

**ANNUAL FINANCIAL REPORT
OF THE
CITY OF NEW LONDON, MINNESOTA
DECEMBER 31, 2010**

WESTBERG EISCHEMS, PLLP
Certified Public Accountants
Willmar, Minnesota 56201

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**CITY OF NEW LONDON, MINNESOTA
CITY COUNCIL AND ADMINISTRATIVE OFFICIALS
December 31, 2010**

		<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, 2010, 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 6, 2011 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.

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.

Westberg Eischens PLLP

WESTBERG EISCHENS, PLLP

April 6, 2011

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
December 31, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash	\$ 1,924,687	\$ 387,156	\$ 2,311,843
Receivables			
Accounts	70,307	89,298	159,605
Delinquent taxes	13,774	-	13,774
Special assessments	652,075	-	652,075
Delinquent special assessments	133,345	-	133,345
Interest	2,880	-	2,880
Due from other governments	9,334	-	9,334
Prepaid expenses	15,210	-	15,210
Capital assets			
Non-depreciable	358,563	1,000	359,563
Depreciable, net	4,581,989	507,711	5,089,700
TOTAL ASSETS	\$ 7,762,164	\$ 985,165	\$ 8,747,329
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable	\$ 159,060	\$ 84,476	\$ 243,536
Long-term liabilities			
Due within one year	287,928	-	287,928
Due in more than one year	3,157,884	-	3,157,884
Total Liabilities	3,604,872	84,476	3,689,348
Net Assets			
Invested in capital assets, net of related debt	1,494,740	508,711	2,003,451
Restricted for:			
Debt service	606,370	-	606,370
Capital replacement	-	44,500	44,500
Unrestricted	2,056,182	347,478	2,403,660
Total Net Assets	4,157,292	900,689	5,057,981
TOTAL LIABILITIES AND NET ASSETS	\$ 7,762,164	\$ 985,165	\$ 8,747,329

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF ACTIVITIES
December 31, 2010

	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	\$ 164,835	\$ 42,028	\$ -	\$ -	\$ (122,807)	\$ -	\$ (122,807)
Public safety	378,757	274,382	28,253	-	(76,122)	-	(76,122)
Streets and highways	341,319	-	-	85,019	(256,300)	-	(256,300)
Culture and recreation	93,014	-	-	-	(93,014)	-	(93,014)
Economic development	37,885	-	-	-	(37,885)	-	(37,885)
Interest and fiscal charges on long term debt	<u>155,249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(155,249)</u>	<u>-</u>	<u>(155,249)</u>
Total Governmental Activities	<u>1,171,059</u>	<u>316,410</u>	<u>28,253</u>	<u>85,019</u>	<u>(741,377)</u>	<u>-</u>	<u>(741,377)</u>
Business-Type Activities:							
Water	250,995	242,197	-	-	-	(8,798)	(8,798)
Sewer	<u>438,667</u>	<u>400,577</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(38,090)</u>	<u>(38,090)</u>
Total Business-Type Activities	<u>689,662</u>	<u>642,774</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(46,888)</u>	<u>(46,888)</u>
TOTAL	<u>\$ 1,860,721</u>	<u>\$ 959,184</u>	<u>\$ 28,253</u>	<u>\$ 85,019</u>	<u>(741,377)</u>	<u>(46,888)</u>	<u>(788,265)</u>
General revenues:							
Property taxes levied for general purposes					217,964	-	217,964
Property taxes levied for debt service					222,672	-	222,672
Intergovernmental revenue not restricted to specific programs					286,149	-	286,149
Investment income					17,858	2,007	19,865
Miscellaneous					81,754	17,534	99,288
Transfers - internal activity					<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers					<u>826,397</u>	<u>19,541</u>	<u>845,938</u>
Change in net assets					85,020	(27,347)	57,673
Net Assets - Beginning					<u>4,072,272</u>	<u>928,036</u>	<u>5,000,308</u>
Net Assets - Ending					<u>\$ 4,157,292</u>	<u>\$ 900,689</u>	<u>\$ 5,057,981</u>

See notes to financial statements.

**CITY OF NEW LONDON, MINNESOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2010**

	General Fund	Special Revenue		Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Totals
		Fire Fund	Ambulance Fund				
ASSETS							
Cash and cash equivalents	\$ 643,696	\$ 249,774	\$ 103,932	\$ 600,838	\$ 291,544	\$ 34,903	\$ 1,924,687
Receivables							
Accounts	3,002	3,890	63,415	-	-	-	70,307
Delinquent taxes	8,712	-	-	5,062	-	-	13,774
Deferred special assessments	-	-	-	652,075	-	-	652,075
Delinquent special assessments	-	-	-	133,345	-	-	133,345
Interest	2,880	-	-	-	-	-	2,880
Due from other governments	-	9,334	-	-	-	-	9,334
Advance to other funds	-	-	-	5,000	-	-	5,000
Prepaid expenses	4,577	5,500	5,133	-	-	-	15,210
TOTAL ASSETS	\$ 662,867	\$ 268,498	\$ 172,480	\$ 1,396,320	\$ 291,544	\$ 34,903	\$ 2,826,612
LIABILITIES AND FUND BALANCES							
LIABILITIES							
Accounts payable	\$ 38,650	\$ 4,537	\$ 953	\$ -	\$ 97,722	\$ 17,198	\$ 159,060
Advance from other funds	-	-	-	-	-	5,000	5,000
Deferred revenue	8,195	9,334	-	789,950	-	-	807,479
Total Liabilities	<u>46,845</u>	<u>13,871</u>	<u>953</u>	<u>789,950</u>	<u>97,722</u>	<u>22,198</u>	<u>971,539</u>
FUND BALANCES							
Reserved for:							
Debt service	-	-	-	601,370	-	-	601,370
Prepaid items	4,577	5,500	5,133	-	-	-	15,210
Advances to other funds	-	-	-	5,000	-	-	5,000
Special revenue funds	-	-	-	-	-	2,643	2,643
Unreserved							
Designated	337,846	120,512	85,764	-	193,822	-	737,944
Undesignated	273,599	128,615	80,630	-	-	10,062	492,906
Total Fund Balances	<u>616,022</u>	<u>254,627</u>	<u>171,527</u>	<u>606,370</u>	<u>193,822</u>	<u>12,705</u>	<u>1,855,073</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ 662,867	\$ 268,498	\$ 172,480	\$ 1,396,320	\$ 291,544	\$ 34,903	\$ 2,826,612

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, 2010**

Total Fund Balances-Governmental Funds		\$ 1,855,073
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	7,129,400	
Less: Accumulated Depreciation	<u>(2,188,848)</u>	4,940,552
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Deferred special assessments		807,479
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	(3,295,000)	
Capital leases	<u>(150,812)</u>	<u>(3,445,812)</u>
Total Net Assets-Governmental Activities		<u>\$ 4,157,292</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
December 31, 2010

	General Fund	Special Revenue		Debt Service Fund	Permanent Improvement Fund	Other Governmental Funds	Totals
		Fire Fund	Ambulance Fund				
REVENUES							
General property tax	\$ 181,600	\$ -	\$ -	\$ 165,133	\$ -	\$ 36,364	\$ 383,097
Special assessments	-	-	-	102,583	-	-	102,583
License and permits	30,199	-	-	-	37,744	-	67,943
Intergovernmental	309,238	-	-	5,164	-	-	314,402
Charges for services	8,805	64,240	210,142	-	-	-	283,187
Fines and forfeits	3,024	-	-	-	-	-	3,024
Interest income	2,400	13,303	392	-	1,645	118	17,858
Miscellaneous revenues	59,937	8,213	4,700	-	-	8,904	81,754
Total Revenues	<u>595,203</u>	<u>85,756</u>	<u>215,234</u>	<u>272,880</u>	<u>39,389</u>	<u>45,386</u>	<u>1,253,848</u>
EXPENDITURES							
Current							
General government	146,665	-	-	1,816	-	1,116	149,597
Public safety	94,023	71,525	158,825	-	-	1,029	325,402
Streets and highways	156,746	-	-	-	-	-	156,746
Culture and recreation	82,077	-	-	-	-	-	82,077
Economic development	-	-	-	-	-	37,885	37,885
Debt service							
Principal	-	26,643	-	940,000	-	-	966,643
Interest	-	8,415	-	138,271	-	-	146,686
Bond fees	-	-	-	8,563	-	-	8,563
Capital outlay							
General government	22,611	-	-	-	-	-	22,611
Public safety	-	8,647	-	-	-	-	8,647
Streets and highways	-	-	-	-	192,344	-	192,344
Culture and recreation	5,302	-	-	-	-	-	5,302
Total Expenditures	<u>507,424</u>	<u>115,230</u>	<u>158,825</u>	<u>1,088,650</u>	<u>192,344</u>	<u>40,030</u>	<u>2,102,503</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	87,779	(29,474)	56,409	(815,770)	(152,955)	5,356	(848,655)
OTHER FINANCING SOURCES (USES)							
Transfer from other funds	-	58,140	-	-	57,601	-	115,741
Transfer to other funds	(58,140)	-	-	(57,601)	-	-	(115,741)
NET CHANGE IN FUND BALANCE	29,639	28,666	56,409	(873,371)	(95,354)	5,356	(848,655)
FUND BALANCE JANUARY 1	<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>
FUND BALANCE DECEMBER 31	<u>\$ 616,022</u>	<u>\$ 254,627</u>	<u>\$ 171,527</u>	<u>\$ 606,370</u>	<u>\$ 193,822</u>	<u>\$ 12,705</u>	<u>\$ 1,855,073</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, 2010

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

Total Net Change in Fund Balances-Governmental Funds		\$ (848,655)
<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	202,996	
Depreciation expense	<u>(238,193)</u>	(35,197)
<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, 2010	807,479	
Deferred revenue, December 31, 2009	<u>(805,250)</u>	2,229
<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>		
Principal retirement of long-term debt	966,643	
Bond proceeds	<u>-</u>	<u>966,643</u>
Change in Net Assets-Governmental Activities		<u>\$ 85,020</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2010

	Water Fund	Sewer Fund	Total
ASSETS			
Current Assets			
Cash	\$ 234,820	\$ 152,336	\$ 387,156
Receivables			
Accounts receivable	<u>55,722</u>	<u>33,576</u>	<u>89,298</u>
Total Current Assets	<u>290,542</u>	<u>185,912</u>	<u>476,454</u>
Noncurrent Assets			
Capital Assets			
Non-depreciable	-	1,000	1,000
Depreciable assets, net	<u>359,989</u>	<u>147,722</u>	<u>507,711</u>
Total Noncurrent Assets	<u>359,989</u>	<u>148,722</u>	<u>508,711</u>
TOTAL ASSETS	<u>\$ 650,531</u>	<u>\$ 334,634</u>	<u>\$ 985,165</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities			
Accounts payable	<u>\$ 15,538</u>	<u>\$ 68,938</u>	<u>\$ 84,476</u>
Total Current Liabilities	<u>15,538</u>	<u>68,938</u>	<u>84,476</u>
NET ASSETS			
Invested in capital assets, net of related debt	359,989	148,722	508,711
Restricted for capital replacement	-	44,500	44,500
Unrestricted	<u>275,004</u>	<u>72,474</u>	<u>347,478</u>
Total Net Assets	<u>634,993</u>	<u>265,696</u>	<u>900,689</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 650,531</u>	<u>\$ 334,634</u>	<u>\$ 985,165</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, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Sales and charges for services	\$ 242,197	\$ 400,577	\$ 642,774
Total Operating Revenues	<u>242,197</u>	<u>400,577</u>	<u>642,774</u>
OPERATING EXPENSES			
Personal services	6,620	6,620	13,240
Payroll taxes and benefits	969	969	1,938
Contract services	185,759	387,512	573,271
Materials and supplies	3,389	6,151	9,540
Repairs and maintenance	10,770	9,505	20,275
Occupancy	-	1,697	1,697
Permits	8,843	-	8,843
Other expenses	1,495	4,810	6,305
Depreciation	<u>33,150</u>	<u>21,403</u>	<u>54,553</u>
Total Operating Expenses	<u>250,995</u>	<u>438,667</u>	<u>689,662</u>
Operating Income (Loss)	(8,798)	(38,090)	(46,888)
NON-OPERATING REVENUES (EXPENSES)			
Billing fees	8,687	30,020	38,707
Billing expenses	-	(21,173)	(21,173)
Interest income	<u>1,125</u>	<u>882</u>	<u>2,007</u>
Total Non-Operating Revenues (Expenses)	9,812	9,729	19,541
Income (Loss) Before Transfers	1,014	(28,361)	(27,347)
TRANSFERS			
Transfers in	-	-	-
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>
Total Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Assets	1,014	(28,361)	(27,347)
NET ASSETS, JANUARY 1	<u>633,979</u>	<u>294,057</u>	<u>928,036</u>
NET ASSETS, DECEMBER 31	<u>\$ 634,993</u>	<u>\$ 265,696</u>	<u>\$ 900,689</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For The Year Ended December 31, 2010

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 239,063	\$ 367,001	\$ 606,064
Payments to suppliers	(209,883)	(376,471)	(586,354)
Payments to employees	<u>(7,589)</u>	<u>(7,589)</u>	<u>(15,178)</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>21,591</u>	<u>(17,059)</u>	<u>4,532</u>
CASH FLOWS FROM NON CAPITAL FINANCING ACTIVITIES			
Non operating revenue	<u>9,811</u>	<u>9,729</u>	<u>19,540</u>
NET CASH PROVIDED BY NON CAPITAL FINANCING ACTIVITIES	<u>9,811</u>	<u>9,729</u>	<u>19,540</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of capital assets	<u>(15,389)</u>	<u>-</u>	<u>(15,389)</u>
NET CASH USED IN CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(15,389)</u>	<u>-</u>	<u>(15,389)</u>
NET INCREASE (DECREASE) IN CASH	16,013	(7,330)	8,683
CASH BALANCE, JANUARY 1	<u>218,807</u>	<u>159,666</u>	<u>378,473</u>
CASH BALANCE, DECEMBER 31	<u>\$ 234,820</u>	<u>\$ 152,336</u>	<u>\$ 387,156</u>
	-	-	
RECONCILIATION OF OPERATING INCOME TO CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ (8,798)	\$ (38,090)	\$ (46,888)
Adjustments to reconcile operating income to net cash flows from operating activities			
Depreciation	33,150	21,403	54,553
Change in assets and liabilities			
Decrease (increase) in receivables	(3,134)	(33,576)	(36,710)
Increase (decrease) in accounts payables	<u>373</u>	<u>34,204</u>	<u>34,577</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 21,591</u>	<u>\$ (16,059)</u>	<u>\$ 5,532</u>

See notes to financial statements.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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, 2010. 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:

(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, 2010

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.

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.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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, 2010, 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 2010 were \$18,140.

3. Receivables

All receivables are shown net of an allowance for uncollectibles.

Property tax levies are set by the City in December and certified to Kandiyohi County, Minnesota, for collection in the following year. The County remits a majority of the collections 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 2010.

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

3. Receivables (continued)

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

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, 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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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.

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	
2011 Budget items	274,773	Debt service	601,370
Contingencies	48,073		
EDA	10,000		
Special projects	5,000		
Special Revenue Funds		Permanent Improvement	
Fire - 2011 Budget items	120,512	Capital projects	193,822
Ambulance - 2011 Budget items	85,764		

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

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.

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, 2010, the City's deposits were not exposed to custodial credit risk.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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.

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, 2010**

3. Capital Assets

Capital asset activity for the year ended December 31, 2010 was as follows:

Governmental Activities

	<u>Balance January 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2010</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 155,567	\$ -	\$ -	\$ 155,567
Construction in progress	-	202,996	-	202,996
Total	<u>155,567</u>	<u>202,996</u>	<u>-</u>	<u>358,563</u>
Capital assets being depreciated				
Buildings and structures	488,894	-	-	488,894
Infrastructure and improvements	5,219,979	-	-	5,219,979
Machinery and equipment	231,285	-	-	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>6,770,837</u>	<u>-</u>	<u>-</u>	<u>6,770,837</u>
Less accumulated depreciation for:				
Buildings and structures	295,301	16,199	-	311,500
Infrastructure and improvements	1,082,199	174,835	-	1,257,034
Machinery and equipment	193,043	7,385	-	200,428
Office furniture and fixtures	1,289	428	-	1,717
Automotive equipment	<u>378,823</u>	<u>39,346</u>	<u>-</u>	<u>418,169</u>
	<u>1,950,655</u>	<u>238,193</u>	<u>-</u>	<u>2,188,848</u>
Net property and equipment	<u>\$ 4,975,749</u>	<u>\$ (35,197)</u>	<u>\$ -</u>	<u>\$ 4,940,552</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

Business-Type Activities

	<u>Balance January 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2010</u>
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>1,000</u>	<u>-</u>	<u>-</u>	<u>1,000</u>
Capital assets being depreciated				
Infrastructure and improvements	1,320,967	-	-	1,320,967
Machinery and equipment	246,638	15,389	-	262,027
Office furniture and fixtures	1,545	-	-	1,545
Automotive equipment	<u>11,234</u>	<u>-</u>	<u>-</u>	<u>11,234</u>
Total	<u>1,580,384</u>	<u>15,389</u>	<u>-</u>	<u>1,595,773</u>
Less accumulated depreciation for:				
Infrastructure and improvements	941,477	45,508	-	986,985
Machinery and equipment	79,254	9,045	-	88,299
Office furniture and fixtures	1,545	-	-	1,545
Automotive equipment	<u>11,234</u>	<u>-</u>	<u>-</u>	<u>11,234</u>
	<u>1,033,510</u>	<u>54,553</u>	<u>-</u>	<u>1,088,063</u>
Net property and equipment	<u>\$ 547,874</u>	<u>\$ (39,164)</u>	<u>\$ -</u>	<u>\$ 508,710</u>

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

Governmental Activities	
General government	\$ 3,279
Public safety	44,708
Streets and highways	184,573
Culture and recreation	<u>5,633</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 238,193</u>
Business-Type Activities	
Water	\$ 33,150
Sewer	<u>21,403</u>
Total Depreciation Expense - Business-Type Activities	<u>\$ 54,553</u>
Total Depreciation Expense	<u>\$ 292,746</u>

CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010

B. Interfund Receivables, Payables and Transfers

1. Interfund Transfers

Interfund transfers for the year ended December 31, 2010, consisted of a transfer of \$58,140 from the General Fund to the Fire Fund and a transfer of \$57,601 from the Debt Service Fund to the Permanent Improvement 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, 2010 is summarized below by fund:

	<u>Taxes</u>	<u>Special Assessments</u>	<u>Fire Contract</u>	<u>Total</u>
Governmental				
General	\$ 8,195	\$ -	\$ -	\$ 8,195
Fire	-	-	9,334	9,334
Debt Service	<u>4,528</u>	<u>785,422</u>	<u>-</u>	<u>789,950</u>
 Total Governmental	 <u>\$ 12,723</u>	 <u>\$ 785,422</u>	 <u>\$ 9,334</u>	 <u>\$ 807,479</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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, 2010</u>
General Obligation Bonds				
Improvement Bond Series 1997	2013	4% to 5.3%	\$ 915,000	\$ -
Improvement Bond Series 1999	2016	5% to 5.5%	480,000	-
Improvement Bond Series 2000	2016	4.75% to 5.3%	605,000	-
Improvement Bond Series 2002	2009	2% to 4.25%	720,000	-
Permanent Improvement Revolving Fund Bond Series 2006A	2026	4% to 4.3%	2,420,000	2,295,000
Permanent Improvement Revolving Fund Bond Series 2008A	2019	3.92%	350,000	320,000
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	32,899
Tanker Truck Loan	2011	4.40%	161,000	-
Pumper Truck Loan	2017	4.59%	<u>182,800</u>	<u>117,913</u>
Total Governmental Activities			<u>\$ 6,637,300</u>	<u>\$ 3,445,812</u>
*General Obligation Sewer Revenue				
Bonds, Series 2002	2042	4.37%	<u>\$ 1,884,800</u>	<u>\$ 1,730,000</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, 2010, were as follows:

<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 287,928	\$ 122,863	\$ 410,791
2012	299,275	114,856	414,131
2013	340,689	105,385	446,074
2014	320,039	94,092	414,131
2015	355,959	81,825	437,784
2016-2020	1,086,922	256,527	1,343,449
2021-2025	645,000	88,663	733,663
2026	<u>110,000</u>	<u>2,365</u>	<u>112,365</u>
Totals	<u>\$ 3,445,812</u>	<u>\$ 866,576</u>	<u>\$ 4,312,388</u>

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

4. Changes in Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General Obligation Bonds	\$4,235,000	\$ -	\$ 940,000	\$ 3,295,000	\$ 260,000
Capital Leases	<u>177,455</u>	<u>-</u>	<u>26,643</u>	<u>150,812</u>	<u>27,928</u>
Total Governmental Activities	<u>\$4,412,455</u>	<u>\$ -</u>	<u>\$ 966,643</u>	<u>\$ 3,445,812</u>	<u>\$ 287,928</u>

Green Lake Sewer and Water System

General Obligation Sewer Bonds	<u>\$1,755,000</u>	<u>\$ -</u>	<u>\$ 25,000</u>	<u>\$ 1,730,000</u>	<u>\$ 26,000</u>
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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.

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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

NOTE 4 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (continued)

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 2010, with an increase for Coordinated Plan members on January 1, 2011 to 6.25 percent.

The City is required to contribute the following percentages of annual covered payroll in 2010 and 2011:

	2010	2011
Public Employee Retirement Fund		
Basic Plan Members	11.78 %	11.78 %
Coordinated Plan Members	7.00 %	7.25 %

The City's contributions for the years ending December 31, 2010, 2009, and 2008, for the Public Employees Retirement Fund were:

2010	\$ 11,449
2009	\$ 10,154
2008	\$ 10,661

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

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.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

A. Plan Description (continued)

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 2010 and 2011 are as follows:

	2010	2011
Required Contribution:	\$ 2,897	\$ 8,309
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 2010.

**CITY OF NEW LONDON, MINNESOTA
NOTES TO FINANCIAL STATEMENTS
December 31, 2010**

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

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, 2010

	Original Budget	Amended Budget	Actual	Over (Under) Final Budget
REVENUES				
Taxes				
General property taxes	\$ 199,300	\$ 199,300	\$ 181,600	\$ (17,700)
License and permits	25,970	27,346	30,199	2,853
Total Taxes	<u>225,270</u>	<u>226,646</u>	<u>211,799</u>	<u>(14,847)</u>
Intergovernmental revenue				
State Grants and Aid				
Local government aid	239,458	274,860	274,860	-
Residential market value credit	35,402	11,220	5,722	(5,498)
PERA aid	403	403	403	-
Fire relief aid	26,000	28,253	28,253	-
Total Intergovernmental Revenue	<u>301,263</u>	<u>314,736</u>	<u>309,238</u>	<u>(5,498)</u>
Charges for services				
Miscellaneous charges	920	1,420	1,305	(115)
Rents	7,000	7,450	7,500	50
Total Charges for Services	<u>7,920</u>	<u>8,870</u>	<u>8,805</u>	<u>(65)</u>
Fines and forfeits	<u>2,000</u>	<u>2,800</u>	<u>3,024</u>	<u>224</u>
Miscellaneous revenues				
Investment income	7,500	5,000	2,400	(2,600)
Donations	-	1,003	1,003	-
Grants	-	-	-	-
Other	500	58,889	58,934	45
Total Miscellaneous Revenues	<u>8,000</u>	<u>64,892</u>	<u>62,337</u>	<u>(2,555)</u>
TOTAL REVENUES	544,453	617,944	595,203	(22,741)
OTHER SOURCES				
Transfers in	-	-	-	-
TOTAL REVENUES AND OTHER SOURCES	<u>544,453</u>	<u>617,944</u>	<u>595,203</u>	<u>(22,741)</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, 2010

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
EXPENDITURES				
General Government				
Governing Board				
Salaries	10,010	8,480	8,480	-
Payroll taxes and benefits	<u>1,286</u>	<u>968</u>	<u>968</u>	<u>-</u>
Total Governing Board	<u>11,296</u>	<u>9,448</u>	<u>9,448</u>	<u>-</u>
Administration and Finance				
Salaries	69,950	68,550	70,053	1,503
Payroll taxes and benefits	18,349	18,144	18,363	219
Supplies	<u>4,000</u>	<u>4,800</u>	<u>4,593</u>	<u>(207)</u>
Total Administration and Finance	<u>92,299</u>	<u>91,494</u>	<u>93,009</u>	<u>1,515</u>
Other General Government				
Elections	2,500	1,275	1,275	-
Assessor	7,000	7,320	7,320	-
Professional services	8,538	15,108	14,854	(254)
Other expenses	7,100	7,250	6,808	(442)
Capital outlay	<u>28,730</u>	<u>28,730</u>	<u>22,611</u>	<u>(6,119)</u>
Total Other General Government	<u>53,868</u>	<u>59,683</u>	<u>52,868</u>	<u>(6,815)</u>
Total General Government	<u>157,463</u>	<u>160,625</u>	<u>155,325</u>	<u>(5,300)</u>
Public Safety				
Police Department				
Contracted services	<u>30,135</u>	<u>30,135</u>	<u>30,135</u>	<u>-</u>
Fire Department				
Reimbursement to Fire Relief Association	<u>26,000</u>	<u>28,253</u>	<u>28,253</u>	<u>-</u>
Other Protection				
Building inspection	38,949	37,215	34,976	(2,239)
Animal control	<u>2,700</u>	<u>900</u>	<u>659</u>	<u>(241)</u>
Total Other Protection	<u>41,649</u>	<u>38,115</u>	<u>35,635</u>	<u>(2,480)</u>
Total Public Safety	<u>97,784</u>	<u>96,503</u>	<u>94,023</u>	<u>(2,480)</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, 2010

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
EXPENDITURES (Continued)				
Streets and Highways				
Street Maintenance				
Salaries	39,720	39,720	39,720	-
Payroll taxes and benefits	16,620	16,620	16,583	(37)
Supplies	10,500	11,600	10,839	(761)
Occupancy	10,900	9,600	9,431	(169)
Repairs and maintenance	13,500	11,350	10,621	(729)
Other expenses	4,250	3,759	3,379	(380)
Capital outlay	-	-	-	-
Total Street Maintenance	<u>95,490</u>	<u>92,649</u>	<u>90,573</u>	<u>(2,076)</u>
Snow and Ice Removal				
Contract services	<u>30,000</u>	<u>50,000</u>	<u>40,119</u>	<u>(9,881)</u>
Total Snow and Ice Removal	<u>30,000</u>	<u>50,000</u>	<u>40,119</u>	<u>(9,881)</u>
Street Lighting	<u>26,000</u>	<u>27,000</u>	<u>26,054</u>	<u>(946)</u>
Total Streets and Highways	<u>151,490</u>	<u>169,649</u>	<u>156,746</u>	<u>(12,903)</u>
Culture and Recreation				
Parks and Recreation				
Salaries	13,240	13,240	13,240	-
Payroll taxes and benefits	1,940	1,940	1,940	-
Supplies	-	-	-	-
Occupancy	1,400	1,700	1,037	(663)
Repairs and maintenance	3,500	4,675	4,675	-
Recreation allocation	8,000	8,000	4,000	(4,000)
Senior center	18,696	50,000	49,181	(819)
Other expenses	-	-	-	-
Capital outlay	<u>5,600</u>	<u>5,302</u>	<u>5,302</u>	<u>-</u>
Total Parks and Recreation	<u>52,376</u>	<u>84,857</u>	<u>79,375</u>	<u>(5,482)</u>
Library				
Communication	500	525	504	(21)
Rental	<u>7,500</u>	<u>7,500</u>	<u>7,500</u>	<u>-</u>
Total Library	<u>8,000</u>	<u>8,025</u>	<u>8,004</u>	<u>(21)</u>
Total Culture and Recreation	<u>60,376</u>	<u>92,882</u>	<u>87,379</u>	<u>(5,503)</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>
EXPENDITURES (Continued)				
Miscellaneous Expenditures				
Unallocated				
Print and publish	2,700	2,700	2,373	(327)
Dues and subscriptions	1,500	1,359	1,359	-
Insurance	14,000	13,000	8,828	(4,172)
Miscellaneous	<u>1,000</u>	<u>1,350</u>	<u>1,391</u>	<u>41</u>
Total Miscellaneous Expenditures	<u>19,200</u>	<u>18,409</u>	<u>13,951</u>	<u>(4,458)</u>
TOTAL EXPENDITURES	<u>486,313</u>	<u>538,068</u>	<u>507,424</u>	<u>(30,644)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	58,140	79,876	87,779	7,903
OTHER FINANCING USES				
Transfer out	<u>58,140</u>	<u>58,140</u>	<u>58,140</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	-	21,736	29,639	<u>\$ 7,903</u>
FUND BALANCE, JANUARY 1	<u>586,383</u>	<u>586,383</u>	<u>586,383</u>	
FUND BALANCE, DECEMBER 31	<u>\$ 586,383</u>	<u>\$ 608,119</u>	<u>\$ 616,022</u>	

See notes to required supplementary information

CITY OF NEW LONDON, MINNESOTA
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2010

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
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FIRE DEPARTMENT
For The Year Ended December 31, 2010

REVENUES	
Charges for services	
Fire contracts and calls	\$ 64,240
Total Charges for Services	<u>64,240</u>
Miscellaneous revenues	
Interest Income	13,303
Donations	<u>8,213</u>
Total miscellaneous revenues	<u>21,516</u>
TOTAL REVENUES	85,756
OTHER SOURCES	
Transfers in	<u>58,140</u>
TOTAL REVENUES AND OTHER SOURCES	<u>143,896</u>
EXPENDITURES	
Current	
Salaries	28,916
Payroll taxes and benefits	2,212
Supplies	4,033
Occupancy	4,567
Repairs and maintenance	7,816
Insurance	12,655
Fire relief aid	5,000
Other expenses	6,325
Debt service	
Principal	26,643
Interest	8,415
Capital outlay	<u>8,647</u>
TOTAL EXPENDITURES	<u>115,229</u>
EXCESS OF REVENUES OVER EXPENDITURES	28,667
OTHER FINANCING USES	
Transfer out	<u>-</u>
NET CHANGE IN FUND BALANCE	28,667
FUND BALANCE, JANUARY 1	<u>225,960</u>
FUND BALANCE, DECEMBER 31	<u>\$ 254,627</u>

CITY OF NEW LONDON, MINNESOTA
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
AMBULANCE
For The Year Ended December 31, 2010

REVENUES

Charges for services	
Ambulance calls	\$ 210,142
Total Charges for Services	<u>210,142</u>
Miscellaneous revenues	
Investment income (loss)	392
Donations	<u>4,700</u>
Total miscellaneous revenues	<u>5,092</u>

TOTAL REVENUES 215,234

OTHER SOURCES

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

TOTAL REVENUES AND OTHER SOURCES 215,234

EXPENDITURES

Current	
Salaries	109,659
Payroll taxes and benefits	8,176
Supplies	14,055
Occupancy	1,317
Repairs and maintenance	4,509
Insurance	11,078
Contract services	8,150
Other expenses	1,881
Capital outlay	<u>-</u>

TOTAL EXPENDITURES 158,825

EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES 56,409

OTHER FINANCING USES

Transfer out	<u>-</u>
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NET CHANGE IN FUND BALANCE 56,409

FUND BALANCE, JANUARY 1 115,118

FUND BALANCE, DECEMBER 31 \$ 171,527

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR GOVERNMENTAL FUNDS
 December 31, 2010**

	Special Revenue Funds	Capital Project Funds	Total Non-Major Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,643	\$ 32,260	\$ 34,903
Due from other funds	-	-	-
TOTAL ASSETS	\$ 2,643	\$ 32,260	\$ 34,903
 LIABILITIES AND FUND BALANCES			
LIABILITIES			
	\$ -	\$ 17,198	\$ 17,198
Advance from other funds	-	5,000	5,000
Total Liabilities	-	22,198	22,198
 FUND BALANCES			
Reserved	1,500	-	1,500
Unreserved			
Undesignated	1,143	10,062	11,205
Total Fund Balances	2,643	10,062	12,705
 TOTAL LIABILITIES AND FUND BALANCES	 \$ 2,643	 \$ 32,260	 \$ 34,903

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, 2010

	Special Revenue Funds	Capital Project Funds	Total Non-Major Governmental Funds
REVENUES			
Taxes			
Tax increments	\$ -	\$ 36,364	\$ 36,364
Intergovernmental revenue			
Market value credit	-	-	-
Miscellaneous Revenue			
Grants	-	-	-
Donations	2,303	-	2,303
Interest	-	118	118
Miscellaneous	-	6,601	6,601
	2,303	43,083	45,386
TOTAL REVENUES			
OTHER SOURCES			
Transfers in	-	-	-
	-	-	-
TOTAL REVENUES AND OTHER SOURCES			
	2,303	43,083	45,386
EXPENDITURES			
General government	1,116	-	1,116
Public safety	1,029	-	1,029
Economic Development			
Professional fees	-	455	455
Tax increments	-	34,430	34,430
Administrative costs	-	3,000	3,000
	2,145	37,885	40,030
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES			
	158	5,198	5,356
OTHER FINANCING USES			
Transfer out	-	-	-
	-	-	-
NET CHANGE IN FUND BALANCE			
	158	5,198	5,356
FUND BALANCE (DEFICIT), JANUARY 1			
	2,485	4,864	7,349
FUND BALANCE (DEFICIT), DECEMBER 31			
	\$ 2,643	\$ 10,062	\$ 12,705

**CITY OF NEW LONDON, MINNESOTA
 COMBINING BALANCE SHEET
 NON-MAJOR SPECIAL REVENUE FUNDS
 December 31, 2010**

	Connected Communities Fund	Firefighter/ EMT Fund	Neer Park Fund	Totals
ASSETS				
Cash and cash equivalents	\$ 1,500	\$ 140	\$ 1,003	\$ 2,643
TOTAL ASSETS	<u>\$ 1,500</u>	<u>\$ 140</u>	<u>\$ 1,003</u>	<u>\$ 2,643</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Reserved	1,500	140	1,003	2,643
Unreserved				
Undesignated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>1,500</u>	<u>140</u>	<u>1,003</u>	<u>2,643</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,500</u>	<u>\$ 140</u>	<u>\$ 1,003</u>	<u>\$ 2,643</u>

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
NON-MAJOR SPECIAL REVENUE FUNDS
December 31, 2010**

	<u>Connected Communities Fund</u>	<u>Firefighter/ EMT Fund</u>	<u>Neer Park Fund</u>	<u>Total</u>
REVENUES				
Donations	\$ 1,000	\$ 300	\$ 1,003	\$ 2,303
TOTAL REVENUES	<u>1,000</u>	<u>300</u>	<u>1,003</u>	<u>2,303</u>
 EXPENDITURES				
Committee expenses	1,116	-	-	1,116
Event expenses	<u>-</u>	<u>1,029</u>	<u>-</u>	<u>1,029</u>
TOTAL EXPENDITURES	<u>1,116</u>	<u>1,029</u>	<u>-</u>	<u>2,145</u>
 NET CHANGE IN FUND BALANCE	(116)	(729)	1,003	158
FUND BALANCE, JANUARY 1	<u>1,616</u>	<u>869</u>	<u>-</u>	<u>2,485</u>
FUND BALANCE, DECEMBER 31	<u>\$ 1,500</u>	<u>\$ 140</u>	<u>\$ 1,003</u>	<u>\$ 2,643</u>

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
NON-MAJOR CAPITAL PROJECT FUNDS
December 31, 2010**

	<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	\$ -	\$ 265	\$ 1,692	\$ 30,303	\$ 32,260
Due from other funds	-	-	-	-	-
TOTAL ASSETS	<u>\$ -</u>	<u>\$ 265</u>	<u>\$ 1,692</u>	<u>\$ 30,303</u>	<u>\$ 32,260</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ 1,344	\$ 1,747	\$ 14,107	\$ 17,198
Advance from other funds	-	1,000	4,000	-	5,000
Total Liabilities	<u>-</u>	<u>2,344</u>	<u>5,747</u>	<u>14,107</u>	<u>22,198</u>
FUND BALANCES					
Unreserved					
Undesignated	-	(2,079)	(4,055)	16,196	10,062
Total Fund Balances	<u>-</u>	<u>(2,079)</u>	<u>(4,055)</u>	<u>16,196</u>	<u>10,062</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 265</u>	<u>\$ 1,692</u>	<u>\$ 30,303</u>	<u>\$ 32,260</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	\$ -	\$ 2,987	\$ 3,883	\$ 29,494	\$ 36,364
Miscellaneous Revenue					
Interest	-	-	3	115	118
Other	<u>6,601</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,601</u>
TOTAL REVENUES	6,601	2,987	3,886	29,609	43,083
OTHER SOURCES					
Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND OTHER SOURCES	<u>6,601</u>	<u>2,987</u>	<u>3,886</u>	<u>29,609</u>	<u>43,083</u>
EXPENDITURES					
Economic Development					
Professional fees	-	-	-	455	455
Tax increments	-	2,688	3,495	28,247	34,430
Administrative costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,000</u>	<u>3,000</u>
TOTAL EXPENDITURES	<u>-</u>	<u>2,688</u>	<u>3,495</u>	<u>31,702</u>	<u>37,885</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	6,601	299	391	(2,093)	5,198
OTHER FINANCING USES					
Transfer out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	6,601	299	391	(2,093)	5,198
FUND BALANCE (DEFICIT), JANUARY 1	<u>(6,601)</u>	<u>(2,378)</u>	<u>(4,446)</u>	<u>18,289</u>	<u>4,864</u>
FUND BALANCE (DEFICIT), DECEMBER 31	<u>\$ -</u>	<u>\$ (2,079)</u>	<u>\$ (4,055)</u>	<u>\$ 16,196</u>	<u>\$ 10,062</u>

**CITY OF NEW LONDON, MINNESOTA
COMBINING BALANCE SHEET
DEBT SERVICE FUND
December 31, 2010**

	Debt Service Reserve Fund	G.O. PIR Bond - 2006A	G.O. PIR Bond - 2008A	G.O. Improvement Refunding Bond - 2009A	Totals
ASSETS					
Cash and cash equivalents	\$ 669,572	\$ (143,339)	\$ (29,589)	\$ 104,194	\$ 600,838
Receivables					
Delinquent taxes	-	1,324	205	3,533	5,062
Deferred assessments	187,403	137,925	298,499	28,248	652,075
Delinquent assessments	31,395	4,029	97,921	-	133,345
Advance to other funds	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
TOTAL ASSETS	<u>\$ 893,370</u>	<u>\$ (61)</u>	<u>\$ 367,036</u>	<u>\$ 135,975</u>	<u>\$ 1,396,320</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Deferred revenue	<u>\$ 218,799</u>	<u>\$ 143,141</u>	<u>\$ 396,601</u>	<u>\$ 31,409</u>	<u>\$ 789,950</u>
Total Liabilities	<u>218,799</u>	<u>143,141</u>	<u>396,601</u>	<u>31,409</u>	<u>789,950</u>
FUND BALANCES					
Reserved for debt service	674,571	(143,202)	(29,565)	104,566	606,370
Unreserved					
Designated	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	<u>674,571</u>	<u>(143,202)</u>	<u>(29,565)</u>	<u>104,566</u>	<u>606,370</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 893,370</u>	<u>\$ (61)</u>	<u>\$ 367,036</u>	<u>\$ 135,975</u>	<u>\$ 1,396,320</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, 2010

	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
REVENUES									
General property tax	\$ 289	\$ -	\$ -	\$ -	\$ -	\$ 28,793	\$ 5,169	\$ 130,882	\$ 165,133
Special assessments	58,812	-	-	-	-	23,854	2,859	17,058	102,583
Market value credit	-	-	-	-	-	893	163	4,108	5,164
Total Revenues	59,101	-	-	-	-	53,540	8,191	152,048	272,880
EXPENDITURES									
Current									
Professional fees	453	-	-	-	-	453	455	455	1,816
Debt service									
Principal	-	-	-	-	-	65,000	30,000	845,000	940,000
Interest	853	-	-	-	-	95,133	13,132	29,153	138,271
Bond fees	-	-	-	-	-	431	-	8,132	8,563
Capital outlay	-	-	-	-	-	-	-	-	-
Total Expenditures	1,306	-	-	-	-	161,017	43,587	882,740	1,088,650
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	57,795	-	-	-	-	(107,477)	(35,396)	(730,692)	(815,770)
OTHER FINANCING SOURCES (USES)									
Transfer from other funds	-	-	-	-	-	-	-	168,787	168,787
Transfer to other funds	(57,601)	(20,027)	(31,620)	(5,796)	(111,344)	-	-	-	(226,388)
	<u>(57,601)</u>	<u>(20,027)</u>	<u>(31,620)</u>	<u>(5,796)</u>	<u>(111,344)</u>	<u>-</u>	<u>-</u>	<u>168,787</u>	<u>(57,601)</u>
NET CHANGE IN FUND BALANCE	194	(20,027)	(31,620)	(5,796)	(111,344)	(107,477)	(35,396)	(561,905)	(873,371)
FUND BALANCE JANUARY 1	674,377	20,027	31,620	5,796	111,344	(35,725)	5,831	666,471	1,479,741
FUND BALANCE DECEMBER 31	\$ 674,571	\$ -	\$ -	\$ -	\$ -	\$ (143,202)	\$ (29,565)	\$ 104,566	\$ 606,370

**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, 2010, and have issued our report thereon dated April 6, 2011. 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 2010-1 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 finding 2007-1 to be a significant deficiency 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*.

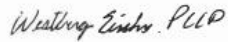
Minnesota Legal Compliance

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 Political Subdivisions*, 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 for Political Subdivisions* 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.

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

April 6, 2011

CITY OF NEW LONDON, MINNESOTA
Schedule of Findings and Recommendations
Year Ended December 31, 2010

FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2010-1

Criteria:

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:

During our audit, we proposed adjustments that resulted in significant changes to the City's financial statements.

Questioned Costs:

None

Effect:

The accounts payable balance in the capital projects fund was materially understated.

Cause:

The City does not have documented policies and procedures for the year end process.

Recommendation:

We recommend that the City review internal controls currently in place, then design and implement policies and procedures to improve internal controls over financial reporting to detect misstatements in the financial statements.

CORRECTIVE ACTION PLAN (CAP)

Finding 2010-1

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 internal controls and work to design modifications that will increase internal control and the ability to detect material misstatements.

Officer Responsible for Ensuring CAP:

Clerk/Treasurer

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, 2010

FINDINGS – FINANCIAL STATEMENT AUDIT (continued)

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, 2010

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
Year Ended December 31, 2010

PRIOR YEAR FINDINGS RESOLVED - 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.