

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

DECEMBER 31, 2008

**WESTBERG EISCHENS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201**

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**CITY OF NEW LONDON, MINNESOTA
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2008**

| | | <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, 2008, 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, 2008, 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, 2008, 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 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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 31, 2009, 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.

A handwritten signature in black ink that reads "Westberg Eischens, PLLP". The signature is written in a cursive, slightly slanted style.

WESTBERG EISCHENS, PLLP

March 31, 2009

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2008

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|---------------------|
| ASSETS | | | |
| Cash | \$ 2,126,908 | \$ 597,447 | \$ 2,724,355 |
| Investment | 63,050 | - | 63,050 |
| Receivables | | | |
| Accounts | 55,001 | 58,006 | 113,007 |
| Assessments | 830,882 | - | 830,882 |
| Taxes - delinquent | 12,966 | - | 12,966 |
| Interest | 2,880 | - | 2,880 |
| Due from other governments | 10,240 | - | 10,240 |
| Prepaid expenses | 14,594 | - | 14,594 |
| Capital assets | | | |
| Depreciable, net | - | 426,740 | 426,740 |
| TOTAL ASSETS | \$ 3,116,521 | \$ 1,082,193 | \$ 4,198,714 |
| LIABILITIES AND NET ASSETS | | | |
| Liabilities | | | |
| Accounts payable | \$ 75,939 | \$ 84,436 | \$ 160,375 |
| Long-term liabilities | | | |
| Due within one year | 328,052 | - | 328,052 |
| Due in more than one year | 3,705,930 | - | 3,705,930 |
| Total Liabilities | 4,109,921 | 84,436 | 4,194,357 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | - | 426,740 | 426,740 |
| Restricted for: | | | - |
| Debt service | 335,298 | - | 335,298 |
| Capital replacement | - | 34,214 | 34,214 |
| Unrestricted | (1,328,698) | 536,803 | (791,895) |
| Total Net Assets | (993,400) | 997,757 | 4,357 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 3,116,521 | \$ 1,082,193 | \$ 4,198,714 |

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2008

| | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Assets</u> | | |
|--|-------------------------|---------------------------------|---|--|-------------------------------------|--------------------|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
| FUNCTIONS/PROGRAMS | | | | | | |
| Governmental Activities: | | | | | | |
| General government | \$ 148,824 | \$ 45,551 | - | \$ (103,273) | \$ - | \$ (103,273) |
| Public safety | 344,954 | 226,152 | 29,168 | (89,634) | - | (89,634) |
| Streets and highways | 712,552 | - | - | (712,552) | - | (712,552) |
| Economic development | 39,126 | - | - | (39,126) | - | (39,126) |
| Culture and recreation | 43,555 | - | - | (43,555) | - | (43,555) |
| Interest and fiscal charges on long term debt | 177,696 | - | - | - | - | - |
| | <u>177,696</u> | <u>-</u> | <u>-</u> | <u>(177,696)</u> | <u>-</u> | <u>(177,696)</u> |
| Total Governmental Activities | <u>1,466,707</u> | <u>271,703</u> | <u>29,168</u> | <u>(1,165,836)</u> | <u>-</u> | <u>(1,165,836)</u> |
| Business-Type Activities: | | | | | | |
| Water | 242,896 | 234,034 | - | - | (8,862) | (8,862) |
| Sewer | 370,051 | 368,200 | - | - | (1,851) | (1,851) |
| | <u>612,947</u> | <u>602,234</u> | <u>-</u> | <u>-</u> | <u>(10,713)</u> | <u>(10,713)</u> |
| Total Business-Type Activities | <u>612,947</u> | <u>602,234</u> | <u>-</u> | <u>-</u> | <u>(10,713)</u> | <u>(10,713)</u> |
| TOTAL | <u>\$ 2,079,654</u> | <u>\$ 873,937</u> | <u>\$ 29,168</u> | <u>(1,165,836)</u> | <u>(10,713)</u> | <u>(1,176,549)</u> |
| General revenues: | | | | | | |
| Property taxes | | | | 840,826 | - | 840,826 |
| Intergovernmental revenue not restricted to specific programs | | | | 313,529 | - | 313,529 |
| Investment income | | | | 11,343 | 17,817 | 29,160 |
| Miscellaneous | | | | 31,150 | - | 31,150 |
| Transfers - internal activity | | | | - | - | - |
| | | | | <u>1,196,848</u> | <u>17,817</u> | <u>1,214,665</u> |
| Total general revenues and transfers | | | | <u>1,196,848</u> | <u>17,817</u> | <u>1,214,665</u> |
| Change in net assets | | | | 31,012 | 7,104 | 38,116 |
| Net Assets - Beginning | | | | <u>(1,024,412)</u> | <u>990,653</u> | <u>(33,759)</u> |
| Net Assets - Ending | | | | <u>\$ (993,400)</u> | <u>\$ 997,757</u> | <u>\$ 4,357</u> |

See notes to financial statements.

**CITY OF NEW LONDON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2008**

| | General Fund | Special Revenue | | Debt Service Fund | Permanent Improvement Fund | Other Governmental Funds | Totals |
|--|-------------------|-------------------|-------------------|----------------------|----------------------------------|--------------------------------|---------------------|
| | | Fire Fund | Ambulance Fund | | | | |
| ASSETS | | | | | | | |
| Cash and cash equivalents | \$ 438,096 | \$ 195,113 | \$ 152,914 | \$ 928,620 | \$ 365,231 | \$ 46,935 | \$ 2,126,909 |
| Investments | - | 21,683 | 41,367 | - | - | - | 63,050 |
| Receivables | | | | | | | |
| Accounts | 772 | 6,828 | 47,401 | - | - | - | 55,001 |
| Assessments | - | - | - | 830,882 | - | - | 830,882 |
| Taxes - delinquent | 5,666 | - | - | 7,300 | - | - | 12,966 |
| Interest | 2,880 | - | - | - | - | - | 2,880 |
| Due from other funds | 133,141 | - | - | 22,233 | - | 1,823 | 157,197 |
| Due from other governments | - | 10,240 | - | - | - | - | 10,240 |
| Advance to other funds | - | - | - | 30,217 | - | - | 30,217 |
| Prepaid expenses | 5,071 | 4,573 | 4,950 | - | - | - | 14,594 |
| TOTAL ASSETS | \$ 585,626 | \$ 238,437 | \$ 246,632 | \$ 1,819,252 | \$ 365,231 | \$ 48,758 | \$ 3,303,936 |
| LIABILITIES AND FUND BALANCES | | | | | | | |
| LIABILITIES | | | | | | | |
| Accounts payable | \$ 26,458 | \$ 930 | \$ 3,142 | \$ - | \$ 28,659 | \$ 16,751 | \$ 75,940 |
| Due to other funds | - | - | 146,197 | - | - | 11,000 | 157,197 |
| Advance from other funds | 30,217 | - | - | - | - | - | 30,217 |
| Deferred revenue | 3,845 | 10,240 | - | 835,921 | - | - | 850,006 |
| Total Liabilities | 60,520 | 11,170 | 149,339 | 835,921 | 28,659 | 27,751 | 1,113,360 |
| FUND BALANCES | | | | | | | |
| Reserved for: | | | | | | | |
| Debt service | - | - | - | 335,298 | - | - | 335,298 |
| Prepaid items | 5,071 | 4,573 | 4,950 | - | - | - | 14,594 |
| Advances to other funds | - | - | - | 30,217 | - | - | 30,217 |
| Special revenue funds | - | - | - | - | - | 18,569 | 18,569 |
| Unreserved | | | | | | | |
| Designated | 309,993 | 120,512 | 76,000 | 617,816 | 336,572 | - | 1,460,893 |
| Undesignated | 210,042 | 102,182 | 16,343 | - | - | 2,438 | 331,005 |
| Total Fund Balances | 525,106 | 227,267 | 97,293 | 983,331 | 336,572 | 21,007 | 2,190,576 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 585,626 | \$ 238,437 | \$ 246,632 | \$ 1,819,252 | \$ 365,231 | \$ 48,758 | \$ 3,303,936 |

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
December 31, 2008

| | |
|---|---------------------|
| Total Fund Balances-Governmental Funds | \$ 2,190,576 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Other long-term assests are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | |
| Deferred special assessments | 850,006 |
| Long-term liabilities, including bonds payable are not due and payable in the current period and therefere ae not reported in governmental funds. | |
| General obligation bonds | (3,805,000) |
| Capital leases | <u>(228,982)</u> |
| Total Net Assets-Governmental Activities | <u>\$ (993,400)</u> |

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, 2008

| | General Fund | Special Revenue | | Debt Service Fund | Permanent Improvement Fund | Other Governmental Funds | Totals |
|--|-------------------|-------------------|-------------------|----------------------|----------------------------------|--------------------------------|---------------------|
| | | Fire Fund | Ambulance Fund | | | | |
| REVENUES | | | | | | | |
| General property tax | 125,388 | - | - | 151,301 | - | 42,458 | \$ 319,147 |
| Special assessments | - | - | - | 179,062 | - | - | 179,062 |
| License and permits | 35,977 | - | - | - | - | - | 35,977 |
| Intergovernmental | 314,176 | - | - | 17,263 | - | 1,823 | 333,262 |
| Charges for services | 7,695 | 83,271 | 143,841 | - | - | - | 234,807 |
| Fines and forfeits | 1,879 | - | - | - | - | - | 1,879 |
| Interest income | 15,645 | 11,544 | (26,723) | - | 9,536 | 1,341 | 11,343 |
| Miscellaneous revenues | <u>2,835</u> | <u>2,423</u> | <u>3,207</u> | <u>-</u> | <u>-</u> | <u>22,685</u> | <u>31,150</u> |
| Total Revenues | 503,595 | 97,238 | 120,325 | 347,626 | 9,536 | 68,307 | 1,146,627 |
| EXPENDITURES | | | | | | | |
| Current | | | | | | | |
| General government | 141,915 | - | - | 3,703 | - | 3,206 | 148,824 |
| Public safety | 104,359 | 69,202 | 152,024 | - | - | 910 | 326,495 |
| Steets and Highways | 165,001 | - | - | - | - | - | 165,001 |
| Park and recreation | 43,555 | - | - | - | - | - | 43,555 |
| Economic development | - | - | - | - | - | 39,126 | 39,126 |
| Debt service | | | | | | | |
| Principal | - | 49,244 | - | 575,000 | - | - | 624,244 |
| Interest | - | 12,787 | - | 164,780 | 129 | - | 177,696 |
| Capital outlay | | | | | | | |
| Public safety | - | 18,459 | - | - | - | - | 18,459 |
| Steets and Highways | <u>30,217</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>517,334</u> | <u>-</u> | <u>547,551</u> |
| Total Expenditures | 485,047 | 149,692 | 152,024 | 743,483 | 517,463 | 43,242 | 2,090,951 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 18,548 | (52,454) | (31,699) | (395,857) | (507,927) | 25,065 | (944,324) |
| OTHER FINANCING SOURCES (USES) | | | | | | | |
| Bond proceeds | - | - | - | - | 350,000 | - | 350,000 |
| Transfer from other funds | - | 46,761 | - | 56,571 | 132,998 | - | 236,330 |
| Transfer to other funds | <u>(46,761)</u> | <u>-</u> | <u>-</u> | <u>(132,998)</u> | <u>(9,276)</u> | <u>(47,295)</u> | <u>(236,330)</u> |
| | <u>(46,761)</u> | <u>46,761</u> | <u>-</u> | <u>(76,427)</u> | <u>473,722</u> | <u>(47,295)</u> | <u>350,000</u> |
| NET CHANGE IN FUND BALANCE | (28,213) | (5,693) | (31,699) | (472,284) | (34,205) | (22,230) | (594,324) |
| FUND BALANCE JANUARY 1 | <u>553,319</u> | <u>232,960</u> | <u>128,992</u> | <u>1,455,615</u> | <u>370,777</u> | <u>43,237</u> | <u>2,784,900</u> |
| FUND BALANCE DECEMBER 31 | <u>\$ 525,106</u> | <u>\$ 227,267</u> | <u>\$ 97,293</u> | <u>\$ 983,331</u> | <u>\$ 336,572</u> | <u>\$ 21,007</u> | <u>\$ 2,190,576</u> |

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2008

| | |
|--|--------------|
| Total Net Change in Fund Balances-Governmental Funds | \$ (594,324) |
|--|--------------|

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

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

| | |
|-------------------------------------|-----------|
| Deferred revenue, December 31, 2008 | 850,006 |
| Deferred revenue, December 31, 2007 | (498,914) |

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principle is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.

| | |
|--|------------------|
| Principle Retirement of Long-Term Debt | 624,244 |
| Bond Proceeds | <u>(350,000)</u> |

| | |
|--|------------------|
| Change in Net Assets-Governmental Activities | <u>\$ 31,012</u> |
|--|------------------|

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2008

| | <u>Water Fund</u> | <u>Sewer Fund</u> | <u>Total</u> |
|--|-----------------------|-----------------------|---------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash | \$ 373,908 | \$ 223,539 | \$ 597,447 |
| Receivables | | | |
| Accounts receivable | <u>57,963</u> | <u>43</u> | <u>58,006</u> |
| Total Current Assets | <u>431,871</u> | <u>223,582</u> | <u>655,453</u> |
| Capital Assets | | | |
| Non-depreciable | - | - | - |
| Depreciable assets, net | <u>235,710</u> | <u>191,030</u> | <u>426,740</u> |
| Total Property and Equipment | <u>235,710</u> | <u>191,030</u> | <u>426,740</u> |
| TOTAL ASSETS | <u>\$ 667,581</u> | <u>\$ 414,612</u> | <u>\$ 1,082,193</u> |
| LIABILITIES AND NET ASSETS | | | |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Accounts payable | <u>\$ 30,502</u> | <u>\$ 53,934</u> | <u>\$ 84,436</u> |
| Total Current Liabilities | 30,502 | 53,934 | 84,436 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 235,710 | 191,030 | 426,740 |
| Restricted for capital replacement | - | 34,214 | 34,214 |
| Unrestricted | <u>401,369</u> | <u>135,434</u> | <u>536,803</u> |
| Total Net Assets | <u>637,079</u> | <u>360,678</u> | <u>997,757</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 667,581</u> | <u>\$ 414,612</u> | <u>\$ 1,082,193</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, 2008

| | Water Fund | Sewer Fund | Total |
|--|-------------------|-------------------|-------------------|
| OPERATING REVENUES | | | |
| Sales and charges for services | \$ 234,034 | \$ 368,200 | \$ 602,234 |
| Total Operating Revenues | <u>234,034</u> | <u>368,200</u> | <u>602,234</u> |
| OPERATING EXPENSES | | | |
| Personal services | 7,188 | 7,188 | 14,376 |
| Payroll taxes and benefits | 1,017 | 1,017 | 2,034 |
| Contract services | 183,672 | 319,902 | 503,574 |
| Materials and supplies | 7,913 | 4,830 | 12,743 |
| Repairs and maintenance | 8,854 | 9,546 | 18,400 |
| Occupancy | - | 1,815 | 1,815 |
| Permits | 6,172 | 2,547 | 8,719 |
| Other expenses | 1,257 | 826 | 2,083 |
| Depreciation | <u>26,823</u> | <u>22,380</u> | <u>49,203</u> |
| Total Operating Expenses | <u>242,896</u> | <u>370,051</u> | <u>612,947</u> |
| Operating Income | (8,862) | (1,851) | (10,713) |
| NON-OPERATING REVENUES (EXPENSES) | | | |
| Interest income | <u>13,675</u> | <u>4,142</u> | <u>17,817</u> |
| Total Non-Operating Revenues (Expenses) | 13,675 | 4,142 | 17,817 |
| Income Before Transfers | 4,813 | 2,291 | 7,104 |
| TRANSFERS | | | |
| Transfers in | - | - | - |
| Transfers out | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Transfers | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in Net Assets | 4,813 | 2,291 | 7,104 |
| NET ASSETS, JANUARY 1 | <u>632,266</u> | <u>358,387</u> | <u>990,653</u> |
| NET ASSETS, DECEMBER 31 | <u>\$ 637,079</u> | <u>\$ 360,678</u> | <u>\$ 997,757</u> |

See notes to financial statements.

**CITY OF NEW LONDON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2008**

| | Water Fund | Sewer Fund | Total |
|--|-------------------|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers | \$ 228,880 | \$ 368,157 | \$ 597,037 |
| Payments to suppliers | (193,180) | (315,166) | (508,346) |
| Payments to employees | <u>(8,205)</u> | <u>(8,205)</u> | <u>(16,410)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>27,495</u> | <u>44,786</u> | <u>72,281</u> |
| CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES | | | |
| Non operating revenue | <u>13,675</u> | <u>4,142</u> | <u>17,817</u> |
| NET CASH PROVIDED BY NON CAPITAL FINANCING ACTIVITIES | <u>13,675</u> | <u>4,142</u> | <u>17,817</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Principal | - | - | - |
| Interest | <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 | 41,170 | 48,928 | 90,098 |
| CASH BALANCE, JANUARY 1 | <u>332,738</u> | <u>174,611</u> | <u>507,349</u> |
| CASH BALANCE, DECEMBER 31 | <u>\$ 373,908</u> | <u>\$ 223,539</u> | <u>\$ 597,447</u> |
| RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Operating income | \$ (8,862) | \$ (1,851) | \$ (10,713) |
| Adjustments to reconcile net income to net cash flows from operating activities | | | |
| Depreciation | 26,823 | 22,380 | 49,203 |
| Change in assets and liabilities | | | |
| Decrease (increase) in receivables | (5,154) | (43) | (5,197) |
| Increase (decrease) in accounts payables | <u>14,688</u> | <u>24,300</u> | <u>38,988</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$ 27,495</u> | <u>\$ 44,786</u> | <u>\$ 72,281</u> |

See notes to financial statements.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

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, 2008. 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, 2008**

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.

Permanent Improvement Fund

The Permanent Improvement Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

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, 2008**

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, 2008, 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 2008 were \$52,337.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

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 2008.

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; 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 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, 2008

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 Equity

The government-wide and business-type activities 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, 2008**

9. Net Assets/Fund Equity (continued)

The City reported the following fund designations:

| | | | |
|-------------------------------|---------|-----------------------|---------|
| General Fund | | Debt Service Fund | |
| 2009 Budget items | 282,044 | Debt service | 617,816 |
| Special projects | 27,949 | | |
| Special Revenue Funds | | Permanent Improvement | |
| Fire - 2009 Budget items | 120,512 | Capital projects | 336,572 |
| Ambulance - 2009 Budget items | 76,000 | | |

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 for the General Fund. 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, 2008**

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, 2008, the City had \$531,523 in deposits 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. The City has no policy related to interest rate risk.

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, 2008**

b. Investments (continued)

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.

The following table presents the City's investment balances at December 31, 2008, 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 | 100% | N/A | \$ 41,367 |
| Money market with broker | | | | | 243,547 |
| Cash and Deposits | | | | | <u>2,502,491</u> |
| Total | | | | | <u>\$2,787,405</u> |

2. Receivables

Receivables, net of uncollectible amounts, as of December 31, 2008, 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, 2008**

3. Capital Assets

Capital asset activity for the year ended December 31, 2008 was as follows:

Governmental Activities

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

Business-Type Activities

| | Balance January 1, 2008 | Additions | Deletions | Balance December 31, 2008 |
|---|-------------------------------|--------------------|-------------|---------------------------------|
| Water plant, improvements and equipment | \$ 740,654 | \$ - | \$ - | \$ 740,654 |
| Sewer plant, improvements and equipment | 671,647 | - | - | 671,647 |
| Accumulated depreciation | <u>(936,358)</u> | <u>(49,203)</u> | <u>-</u> | <u>(985,561)</u> |
| | <u>\$ 475,943</u> | <u>\$ (49,203)</u> | <u>\$ -</u> | <u>\$ 426,740</u> |

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

Business-Type Activities

| | |
|---------------|------------------|
| Water fund | \$ 26,823 |
| Sewer fund | <u>22,380</u> |
| Total Expense | <u>\$ 49,203</u> |

B. Interfund Receivables, Payables and Transfers

1. Interfund Transfers

Interfund transfers for the year ended December 31, 2008, consisted of the following:

| | Transferred to | | | |
|-----------------|------------------|------------------|-------------------|-------------------|
| | Fire | Debt Service | PIR | Total |
| Transfer from | | | | |
| General | \$ 46,761 | \$ - | \$ - | \$ 46,761 |
| Debt Service | - | - | 132,998 | 132,998 |
| PIR | - | 9,276 | - | 9,276 |
| Special Revenue | <u>-</u> | <u>47,295</u> | <u>-</u> | <u>47,295</u> |
| | <u>\$ 46,761</u> | <u>\$ 56,571</u> | <u>\$ 132,998</u> | <u>\$ 236,330</u> |

Transfers are used to 1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, 2) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amount provided as subsidies or matching funds for various grant programs.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

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 by not earned. Deferred revenue at December 31, 2008 is summarized below by fund:

| | <u>Taxes</u> | <u>Special Assessments</u> | <u>Fire Contract</u> | <u>Total</u> |
|--------------------|-----------------|--------------------------------|--------------------------|-------------------|
| Governmental | | | | |
| General | \$ 3,845 | \$ - | \$ - | \$ 3,845 |
| Fire | - | - | 10,240 | 10,240 |
| Debt Service | <u>5,039</u> | <u>830,882</u> | - | <u>835,921</u> |
| Total Governmental | <u>\$ 8,884</u> | <u>\$ 830,882</u> | <u>\$ 10,240</u> | <u>\$ 850,006</u> |

2. Long-Term Debt

| <u>Type of Indebtedness</u> | <u>Final Maturity</u> | <u>Interest Rate</u> | <u>Original Issue Amount</u> | <u>Balance December 31, 2008</u> |
|---|---------------------------|--------------------------|--------------------------------------|--|
| General Obligation Bonds | | | | |
| Improvement Bond Series 1997 | 2013 | 4% to 5.3% | \$ 915,000 | \$ 45,000 |
| Improvement Bond Series 1999 | 2016 | 5% to 5.5% | 480,000 | 185,000 |
| Improvement Bond Series 2000 | 2016 | 4.75% to 5.3% | 605,000 | 410,000 |
| Improvement Bond Series 2002 | 2009 | 2% to 4.25% | 720,000 | 395,000 |
| Permanent Improvement Revolving Fund Bond Series 2006A | 2026 | 4% to 4.3% | 2,420,000 | 2,420,000 |
| Permanent Improvement Revolving Fund Bond Series 2008A | 2019 | 3.92% | 350,000 | 350,000 |
| Capital Leases | | | | |
| Fire Department Building | 2013 | 5.22% | 123,500 | 52,202 |
| Tanker Truck | 2011 | 4.40% | 161,000 | 26,109 |
| Pumper Truck | 2017 | 4.59% | <u>182,800</u> | <u>150,671</u> |
| Total Governmental Activities | | | <u>\$5,957,300</u> | <u>\$ 4,033,982</u> |
| *General Obligation Sewer Revenue Bonds, Series 2002 | 2042 | 4.37% | \$1,884,800 | \$ 1,779,000 |

* The City is an agent for the Green Lake Sewer and Water System bonds. The City is responsible for remitting bond payments and is reimbursed by the Green Lake Water and Sewer District.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

3. Debt Service Requirements

Debt service requirements at December 31, 2008, were as follows:

| Year Ending December 31 | Principal | Interest | Total |
|----------------------------|---------------------|---------------------|---------------------|
| 2009 | \$ 235,417 | \$ 169,869 | \$ 405,286 |
| 2010 | 294,555 | 156,772 | 451,327 |
| 2011 | 311,125 | 143,771 | 454,896 |
| 2012 | 294,276 | 130,551 | 424,827 |
| 2013 | 340,689 | 116,721 | 457,410 |
| 2014-2018 | 1,452,920 | 376,535 | 1,829,455 |
| 2019-2023 | 760,000 | 147,126 | 907,126 |
| 2024-2026 | 345,000 | 21,393 | 366,393 |
| Totals | <u>\$ 4,033,982</u> | <u>\$ 1,262,738</u> | <u>\$ 5,296,720</u> |

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2008, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|-----------------------------------|----------------------|-------------------|-------------------|---------------------|------------------------|
| General Obligation Bonds | \$ 4,030,000 | \$ 350,000 | \$ 575,000 | \$ 3,805,000 | \$ 275,000 |
| Capital Leases | 278,226 | - | 49,244 | 228,982 | 25,417 |
| Total Governmental Activities | <u>\$ 4,308,226</u> | <u>\$ 350,000</u> | <u>\$ 624,244</u> | <u>\$ 4,033,982</u> | <u>\$ 300,417</u> |
| Green Lake Sewer and Water System | | | | | |
| General Obligation Sewer Bonds | <u>\$ 1,802,000</u> | <u>\$ -</u> | <u>\$ 82,800</u> | <u>\$ 1,719,200</u> | <u>\$ 24,000</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, 2008**

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 2008.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

B. Funding Policy (continued)

The City is required to contribute the following percentages of annual covered payroll in 2008 and 2009:

| | 2008 | 2009 |
|---------------------------------|---------|---------|
| Public Employee Retirement Fund | | |
| Basic Plan Members | 12.90 % | 14.10 % |
| Coordinated Plan Members | 6.50 % | 6.75 % |

The City's contributions for the years ending December 31, 2008, 2007, and 2006, for the Public Employees Retirement Fund were:

| | Public Employees Retirement Fund |
|------|---|
| 2008 | \$ 10,661 |
| 2007 | \$ 9,969 |
| 2006 | \$ 8,989 |

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 but 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 2008.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2008**

NOTE 6 TAX INCREMENT FINANCING

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

| District <u>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 |
| 1-9 | 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 2008

NOTE 7 PRIOR PERIOD ADJUSTMENTS/RESTATEMENTS

Prior period adjustments were made to the financial statements as follows:

| Fund | Net Assets 1/1/2008 as Previously Reported | Prior Period Adjustment/ Restatement | Fund Balance/ Net Assets 1/1/2008 as Restated |
|-------------------------|---|--|--|
| Governmental | | | |
| Fire Department | \$ 161,560 | \$ 71,400 | \$ 232,960 |
| Governmental activities | \$ (1,594,726) | \$ 570,314 | \$ (1,024,412) |

The restatement was due to a correction to deferred revenue for special assessments and fire contracts.

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2008

| | <u>Original Budget</u> | <u>Amended Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---|----------------------------|---------------------------|-------------------|---|
| REVENUES | | | | |
| Taxes | | | | |
| General property taxes | \$ 140,000 | \$ 140,000 | \$ 125,388 | \$ (14,612) |
| License and permits | <u>65,520</u> | <u>34,964</u> | <u>35,977</u> | <u>1,013</u> |
| Total Taxes | <u>205,520</u> | <u>174,964</u> | <u>161,365</u> | <u>(13,599)</u> |
| Intergovernmental revenue | | | | |
| State Grants and Aid | | | | |
| Local government aid | 295,567 | 271,017 | 271,017 | - |
| Residential market value credit | - | - | 14,548 | 14,548 |
| PERA aid | 403 | 403 | 403 | - |
| Fire relief aid | <u>32,133</u> | <u>28,208</u> | <u>28,208</u> | <u>-</u> |
| Total Intergovernmental Revenue | <u>328,103</u> | <u>299,628</u> | <u>314,176</u> | <u>14,548</u> |
| Charges for services | | | | |
| Miscellaneous charges | 920 | 920 | 975 | 55 |
| Rents | <u>6,600</u> | <u>6,720</u> | <u>6,720</u> | <u>-</u> |
| Total Charges for Services | <u>7,520</u> | <u>7,640</u> | <u>7,695</u> | <u>55</u> |
| Fines and forfeits | <u>1,000</u> | <u>2,000</u> | <u>1,879</u> | <u>(121)</u> |
| Miscellaneous revenues | | | | |
| Investment income | 15,000 | 10,000 | 15,645 | 5,645 |
| Other | <u>500</u> | <u>2,500</u> | <u>2,835</u> | <u>335</u> |
| Total Miscellaneous Revenues | <u>15,500</u> | <u>12,500</u> | <u>18,480</u> | <u>5,980</u> |
| TOTAL REVENUES | 557,643 | 496,732 | 503,595 | 6,863 |
| OTHER SOURCES | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL REVENUES AND OTHER SOURCES | <u>\$ 557,643</u> | <u>\$ 496,732</u> | <u>\$ 503,595</u> | <u>\$ 6,863</u> |

See notes to required supplementary information.

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2008

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|-----------------|----------------|--|
| EXPENDITURES | | | | |
| General Government | | | | |
| Governing Board | | | | |
| Salaries | \$ 14,000 | \$ 8,800 | \$ 8,800 | \$ - |
| Payroll taxes and benefits | 3,635 | 2,592 | 2,592 | - |
| Total Governing Board | <u>17,635</u> | <u>11,392</u> | <u>11,392</u> | <u>-</u> |
| Administration and Finance | | | | |
| Salaries | 68,500 | 65,500 | 64,933 | 567 |
| Payroll taxes and benefits | 15,993 | 15,569 | 15,488 | 81 |
| Supplies | 5,500 | 4,000 | 3,975 | 25 |
| Total Administration and Finance | <u>89,993</u> | <u>85,069</u> | <u>84,396</u> | <u>673</u> |
| Other General Government | | | | |
| Elections | 3,500 | 1,388 | 1,886 | (498) |
| Assessor | 5,000 | 4,988 | 4,988 | - |
| Professional services | 7,191 | 4,768 | 4,675 | 93 |
| Other expenses | 13,100 | 12,546 | 12,550 | (4) |
| Total Other General Government | <u>28,791</u> | <u>23,690</u> | <u>24,099</u> | <u>(409)</u> |
| Total General Government | <u>136,419</u> | <u>120,151</u> | <u>119,887</u> | <u>264</u> |
| Public Safety | | | | |
| Police Department | | | | |
| Contracted services | 42,630 | 42,630 | 42,630 | - |
| Fire Department | | | | |
| Reimbursement to Fire Relief Association | 32,133 | 28,208 | 28,208 | - |
| Other Protection | | | | |
| Building inspection | 46,828 | 32,854 | 32,308 | 546 |
| Animal control | 1,750 | 1,046 | 1,213 | (167) |
| Total Other Protection | <u>48,578</u> | <u>33,900</u> | <u>33,521</u> | <u>379</u> |
| Total Public Safety | <u>123,341</u> | <u>104,738</u> | <u>104,359</u> | <u>379</u> |

See notes to required supplementary information.

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2008

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|---------------------------------|--------------------|-----------------|----------------|--|
| EXPENDITURES (Continued) | | | | |
| Streets and Highways | | | | |
| Steet Maintenance | | | | |
| Salaries | \$ 48,415 | \$ 49,653 | \$ 50,115 | \$ (462) |
| Payroll taxes and benefits | 14,894 | 15,503 | 15,568 | (65) |
| Supplies | 11,500 | 13,518 | 12,680 | 838 |
| Occupancy | 10,500 | 9,300 | 10,463 | (1,163) |
| Repairs and maintenance | 16,500 | 18,665 | 18,664 | 1 |
| Other expenses | 4,000 | 3,458 | 3,410 | 48 |
| Capital outlay | - | 30,217 | 30,217 | - |
| Total Street Maintenance | <u>105,809</u> | <u>140,314</u> | <u>141,117</u> | <u>(803)</u> |
| Snow and Ice Removal | | | | |
| Contract services | <u>35,000</u> | <u>30,000</u> | <u>31,461</u> | <u>(1,461)</u> |
| Total Snow and Ice Removal | <u>35,000</u> | <u>30,000</u> | <u>31,461</u> | <u>(1,461)</u> |
| Street Lighting | <u>22,000</u> | <u>21,277</u> | <u>22,640</u> | <u>(1,363)</u> |
| Total Streets and Highways | <u>162,809</u> | <u>191,591</u> | <u>195,218</u> | <u>(3,627)</u> |
| Culture and Recreation | | | | |
| Parks and Recreation | | | | |
| Salaries | 17,305 | 17,305 | 17,376 | (71) |
| Payroll taxes and benefits | 2,024 | 2,024 | 2,034 | (10) |
| Supplies | - | - | - | - |
| Occupancy | 2,300 | 1,710 | 1,778 | (68) |
| Repairs and maintenance | 4,500 | 3,528 | 3,574 | (46) |
| Recreation allocation | 10,500 | 10,500 | 10,500 | - |
| Other expenses | 100 | 100 | - | 100 |
| Capital outlay | <u>1,500</u> | <u>300</u> | <u>297</u> | <u>3</u> |
| Total Parks and Recreation | <u>38,229</u> | <u>35,467</u> | <u>35,559</u> | <u>(92)</u> |
| Library | | | | |
| Communication | 600 | 500 | 496 | 4 |
| Rental | <u>7,500</u> | <u>7,500</u> | <u>7,500</u> | <u>-</u> |
| Total Library | <u>8,100</u> | <u>8,000</u> | <u>7,996</u> | <u>4</u> |
| Total Culture and Recreation | <u>46,329</u> | <u>43,467</u> | <u>43,555</u> | <u>(88)</u> |

See notes to required supplementary information.

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2008

| | Original Budget | Final Budget | Actual | Variance Favorable (Unfavorable) |
|--|--------------------|-------------------|-------------------|--|
| EXPENDITURES (Continued) | | | | |
| Miscellaneous Expenditures | | | | |
| Unallocated | | | | |
| Print and publish | 3,000 | 2,700 | 2,667 | 33 |
| Dues and subscriptions | 1,500 | 1,351 | 1,351 | - |
| Insurance | 14,000 | 14,500 | 14,790 | (290) |
| Miscellaneous | 13,500 | 3,221 | 3,220 | 1 |
| Total Miscellaneous Expenditures | 32,000 | 21,772 | 22,028 | (256) |
| TOTAL EXPENDITURES | 500,898 | 481,719 | 485,047 | (3,328) |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 56,745 | 15,013 | 18,548 | (3,535) |
| OTHER FINANCING USES | | | | |
| Transfer out | 46,761 | 46,761 | 46,761 | - |
| NET CHANGE IN FUND BALANCE | 9,984 | (31,748) | (28,213) | (3,535) |
| FUND BALANCE, JANUARY 1 | 553,319 | 553,319 | 553,319 | - |
| FUND BALANCE, DECEMBER 31 | \$ 563,303 | \$ 521,571 | \$ 525,106 | \$ (3,535) |

See notes to required supplementary information

CITY OF NEW LONDON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2008

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 for the General Fund. Once approved, the City Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

NOTE 2 EXPENDITURES IN EXCESS OF BUDGET

For the year ended December 31, 2008, expenditures exceeded budget in the General Fund by \$3,535.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FIRE DEPARTMENT FUND
For the Year Ended December 31, 2008

REVENUES

| | |
|------------------------------|---------------|
| Charges for services | |
| Fire contracts and calls | \$ 83,271 |
| Total Charges for Services | <u>83,271</u> |
| Miscellaneous revenues | |
| Interest Income | 11,544 |
| Donations | <u>2,423</u> |
| Total miscellaneous revenues | <u>13,967</u> |
| TOTAL REVENUES | 97,238 |

OTHER SOURCES

| | |
|---|----------------|
| Transfers in | <u>46,761</u> |
| TOTAL REVENUES AND OTHER SOURCES | <u>143,999</u> |

EXPENDITURES

| | |
|----------------------------|----------------|
| Current | |
| Salaries | 26,208 |
| Payroll taxes and benefits | 2,005 |
| Supplies | 4,110 |
| Occupancy | 5,057 |
| Repairs and maintenance | 3,387 |
| Insurance | 11,235 |
| Fire relief aid | 5,000 |
| Other expenses | 12,200 |
| Debt service | |
| Principal | 49,244 |
| Interest | 12,787 |
| Capital outlay | <u>18,459</u> |
| TOTAL EXPENDITURES | <u>149,692</u> |

**EXCESS (DEFICIENCY) OF REVENUES
OVER (UNDER) EXPENDITURES**

(5,693)

OTHER FINANCING USES

| | |
|--------------|----------|
| Transfer out | <u>-</u> |
|--------------|----------|

NET CHANGE IN FUND BALANCE

(5,693)

FUND BALANCE, JANUARY 1

232,960

FUND BALANCE, DECEMBER 31

\$ 227,267

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AMBULANCE FUND
For the Year Ended December 31, 2008

REVENUES

| | |
|------------------------------|-----------------|
| Charges for services | |
| Ambulance calls | \$ 143,841 |
| Total Charges for Services | <u>143,841</u> |
| Miscellaneous revenues | |
| Investment income (loss) | (26,723) |
| Donations | <u>3,207</u> |
| Total miscellaneous revenues | <u>(23,516)</u> |

TOTAL REVENUES 120,325

OTHER SOURCES

| | |
|--------------|----------|
| Transfers in | <u>-</u> |
|--------------|----------|

TOTAL REVENUES AND OTHER SOURCES 120,325

EXPENDITURES

| | |
|----------------------------|----------|
| Current | |
| Salaries | 109,699 |
| Payroll taxes and benefits | 8,392 |
| Supplies | 12,014 |
| Occupancy | 1,131 |
| Repairs and maintenance | 1,553 |
| Insurance | 10,110 |
| Contract services | 6,095 |
| Other expenses | 3,030 |
| Capital outlay | <u>-</u> |

TOTAL EXPENDITURES 152,024

EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (31,699)

OTHER FINANCING USES

| | |
|--------------|----------|
| Transfer out | <u>-</u> |
|--------------|----------|

NET CHANGE IN FUND BALANCE (31,699)

FUND BALANCE, JANUARY 1 128,992

FUND BALANCE, DECEMBER 31 \$ 97,293

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 December 31, 2008**

| | <u>Special Revenue Funds</u> | <u>Capital Project Funds</u> | <u>Total Non-Major Governmental Funds</u> |
|--|--------------------------------------|--------------------------------------|---|
| ASSETS | | | |
| Cash and cash equivalents | \$ 18,573 | \$ 28,362 | \$ 46,935 |
| Due from other funds | <u>-</u> | <u>1,823</u> | <u>1,823</u> |
| TOTAL ASSETS | <u>\$ 18,573</u> | <u>\$ 30,185</u> | <u>\$ 48,758</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 4 | \$ 16,747 | \$ 16,751 |
| Due to other funds | <u>-</u> | <u>11,000</u> | <u>11,000</u> |
| Total Liabilities | <u>4</u> | <u>27,747</u> | <u>27,751</u> |
| FUND BALANCES | | | |
| Reserved | 18,569 | - | 18,569 |
| Unreserved | | | |
| Undesignated | <u>-</u> | <u>2,438</u> | <u>2,438</u> |
| Total Fund Balances | <u>18,569</u> | <u>2,438</u> | <u>21,007</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 18,573</u> | <u>\$ 30,185</u> | <u>\$ 48,758</u> |

CITY OF NEW LONDON, MINNESOTA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
For The Year Ended December 31, 2008

| | Special Revenue Funds | Capital Project Funds | Total Non-Major Governmental Funds |
|--|-----------------------------|-----------------------------|---|
| REVENUES | | | |
| Taxes | | | |
| Tax increments | \$ - | \$ 42,458 | \$ 42,458 |
| Intergovernmental revenue | | | |
| Market value credit | - | 1,823 | 1,823 |
| Miscellaneous Revenue | | | |
| Grants | 20,000 | - | 20,000 |
| Donations | 2,685 | - | 2,685 |
| Interest | - | 1,341 | 1,341 |
| | <u>22,685</u> | <u>45,622</u> | <u>68,307</u> |
| TOTAL REVENUES | 22,685 | 45,622 | 68,307 |
| OTHER SOURCES | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL REVENUES AND OTHER SOURCES | <u>22,685</u> | <u>45,622</u> | <u>68,307</u> |
| EXPENDITURES | | | |
| General government | 3,206 | - | 3,206 |
| Public safety | 910 | - | 910 |
| Economic Development | | | |
| Professional fees | - | 1,717 | 1,717 |
| Tax increments | - | 33,409 | 33,409 |
| Administrative costs | - | 4,000 | 4,000 |
| | <u>4,116</u> | <u>39,126</u> | <u>43,242</u> |
| TOTAL EXPENDITURES | 4,116 | 39,126 | 43,242 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 18,569 | 6,496 | 25,065 |
| OTHER FINANCING USES | | | |
| Transfer out | <u>-</u> | <u>(47,295)</u> | <u>(47,295)</u> |
| NET CHANGE IN FUND BALANCE | 18,569 | (40,799) | (22,230) |
| FUND BALANCE (DEFICIT), JANUARY 1 | <u>-</u> | <u>43,237</u> | <u>43,237</u> |
| FUND BALANCE (DEFICIT), DECEMBER 31 | <u>\$ 18,569</u> | <u>\$ 2,438</u> | <u>\$ 21,007</u> |

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR SPECIAL REVENUE FUNDS
 December 31, 2008**

| | Connected Communities Fund | Firefighter/ EMT Fund | Totals |
|--|----------------------------------|--------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| ASSETS | | | |
| Cash and cash equivalents | \$ 16,798 | \$ 1,775 | \$ 18,573 |
| TOTAL ASSETS | <u>\$ 16,798</u> | <u>\$ 1,775</u> | <u>\$ 18,573</u> |
| LIABILITIES AND FUND BALANCES | | | |
| LIABILITIES | | | |
| Accounts payable | \$ 4 | \$ - | \$ 4 |
| Total Liabilities | <u>4</u> | <u>-</u> | <u>4</u> |
| FUND BALANCES | | | |
| Reserved | 16,794 | 1,775 | 18,569 |
| Unreserved | | | |
| Undesignated | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Fund Balances | <u>16,794</u> | <u>1,775</u> | <u>18,569</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 16,798</u> | <u>\$ 1,775</u> | <u>\$ 18,573</u> |

CITY OF NEW LONDON, MINNESOTA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NON-MAJOR SPECIAL REVENUE FUNDS
For the Year Ended December 31, 2008

| | Connected Communities Fund | Firefighter/ EMT Fund | Total |
|-----------------------------------|----------------------------------|--------------------------|------------------|
| REVENUES | | | |
| Grant | \$ 20,000 | \$ - | \$ 20,000 |
| Donations | <u>-</u> | <u>2,685</u> | <u>2,685</u> |
| TOTAL REVENUES | <u>20,000</u> | <u>2,685</u> | <u>22,685</u> |
| | | | |
| EXPENDITURES | | | |
| Committee expenses | 3,206 | - | 3,206 |
| Event expenses | <u>-</u> | <u>910</u> | <u>910</u> |
| TOTAL EXPENDITURES | <u>3,206</u> | <u>910</u> | <u>4,116</u> |
| | | | |
| NET CHANGE IN FUND BALANCE | 16,794 | 1,775 | 18,569 |
| | | | |
| FUND BALANCE, JANUARY 1 | <u>-</u> | <u>-</u> | <u>-</u> |
| | | | |
| FUND BALANCE, DECEMBER 31 | <u>\$ 16,794</u> | <u>\$ 1,775</u> | <u>\$ 18,569</u> |

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECT FUNDS
December 31, 2008**

| | <u>TIF District 1-9</u> | <u>TIF District 1-10</u> | <u>TIF District 1-11</u> | <u>TIF District 1-12</u> | <u>Totals</u> |
|--|-----------------------------|------------------------------|------------------------------|------------------------------|------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ (215) | \$ (345) | \$ 894 | \$ 28,028 | \$ 28,362 |
| Due from other funds | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,823</u> | <u>1,823</u> |
| TOTAL ASSETS | <u>\$ (215)</u> | <u>\$ (345)</u> | <u>\$ 894</u> | <u>\$ 29,851</u> | <u>\$ 30,185</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| LIABILITIES | | | | | |
| Accounts payable | \$ 499 | \$ 1,335 | \$ 1,736 | \$ 13,177 | \$ 16,747 |
| Due to other funds | <u>6,000</u> | <u>1,000</u> | <u>4,000</u> | <u>-</u> | <u>11,000</u> |
| Total Liabilities | <u>6,499</u> | <u>2,335</u> | <u>5,736</u> | <u>13,177</u> | <u>27,747</u> |
| FUND BALANCES | | | | | |
| Unreserved | | | | | |
| Undesignated | <u>(6,714)</u> | <u>(2,680)</u> | <u>(4,842)</u> | <u>16,674</u> | <u>2,438</u> |
| Total Fund Balances | <u>(6,714)</u> | <u>(2,680)</u> | <u>(4,842)</u> | <u>16,674</u> | <u>2,438</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ (215)</u> | <u>\$ (345)</u> | <u>\$ 894</u> | <u>\$ 29,851</u> | <u>\$ 30,185</u> |

CITY OF NEW LONDON, MINNESOTA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT)
NON-MAJOR CAPITAL PROJECT FUNDS
For the Year Ended December 31, 2008

| | TIF District 1-7 | TIF District 1-9 | TIF District 1-10 | TIF District 1-11 | TIF District 1-12 | Total |
|--|---------------------|---------------------|----------------------|----------------------|----------------------|-----------------|
| REVENUES | | | | | | |
| Taxes | | | | | | |
| Tax increments | \$ 5,337 | \$ 1,109 | \$ 2,968 | \$ 3,858 | \$ 29,186 | \$ 42,458 |
| Intergovernmental revenue | | | | | | |
| Market value credit | - | - | - | - | 1,823 | 1,823 |
| Miscellaneous Revenue | | | | | | |
| Interest | <u>983</u> | <u>2</u> | <u>-</u> | <u>3</u> | <u>353</u> | <u>1,341</u> |
| TOTAL REVENUES | 6,320 | 1,111 | 2,968 | 3,861 | 31,362 | 45,622 |
| OTHER SOURCES | | | | | | |
| Transfers in | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL REVENUES AND OTHER SOURCES | <u>6,320</u> | <u>1,111</u> | <u>2,968</u> | <u>3,861</u> | <u>31,362</u> | <u>45,622</u> |
| EXPENDITURES | | | | | | |
| Economic Development | | | | | | |
| Professional fees | 429 | - | 429 | 430 | 429 | 1,717 |
| Tax increments | - | 999 | 2,671 | 3,472 | 26,267 | 33,409 |
| Administrative costs | <u>800</u> | <u>800</u> | <u>800</u> | <u>800</u> | <u>800</u> | <u>4,000</u> |
| TOTAL EXPENDITURES | <u>1,229</u> | <u>1,799</u> | <u>3,900</u> | <u>4,702</u> | <u>27,496</u> | <u>39,126</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 5,091 | (688) | (932) | (841) | 3,866 | 6,496 |
| OTHER FINANCING USES | | | | | | |
| Transfer out | <u>47,295</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>47,295</u> |
| NET CHANGE IN FUND BALANCE | (42,204) | (688) | (932) | (841) | 3,866 | (40,799) |
| FUND BALANCE (DEFICIT), JANUARY 1 | <u>42,204</u> | <u>(6,026)</u> | <u>(1,748)</u> | <u>(4,001)</u> | <u>12,808</u> | <u>43,237</u> |
| FUND BALANCE (DEFICIT), DECEMBER 31 | <u>\$ -</u> | <u>\$ (6,714)</u> | <u>\$ (2,680)</u> | <u>\$ (4,842)</u> | <u>\$ 16,674</u> | <u>\$ 2,438</u> |

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUND
December 31, 2008**

| | Debt Service Reserve Fund | Special Assessment Bond - 1997 | Special Assessment Bond - 1999 | Special Assessment Bond - 2000 | Special Assessment Bond - 2001 | Special Assessment Bond - 2002 | Special Assessment Bond - 2004 | Special Assessment Bond - 2006 | Special Assessment Bond - 2008 | Totals |
|--|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|----------------------------|
| ASSETS | | | | | | | | | | |
| Cash and cash equivalents | \$ 336,240 | \$ 13,003 | \$ 23,531 | \$ 35,752 | \$ 38,791 | \$ 165,302 | \$ 229,183 | \$ 72,692 | \$ 14,126 | \$ 928,620 |
| Receivables | | | | | | | | | | |
| Assessments | - | - | 14,425 | 1,656 | 13,028 | 66,824 | 213,852 | 170,005 | 351,092 | 830,882 |
| Taxes - delinquent | - | 272 | 1,232 | 2,031 | - | 2,185 | - | 1,580 | - | 7,300 |
| Due from other funds | 13,602 | 400 | 1,455 | 2,535 | - | 2,660 | - | 1,581 | - | 22,233 |
| Advance to other funds | <u>30,217</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>30,217</u> |
| TOTAL ASSETS | <u>\$ 380,059</u> | <u>\$ 13,675</u> | <u>\$ 40,643</u> | <u>\$ 41,974</u> | <u>\$ 51,819</u> | <u>\$ 236,971</u> | <u>\$ 443,035</u> | <u>\$ 245,858</u> | <u>\$ 365,218</u> | <u>\$ 1,819,252</u> |
| LIABILITIES AND FUND BALANCES | | | | | | | | | | |
| LIABILITIES | | | | | | | | | | |
| Accounts payable | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Deferred revenue | <u>-</u> | <u>172</u> | <u>15,292</u> | <u>3,052</u> | <u>13,028</u> | <u>68,343</u> | <u>213,852</u> | <u>171,090</u> | <u>351,092</u> | <u>835,921</u> |
| Total Liabilities | <u>-</u> | <u>172</u> | <u>15,292</u> | <u>3,052</u> | <u>13,028</u> | <u>68,343</u> | <u>213,852</u> | <u>171,090</u> | <u>351,092</u> | <u>835,921</u> |
| FUND BALANCES | | | | | | | | | | |
| Reserved for debt service | - | 13,503 | 25,351 | 38,922 | - | 168,628 | - | 74,768 | 14,126 | 335,298 |
| Unreserved | | | | | | | | | | |
| Designated | <u>380,059</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>38,791</u> | <u>-</u> | <u>229,183</u> | <u>-</u> | <u>-</u> | <u>648,033</u> |
| Total Fund Balances | <u>380,059</u> | <u>13,503</u> | <u>25,351</u> | <u>38,922</u> | <u>38,791</u> | <u>168,628</u> | <u>229,183</u> | <u>74,768</u> | <u>14,126</u> | <u>983,331</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 380,059</u> | <u>\$ 13,675</u> | <u>\$ 40,643</u> | <u>\$ 41,974</u> | <u>\$ 51,819</u> | <u>\$ 236,971</u> | <u>\$ 443,035</u> | <u>\$ 245,858</u> | <u>\$ 365,218</u> | <u>\$ 1,819,252</u> |

CITY OF NEW LONDON, MINNESOTA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
For the Year Ended December 31, 2008

| | Debt Service Reserve Fund | Special Assessment Bond - 1997 | Special Assessment Bond - 1999 | Special Assessment Bond - 2000 | Special Assessment Bond - 2001 | Special Assessment Bond - 2002 | Special Assessment Bond - 2004 | Special Assessment Bond - 2006 | Special Assessment Bond - 2008 | Totals |
|--|---------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|-------------------|
| REVENUES | | | | | | | | | | |
| General property tax | \$ 2,645 | \$ 6,882 | \$ 25,163 | \$ 43,764 | \$ - | \$ 45,921 | \$ - | \$ 26,926 | \$ - | \$ 151,301 |
| Special assessments | 7,263 | 114 | 8,599 | 1,508 | 16,711 | 23,740 | 75,172 | 41,105 | 4,850 | 179,062 |
| Market value credit | - | 800 | 2,910 | 5,071 | - | 5,320 | - | 3,162 | - | 17,263 |
| Total Revenues | 9,908 | 7,796 | 36,672 | 50,343 | 16,711 | 74,981 | 75,172 | 71,193 | 4,850 | 347,626 |
| EXPENDITURES | | | | | | | | | | |
| Current | | | | | | | | | | |
| Professional fees | 701 | 429 | 430 | 429 | 429 | 429 | 429 | 427 | - | 3,703 |
| Debt service | | | | | | | | | | |
| Principal | - | 355,000 | 100,000 | 50,000 | - | 70,000 | - | - | - | 575,000 |
| Interest | 1,294 | 11,795 | 12,885 | 22,645 | - | 17,328 | - | 98,833 | - | 164,780 |
| Total Expenditures | 1,995 | 367,224 | 113,315 | 73,074 | 429 | 87,757 | 429 | 99,260 | - | 743,483 |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | 7,913 | (359,428) | (76,643) | (22,731) | 16,282 | (12,776) | 74,743 | (28,067) | 4,850 | (395,857) |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | |
| Bond proceeds | - | - | - | - | - | - | - | - | - | - |
| Transfer from other funds | - | 47,295 | - | - | - | - | - | - | 9,276 | 56,571 |
| Transfer to other funds | - | - | - | (35,232) | - | - | - | (97,766) | - | (132,998) |
| | - | 47,295 | - | (35,232) | - | - | - | (97,766) | 9,276 | (76,427) |
| NET CHANGE IN FUND BALANCE | 7,913 | (312,133) | (76,643) | (57,963) | 16,282 | (12,776) | 74,743 | (125,833) | 14,126 | (472,284) |
| FUND BALANCE JANUARY 1 | 372,146 | 325,636 | 101,994 | 96,885 | 22,509 | 181,404 | 154,440 | 200,601 | - | 1,455,615 |
| FUND BALANCE DECEMBER 31 | \$ 380,059 | \$ 13,503 | \$ 25,351 | \$ 38,922 | \$ 38,791 | \$ 168,628 | \$ 229,183 | \$ 74,768 | \$ 14,126 | \$ 983,331 |

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations
Year Ended December 31, 2008

Finding 2008-1

Criteria:

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.

Condition:

The City had inadequate collateral for its deposits at December 31, 2008.

Questioned Costs:

None

Effect:

The City was subject to custodial credit risk on \$531,523 of its deposits.

Cause:

The market value of the pledged collateral was insufficient to cover the uninsured portion of the deposits.

Recommendation:

We recommend that the City monitor deposits balances and work with the financial institutions to ensure there is sufficient collateral.

CORRECTIVE ACTION PLAN (CAP)

Finding 2008-1

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will request collateral information monthly.

Officer Responsible for Ensuring CAP:

City Clerk/Treasurer

Planned Completion Date:

Collateral was increased in January 2009.

Plan to Monitor Completion of CAP:

City Council will review and monitor.

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2008

Finding 2008-2

Criteria:

Minn. Stat. §§ 118A.04 and 118A.05 generally authorize the types of investments that are available to the City.

Condition:

The City had investments that did not meet requirements per Minnesota statutes.

Questioned Costs:

None

Effect:

The market value of one its investments experienced a sharp decline in 2008.

Cause:

The broker certification form was not requested from the broker.

Recommendation:

We recommend the City establish investment policies and comply with Minnesota statutes regarding the annual broker certification.

CORRECTIVE ACTION PLAN (CAP)

Finding 2008-2

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will establish investment policies and submit a broker certification annually.

Officer Responsible for Ensuring CAP:

City Clerk/Treasurer

Planned Completion Date:

Prior to the end of 2009.

Plan to Monitor Completion of CAP:

City Council will review and monitor.

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2008

Finding 2008-3

Criteria:

Generally, a system of internal control allows management or employees in the normal course of performing their assigned functions, to prevent or detect misstatements of the financial statements on a timely basis.

Condition:

Revenue was not recognized in the prior period.

Questioned Costs:

None

Effect:

The City had to restate prior year fund balances and net assets.

Cause:

Approved adjustments were not posted to the trial balance.

Recommendation:

We recommend the City review and approve the final trial balance used to prepare the financial statements.

CORRECTIVE ACTION PLAN (CAP)

Finding 2008-3

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will establish procedures to review and approve the final trial balance.

Officer Responsible for Ensuring CAP:

City Clerk/Treasurer

Planned Completion Date:

Immediately

Plan to Monitor Completion of CAP:

City Council will review and monitor.

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2008

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:

The City has lack of segregation of duties.

Questioned Costs:

None

Effect:

The City is unable to maintain separation of incompatible duties.

Cause:

The small size of its business office staff and limited resources precludes proper separation of duties.

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, 2008

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:

The City relies on the auditor to prepare the financial statements and related disclosures in accordance with GAAP.

Questioned Costs:

None

Effect:

The City is unable to prepare GAAP basis financial statements.

Cause:

The small size and resources of its business office staff precludes the City from preparing its own financial statements.

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

**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, 2008, and have issued our report thereon dated March 31, 2009. 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 2008-3, 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 items 2008-3 and 2007-2 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 except as noted in Findings 2008-1 and 2008-2.

We noted certain matters that we reported to management of the City of New London in a separate letter dated March 31, 2009.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

March 31, 2009