

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

DECEMBER 31, 2009

WESTBERG EISCHENS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201

TABLE OF CONTENTS

	<u>PAGE</u>
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2-3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements	
Governmental Funds	
Balance Sheet	6
Reconciliation of Governmental Funds Balance Sheet to the Government -Wide Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balance	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities	9
Proprietary Funds	
Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Net Assets	11
Statement of Cash Flows	12
NOTES TO FINANCIAL STATEMENTS	13-28
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	29-32
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	33
SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Fire.....	34
Schedule of Revenues, Expenditures and Changes in Fund Balance - Ambulance ...	35
Combining Balance Sheet NonMajor Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balance NonMajor Governmental Funds	37
Combining Balance Sheet NonMajor Special Revenue Funds	38
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance NonMajor Special Revenue Funds	39
Combining Balance Sheet NonMajor Capital Project Funds	40
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance NonMajor Capital Project Funds	41
Combining Balance Sheet Debt Service Funds	42
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance Debt Service Funds	43

TABLE OF CONTENTS (continued)

SCHEDULE OF FINDINGS AND RECOMMENDATIONS 44-49

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 50-51

**CITY OF NEW LONDON, MINNESOTA
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2009**

		<u>TERM EXPIRES</u>
Bill Gossman	Mayor	12/31/10
Kevin Dittbenner	Council Member	12/31/10
John Bergman	Council Member	12/31/10
Loren Beck	Council Member	12/31/12
John Mack	Council Member	12/31/12
Trudie Guptill	Clerk-Treasurer	Appointed

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, 2009, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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 December 31, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof, for the year ended in conformity with accounting principles generally accepted in the United States of America.

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, 2010 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 cursive script that reads "Westberg Eischens, PLLP".

WESTBERG EISCHENS, PLLP

March 31, 2010

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2009

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 2,653,631	\$ 378,473	\$ 3,032,104
Receivables			
Accounts	60,029	52,588	112,617
Assessments	778,013	-	778,013
Taxes - delinquent	22,120	-	22,120
Interest	2,880	-	2,880
Due from other governments	9,334	-	9,334
Prepaid expenses	14,148	-	14,148
Capital assets			
Non-depreciable	155,567	-	155,567
Depreciable, net	4,820,182	546,874	5,367,056
TOTAL ASSETS	\$ 8,515,903	\$ 977,935	\$ 9,493,838
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 31,176	\$ 49,899	\$ 81,075
Long-term liabilities			
Due within one year	966,643	-	966,643
Due in more than one year	3,445,812	-	3,445,812
Total Liabilities	4,443,631	49,899	4,493,530
Net Assets			
Invested in capital assets, net of related debt	563,294	546,874	1,110,168
Restricted for:			
Debt service	805,364	-	805,364
Capital replacement	-	39,066	39,066
Unrestricted	2,703,614	342,096	3,045,710
Total Net Assets	4,072,272	928,036	5,000,308
TOTAL LIABILITIES AND NET ASSETS	\$ 8,515,903	\$ 977,935	\$ 9,493,838

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF ACTIVITIES
December 31, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
FUNCTIONS/PROGRAMS							
Governmental Activities:							
General government	\$ 164,579	\$ 37,130	\$ -	\$ -	\$ (127,449)	\$ -	\$ (127,449)
Public safety	374,773	244,674	25,821	-	(104,278)	-	(104,278)
Streets and highways	342,088	-	-	118,327	(223,761)	-	(223,761)
Economic development	39,169	-	-	-	(39,169)	-	(39,169)
Culture and recreation	42,553	-	-	22,452	(20,101)	-	(20,101)
Interest and fiscal charges on long term debt	<u>186,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(186,680)</u>	<u>-</u>	<u>(186,680)</u>
Total Governmental Activities	<u>1,149,842</u>	<u>281,804</u>	<u>25,821</u>	<u>140,779</u>	<u>(701,438)</u>	<u>-</u>	<u>(701,438)</u>
Business-Type Activities:							
Water	245,180	238,193	-	-	-	(6,987)	(6,987)
Sewer	<u>426,690</u>	<u>358,061</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(68,629)</u>	<u>(68,629)</u>
Total Business-Type Activities	<u>671,870</u>	<u>596,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(75,616)</u>	<u>(75,616)</u>
TOTAL	<u>\$ 1,821,712</u>	<u>\$ 878,058</u>	<u>\$ 25,821</u>	<u>\$ 140,779</u>	<u>(701,438)</u>	<u>(75,616)</u>	<u>(777,054)</u>
General revenues:							
Property taxes					350,394	-	350,394
Intergovernmental revenue not restricted to specific programs					330,594	-	330,594
Investment income					12,245	5,895	18,140
Miscellaneous					18,137	-	18,137
Transfers - internal activity					<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>711,370</u>	<u>5,895</u>	<u>717,265</u>
Change in net assets					9,932	(69,721)	(59,789)
Net Assets - Beginning					<u>4,062,340</u>	<u>997,757</u>	<u>5,060,097</u>
Net Assets - Ending					<u>\$ 4,072,272</u>	<u>\$ 928,036</u>	<u>\$ 5,000,308</u>

See notes to financial statements.

**CITY OF NEW LONDON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2009**

	General Fund	Special Revenue		Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Totals
		Fire Fund	Ambulance Fund				
ASSETS							
Cash and cash equivalents	\$ 581,731	\$ 214,825	\$ 58,817	\$ 1,466,331	\$ 313,577	\$ 18,349	\$ 2,653,630
Receivables							
Accounts	436	7,319	52,274	-	-	-	60,029
Assessments	-	-	-	778,013	-	-	778,013
Taxes - delinquent	10,403	-	-	11,717	-	-	22,120
Interest	2,880	-	-	-	-	-	2,880
Due from other governments	-	9,334	-	-	-	-	9,334
Advance to other funds	-	-	-	11,000	-	-	11,000
Prepaid expenses	4,107	4,955	5,086	-	-	-	14,148
TOTAL ASSETS	\$ 599,557	\$ 236,433	\$ 116,177	\$ 2,267,061	\$ 313,577	\$ 18,349	\$ 3,551,154
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 4,579	\$ 1,138	\$ 1,059	\$ -	\$ 24,401	\$ -	\$ 31,177
Advance from other funds	-	-	-	-	-	11,000	11,000
Deferred revenue	8,595	9,334	-	787,320	-	-	805,249
Total Liabilities	<u>13,174</u>	<u>10,472</u>	<u>1,059</u>	<u>787,320</u>	<u>24,401</u>	<u>11,000</u>	<u>847,426</u>
FUND BALANCES							
Reserved for:							
Debt service	-	-	-	805,364	-	-	805,364
Prepaid items	4,107	4,955	5,086	-	-	-	14,148
Advances to other funds	-	-	-	11,000	-	-	11,000
Special revenue funds	-	-	-	-	-	2,485	2,485
Unreserved							
Designated	314,949	120,512	76,000	663,377	289,176	4,864	1,468,878
Undesignated	267,327	100,494	34,032	-	-	-	401,853
Total Fund Balances	<u>586,383</u>	<u>225,961</u>	<u>115,118</u>	<u>1,479,741</u>	<u>289,176</u>	<u>7,349</u>	<u>2,703,728</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 599,557	\$ 236,433	\$ 116,177	\$ 2,267,061	\$ 313,577	\$ 18,349	\$ 3,551,154

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, 2009

Total Fund Balances-Governmental Funds		\$ 2,703,728
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
Governmental Capital Assets	6,926,405	
Less: Accumulated Depreciation	<u>(1,950,655)</u>	4,975,750
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Deferred special assessments		805,249
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in governmental funds.		
General obligation bonds	(4,235,000)	
Capital leases	<u>(177,455)</u>	<u>(4,412,455)</u>
Total Net Assets-Governmental Activities		<u>\$ 4,072,272</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
December 31, 2009

	General Fund	Special Revenue		Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Totals
		Fire Fund	Ambulance Fund				
REVENUES							
General property tax	\$ 157,043	\$ -	\$ -	\$ 145,250	\$ -	\$ 39,286	\$ 341,579
Special assessments	-	-	-	127,544	-	-	127,544
License and permits	24,084	-	-	-	-	-	24,084
Intergovernmental	337,739	-	-	16,573	-	2,103	356,415
Charges for services	9,625	80,964	163,711	-	-	-	254,300
Fines and forfeits	3,421	-	-	-	-	-	3,421
Interest income	5,047	7,618	(4,294)	-	3,665	209	12,245
Miscellaneous revenues	32,940	6,207	1,442	-	44,355	-	84,944
Total Revenues	<u>569,899</u>	<u>94,789</u>	<u>160,859</u>	<u>289,367</u>	<u>48,020</u>	<u>41,598</u>	<u>1,204,532</u>
EXPENDITURES							
Current							
General government	131,375	-	-	14,744	-	15,178	161,297
Public safety	101,123	76,614	143,034	-	-	906	321,677
Streets and highways	159,212	-	-	-	-	-	159,212
Park and recreation	37,520	-	-	-	-	-	37,520
Economic development	-	-	-	-	-	39,172	39,172
Debt service							
Principal	-	51,527	-	250,000	-	-	301,527
Interest	-	9,232	-	160,369	-	-	169,601
Bond fees	-	-	-	17,078	-	-	17,078
Capital outlay							
General government	-	-	-	30,766	-	-	30,766
Public safety	-	7,130	-	-	-	-	7,130
Streets and highways	-	-	-	-	95,416	-	95,416
Park and recreation	30,984	-	-	-	-	-	30,984
Total Expenditures	<u>460,214</u>	<u>144,503</u>	<u>143,034</u>	<u>472,957</u>	<u>95,416</u>	<u>55,256</u>	<u>1,371,380</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	109,685	(49,714)	17,825	(183,590)	(47,396)	(13,658)	(166,848)
OTHER FINANCING SOURCES (USES)							
Proceeds of refunding bond	-	-	-	680,000	-	-	680,000
Transfer from other funds	-	48,408	-	-	-	-	48,408
Transfer to other funds	(48,408)	-	-	-	-	-	(48,408)
NET CHANGE IN FUND BALANCE	61,277	(1,306)	17,825	496,410	(47,396)	(13,658)	513,152
FUND BALANCE JANUARY 1	<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>
FUND BALANCE DECEMBER 31	<u>\$ 586,383</u>	<u>\$ 225,961</u>	<u>\$ 115,118</u>	<u>\$ 1,479,741</u>	<u>\$ 289,176</u>	<u>\$ 7,349</u>	<u>\$ 2,703,728</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, 2009

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

Total Net Change in Fund Balances-Governmental Funds		\$ 513,152
<p>Governmental funds reported capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay	157,162	
Depreciation expense	<u>(237,152)</u>	(79,990)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Deferred revenue, December 31, 2009	805,249	
Deferred revenue, December 31, 2008	<u>(850,006)</u>	(44,757)
<p>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 principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net assets.</p>		
Principle retirement of long-term debt	301,527	
Bond proceeds	<u>(680,000)</u>	<u>(378,473)</u>
Change in Net Assets-Governmental Activities		<u>\$ 9,932</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2009

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
ASSETS			
Current Assets			
Cash	\$ 218,807	\$ 159,666	\$ 378,473
Receivables			
Accounts receivable	<u>52,588</u>	<u>-</u>	<u>52,588</u>
Total Current Assets	<u>271,395</u>	<u>159,666</u>	<u>431,061</u>
Noncurrent Assets			
Capital Assets			
Non-depreciable	-	-	-
Depreciable assets, net	<u>377,749</u>	<u>169,125</u>	<u>546,874</u>
Total Noncurrent Assets	<u>377,749</u>	<u>169,125</u>	<u>546,874</u>
TOTAL ASSETS	<u>\$ 649,144</u>	<u>\$ 328,791</u>	<u>\$ 977,935</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities			
Accounts payable	<u>\$ 15,165</u>	<u>\$ 34,734</u>	<u>\$ 49,899</u>
Total Current Liabilities	<u>15,165</u>	<u>34,734</u>	<u>49,899</u>
NET ASSETS			
Invested in capital assets, net of related debt	377,749	169,125	546,874
Restricted for capital replacement	-	39,066	39,066
Unrestricted	<u>256,230</u>	<u>85,866</u>	<u>342,096</u>
Total Net Assets	<u>633,979</u>	<u>294,057</u>	<u>928,036</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 649,144</u>	<u>\$ 328,791</u>	<u>\$ 977,935</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, 2009

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Sales and charges for services	\$ 238,193	\$ 358,061	\$ 596,254
Total Operating Revenues	<u>238,193</u>	<u>358,061</u>	<u>596,254</u>
OPERATING EXPENSES			
Personal services	6,112	6,112	12,224
Payroll taxes and benefits	880	880	1,760
Contract services	185,386	356,237	541,623
Materials and supplies	6,394	4,238	10,632
Repairs and maintenance	11,543	31,158	42,701
Occupancy	-	2,374	2,374
Permits	7,580	-	7,580
Other expenses	1,240	3,788	5,028
Depreciation	<u>26,044</u>	<u>21,905</u>	<u>47,949</u>
Total Operating Expenses	<u>245,179</u>	<u>426,692</u>	<u>671,871</u>
Operating Income	(6,986)	(68,631)	(75,617)
NON-OPERATING REVENUES (EXPENSES)			
Interest income	<u>3,886</u>	<u>2,010</u>	<u>5,896</u>
Total Non-Operating Revenues (Expenses)	3,886	2,010	5,896
Income Before Transfers	(3,100)	(66,621)	(69,721)
TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	(3,100)	(66,621)	(69,721)
NET ASSETS, JANUARY 1	<u>637,079</u>	<u>360,678</u>	<u>997,757</u>
NET ASSETS, DECEMBER 31	<u>\$ 633,979</u>	<u>\$ 294,057</u>	<u>\$ 928,036</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2009

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 243,568	\$ 358,104	\$ 601,672
Payments to suppliers	(227,480)	(416,995)	(644,475)
Payments to employees	<u>(6,992)</u>	<u>(6,992)</u>	<u>(13,984)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>9,096</u>	<u>(65,883)</u>	<u>(56,787)</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES			
Non operating revenue	<u>3,886</u>	<u>2,010</u>	<u>5,896</u>
NET CASH PROVIDED BY NON CAPITAL FINANCING ACTIVITIES	<u>3,886</u>	<u>2,010</u>	<u>5,896</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u>(168,083)</u>	<u>-</u>	<u>(168,083)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(168,083)</u>	<u>-</u>	<u>(168,083)</u>
NET DECREASE IN CASH	(155,101)	(63,873)	(218,974)
CASH BALANCE, JANUARY 1	<u>373,908</u>	<u>223,539</u>	<u>597,447</u>
CASH BALANCE, DECEMBER 31	<u>\$ 218,807</u>	<u>\$ 159,666</u>	<u>\$ 378,473</u>
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ (6,986)	\$ (68,631)	\$ (75,617)
Adjustments to reconcile operating income to net cash flows from operating activities			
Depreciation	26,044	21,905	47,949
Change in assets and liabilities			
Decrease (increase) in receivables	5,375	43	5,418
Increase (decrease) in accounts payables	<u>(15,337)</u>	<u>(19,200)</u>	<u>(34,537)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 9,096</u>	<u>\$ (65,883)</u>	<u>\$ (56,787)</u>

See notes to financial statements.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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, 2009. 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. Related Organization

The New London Fire Relief Association (the "Association") is organized as a non-profit organization, legally separate from the City, by its members to provide pension and other benefits to such members in accordance with Minnesota Statutes. The Board of Directors is appointed by the membership of the Association and not by City Council. All relief funding is conducted in accordance with Minnesota Statutes whereby state aid flows 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. Because the Association is fiscally independent of the City, the financial statements of the Association have not been included within the City's reporting entity.

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:

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

1. Government -Wide Statements (continued)

(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.

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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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.

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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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, 2009, 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 2009 were \$18,600.

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 2009.

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

Beginning in 2009, the City has included capital assets; property, plant, equipment, and infrastructure assets (such as roads, bridges, sidewalks, and similar items), in its governmental activities. Infrastructure assets are being reported retroactively to 1997.

The City includes capital assets applicable to the governmental and business-type activities in the financial statements. Capital assets are defined by the government as assets with an initial,

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

5. Capital Assets – Enterprise Funds (continued)

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

6. 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.

7. 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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

8. 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.

The City reported the following fund designations:

General Fund		Debt Service Fund	
2010 Budget items	287,000	Debt service	663,377
Special projects	27,949		
Special Revenue Funds		Permanent Improvement	
Fire - 2010 Budget items	120,512	Capital projects	289,176
Ambulance - 2010 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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

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.

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, 2009, the City's deposits were not exposed to custodial credit risk.

b. Investments

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

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. § 118A.04, subd. 6;

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

b. Investments (continued)

(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.

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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

3. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

Governmental Activities

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 124,801	\$ 30,766	\$ -	\$ 155,567
Construction in progress	-	-	-	-
Total	<u>124,801</u>	<u>30,766</u>	<u>-</u>	<u>155,567</u>
Capital assets being depreciated				
Buildings and structures	488,894	-	-	488,894
Infrastructure and improvements	5,095,780	124,199	-	5,219,979
Machinery and equipment	229,085	2,200	-	231,285
Office furniture and fixtures	3,003	-	-	3,003
Automotive equipment	<u>827,676</u>	<u>-</u>	<u>-</u>	<u>827,676</u>
Total	<u>6,644,438</u>	<u>126,399</u>	<u>-</u>	<u>6,770,837</u>
Less accumulated depreciation for:				
Buildings and structures	278,708	16,593	-	295,301
Infrastructure and improvements	909,836	172,363	-	1,082,199
Machinery and equipment	184,620	8,423	-	193,043
Office furniture and fixtures	860	429	-	1,289
Automotive equipment	<u>339,477</u>	<u>39,346</u>	<u>-</u>	<u>378,823</u>
	<u>1,713,501</u>	<u>237,154</u>	<u>-</u>	<u>1,950,655</u>
Net property and equipment	<u>\$ 5,055,738</u>	<u>\$ (79,989)</u>	<u>\$ -</u>	<u>\$ 4,975,749</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

Business-Type Activities

	Balance January 1, 2009	Additions	Deletions	Balance December 31, 2009
Business-Type Activities				
Capital assets being depreciated				
Buildings and structures	-	-	-	-
Infrastructure and improvements	1,320,967	-	-	1,320,967
Machinery and equipment	78,554	168,084	-	246,638
Office furniture and fixtures	1,545	-	-	1,545
Automotive equipment	<u>11,234</u>	<u>-</u>	<u>-</u>	<u>11,234</u>
Total	<u>1,412,300</u>	<u>168,084</u>	<u>-</u>	<u>1,580,384</u>
Less accumulated depreciation for:				
Buildings and structures	-	-	-	-
Infrastructure and improvements	894,799	46,678	-	941,477
Machinery and equipment	78,554	700	-	79,254
Office furniture and fixtures	1,545	-	-	1,545
Automotive equipment	<u>10,672</u>	<u>562</u>	<u>-</u>	<u>11,234</u>
	<u>985,570</u>	<u>47,940</u>	<u>-</u>	<u>1,033,510</u>
Net property and equipment	<u>\$ 426,730</u>	<u>\$ 120,144</u>	<u>\$ -</u>	<u>\$ 546,874</u>

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

Governmental Activities	
General government	\$ 3,279
Public safety	45,966
Public works	182,876
Parks and recreation	<u>5,033</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 237,154</u>
Business-Type Activities	
Water	\$ 26,044
Sewer	<u>21,896</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 47,940</u>
Total Depreciation Expense	<u>\$ 285,094</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

B. Interfund Receivables, Payables and Transfers

1. Interfund Transfers

Interfund transfers for the year ended December 31, 2009, consisted of a transfer of \$48,408 from the General Fund to the Fire Fund.

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.

C. Liabilities

1. Deferred Revenue

Deferred revenue consists of taxes and special assessments receivable that are not collected soon enough after year-end to pay liabilities of the current period and prepayments that have been received but not earned. Deferred revenue at December 31, 2009 is summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Fire Contract</u>	<u>Total</u>
Governmental				
General	\$ 8,595	\$ -	\$ -	\$ 8,595
Fire	-	-	9,334	9,334
Debt Service	<u>8,917</u>	<u>778,403</u>	<u>-</u>	<u>787,320</u>
Total Governmental	<u>\$ 17,512</u>	<u>\$ 778,403</u>	<u>\$ 9,334</u>	<u>\$ 805,249</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

2. Long-Term Debt

<u>Type of Indebtedness</u>	<u>Final Maturity</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Outstanding Balance December 31, 2009</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	165,000
Improvement Bond Series 2000	2016	4.75% to 5.3%	605,000	355,000
Improvement Bond Series 2002	2009	2% to 4.25%	720,000	280,000
Permanent Improvement Revolving Fund Bond Series 2006A	2026	4% to 4.3%	2,420,000	2,360,000
Permanent Improvement Revolving Fund Bond Series 2008A	2019	3.92%	350,000	350,000
Improvement Refunding Bond Series 2009A	2016	1.15%-2.85%	680,000	680,000
Capital Leases				
Fire Department Building Loan	2013	5.22%	123,500	42,796
Tanker Truck Loan	2011	4.40%	161,000	-
Pumper Truck Loan	2017	4.59%	<u>182,800</u>	<u>134,659</u>
Total Governmental Activities			<u>\$ 6,637,300</u>	<u>\$ 4,412,455</u>
*General Obligation Sewer Revenue				
Bonds, Series 2002	2042	4.37%	<u>\$ 1,884,800</u>	<u>\$ 1,755,000</u>

* Conduit Debt - 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.

3. Debt Service Requirements

Debt service requirements at December 31, 2009, were as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 966,643	\$ 164,565
2011	287,928	122,863
2012	299,275	114,856
2013	340,689	105,385
2014	320,039	94,092
2015-2019	1,282,880	376,535
2020-2024	700,000	147,126
2025-2026	<u>215,000</u>	<u>21,393</u>
Totals	<u>\$ 4,412,454</u>	<u>\$ 1,146,815</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$3,805,000	\$ 680,000	\$ 250,000	\$4,235,000	\$ 940,000
Capital Leases	<u>228,982</u>	<u>-</u>	<u>51,527</u>	<u>177,455</u>	<u>26,643</u>
Total Governmental Activities	<u>\$4,033,982</u>	<u>\$ 680,000</u>	<u>\$ 301,527</u>	<u>\$4,412,455</u>	<u>\$ 966,643</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>\$ 25,000</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. 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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

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 6.00 percent, respectively, of their annual covered salary in 2009.

The City is required to contribute the following percentages of annual covered payroll in 2009 and 2010:

	2009	2010
Public Employee Retirement Fund		
Basic Plan Members	11.78 %	11.78 %
Coordinated Plan Members	6.75 %	7.00 %

The City's contributions for the years ending December 31, 2009, 2008, and 2007, for the Public Employees Retirement Fund were:

2009	\$ 10,154
2008	\$ 10,661
2007	\$ 9,969

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

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 5 DEFINED BENEFIT LUMP SUM SERVICE PENSION PLAN – VOLUNTEER FIRE RELIEF ASSOCIATION

A. Plan Description

The City contributes to the New London Fire Department Relief Association (the “Association”), a single employer defined benefit pension plan. The plan provides retirement, disability and death benefits to volunteer firefighters of the City. Pension benefits are determined by multiplying the accrued liability, as set forth in *Minnesota Statutes* 69.772, Subd. 2, by the ratio of the lump sum service pension amount provided in the bylaws of the Association to a service pension of \$100 per year of service.

The Association’s Board of Trustees has the authority to establish and amend benefit provisions in limited instances without municipality approval. Benefit provisions are also subject to enabling state statutes; therefore, any amendments to benefit provisions are reviewed by the Office of the State Auditor. The Association issues a publicly available audited financial statement. That report may be obtained by writing the plan at New London Fire Department Relief Association, PO Box 335, New London, Minnesota 56273.

B. Funding Policy and Annual Pension Cost

The State of Minnesota annually provides a statutory contribution to the plan. Municipalities are also required by state statutes to contribute an amount annually certified by the Association. The City’s annual contribution for 2009 and 2010 are as follow:

	2009	2010
Required Contribution:	\$ 5,271	\$ 2,897
Actual Contribution:	\$ 5,000	

NOTE 6 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 2009.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2009**

NOTE 7 TAX INCREMENT FINANCING

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

<u>District No.</u>	<u>Type of District</u>	<u>Established</u>	<u>Modified</u>	<u>Termination Date</u>
1-9	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

NOTE 7 PRIOR PERIOD ADJUSTMENTS/ RESTATEMENT

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

<u>Fund</u>	<u>Net Assets 1/1/2009 as Previously Reported</u>	<u>Prior Period Adjustment/ Restatement</u>	<u>Net Assets 1/1/2009 as Restated</u>
Governmental activities	<u>\$ (993,400)</u>	<u>\$ 5,055,740</u>	<u>\$ 4,062,340</u>

Prior to 2009, the City had not included capital assets in the Statement of Net Assets for its Governmental Activities. Infrastructure assets are being reported retroactively to 1997.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2009

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES				
Taxes				
General property taxes	\$ 180,000	\$ 180,000	\$ 157,043	\$ (22,957)
License and permits	25,315	25,315	24,084	(1,231)
Total Taxes	<u>205,315</u>	<u>205,315</u>	<u>181,127</u>	<u>(24,188)</u>
Intergovernmental revenue				
State Grants and Aid				
Local government aid	316,559	282,701	294,351	11,650
Residential market value credit	-	-	17,164	17,164
PERA aid	403	403	403	-
Fire relief aid	32,000	32,000	25,821	(6,179)
Total Intergovernmental Revenue	<u>348,962</u>	<u>315,104</u>	<u>337,739</u>	<u>22,635</u>
Charges for services				
Miscellaneous charges	920	1,650	1,800	150
Rents	6,825	6,825	7,825	1,000
Total Charges for Services	<u>7,745</u>	<u>8,475</u>	<u>9,625</u>	<u>1,150</u>
Fines and forfeits	<u>1,500</u>	<u>1,500</u>	<u>3,421</u>	<u>1,921</u>
Miscellaneous revenues				
Investment income	10,000	10,000	5,047	(4,953)
Donations	-	-	1,700	1,700
Grants	-	-	22,452	22,452
Other	500	5,500	8,788	3,288
Total Miscellaneous Revenues	<u>10,500</u>	<u>15,500</u>	<u>37,987</u>	<u>22,487</u>
TOTAL REVENUES	574,022	545,894	569,899	24,005
OTHER SOURCES				
Transfers in	-	-	-	-
TOTAL REVENUES AND OTHER SOURCES	<u>\$ 574,022</u>	<u>\$ 545,894</u>	<u>\$ 569,899</u>	<u>\$ 24,005</u>

See notes to required supplementary information

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES				
General Government				
Governing Board				
Salaries	\$ 11,550	\$ 8,010	\$ 8,770	\$ (760)
Payroll taxes and benefits	3,384	1,863	2,078	(215)
Total Governing Board	<u>14,934</u>	<u>9,873</u>	<u>10,848</u>	<u>(975)</u>
Administration and Finance				
Salaries	73,000	68,500	63,619	4,881
Payroll taxes and benefits	18,613	17,964	17,262	702
Supplies	4,000	4,000	4,115	(115)
Total Administration and Finance	<u>95,613</u>	<u>90,464</u>	<u>84,996</u>	<u>5,468</u>
Other General Government				
Elections	500	500	-	500
Assessor	6,000	6,000	6,910	(910)
Professional services	7,507	7,507	5,827	1,680
Other expenses	12,200	11,700	10,177	1,523
Total Other General Government	<u>26,207</u>	<u>25,707</u>	<u>22,914</u>	<u>2,793</u>
Total General Government	<u>136,754</u>	<u>126,044</u>	<u>118,758</u>	<u>7,286</u>
Public Safety				
Police Department				
Contracted services	42,630	42,630	42,373	257
Fire Department				
Reimbursement to Fire Relief Association	32,000	32,000	25,821	6,179
Other Protection				
Building inspection	42,094	36,244	32,499	3,745
Animal control	1,800	1,800	431	1,369
Total Other Protection	<u>43,894</u>	<u>38,044</u>	<u>32,930</u>	<u>5,114</u>
Total Public Safety	<u>118,524</u>	<u>112,674</u>	<u>101,124</u>	<u>11,550</u>

See notes to required supplementary information

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2009

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)				
Streets and Highways				
Street Maintenance				
Salaries	\$ 38,400	\$ 36,674	\$ 36,670	\$ 4
Payroll taxes and benefits	16,329	16,080	16,081	(1)
Supplies	13,500	13,500	6,719	6,781
Occupancy	11,150	11,150	10,467	683
Repairs and maintenance	18,000	23,000	23,905	(905)
Other expenses	5,000	4,711	3,997	714
Capital outlay	-	-	-	-
Total Street Maintenance	102,379	105,115	97,839	7,276
Snow and Ice Removal				
Contract services	30,000	30,000	35,605	(5,605)
Total Snow and Ice Removal	30,000	30,000	35,605	(5,605)
Street Lighting	26,000	26,000	25,767	233
Total Streets and Highways	158,379	161,115	159,211	1,904
Culture and Recreation				
Parks and Recreation				
Salaries	16,300	12,225	12,223	2
Payroll taxes and benefits	1,843	1,760	1,760	-
Supplies	-	-	-	-
Occupancy	2,300	2,300	1,762	538
Repairs and maintenance	3,000	3,000	3,276	(276)
Recreation allocation	10,500	10,500	10,500	-
Other expenses	100	100	-	100
Capital outlay	500	500	30,984	(30,484)
Total Parks and Recreation	34,543	30,385	60,505	(30,120)
Library				
Communication	500	500	499	1
Rental	7,500	7,500	7,500	-
Total Library	8,000	8,000	7,999	1
Total Culture and Recreation	42,543	38,385	68,504	(30,119)

See notes to required supplementary information

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For The Year Ended December 31, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
EXPENDITURES (Continued)				
Miscellaneous Expenditures				
Unallocated				
Print and publish	2,700	2,700	2,121	579
Dues and subscriptions	1,600	1,600	1,320	280
Insurance	15,000	15,000	8,208	6,792
Miscellaneous	<u>1,300</u>	<u>4,150</u>	<u>968</u>	<u>3,182</u>
Total Miscellaneous Expenditures	<u>20,600</u>	<u>23,450</u>	<u>12,617</u>	<u>10,833</u>
TOTAL EXPENDITURES	<u>476,800</u>	<u>461,668</u>	<u>460,214</u>	<u>1,454</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	97,222	84,226	109,685	(25,459)
OTHER FINANCING USES				
Transfer out	<u>48,408</u>	<u>48,408</u>	<u>48,408</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	48,814	35,818	61,277	(25,459)
FUND BALANCE, JANUARY 1	<u>525,106</u>	<u>525,106</u>	<u>525,106</u>	<u>-</u>
FUND BALANCE, DECEMBER 31	<u>\$ 573,920</u>	<u>\$ 560,924</u>	<u>\$ 586,383</u>	<u>\$ (25,459)</u>

See notes to required supplementary information

CITY OF NEW LONDON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2009

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.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FIRE DEPARTMENT
For The Year Ended December 31, 2009

REVENUES

Charges for services	
Fire contracts and calls	\$ 80,964
Total Charges for Services	<u>80,964</u>
Miscellaneous revenues	
Interest Income	7,618
Donations	<u>6,207</u>
Total miscellaneous revenues	<u>13,825</u>

TOTAL REVENUES 94,789

OTHER SOURCES

Transfers in	<u>48,408</u>
--------------	---------------

TOTAL REVENUES AND OTHER SOURCES 143,197

EXPENDITURES

Current	
Salaries	33,476
Payroll taxes and benefits	2,561
Supplies	454
Occupancy	4,649
Repairs and maintenance	6,910
Insurance	11,511
Fire relief aid	5,000
Other expenses	12,054
Debt service	
Principal	51,527
Interest	9,232
Capital outlay	<u>7,130</u>

TOTAL EXPENDITURES 144,504

EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (1,307)

OTHER FINANCING USES

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

NET CHANGE IN FUND BALANCE (1,307)

FUND BALANCE, JANUARY 1 227,267

FUND BALANCE, DECEMBER 31 \$ 225,960

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AMBULANCE
For The Year Ended December 31, 2009

REVENUES

Charges for services	
Ambulance calls	\$ 163,711
Total Charges for Services	<u>163,711</u>
Miscellaneous revenues	
Investment income (loss)	(4,294)
Donations	1,442
Total miscellaneous revenues	<u>(2,852)</u>
TOTAL REVENUES	160,859
OTHER SOURCES	
Transfers in	<u>-</u>
TOTAL REVENUES AND OTHER SOURCES	<u>160,859</u>

EXPENDITURES

Current	
Salaries	98,246
Payroll taxes and benefits	7,516
Supplies	11,959
Occupancy	978
Repairs and maintenance	728
Insurance	10,872
Contract services	6,456
Other expenses	6,279
Capital outlay	<u>-</u>
TOTAL EXPENDITURES	<u>143,034</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	17,825
OTHER FINANCING USES	
Transfer out	<u>-</u>
NET CHANGE IN FUND BALANCE	17,825
FUND BALANCE, JANUARY 1	<u>97,293</u>
FUND BALANCE, DECEMBER 31	<u>\$ 115,118</u>

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 December 31, 2009**

	Special Revenue Funds	Capital Project Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,485	\$ 15,864	\$ 18,349
Due from other funds	-	-	-
TOTAL ASSETS	\$ 2,485	\$ 15,864	\$ 18,349
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
Advance from other funds	\$ -	\$ 11,000	\$ 11,000
Total Liabilities	-	11,000	11,000
 FUND BALANCES			
Reserved	2,485	-	2,485
Unreserved			
Undesignated	-	4,864	4,864
Total Fund Balances	2,485	4,864	7,349
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,485	\$ 15,864	\$ 18,349

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, 2009

	Special Revenue Funds	Capital Project Funds	Total Non-Major Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes			
Tax increments	\$ -	\$ 39,286	\$ 39,286
Intergovernmental revenue			
Market value credit	-	2,103	2,103
Miscellaneous Revenue			
Interest	<u>-</u>	<u>209</u>	<u>209</u>
TOTAL REVENUES	-	41,598	41,598
OTHER SOURCES			
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER SOURCES	<u>-</u>	<u>41,598</u>	<u>41,598</u>
EXPENDITURES			
General government	15,178	-	15,178
Public safety	906	-	906
Economic Development			
Professional fees	-	399	399
Tax increments	-	35,273	35,273
Administrative costs	<u>-</u>	<u>3,500</u>	<u>3,500</u>
TOTAL EXPENDITURES	<u>16,084</u>	<u>39,172</u>	<u>55,256</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(16,084)	2,426	(13,658)
OTHER FINANCING USES			
Transfer out	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(16,084)	2,426	(13,658)
FUND BALANCE (DEFICIT), JANUARY 1	<u>18,569</u>	<u>2,438</u>	<u>21,007</u>
FUND BALANCE (DEFICIT), DECEMBER 31	<u>\$ 2,485</u>	<u>\$ 4,864</u>	<u>\$ 7,349</u>

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR SPECIAL REVENUE FUNDS
 December 31, 2009**

	Connected Communities Fund	Firefighter/ EMT Fund	Totals
ASSETS			
Cash and cash equivalents	\$ 1,616	\$ 869	\$ 2,485
TOTAL ASSETS	<u>\$ 1,616</u>	<u>\$ 869</u>	<u>\$ 2,485</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Reserved	1,616	869	2,485
Unreserved			
Undesignated	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>1,616</u>	<u>869</u>	<u>2,485</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,616</u>	<u>\$ 869</u>	<u>\$ 2,485</u>

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR SPECIAL REVENUE FUNDS
 December 31, 2009**

	Connected Communities Fund	Firefighter/ EMT Fund	Total
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Grant	\$ -	\$ -	\$ -
Donations	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES	<u>-</u>	<u>-</u>	<u>-</u>
EXPENDITURES			
Committee expenses	15,178	-	15,178
Event expenses	<u>-</u>	<u>906</u>	<u>906</u>
TOTAL EXPENDITURES	<u>15,178</u>	<u>906</u>	<u>16,084</u>
NET CHANGE IN FUND BALANCE	(15,178)	(906)	(16,084)
FUND BALANCE, JANUARY 1	<u>16,794</u>	<u>1,775</u>	<u>18,569</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,616</u>	<u>\$ 869</u>	<u>\$ 2,485</u>

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECT FUNDS
December 31, 2009**

	<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	\$ (601)	\$ (1,378)	\$ (446)	\$ 18,289	\$ 15,864
Due from other funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>\$ (601)</u>	<u>\$ (1,378)</u>	<u>\$ (446)</u>	<u>\$ 18,289</u>	<u>\$ 15,864</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Advance from other funds	<u>6,000</u>	<u>1,000</u>	<u>4,000</u>	<u>-</u>	<u>11,000</u>
Total Liabilities	<u>6,000</u>	<u>1,000</u>	<u>4,000</u>	<u>-</u>	<u>11,000</u>
FUND BALANCES					
Unreserved					
Undesignated	<u>(6,601)</u>	<u>(2,378)</u>	<u>(4,446)</u>	<u>18,289</u>	<u>4,864</u>
Total Fund Balances	<u>(6,601)</u>	<u>(2,378)</u>	<u>(4,446)</u>	<u>18,289</u>	<u>4,864</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ (601)</u>	<u>\$ (1,378)</u>	<u>\$ (446)</u>	<u>\$ 18,289</u>	<u>\$ 15,864</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, 2009

	TIF District 1-9	TIF District 1-10	TIF District 1-11	TIF District 1-12	Total
REVENUES					
Taxes					
Tax increments	\$ 1,132	\$ 3,028	\$ 3,936	\$ 31,190	\$ 39,286
Intergovernmental revenue					
Market value credit	-	-	-	2,103	2,103
Miscellaneous Revenue					
Interest	-	-	3	206	209
TOTAL REVENUES	<u>1,132</u>	<u>3,028</u>	<u>3,939</u>	<u>33,499</u>	<u>41,598</u>
OTHER SOURCES					
Transfers in	-	-	-	-	-
TOTAL REVENUES AND OTHER SOURCES	<u>1,132</u>	<u>3,028</u>	<u>3,939</u>	<u>33,499</u>	<u>41,598</u>
EXPENDITURES					
Economic Development					
Professional fees	-	-	-	399	399
Tax increments	1,019	2,726	3,543	27,985	35,273
Administrative costs	-	-	-	3,500	3,500
TOTAL EXPENDITURES	<u>1,019</u>	<u>2,726</u>	<u>3,543</u>	<u>31,884</u>	<u>39,172</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	113	302	396	1,615	2,426
OTHER FINANCING USES					
Transfer out	-	-	-	-	-
NET CHANGE IN FUND BALANCE	113	302	396	1,615	2,426
FUND BALANCE (DEFICIT), JANUARY 1	<u>(6,714)</u>	<u>(2,680)</u>	<u>(4,842)</u>	<u>16,674</u>	<u>2,438</u>
FUND BALANCE (DEFICIT), DECEMBER 31	<u>\$ (6,601)</u>	<u>\$ (2,378)</u>	<u>\$ (4,446)</u>	<u>\$ 18,289</u>	<u>\$ 4,864</u>

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUND
December 31, 2009**

	Debt Service Reserve Fund	Special Assessment Bond - 1997	Special Assessment Bond - 1999	Special Assessment Bond - 2000	Special Assessment Bond - 2002	G.O. PIR Bond - 2006A	G.O. PIR Bond - 2008A	G.O. Improvement Refunding Bond - 2009A	Totals
ASSETS									
Cash and cash equivalents	\$ 663,377	\$ 19,930	\$ 31,167	\$ 5,318	\$ 110,169	\$ (35,878)	\$ 5,777	\$ 666,471	\$ 1,466,331
Receivables									
Assessments	204,772	-	7,345	828	48,686	167,899	348,483	-	778,013
Taxes - delinquent	-	525	1,984	3,008	3,216	2,751	233	-	11,717
Advance to other funds	11,000	-	-	-	-	-	-	-	11,000
TOTAL ASSETS	\$ 879,149	\$ 20,455	\$ 40,496	\$ 9,154	\$ 162,071	\$ 134,772	\$ 354,493	\$ 666,471	\$ 2,267,061
LIABILITIES AND FUND BALANCES									
LIABILITIES									
Deferred revenue	\$ 204,772	\$ 428	\$ 8,876	\$ 3,358	\$ 50,727	\$ 170,497	\$ 348,662	\$ -	\$ 787,320
Total Liabilities	204,772	428	8,876	3,358	50,727	170,497	348,662	-	787,320
FUND BALANCES									
Reserved for debt service	-	20,027	31,620	5,796	111,344	(35,725)	5,831	666,471	805,364
Unreserved									
Designated	674,377	-	-	-	-	-	-	-	674,377
Total Fund Balances	674,377	20,027	31,620	5,796	111,344	(35,725)	5,831	666,471	1,479,741
TOTAL LIABILITIES AND FUND BALANCES	\$ 879,149	\$ 20,455	\$ 40,496	\$ 9,154	\$ 162,071	\$ 134,772	\$ 354,493	\$ 666,471	\$ 2,267,061

CITY OF NEW LONDON, MINNESOTA
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
DEBT SERVICE FUNDS
For the Year Ended December 31, 2009

	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	G.O. PIR Bond - 2006A	G.O. PIR Bond - 2008A	G.O. Improvement Refunding Bond - 2009A	Totals
REVENUES											
General property tax	\$ -	\$ 8,373	\$ 25,605	\$ 37,639	\$ -	\$ 39,613	\$ -	\$ 28,897	\$ 5,123	\$ -	\$ 145,250
Special assessments	57,509	-	7,642	689	-	28,758	-	28,260	3,114	1,571	127,543
Market value credit	-	925	2,965	4,367	-	4,595	-	3,162	558	-	16,572
Total Revenues	57,509	9,298	36,212	42,695	-	72,966	-	60,319	8,795	1,571	289,365
EXPENDITURES											
Current											
Professional fees	-	399	398	399	-	399	-	12,748	398	-	14,741
Debt service											
Principal	-	-	20,000	55,000	-	115,000	-	60,000	-	-	250,000
Interest	399	2,375	9,545	19,991	-	14,420	-	97,633	16,007	-	160,370
Bond fees	-	-	-	431	-	431	-	431	685	15,100	17,078
Capital outlay	30,766	-	-	-	-	-	-	-	-	-	30,766
Total Expenditures	31,165	2,774	29,943	75,821	-	130,250	-	170,812	17,090	15,100	472,955
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	26,344	6,524	6,269	(33,126)	-	(57,284)	-	(110,493)	(8,295)	(13,529)	(183,590)
OTHER FINANCING SOURCES (USES)											
Bond proceeds	-	-	-	-	-	-	-	-	-	680,000	680,000
Transfer from other funds	267,974	-	-	-	-	-	-	-	-	-	267,974
Transfer to other funds	-	-	-	-	(38,791)	-	(229,183)	-	-	-	(267,974)
	<u>267,974</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,791)</u>	<u>-</u>	<u>(229,183)</u>	<u>-</u>	<u>-</u>	<u>680,000</u>	<u>680,000</u>
NET CHANGE IN FUND BALANCE	294,318	6,524	6,269	(33,126)	(38,791)	(57,284)	(229,183)	(110,493)	(8,295)	666,471	496,410
FUND BALANCE JANUARY 1	380,059	13,503	25,351	38,922	38,791	168,628	229,183	74,768	14,126	-	983,331
FUND BALANCE DECEMBER 31	\$ 674,377	\$ 20,027	\$ 31,620	\$ 5,796	\$ -	\$ 111,344	\$ -	\$ (35,725)	\$ 5,831	\$ 666,471	\$ 1,479,741

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations
Year Ended December 31, 2009

FINDINGS – FINANCIAL STATEMENT AUDIT

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, 2009

FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

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

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations (Continued)
Year Ended December 31, 2009

FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

Previously Reported Item Resolved

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
Year Ended December 31, 2009

CURRENT YEAR FINDINGS - MINNESOTA COMPLIANCE

Finding 2009-1

Criteria:

Minn. Stat. § 471.345 requires that for contracts over \$100,000, sealed bids must be solicited by public notice and subject to the particular requirements of the governmental subdivision.

Condition:

The City made a purchase during 2009 that was not in compliance with contract and bid laws.

Questioned Costs:

None

Effect:

The City was not in compliance with state contract and bid laws for 2009.

Cause:

The City purchased water meters and equipment costing over \$100,000 without soliciting sealed bids.

Recommendation:

We recommend the City be aware of contracting and bidding laws when considering large contracts or possible purchases.

CORRECTIVE ACTION PLAN (CAP)

Finding 2009-1

Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

Actions Planned in Response to Finding:

The City will solicit bids by public notice for future purchases or contracts over \$100,000.

Officer Responsible for Ensuring CAP:

City Clerk/Treasurer

Planned Completion Date:

Prior to the end of 2010.

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, 2009

PRIOR YEAR FINDINGS RESOLVED - MINNESOTA COMPLIANCE

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, 2009

PRIOR YEAR FINDINGS RESOLVED - MINNESOTA COMPLIANCE (continued)

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.

**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, 2009, and have issued our report thereon dated March 31, 2010. 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and correct on a timely basis. We consider findings 2008-3 and 2007-2 described in the accompanying Schedule of Findings and Recommendations to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider findings 2008-3, 2007-1 and 2007-2 to be significant deficiencies in internal control over financial reporting.

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 the accompanying Schedule of Findings and Recommendations as Finding 2009-1.

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, 2010