

**ANNUAL FINANCIAL REPORT
OF THE
CITY OF NEW LONDON, MINNESOTA**

DECEMBER 31, 2007

WESTBERG EISCHENS, PLLP
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Willmar, Minnesota 56201

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**CITY OF NEW LONDON, MINNESOTA
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2007**

		<u>TERM EXPIRES</u>
John Mack	Mayor	12/31/08
David Schneider	Council Member	12/31/08
Kevin Dittbenner	Council Member	12/31/10
John Bergman	Council Member	12/31/10
Perry Nelson	Council Member	12/31/08
Trudie Guptill	Clerk-Treasurer	Indefinite

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council Members
City of New London, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New London, Minnesota, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of New London's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, management has not recorded capital assets in governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the governmental activities of the City of New London, Minnesota, as of December 31, 2007, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the City of New London, Minnesota, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The required supplementary information, listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The City of New London has not presented Management's Discussion and Analysis that GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New London's basic financial statements. The supplementary information and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2008, on compliance and on internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Westberg Eischens, PLLP
WESTBERG EISCHENS, PLLP

March 26, 2008

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and temporary investments	\$ 2,822,894	\$ 507,349	\$ 3,330,243
Receivables	714,695	52,809	767,504
Prepaid expenses	14,086	-	14,086
Capital assets, net of accumulated depreciation	<u>-</u>	<u>475,943</u>	<u>475,943</u>
Total Assets	<u>\$ 3,551,675</u>	<u>\$ 1,036,101</u>	<u>\$ 4,587,776</u>
LIABILITIES			
Accounts payable	\$ 34,995	\$ 45,448	\$ 80,443
Deferred revenue	803,180	-	803,180
Long-term liabilities			
Due within one year	251,610	-	251,610
Due in more than one year	<u>4,056,616</u>	<u>-</u>	<u>4,056,616</u>
Total Liabilities	<u>5,146,401</u>	<u>45,448</u>	<u>5,191,849</u>
NET ASSETS			
Invested in capital assets	-	475,943	475,943
Restricted for:			
Debt service	-	-	-
Other purposes	-	514,710	514,710
Unrestricted	<u>(1,594,726)</u>	<u>-</u>	<u>(1,594,726)</u>
Total Net Assets	<u>(1,594,726)</u>	<u>990,653</u>	<u>(604,073)</u>
Total Liabilities and Net Assets	<u>\$ 3,551,675</u>	<u>\$ 1,036,101</u>	<u>\$ 4,587,776</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Grants and Contributions Operating Capital	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS						
General government	\$ 182,386	\$ 73,351	\$ -	\$ (109,035)	\$ -	\$ (109,035)
Public safety	695,803	243,181	136,033	(316,589)	-	(316,589)
Public works	132,077	-	-	(132,077)	-	(132,077)
Community development	493,837	-	71,786	(422,051)	-	(422,051)
Culture and recreation	43,127	-	-	(43,127)	-	(43,127)
Interest and fiscal charges on long term debt	<u>164,811</u>	<u>357,446</u>	<u>14,740</u>	<u>207,375</u>	<u>-</u>	<u>207,375</u>
 Total governmental Activities	 <u>1,712,041</u>	 <u>673,978</u>	 <u>222,559</u>	 <u>(815,504)</u>	 <u>-</u>	 <u>(815,504)</u>
 Water	 236,450	 249,560	 -	 -	 13,110	 13,110
Sewer	<u>360,825</u>	<u>376,609</u>	<u>-</u>	<u>-</u>	<u>15,784</u>	<u>15,784</u>
 Total Business-Type Activities	 <u>597,275</u>	 <u>626,169</u>	 <u>-</u>	 <u>-</u>	 <u>28,894</u>	 <u>28,894</u>
TOTAL	<u>\$ 2,309,316</u>	<u>\$ 1,300,147</u>	<u>\$ 222,559</u>	<u>(815,504)</u>	<u>28,894</u>	<u>(786,610)</u>
 General revenues:						
Taxes				242,271	-	242,271
Intergovernmental revenue not restricted to specific programs				284,389	-	284,389
Investment income				52,337	11,088	63,425
Miscellaneous				33,435	-	33,435
Transfers - internal activity				<u>-</u>	<u>-</u>	<u>-</u>
 Total general revenues and transfers				<u>612,432</u>	<u>11,088</u>	<u>623,520</u>
 Change in net assets				(203,072)	39,982	(163,090)
Net Assets - beginning				<u>(1,391,654)</u>	<u>950,671</u>	<u>(440,983)</u>
Net Assets - ending				<u>\$ (1,594,726)</u>	<u>\$ 990,653</u>	<u>\$ (604,073)</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2007

	General Fund	Special Revenue		Debt Service Fund	Capital Projects Fund	Total Governmental Funds
		Fire Fund	Ambulance Fund			
ASSETS						
Cash and temporary investments	\$ 728,927	\$ 141,164	\$ 78,599	\$ 1,435,915	\$ 438,289	\$ 2,822,894
Accounts receivable	442	4,365	49,953	11,000	-	65,760
Interest receivable	2,880	-	-	-	-	2,880
Assessments receivable	-	-	-	612,274	-	612,274
Taxes receivable	10,840	-	-	11,741	-	22,581
Due from other governments	-	11,200	-	-	-	11,200
Prepaid items	4,859	4,832	4,395	-	-	14,086
TOTAL ASSETS	\$ 747,948	\$ 161,561	\$ 132,947	\$ 2,070,930	\$ 438,289	\$ 3,551,675
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 6,764	\$ -	\$ 3,955	\$ -	\$ 24,276	\$ 34,995
Deferred revenue	187,865	-	-	615,315	-	803,180
Due to other funds	-	-	-	-	-	-
Total Liabilities	194,629	-	3,955	615,315	24,276	838,175
FUND BALANCES						
Reserved	331,991	-	-	-	-	331,991
Designated	-	161,561	128,992	1,455,615	414,013	2,160,181
Unreserved/Undesignated	221,328	-	-	-	-	221,328
Total Fund Balances	553,319	161,561	128,992	1,455,615	414,013	2,713,500
TOTAL LIABILITIES AND FUND BALANCES	\$ 747,948	\$ 161,561	\$ 132,947	\$ 2,070,930	\$ 438,289	\$ 3,551,675

See notes to financial statements.

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-
WIDE STATEMENT OF NET ASSETS - GOVERNMENTAL ACTIVITIES

December 31, 2007

Fund balances - total government funds \$ 2,713,500

Amounts reported for governmental activities in the
statement of net assets are different because:

Long-term liabilities, including bonds payable are not due and payable
in the current period and , therefore, are not reported in governmental funds.

General obligation bonds (4,030,000)

Loans payable (278,226)

Net assets governmental activities \$ (1,594,726)

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2007

	General Fund	Special Revenue		Debt Service Fund	Capital Projects Fund	Total Governmental Funds
		Fire Fund	Ambulance Fund			
REVENUES						
General property tax	\$ 116,690	\$ -	\$ -	\$ 125,581	\$ 66,672	\$ 308,943
Special assessments	-	-	-	357,446	-	357,446
License and permits	70,848	-	-	-	-	70,848
Intergovernmental	316,522	103,900	-	14,740	5,114	440,276
Charges for services	240	97,020	146,161	-	-	243,421
Fines and forfeits	2,263	-	-	-	-	2,263
Interest	52,337	-	-	-	-	52,337
Other revenues	8,414	7,070	6,083	-	11,868	33,435
Total Revenues	567,314	207,990	152,244	497,767	83,654	1,508,969
OTHER FINANCING SOURCES						
Bond issue proceeds	-	182,800	-	-	-	182,800
Transfer from other funds	-	55,670	-	-	-	55,670
Total Revenues and Other Sources	567,314	446,460	152,244	497,767	83,654	1,747,439
EXPENDITURES						
Current						
General government	142,993	-	-	11,260	28,133	182,386
Public safety	110,087	84,169	150,655	-	-	344,911
Public works	142,909	-	-	-	-	142,909
Culture and recreation	43,128	-	-	-	-	43,128
Capital outlay	-	279,890	60,169	-	493,837	833,896
Debt service						
Principal	-	49,249	-	220,000	-	269,249
Interest and fiscal agent fees	-	12,783	-	152,028	-	164,811
Total Expenditures	439,117	426,091	210,824	383,288	521,970	1,981,290
OTHER USES						
Transfer to other funds	55,670	-	-	-	-	55,670
Total Expenditures and Other Uses	494,787	426,091	210,824	383,288	521,970	2,036,960
NET INCREASE (DECREASE)						
IN FUND BALANCE	72,527	20,369	(58,580)	114,479	(438,316)	(289,521)
FUND BALANCE JANUARY 1	480,792	141,192	187,572	1,341,136	852,329	3,003,021
FUND BALANCE DECEMBER 31	\$ 553,319	\$ 161,561	\$ 128,992	\$ 1,455,615	\$ 414,013	\$ 2,713,500

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2007

Net change in fund balances - total government funds	\$ (289,521)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Capital debt obligation principal payments	269,249
New debt is another financing source in the governmental funds, but increases long-term liabilities in the statement of Net Assets	<u>(182,800)</u>
 Change in Net Assets of Governmental Activities	 <u>\$ (203,072)</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2007

ASSETS	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current Assets:			
Cash and temporary investments	\$ 332,738	\$ 174,611	\$ 507,349
Receivables	<u>52,809</u>	<u>-</u>	<u>52,809</u>
Total current assets	<u>385,547</u>	<u>174,611</u>	<u>560,158</u>
Noncurrent Assets:			
Capital assets, net of accumulated depreciation	<u>262,533</u>	<u>213,410</u>	<u>475,943</u>
Total noncurrent assets	<u>262,533</u>	<u>213,410</u>	<u>475,943</u>
Total Assets	<u>\$ 648,080</u>	<u>\$ 388,021</u>	<u>\$ 1,036,101</u>
LIABILITIES			
Current Liabilities:			
Accounts payable	<u>\$ 15,814</u>	<u>\$ 29,634</u>	<u>\$ 45,448</u>
Total Current Liabilities	<u>15,814</u>	<u>29,634</u>	<u>45,448</u>
NET ASSETS			
Invested in capital assets, net of related debt	262,533	213,410	475,943
Restricted for capital replacement	-	30,005	30,005
Restricted for operations	<u>369,733</u>	<u>114,972</u>	<u>484,705</u>
Total net assets	<u>632,266</u>	<u>358,387</u>	<u>990,653</u>
Total liabilities and net assets	<u>\$ 648,080</u>	<u>\$ 388,021</u>	<u>\$ 1,036,101</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For The Year Ended December 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Operating Revenues:			
Charges for Service:	\$ 249,560	\$ 376,609	\$ 626,169
 Total Operating Revenues	 <u>249,560</u>	 <u>376,609</u>	 <u>626,169</u>
 Operating Expenses:			
Personal Services	7,839	7,839	15,678
Contracted services	182,087	312,768	494,855
Materials and supplies	4,717	3,138	7,855
Other expenses	14,743	14,700	29,443
Depreciation	<u>27,064</u>	<u>22,380</u>	<u>49,444</u>
 Total Operating Expenses	 <u>236,450</u>	 <u>360,825</u>	 <u>597,275</u>
 Operating Income (Loss)	 13,110	 15,784	 28,894
 Non-Operating Revenues (Expenses):			
Interest income	<u>7,272</u>	<u>3,816</u>	<u>11,088</u>
 Net Income Before Transfers	 20,382	 19,600	 39,982
Transfers In	-	-	-
Transfers Out	<u>-</u>	<u>-</u>	<u>-</u>
 Change in net assets	 20,382	 19,600	 39,982
 Net assets - beginning	 <u>611,884</u>	 <u>338,787</u>	 <u>950,671</u>
 Net assets - ending	 <u>\$ 632,266</u>	 <u>\$ 358,387</u>	 <u>\$ 990,653</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 246,309	\$ 376,609	\$ 622,918
Payments to suppliers	(200,160)	(325,567)	(525,727)
Payments to employees	<u>(7,839)</u>	<u>(7,839)</u>	<u>(15,678)</u>
Net Cash Provided by Operating Activities	<u>38,310</u>	<u>43,203</u>	<u>81,513</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Non-operating revenues	<u>7,272</u>	<u>3,815</u>	<u>11,087</u>
Net Cash Provided by Noncapital Financing Activities	<u>7,272</u>	<u>3,815</u>	<u>11,087</u>
CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Provided by Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in Cash and Cash Equivalents	45,582	47,018	92,600
Balance - beginning of year	<u>287,156</u>	<u>127,593</u>	<u>414,749</u>
Balance - end of year	<u>\$ 332,738</u>	<u>\$ 174,611</u>	<u>\$ 507,349</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:			
Operating income (loss)	\$ 13,110	\$ 15,784	\$ 28,894
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation Expense	27,064	22,380	49,444
Change in assets and liabilities	<u>(1,864)</u>	<u>5,039</u>	<u>3,175</u>
Net cash provided by operating activities	<u>\$ 38,310</u>	<u>\$ 43,203</u>	<u>\$ 81,513</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of New London's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as of and for the year ended December 31, 2007. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Financial Reporting Entity

New London was established in 1889 pursuant to applicable Minnesota laws and statutes. The governing body consists of a four member council, and mayor elected by eligible voters of the City. Two members are elected every two years for a four year term. The Mayor's office is for two years. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

1. Component Unit

Based upon the criteria in the preceding paragraph, the City has no component units to report.

a. Excluded: Fire Relief Association

This association is organized as a non-profit organization by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. Their board of directors is appointed by the membership of the organization. All funding is conducted in accordance with Minnesota Statutes whereby State Aids flow to the association, tax levies are determined by the association and are only reviewed by the City, and the association pays benefits directly to its members.

B. Basic Financial Statements

1. Government-Wide Statements

The government-wide financial statements (the statement of net assets and the statement of activities) display information about the primary government and its component unit. These statements include the financial activities of the overall City government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external parties for support.

In the government-wide statement of net assets, both the governmental and business-type activities columns:

(a) are presented on a consolidated basis by column; and (b) are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: (1) invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

1. Government-Wide Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of each function of the City's governmental activities and its business-type activities are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or activity. Program revenues include: (1) fees, fines, and charges paid by the recipients of goods, services, or privileges provided by a given function or activity; and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function or activity. Revenues not classified as program revenues, including all taxes, are presented as general revenues.

2. Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category--governmental and proprietary--are presented. The emphasis of governmental and proprietary fund financial statements is on major individual governmental and enterprise funds, with each displayed in a separate column in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

a. Governmental Funds

The City reports the following major governmental funds:

General Fund

The General Fund is the primary operating fund of the City and always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Debt Service Fund

The Debt Service Fund accounts for the accumulation of financial resources for the payment of principal and interest on the City's general obligation debt and capital leases. The City annually levies ad valorem taxes restricted for the retirement of general obligation bonds.

Capital Project Fund

The Capital Project Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items. Also included, are all tax increment financing districts.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of the specific revenue sources that are either legally restricted to expenditures for specified purpose or designated to finance particular functions or activities of the City. The City reports two Special Revenue Funds; Ambulance Fund and Fire Department Fund

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

2. Fund Financial Statements (continued)
b. Enterprise Funds

The City reports the following major enterprise funds:

Water and Sewer Funds

The Water and Sewer Funds account for activities of the public trust in providing water and sewer services to the public.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund 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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Shared revenues are generally recognized in the period the appropriation goes into effect. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. City considers all revenues as available if collected within 60 days after the end of the current period, except for reimbursement (expenditure driven) grants for which the period is 90 days. Property and other taxes, shared revenues, licenses, and interest are all considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent that they have matured. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or incidental activities.

D. Assets, Liabilities, and Net Assets or Equity
1. Cash and Cash Equivalents

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the City can deposit or effectively withdraw cash at any time without prior notice or penalty.

2. Deposits and Investments

The cash balances of substantially all funds are pooled and invested by the City for the purpose of increasing earnings through investment activities. Pooled and fund investments are reported at their fair value at December 31, 2007, based on market prices. Pursuant to Minn. Stat. § 385.07, investment earnings on cash and pooled investments are credited to the General Fund. Other funds receive investment earnings based on other state statutes, grant agreements, contracts, and bond covenants. Pooled investment earnings for 2007 were \$52,337.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

3. Receivables

All receivables are shown net of an allowance for uncollectibles.

Property taxes are levied and collected by Kandiyohi County, Minnesota, and are remitted periodically to the City. The majority of these remittances are made in June and November. Taxes receivable are recognized at the time of levy. Assessments receivable represent assessments which will be collected by the County for the City in years after 2007.

Taxes and special assessments that remain unpaid are classified as delinquent receivables. Delinquent taxes and special assessments represent the past two years of uncollected tax years. Revenue from delinquent property taxes and special assessments not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the City in the current year. No allowances for uncollectible taxes and special assessments have been provided; as such amounts are not expected to be material.

4. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are reported as prepaid items in both government-wide and fund financial statements.

5. Capital Assets – Enterprise Funds

Capital assets, which include property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), are recorded as expenditures at the time of purchase for governmental activities. The City includes capital assets applicable to the business-type activities in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current period, the City did not have any capitalized interest.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 – 40
Building improvements	20 – 30
Furniture, equipment, and vehicles	3 – 15

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

7. Deferred Revenue

All City funds and the government-wide financial statements defer revenue for resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period.

8. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Net Assets/Fund Balances

The government-wide and business-type activities fund financial statements use a net asset presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

a. Invested in capital assets, net of related debt

This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

b. Restricted net assets

This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

c. Unrestricted net assets

This category represents net assets of the City, not restricted for any project or other purpose.

In the fund financial statements, governmental funds report reservations of fund balance for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans subject to change.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007**

9. Net Assets/Fund Balances (continued)

The City reported the following fund reservations/designations:

General Fund		Debt Service Fund	
2008 Budget items	273,879	Debt service	1,455,615
Special Projects	58,112		
Special Revenue Funds		Capital Projects	
Fire department operations	161,561	Tax increment districts	414,013
Ambulance operations	128,992		

10. 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.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgets

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The City Clerk submits an annual budget to the City Council in accordance with the City Charter. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

NOTE 3 DETAILED NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

a. Deposits

Minn. Stat. §§ 118A.02 and 118A.04 authorize the City to designate a depository for public funds and to invest in certificates of deposit. Minn. Stat. § 118A.03 requires that all City deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better, and revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the City's deposits may not be returned to it. It is the City's policy that collateral or bonds will be required for all uninsured amounts on deposit and the additional insurance will be documented to show compliance with state law and a perfected security interest under federal law. At December 31, 2007, the City was not exposed to custodial credit risk.

b. Investments

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the following types of investments as available to the City:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the City's policy to invest only in securities that meet the ratings requirements set by state statute.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities in the possession of an outside party. The City's policy is that brokers may hold City investments only to the extent that there is SIPC and excess SIPC coverage available.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

Concentration of Credit Risk

The concentration of credit risk is the risk of loss that may be caused by the City's investment in a single issuer. It is the City's policy that U.S. Treasury securities, U.S. agency securities, and obligations backed by U.S. Treasury and/or U.S. agency securities, may be held without limit.

b. Investments (continued)

The following table presents the City's investment balances at December 31, 2007, and information relating to potential investment risks:

<u>Investment Type</u>	<u>Credit Risk</u>		<u>Concentration</u>	<u>Interest</u>	<u>Carrying</u> <u>(Fair)</u> <u>Value</u>
	<u>Credit</u> <u>Rating</u>	<u>Rating</u> <u>Agency</u>	<u>Risk</u> <u>Over 5%</u> <u>of Portfolio</u>	<u>Rate Risk</u> <u>Maturity</u> <u>Date</u>	
Mutual Funds	N/R	N/A	22%	N/A	\$ 68,237
Money market with broker	N/R	N/A	78%	N/A	238,045
Total Investments					306,282
Deposits					<u>3,023,961</u>
Total Cash and Investments					<u>\$3,330,243</u>

2. Receivables

Receivables, net of uncollectible amounts, as of December 31, 2007, for the City's governmental activities and business-type activities are as follows:

Governmental Activities:	
Accounts receivable	\$ 65,760
Interest receivable	2,880
Taxes receivable - delinquent	22,581
Special assessments receivable	612,274
Due from other governments	<u>11,200</u>
Total Governmental Activities	<u>\$ 714,695</u>
Business-Type Activities	
Accounts receivable	<u>\$ 52,809</u>
Total Business-Type Activities	<u>\$ 52,809</u>

Uncollected taxes and assessments at December 31 are considered delinquent. No allowance for uncollectible taxes/special assessments has been provided because such amounts are not expected to be material.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007**

3. Capital Assets

Capital asset activity for the year ended December 31, 2007 was as follows:

Governmental Activities

The City does not maintain capital asset records for its governmental activities.

Business-Type Activities

	Balance January 1, 2007	Additions	Deletions	Balance December 31, 2007
Water plant, improvements and equipment	\$ 740,654	\$ -	\$ -	\$ 740,654
Sewer plant, improvements and equipment	671,647	-	-	671,647
Accumulated depreciation	<u>(886,914)</u>	<u>(49,444)</u>	-	<u>(936,358)</u>
	<u>\$ 525,387</u>	<u>\$ (49,444)</u>	<u>\$ -</u>	<u>\$ 475,943</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Business-Type Activities

Water fund	\$ 27,064
Sewer fund	<u>22,380</u>
Total Expense	<u>\$ 49,444</u>

B. Interfund Receivables, Payables and Transfers

1. Interfund Transfers

Interfund transfers for the year ended December 31, 2007, consisted of the following:

Transfer from	Transferred to Fire Fund
General Fund	\$ 55,670

The City transferred \$51,170 to the Fire Fund for operations and \$4,500 for capital outlay.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

C. Liabilities

1. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable that are not collected soon enough after year-end to pay liabilities of the current period and prepayments that have been received but not earned. Deferred revenue at December 31, 2007 is summarized below by fund:

	Taxes	Special Assessments	Prepayment Fire Contract	Reimbursement Green Lake Sewer Bond	Total
Governmental					
General	\$ 2,915	\$ -	\$ 82,600	\$ 102,350	\$ 187,865
Debt Service	<u>3,228</u>	<u>612,087</u>	<u>-</u>	<u>-</u>	<u>615,315</u>
 Total Governmental	 <u>\$ 6,143</u>	 <u>\$ 612,087</u>	 <u>\$ 82,600</u>	 <u>\$ 102,350</u>	 <u>\$ 803,180</u>

2. Long-Term Debt

Type of Indebtedness	Final Maturity	Interest Rate	Original Issue Amount	Balance December 31, 2007
General Obligation Bonds				
Improvement Bond Series 1997	2013	4% to 5.3%	\$ 915,000	\$ 400,000
Improvement Bond Series 1999	2016	5% to 5.5%	480,000	285,000
Improvement Bond Series 2000	2016	4.75% to 5.3%	605,000	460,000
Improvement Bond Series 2002	2009	2% to 4.25%	270,000	465,000
Permanent Improvement Revolving Fund Bond Series 2006A	2026	4% to 4.3%	2,420,000	2,420,000
 Fire Department Building Loan	 2013	 5.22%	 123,500	 61,141
Tanker Truck Loan	2011	4.40%	161,000	51,106
Pumper Truck Loan	2017	4.59%	<u>182,800</u>	<u>165,979</u>
 Total Governmental Activities			 <u>\$5,157,300</u>	 <u>\$ 4,308,226</u>
 *General Obligation Sewer Revenue Bonds, Series 2002	 2042	 4.37%	 \$1,884,800	 \$ 1,802,000

* The City is an agent for the Green Lake Sewer and Water System bonds.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

3. Debt Service Requirements

Debt service requirements at December 31, 2007, were as follows:

Year Ending December 31	Principal	Interest	Total
2008	\$ 251,610	\$ 184,464	\$ 436,074
2009	328,052	171,554	499,606
2010	344,556	15,640	360,196
2011	386,125	139,612	525,737
2012	344,275	122,616	466,891
2013-2017	1,423,608	394,804	1,818,412
2018-2022	760,000	176,774	936,774
2023-2026	470,000	38,853	508,853
Totals	<u>\$ 4,308,226</u>	<u>\$ 1,244,317</u>	<u>\$ 5,552,543</u>

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$ 4,250,000	\$ -	\$ 220,000	\$ 4,030,000	\$ 215,000
Fire Department Loans	144,675	182,800	49,249	278,226	36,610
Total Governmental Activities	<u>\$ 4,394,675</u>	<u>\$ 182,800</u>	<u>\$ 269,249</u>	<u>\$ 4,308,226</u>	<u>\$ 251,610</u>
Green Lake Sewer and Water System					
General Obligation Sewer Bonds	<u>\$ 1,884,800</u>	<u>\$ -</u>	<u>\$ 82,800</u>	<u>\$ 1,802,000</u>	<u>\$ 23,000</u>

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS

A. Plan Description

All full-time and certain part-time employees of the City are covered by defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (PERA). The PERA administers the Public Employees Retirement Fund which is a cost sharing, multiple-employer retirement plan. The plan is established and administered in accordance with Minn. Stat. chs.353 and 356.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007

A. Plan Description (continued)

Public Employees Retirement Fund members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security, and Basic Plan members are not. All new members must participate in the Coordinated Plan.

The PERA provides retirement benefits as well as disability benefits to members and benefits to survivors upon death of eligible members. Benefits are established by state statute and vest after three years of credited service. The retirement benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service.

Two methods are used to compute benefits for Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each year thereafter. For a Coordinated Plan member, the annuity accrual rate is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each successive year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent for Coordinated Plan members for each year of service. For Public Employees Police and Fire Fund members, the annuity accrual rate is 3.0 percent of average salary for each year of service.

For all Public Employees Retirement Fund members whose annuity is calculated using Method 1, and for all Public Employees Police and Fire Fund members, a full annuity is available when age plus years of service equal 90. A reduced retirement annuity is also available to eligible members seeking early retirement.

The benefit provisions stated in the previous paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not yet receiving them are bound by the provisions in effect at the time they last terminated public service.

PERA issues a publicly available financial report that includes financial statements and required supplementary information for the Public Employees Retirement Fund and the Public Employees Police and Fire Fund. That report may be obtained on the internet at www.mnpera.org; by writing to PERA at 60 Empire Drive, Suite 200, Saint Paul, Minnesota 55103-2088; or by calling 651-296-7460 or 1-800-652-9026.

B. Funding Policy

Pension benefits are funded from member and employer contributions and income from the investment of fund assets. Minn. Stat. ch. 353 sets the rates for employer and employee contributions. These statutes are established and amended by the State Legislature. The City makes annual contributions to the pension plans equal to the amount required by state statutes. Public Employees Retirement Fund Basic Plan members and Coordinated Plan members are required to contribute 9.10 and 5.75 percent, respectively, of their annual covered salary in 2007.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007**

B. Funding Policy (continued)

The City is required to contribute the following percentages of annual covered payroll in 2007 and 2008:

	2007	2008
Public Employee Retirement Fund		
Basic Plan Members	11.78 %	11.78 %
Coordinated Plan Members	6.25 %	6.25 %

The City's contributions for the years ending December 31, 2007, 2006, and 2005, for the Public Employees Retirement Fund were:

	Public Employees Retirement Fund
2007	\$ 9,969
2006	\$ 8,989
2005	\$ 5,992

These contribution amounts are equal to the contractually required contributions for each year as set by state statute.

NOTE 5 RISK MANAGEMENT

The city is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the City carries insurance. The City obtains insurance through participation in the League of Minnesota Cities Insurance Trust (LMCIT) which is a risk sharing pool with approximately 800 other governmental units. This City pays an annual premium to LMCIT for its workers compensation and property and casualty insurance. The LMCIT is self sustaining through member premiums and will reinsure for claims above a prescribed dollar amount for each insurance event. Settled claims have not exceeded the City's coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The City's management is not aware of any incurred by not reported claims.

The workers' compensation policy is a retrospectively rated policy with premiums that accrue based on the ultimate cost of the experience to date. There is no way to estimate what the change in premium may be. Generally, it has been minimal. There were no claims in 2007.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2007**

NOTE 6 TAX INCREMENT FINANCING

The City of New London is the administering authority for the following tax increment financed districts:

<u>District No.</u>	<u>Type of District</u>	<u>Established</u>	<u>Modified</u>	<u>Termination Date</u>
1-7	Housing	September 6, 1995		December 31, 2012
1-8	**Economic Development	September 4, 1996		September 4, 2007
1-9	Economic Development	April 21, 1999		April 21, 2010
1-10	Economic Development	November 7, 2001		December 31, 2012
1-11	Economic Development	May 7, 2003		December 31, 2013
1-12	Housing	December 17, 2003		December 31, 2030

** Was decertified in 2007

**CITY OF NEW LONDON, MINNESOTA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For The Year Ended December 31, 2007**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance
	Original	Final		Favorable (Unfavorable)
REVENUES				
General property tax	\$ 122,000	\$ 122,000	\$ 116,690	\$ (5,310)
License and permits	64,900	70,268	70,848	580
Intergovernmental	304,284	302,797	316,522	13,725
Charges for services	200	240	200	(40)
Fines and forfeits	750	1,800	2,263	463
Interest	20,000	40,000	52,337	12,337
Other revenues	6,920	8,120	8,454	334
	<u>519,054</u>	<u>545,225</u>	<u>567,314</u>	<u>22,089</u>
Total Revenues				
EXPENDITURES				
General government	158,027	146,253	142,993	3,260
Public safety	120,218	112,266	110,087	2,179
Public works	139,121	148,936	142,909	6,027
Culture and recreation	45,418	42,937	43,128	(191)
	<u>462,784</u>	<u>450,392</u>	<u>439,117</u>	<u>11,275</u>
Total Expenditures				
OTHER USES				
Transfer to other funds	56,270	55,670	55,670	-
	<u>519,054</u>	<u>506,062</u>	<u>494,787</u>	<u>11,275</u>
Total Expenditures and Other Uses				
NET INCREASE (DECREASE) IN FUND BALANCE	-	39,163	72,527	10,814
FUND BALANCE JANUARY 1	480,792	480,792	480,792	-
FUND BALANCE DECEMBER 31	<u>\$ 480,792</u>	<u>\$ 519,955</u>	<u>\$ 553,319</u>	<u>\$ 33,364</u>

See notes to required supplementary information.

CITY OF NEW LONDON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2007

NOTE 1 BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The City Clerk submits an annual budget to the City Council in accordance with the City Charter. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	2006 <u>Actual</u>
REVENUES				
Property tax	\$122,000	\$116,690	\$ (5,310)	\$103,982
License and permits	70,668	70,848	180	52,117
Intergovernmental revenue				
State grants and aids				
Local government aid	270,261	270,261	-	246,645
M.V. Credit	-	13,725	13,725	13,155
Fire aid	32,133	32,133	-	36,854
Other	403	403	-	403
Total Intergovernmental Revenues	<u>302,797</u>	<u>316,522</u>	<u>13,725</u>	<u>297,057</u>
Fines and forfeits	1,800	2,263	463	1,264
Miscellaneous revenues				
Interest	40,000	52,337	12,337	40,371
Rents	6,000	6,000	-	6,000
Other	1,960	2,654	694	4,056
Total Miscellaneous Revenues	<u>47,960</u>	<u>60,991</u>	<u>13,031</u>	<u>50,427</u>
TOTAL REVENUES	<u>545,225</u>	<u>567,314</u>	<u>22,089</u>	<u>504,847</u>
EXPENDITURES				
General Government				
Mayor and Council				
Salary and benefits	12,764	12,725	39	17,018
Elections	1,028	1,028	-	1,886
Financial Administration				
City Clerk				
Salary	65,230	65,024	206	63,936
Office supplies	5,600	5,613	(13)	4,767
Employee benefits	15,367	15,348	19	14,889
Total City Clerk	<u>86,197</u>	<u>85,985</u>	<u>212</u>	<u>83,592</u>

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2006 Actual</u>
EXPENDITURES (Continued)				
General Government (Continued)				
Financial Administration (Continued)				
Professional Services				
Assessing	\$ 10,660	\$ 10,560	\$ 100	\$ 4,575
Accounting	<u>1,019</u>	<u>1,018</u>	<u>1</u>	<u>4,583</u>
Total Professional Services	<u>11,679</u>	<u>11,578</u>	<u>101</u>	<u>9,158</u>
Total Financial Administration	<u>111,668</u>	<u>111,316</u>	<u>352</u>	<u>111,654</u>
Legal Services	<u>1,700</u>	<u>1,518</u>	<u>182</u>	<u>5,313</u>
Planning and Zoning	<u>700</u>	<u>700</u>	<u>-</u>	<u>350</u>
Other General Government				
City sign	-	-	-	1,726
Supplies	2,100	2,164	(64)	873
Utilities and telephone	5,250	5,079	171	4,125
Senior transportation	2,600	2,600	-	2,600
Seminars	<u>1,500</u>	<u>1,391</u>	<u>109</u>	<u>1,728</u>
Total Other General Government	<u>11,450</u>	<u>11,234</u>	<u>216</u>	<u>11,052</u>
Total General Government	<u>125,518</u>	<u>124,768</u>	<u>750</u>	<u>128,369</u>
Public Safety				
Police Protection				
Contracted service	40,600	40,600	-	40,600
Fire Protection				
Other				
Reimbursement to Fire Relief Association	32,133	32,133	-	36,854
Building inspection	38,433	36,258	2,175	28,406
Animal control	<u>1,100</u>	<u>1,096</u>	<u>4</u>	<u>1,030</u>
Total Public Safety	<u>112,266</u>	<u>110,087</u>	<u>2,179</u>	<u>106,890</u>

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2007

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>2006 Actual</u>
EXPENDITURES (Continued)				
Public Works				
Maintenance, Buildings, Streets				
Salaries	\$ 46,872	\$ 46,229	\$ 643	\$ 47,018
Employee benefits	14,605	14,513	92	14,522
Supplies	4,000	3,725	275	2,982
Vehicle expense	7,775	7,772	3	6,245
Repairs	10,781	10,864	(83)	4,739
Street maintenance	3,375	3,375	-	7,120
Training	1,888	1,888	-	1,680
Telephone and utilities	5,500	5,895	(395)	5,205
Miscellaneous	<u>1,724</u>	<u>1,627</u>	<u>97</u>	<u>5,983</u>
Total Maintenance, Buildings, Streets	96,520	95,888	632	95,494
Ice and snow removal	32,000	25,189	6,811	3,900
Street lighting	<u>20,416</u>	<u>21,832</u>	<u>(1,416)</u>	<u>20,632</u>
Total Public Works	<u>148,936</u>	<u>142,909</u>	<u>6,027</u>	<u>120,026</u>
Culture and Recreation				
Parks and Recreation				
Salaries	15,624	15,764	(140)	15,098
Employee benefits	1,894	1,913	(19)	1,788
Supplies	-	-	-	-
Communications	204	204	-	156
Utilities	1,700	1,735	(35)	1,384
Repairs and maintenance	2,673	2,673	-	7,057
Recreation allocation	10,500	10,500	-	10,500
Landscaping project	1,573	1,573	-	1,000
Capital outlay	<u>769</u>	<u>769</u>	<u>-</u>	<u>-</u>
Total Parks and Recreation	<u>34,937</u>	<u>35,131</u>	<u>(194)</u>	<u>36,983</u>

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2006 Actual</u>
EXPENDITURES (Continued)				
Culture and Recreation (Continued)				
Library				
Communications	\$ 500	\$ 497	\$ 3	\$ 493
Rental	<u>7,500</u>	<u>7,500</u>	<u>-</u>	<u>7,500</u>
Total Library	<u>8,000</u>	<u>7,997</u>	<u>3</u>	<u>7,993</u>
Total Culture and Recreation	<u>42,937</u>	<u>43,128</u>	<u>(191)</u>	<u>44,976</u>
Unallocated				
Print and publish	2,500	2,157	343	2,282
Dues and publications	1,298	1,298	-	1,046
Insurance	12,500	10,415	2,085	9,139
Contingencies	1,737	1,737	-	30,719
Miscellaneous	<u>2,700</u>	<u>2,618</u>	<u>82</u>	<u>4,193</u>
Total Unallocated	<u>20,735</u>	<u>18,225</u>	<u>2,510</u>	<u>47,379</u>
TOTAL EXPENDITURES	<u>450,392</u>	<u>439,117</u>	<u>11,275</u>	<u>447,640</u>
EXCESS OF REVENUES OVER EXPENDITURES	94,833	128,197	33,364	57,207
OTHER FINANCING SOURCES (USES)				
Transfer in (out)	<u>(55,670)</u>	<u>(55,670)</u>	<u>-</u>	<u>(41,176)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	39,163	72,527	33,364	16,031
FUND BALANCE, JANUARY 1	<u>480,792</u>	<u>480,792</u>	<u>-</u>	<u>469,261</u>
FUND BALANCE, DECEMBER 31	<u>\$519,955</u>	<u>\$553,319</u>	<u>\$ 33,364</u>	<u>\$485,292</u>

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCE
SPECIAL REVENUE FUNDS
For The Year Ended December 31, 2007

	<u>Fire Fund</u>	<u>Ambulance Fund</u>	<u>Total</u>
REVENUES			
Charges for services	\$ 97,020	\$ 146,161	\$ 243,181
Intergovernmental	103,900	-	103,900
Miscellaneous revenues			
Interest earnings	2,115	3,222	5,337
Other	4,955	2,861	7,816
Total Miscellaneous Revenues	<u>7,070</u>	<u>6,083</u>	<u>13,153</u>
TOTAL REVENUES	207,990	152,244	360,234
OTHER SOURCES	<u>238,470</u>	<u>-</u>	<u>238,470</u>
TOTAL REVENUES AND OTHER SOURCES	<u>446,460</u>	<u>152,244</u>	<u>598,704</u>
EXPENDITURES			
Public Safety			
Salaries	27,355	98,493	125,848
Employee benefits	2,093	7,536	9,629
Training	1,953	2,353	4,306
Office supplies	183	596	779
Billing service	-	5,727	5,727
Operating supplies	586	20,840	21,426
Repair and maintenance	3,107	1,668	4,775
Insurance	10,363	8,747	19,110
Vehicle expense	4,778	2,900	7,678
Utility services	6,059	-	6,059
Communication	842	1,053	1,895
Relief Association	5,000	-	5,000
Miscellaneous	2,678	742	3,420
Capital outlay	299,062	60,169	359,231
Total Public Safety	<u>364,059</u>	<u>210,824</u>	<u>574,883</u>
Debt Service	<u>62,032</u>	<u>-</u>	<u>62,032</u>
TOTAL EXPENDITURES	<u>426,091</u>	<u>210,824</u>	<u>636,915</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	20,369	(58,580)	(38,211)
FUND BALANCE, JANUARY 1	<u>141,192</u>	<u>187,572</u>	<u>328,764</u>
FUND BALANCE, DECEMBER 31	<u>\$ 161,561</u>	<u>\$ 128,992</u>	<u>\$ 290,553</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR INCREMENT FINANCING DISTRICT NO. 1-7
December 31, 2007

	Original Plan Budget	Amended Budget	Accounted For In Prior Years	Current Year	Amount Remaining
SOURCES OF FUNDS					
Bond proceeds	\$150,000	\$ -	\$ 132,667	\$ -	\$ 17,333
Tax levy	-	-	972	-	(972)
Tax increments received	282,317	-	105,407	16,727	160,183
Interest on invested funds	-	-	-	975	(975)
Sale of real estate	-	-	3,500	-	(3,500)
Market Value Credit	-	-	12,834	2,685	(15,519)
Other (10% local contribution)	28,232	-	28,232	-	-
Advance from other funds	-	-	-	-	-
TOTAL SOURCES OF FUNDS	<u>460,549</u>	<u>-</u>	<u>283,612</u>	<u>20,387</u>	<u>156,550</u>
USES OF FUNDS					
Land acquisition and improvements	-	-	-	-	-
Site improvements or preparation costs	-	-	-	-	-
Installation of public utilities and improvements	176,303	-	149,719	-	26,584
Capitalized interest	-	-	-	-	-
Bond payments					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Other debt payments					
Principal	150,000	-	42,900	-	107,100
Interest	106,016	-	51,777	-	54,239
Administrative costs	28,230	-	16,856	1,462	9,912
Other - contingency	-	-	-	-	-
TOTAL USES OF FUNDS	<u>460,549</u>	<u>-</u>	<u>261,252</u>	<u>1,462</u>	<u>197,835</u>
DISTRICT BALANCE (DEFICIENCY)	-	-	22,360	18,925	(41,285)
TRANSFER FROM OTHER DISTRICTS	-	-	919	-	(919)
TRANSFER TO OTHER DISTRICTS	-	-	-	-	-
FUNDS REMAINING (DEFICIENT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,279</u>	<u>\$ 18,925</u>	<u>\$ (42,204)</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR INCREMENT FINANCING DISTRICT NO. 1-8
December 31, 2007

	Original Plan Budget	Amended Budget	Accounted For In Prior Years	Current Year	Amount Remaining
SOURCES OF FUNDS					
Bond proceeds	\$123,000	\$ -	\$113,268	\$ -	\$ 9,732
Tax increment revenue note proceeds	-	-	-	-	-
Tax increments received	216,000	-	158,035	20,029	37,936
Interest on invested funds	-	-	-	3	(3)
Other	-	-	-	-	-
Other (10% local contribution)	21,600	-	21,600	-	-
Advance from other funds	-	-	30,500	(20,111)	(10,389)
TOTAL SOURCES OF FUNDS	<u>360,600</u>	<u>-</u>	<u>323,403</u>	<u>(79)</u>	<u>37,276</u>
USES OF FUNDS					
Land acquisition and improvements	25,000	-	25,000	-	-
Site improvements or preparation costs	110,000	-	98,595	-	11,405
Installation of public utilities and improvements	-	-	-	-	-
Capitalized interest	15,000	-	15,000	-	-
Bond payments					
Principal	123,000	-	140,000	-	(17,000)
Interest	71,000	-	59,634	-	11,366
Other debt payments					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Administrative costs	13,600	-	2,945	799	9,856
Other	3,000	-	5,000	-	(2,000)
TOTAL USES OF FUNDS	<u>360,600</u>	<u>-</u>	<u>346,174</u>	<u>799</u>	<u>13,627</u>
DISTRICT BALANCE (DEFICIENCY)	-	-	(22,771)	(878)	23,649
TRANSFER FROM OTHER DISTRICTS	-	-	-	-	-
TRANSFER TO OTHER DISTRICTS	-	-	-	-	-
FUNDS REMAINING (DEFICIENT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (22,771)</u>	<u>\$ (878)</u>	<u>\$ 23,649</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR INCREMENT FINANCING DISTRICT NO. 1-9
December 31, 2007

	<u>Original Plan Budget</u>	<u>Amended Budget</u>	<u>Accounted For In Prior Years</u>	<u>Current Year</u>	<u>Amount Remaining</u>
SOURCES OF FUNDS					
Bond proceeds	\$ -	\$ -	\$ -	\$ -	\$ -
Tax increment revenue note proceeds	-	-	-	-	-
Tax increments received	27,435	-	5,946	1,025	20,464
Interest on invested funds	-	-	-	9	(9)
Sale of real estate	-	-	-	-	-
Other (10% local contribution)	-	-	-	-	-
Advance from other funds	-	-	6,000	-	(6,000)
TOTAL SOURCES OF FUNDS	<u>27,435</u>	<u>-</u>	<u>11,946</u>	<u>1,034</u>	<u>14,455</u>
USES OF FUNDS					
Land acquisition and improvements	-	-	-	-	-
Site improvements or preparation costs	-	-	-	-	-
Installation of public utilities and improvements	19,350	-	1,661	-	17,689
Capitalized interest	-	-	-	-	-
Bond payments					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Other debt payments					
Principal	-	-	-	-	-
Interest	5,341	-	3,234	922	1,185
Administrative costs	2,744	-	7,494	799	(5,549)
Other	-	-	-	-	-
TOTAL USES OF FUNDS	<u>27,435</u>	<u>-</u>	<u>12,389</u>	<u>1,721</u>	<u>13,325</u>
DISTRICT BALANCE (DEFICIENCY)	-	-	(443)	(687)	1,130
TRANSFER FROM OTHER DISTRICTS	-	-	1,104	-	(1,104)
TRANSFER TO OTHER DISTRICTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUNDS REMAINING (DEFICIENT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 661</u>	<u>\$ (687)</u>	<u>\$ 26</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR INCREMENT FINANCING DISTRICT NO. 1-10
December 31, 2007

	<u>Original Plan Budget</u>	<u>Amended Budget</u>	<u>Accounted For In Prior Years</u>	<u>Current Year</u>	<u>Amount Remaining</u>
SOURCES OF FUNDS					
Bond proceeds	\$87,500	\$ -	\$ -	\$ -	\$87,500
Tax increments received	85,000	-	6,120	2,276	76,604
Interest on invested funds	2,500	-	-	6	2,494
Loan proceeds	87,500	-	-	-	87,500
Other (10% local contribution)	-	-	-	-	-
Advance from other funds	<u>87,500</u>	<u>-</u>	<u>1,000</u>	<u>-</u>	<u>86,500</u>
TOTAL SOURCES OF FUNDS	<u>350,000</u>	<u>-</u>	<u>7,120</u>	<u>2,282</u>	<u>340,598</u>
USES OF FUNDS					
Land acquisition and improvements	-	-	-	-	-
Site improvements or preparation costs	33,000	-	-	-	33,000
Installation of public utilities and improvements	30,100	-	-	-	30,100
Capitalized interest	-	-	-	-	-
Bond payments					
Principal	87,500	-	-	-	87,500
Interest	16,000	-	-	-	16,000
Other debt payments					
Principal	87,500	-	5,509	2,465	79,526
Interest	-	-	-	-	-
Administrative costs	8,400	-	1,795	382	6,223
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>262,500</u>	<u>-</u>	<u>7,304</u>	<u>2,847</u>	<u>252,349</u>
DISTRICT BALANCE (DEFICIENCY)	87,500	-	(184)	(565)	88,249
TRANSFER FROM OTHER DISTRICTS	-	-	-	-	-
TRANSFER TO OTHER DISTRICTS	<u>(87,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,500)</u>
FUNDS REMAINING (DEFICIENT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (184)</u>	<u>\$ (565)</u>	<u>\$ 749</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR INCREMENT FINANCING DISTRICT NO. 1-11
December 31, 2007

	<u>Original Plan Budget</u>	<u>Amended Budget</u>	<u>Accounted For In Prior Years</u>	<u>Current Year</u>	<u>Amount Remaining</u>
SOURCES OF FUNDS					
Bond proceeds	\$80,000	\$ -	\$ -	\$ -	\$80,000
Tax increments received	87,980	-	8,152	3,852	75,976
Interest on invested funds	-	-	-	38	(38)
Loan proceeds	87,980	-	-	-	87,980
Other (10% local contribution)	-	-	-	-	-
Advance from other funds	<u>87,980</u>	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>83,980</u>
TOTAL SOURCES OF FUNDS	<u>343,940</u>	<u>-</u>	<u>12,152</u>	<u>3,890</u>	<u>327,898</u>
USES OF FUNDS					
Land acquisition and improvements	42,182	-	-	-	42,182
Site improvements or preparation costs	28,000	-	-	-	28,000
Installation of public utilities and improvements	9,000	-	-	-	9,000
Capitalized interest	-	-	-	-	-
Bond payments					
Principal	80,000	-	-	-	80,000
Interest	-	-	-	-	-
Other debt payments					
Principal	87,980	-	7,337	3,884	76,759
Interest	-	-	-	-	-
Administrative costs	8,798	-	4,441	382	3,975
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>255,960</u>	<u>-</u>	<u>11,778</u>	<u>4,266</u>	<u>239,916</u>
DISTRICT BALANCE (DEFICIENCY)	87,980	-	374	(376)	87,982
TRANSFER FROM OTHER DISTRICTS	-	-	-	-	-
TRANSFER TO OTHER DISTRICTS	<u>(87,980)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(87,980)</u>
FUNDS REMAINING (DEFICIENT)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 374</u>	<u>\$ (376)</u>	<u>\$ 2</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF SOURCES AND USES OF PUBLIC FUNDS
FOR INCREMENT FINANCING DISTRICT NO. 1-12
December 31, 2007

	Original Plan Budget	Amended Budget	Accounted For In Prior Years	Current Year	Amount Remaining
SOURCES OF FUNDS					
Tax increments received	\$4,420,000	\$ -	\$ 4,306	\$22,763	\$ 4,392,931
Interest on invested funds	5,000	-	-	447	4,553
MV Credit	-	-	358	2,429	(2,787)
Bond proceeds	4,420,000	-	-	-	4,420,000
Loan repayments	<u>4,420,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,420,000</u>
TOTAL SOURCES OF FUNDS	<u>13,265,000</u>	<u>-</u>	<u>4,664</u>	<u>25,639</u>	<u>13,234,697</u>
USES OF FUNDS					
Land/Building acquisition	100,000	-	-	-	100,000
Site improvements or preparation costs	515,000	-	-	-	515,000
Installation of public utilities and improvements	900,000	-	-	-	900,000
Parking facilities	200,000	-	-	-	200,000
Streets and sidewalks	200,000	-	-	-	200,000
Bond payments					-
Principal	4,420,000	-	-	-	4,420,000
Interest	1,031,500	-	-	-	1,031,500
Other debt payments					-
Principal	4,420,000	-	-	16,657	4,403,343
Interest	1,031,500	-	-	-	1,031,500
Administrative costs	442,000	-	457	382	441,161
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL USES OF FUNDS	<u>13,260,000</u>	<u>-</u>	<u>457</u>	<u>17,039</u>	<u>13,242,504</u>
DISTRICT BALANCE (DEFICIENCY)	5,000	-	4,207	8,600	(7,807)
TRANSFER FROM OTHER DISTRICTS	4,420,000	-	-	-	4,420,000
TRANSFER TO OTHER DISTRICTS	<u>(4,420,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,420,000)</u>
FUNDS REMAINING (DEFICIENT)	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ 4,207</u>	<u>\$ 8,600</u>	<u>\$ (7,807)</u>

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations
Year Ended December 31, 2007

Finding 2007-1

Criteria:

Generally, a system of internal control contemplates separation of duties such that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition:

Due to the limited size of the City's business staff, the City has limited segregation of duties.

Questioned Costs:

None

Context:

The City has informed us that the small size of its business office staff precludes proper separation of duties at this time.

Effect:

The City is unable to maintain separation of incompatible duties.

Cause:

Limited number of staff in the business office

Recommendation:

We recommend that the City continue to separate incompatible duties as best it can within the limits of what the City considers to be cost beneficial.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-1

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City reviews and makes improvements to its internal controls on an ongoing basis, and attempts to maximize the segregation of duties in all areas within the limits of the staff available.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2007

Finding 2007-2

Criteria:

Generally, a system of internal control includes the ability to understand and prepare the City's financial statements and related disclosures in accordance with accounting principles generally accepted in the United States of America (GAAP).

Condition:

Due to the limited size of the City's business staff and related resources available, the City has relied upon the auditor to prepare the financial statements and related disclosures in accordance with GAAP.

Questioned Costs:

None

Context:

The City has informed us that the small size and qualifications of its business office staff precludes the City from preparing its own financial statements.

Effect:

The City is unable to prepare GAAP basis financial statements.

Cause:

Limited number and qualifications of staff in the business office

Recommendation:

We recommend that the City continue to review the auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under GAAP.

CORRECTIVE ACTION PLAN (CAP)

Finding 2007-2

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will continue to review auditor prepared financial statements with the intention of understanding and acceptance of responsibility for reporting under GAAP.

Officer Responsible for Ensuring CAP:

Not Applicable

Planned Completion Date:

Not Applicable

Plan to Monitor Completion of CAP:

Not Applicable

advisors and accountants. profit from our experience.

**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**

Mayor and City Council
City of New London, Minnesota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New London, Minnesota as of and for the year ended December 31, 2007, and have issued our report thereon dated March 26, 2008. The report on the governmental activities was qualified because of the lack of recording capital assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of New London's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control over financial reporting. We considered the deficiencies described in the accompanying Schedule of Findings and Recommendations as items 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe none of the significant deficiencies are material weaknesses.

Compliance and Other Matters

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

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide of Local Government* contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and tax increment financing. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the City of New London complied with the material terms and conditions of applicable legal provisions.

We noted certain matters that we reported to management of the City of New London in a separate letter dated March 26, 2008.

This report is intended solely for the information and use of the City of New London and management and is not intended to be, and should not be, used by anyone other than those specified parties.

Westberg Eischens, PLLP

Westberg Eischens, PLLP

March 26, 2008