance January 1, 2014	Issuances	Redemptions	Balance December 31, 2014
2008 Electric Revenue Bonds	2,660,000	-	30,000	2,630,000
2011 Electric Revenue Refunding Bonds	365,000	-	120,000	245,000
2013 Telecommunications Revenue Refunding Bonds	$ 450,000	-	40,000	$ 410,000
Totals	$ 3,475,000	-	$ 190,000	$ 3,285,000

A summary of the annual revenue note principal and interest requirements to maturity is as follows:

	Series 2008 Electric		Series 2011 Electric		Series 2013 Telecommunications			
Year Ending	Interest 3.10 – 4.85%		Interest 0.90 – 2.30%		Interest 0.7-2.4%		Total	
December 31,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	35,000	118,827	125,000	1,438	45,000	3,210	205,000	123,475
2017	165,000	117,323	-	-	45,000	2,985	210,000	120,308
2018	175,000	110,475	-	-	45,000	2,715	220,000	113,190
2019	180,000	103,037	-	-	45,000	2,389	225,000	105,426
2020	190,000	95,298	-	-	45,000	2,006	235,000	97,304
2021-2025	1,080,000	340,463	-	-	140,000	3,285	1,220,000	343,748
2026-2028	775,000	75,882	-	-	-	-	775,000	75,882
	2,600,000	961,305	125,000	1,438	365,000	16,590	3,090,000	979,333

The resolutions providing for the issuance of the above revenue 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 a reserve fund until specified minimum balances have been accumulated. The 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 an 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.

During the years ended December 31, 2015 and 2014, the Utility was in compliance with the note provisions.

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:

	2015	2014
Funds maintained by the Utility	$ 685,764	640,409
Restricted portion of investment in joint ventures	132,880	132,880
Restricted note funds	$ 818,644	773,289

Total interest costs were $134,680 in 2015 and $138,634 in 2014.

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 $9,634 and $8,116 as of December 31, 2015 and 2014, 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

Plan Description – IPERS membership is mandatory for employees of the Utility, except for those covered by another retirement system. Employees of the Utility are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits – A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Utility contributed 8.93 percent for a total rate of 14.88 percent.

The Utility's total contributions to IPERS for the year ended December 31, 2015 were $19,322.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At December 31, 2015, the Utility reported a liability of $133,442 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Utility's proportion of the net pension liability was based on the Utility's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014 the Utility's proportion was .003297% an increase of .000171 percent from its proportion measured as of June 30, 2013.

For the year ended December 31, 2015, the Utility recognized pension expense of $8,264. At June 30, 2015, the Utility reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	1,450	-
Changes of assumptions	5,889	-
Net difference between projected and actual earnings on pension plan investments	-	50,891
Changes in proportion and differences between Utility contributions and proportionate share of contributions	7,850	-
Utility contributions subsequent to the measurement date	29,492	-
	44,681	50,891

$29,492 reported as deferred outflows of resources related to pensions resulting from the Utility contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the eighteen months ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Total
2016	$ (9,174)
2017	(9,174)
2018	(9,174)
2019	(9,174)
2020	994
	$ (35,702)

There were no non-employer contributing entities at IPERS.

<u>Actuarial Assumptions</u> – The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent per annum

Rates of salary increase (effective June 30, 2010)	4.00 to 17.00 percent, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50 percent, compounded annually, net of investment expense, including inflation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
US Equity	23%	6.31
Non-US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	-0.69
	100%	

Discount Rate – The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Utility will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Utility's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Utility's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the Utility's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Utility's proportionate share of the net pension liability	$ 252,135	$ 133,442	$ 33,253

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan – At June 30, 2015, the Utility reported payables to the defined benefit pension plan of $2,558 for legally required employer contributions.

NOTE 8 – RELATED PARTY TRANSACTIONS

The Sanborn Savings Bank, located in 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 – REVOLVING LOAN FUND

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 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.

With grant proceeds received from the USDA Rural Development Loan and Grant program, the Utility established a revolving loan fund in 2011. The Utility lent money from this fund to numerous businesses since the creation of the fund in 2011. As of December 31, 2015 and 2014, the outstanding balance due to the Utility under this agreement was $193,374 and $208,075, respectively. The allowance for doubtful notes under this agreement had a balance of $0 as of December 31, 2015 and 2014.

The Utility also has a bank account restricted specifically to make loans and receive loan payments with a balance as of December 31, 2015 and 2014 of $26,531 and $12,061 respectively.

NOTE 11 – OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description – The Utility operates a single-employer retiree benefit plan which provides medical benefits for employees, retirees, and their spouses. There are 5 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical benefit as active employees, which results in an implicit subsidy and 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 which, 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, 2015 and 2014, the amounts actually contributed to the plan, and changes in the Utility's net OPEB obligation.

	2015	2014
Annual required contribution	$ 2,897	2,589
Interest on net OPEB obligation	3	104
Adjustment to annual required contribution	-	-
Annual OPEB cost	2,900	2,693
Contributions made	-	-
Increase in net OPEB obligation	2,900	2,693
Net OPEB obligation, beginning of year	13,100	10,407
Net OPEB obligation, end of year	$ 16,000	13,100

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, 2015 and 2014.

For the years ended December 31, 2015 and 2014, 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, 2015 and 2014 are summarized as follows:

Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
December 31, 2013	$	2,693	0%	10,407
December 31, 2014	$	2,693	0%	13,100
December 31, 2015	$	2,900	0%	16,000

Funded Status and Funding Progress – As of January 1, 2015, the most recent actuarial valuation date for the period January 1, 2015 through December 31, 2015, the actuarial accrued liability was $29,547, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of $29,547. The covered payroll (annual payroll of active employees covered by the plan) was approximately $198,580 and the ratio of the UAAL to covered payroll was 15%. As of December 31, 2015 and 2014, 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, presents 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 that are 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, 2015 actuarial valuation date, projected unit credit 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 9%. 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 RPH-2015 Total Dataset 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 $834 per month for retirees. The salary increase rate was assumed to be 3% per year. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

NOTE 12 – CONCENTRATIONS

For the years ended December 31, 2015 and 2014, one customer of the Utility accounted for approximately 20% of the total electricity sales.

NOTE 13 – SUBSEQUENT EVENTS

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through, September 27, 2016 the date the financial statements were issued.

NOTE 14 – NOTE RECEIVABLE – CITY OF SANBORN

On April 27, 2015, the Utility approved loaning the City of Sanborn $350,000 with no stated rate of interest. The loan was to finance the additional purchase of land for development. There is no set repayment plan for this loan agreement, however it is anticipated that incremental tax revenue will allow the loan to be paid in full over the next five years.

NOTE 15 – ACCOUNTING CHANGE/RESTATEMENT

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

Net position, December 31, 2014, as previously reported	$ 4,425,367
Net pension liability at December 31, 2014	(177,005)
Change in outflows of resources Related to contributions made after the June 30, 2013 measurement date	26,295
Net position, January 1, 2015, as restated	$ 4,274,657

REQUIRED SUPPLEMENTARY INFORMATION

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

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES - BUDGET AND ACTUAL - (CASH BASIS)

YEAR ENDED DECEMBER 31, 2015

	Actual Accrual Basis	Accrual Adjustments
Receipts:		
Use of money and property	46,757	456,774
Charges for services	2,204,112	(2,967)
Miscellaneous	105,666	(22,916)
Total receipts	2,356,535	430,891
Disbursements	2,084,316	468,188
Excess (deficiency) of receipts over (under) disbursements	272,219	(37,297)
Other financing sources (uses), net	(168,242)	82,466
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	103,977	45,169
Net position, beginning of year (as restated)	4,274,657	(2,138,388)
Net position, end of year	4,378,634	(2,093,219)

See accompanying independent auditor's report

Actual Cash Basis	Original and Final Budget	Final to Actual Variance
503,531	17,500	486,031
2,201,145	2,224,750	(23,605)
82,750	844,500	(761,750)
2,787,426	3,086,750	(299,324)
2,552,504	2,996,780	444,276
234,922	89,970	144,952
(85,776)	(89,600)	3,824
149,146	370	148,776
2,136,269	2,313,626	(177,357)
2,285,415	2,313,996	(28,581)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

YEAR ENDED DECEMBER 31, 2015

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 activities function. There were no amendments made to the budget during the year.

Disbursements were within budgeted limits during the year ended December 31, 2015.

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

SCHEDULE OF THE UTILITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM
LAST FISCAL YEAR*

	2015
Utility's proportion of the net pension liability	0.003297%
Utility's proportionate share of the net pension liability	$133,442
Utility's covered-employee payroll	$211,454
Utility's proportionate share of the net pension liability as a percentage of its covered-employee payroll	63.1%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

* The amounts presented for each fiscal year were determined as of June 30.

See accompanying independent auditor's report.

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

SCHEDULE OF UTILITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 8 FISCAL YEARS

	2015	2014	2013	2012
Statutorily required contribution	$ 18,883	19,241	18,336	16,136
Contributions in relation to the statutorily required contribution	(18,883)	(19,241)	(18,336)	(16,136)
Contribution deficiency (excess)	$ -	-	-	-
City's covered-employee payroll	$ 211,454	215,463	208,363	192,787
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.80%	8.37%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

2011	2010	2009	2008
14,047	12,433	11,008	11,006.00
(14,047)	(12,433)	(11,008)	(11,006)
-	-	-	-
187,043	182,843	169,355	177,521
7.51%	6.80%	6.50%	6.20%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED DECEMBER 31, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.

- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY

YEAR ENDED DECEMBER 31, 2015

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
2012	Jan 1, 2012	-	$ 27,940	27,940	0.0%	$ 181,866	15.4%
2013	Jan 1, 2012	-	27,940	27,940	0.0%	208,000	13.4%
2014	Jan 1, 2012	-	27,940	27,940	0.0%	225,890	12.4%
2015	Jan 1, 2015	-	29,547	29,547	0.0%	198,580	14.9%

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

See accompanying independent auditor's report.

SCHEDULES OF OPERATING REVENUES
YEARS ENDED DECEMBER 31:

	2015	2014 (not restated)
Electic energy sales:		
Residential	535,106	515,744
Residential - all electric	159,066	187,188
Industrial	1,212,614	1,217,166
Commercial	180,787	190,524
Commercial - all electric	19,858	19,692
Public authorities	71,119	59,879
Security lights	1,338	1,367
Total electric energy sales	2,179,888	2,191,560
Other sales:		
Labor	1,235	675
Other revenues	22,989	5,296
Total other sales	24,224	5,971
Total operating revenues	2,204,112	2,197,531

See acommpanying independent auditor's report.

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

SCHEDULES OF OPERATING EXPENSES
YEARS ENDED DECEMBER 31:

	2015	2014 (not restated)
Power production expenses:		
Plant labor	41,300	39,802
Supplies	29,246	21,164
Purchased power	1,246,085	1,329,847
Total Power Production Expenses	1,316,631	1,390,813
Distribution expenses:		
Supervision labor	62,942	61,658
Station and line labor	43,904	41,459
Miscellaneous distribution	18,577	20,770
Street lighting and metering	1,466	2,103
Total distribution expenses	126,889	125,990
Commercial expenses:		
Accounting and collection labor	48,640	58,321
Supplies	1,420	1,911
Total commercial expenses	50,060	60,232
Sales expenses:		
Merchandise and labor for resale	2,555	71
Administrative and general expenses:		
Advertising	3,609	3,081
City Hall	9,418	6,140
Depreciation	223,962	217,922
Dues and subscriptions	7,800	10,198
Employee benefits	84,055	86,432
Insurance	12,511	15,807
OPEB expense	2,900	2,693
Meeting	2,504	2,009
Office supplies	5,227	5,255
Outside services	33,076	23,058
Salaries and wages	39,024	36,770
Transportation	7,714	10,083
Miscellaneous general	21,701	15,735
Total administrative and general expenses	453,501	435,183
Total operating expenses	1,949,636	2,012,289

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
Sanborn, Iowa

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 (the Utility), a component unit of the City of Sanborn, Iowa, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Utilities' basic financial statements and have issued our report thereon dated September 27, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Utility's 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-14 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

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instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Sanborn Electric and Telecommunication Utilities' Response to Findings

The Utility's 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 27, 2016

SCHEDULE OF FINDINGS
YEAR ENDED DECEMBER 31, 2015

Part I: Findings Related to the General Purpose Financial Statements

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT CONTROL DEFICIENCIES:

I-A-15 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, 2015

Part II: Other Findings Related to Statutory Reporting:

II-A-15 Certified Budget - Disbursements during the year ended December 31, 2014 were within the budgeted limits.

II-B-15 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-15 Travel Expense – No disbursements of City money for travel expenses of spouses of Utility officials or employees were noted.

II-D-15 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-15 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-15 Board Minutes – No transactions were noted that we believe should have been approved in the Board minutes but were not.

II-G-15 Revenue Bonds – No violations of revenue bond resolution requirements were noted.

II-H-15 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.