

City of New London

**Independent Auditor's Reports
Financial Statements and Supplementary Information
Auditor's Report on Compliance
Comments and Recommendations**

June 30, 2004

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**City of New London
City Officials
June 30, 2004**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ron Sadler	Mayor	December, 2007
Frank Staley	Council Member	December, 2005
Lea Cardoni	Council Member	December, 2005
Mark Hempen	Council Member	December, 2005
Sam Wellington	Council Member	December, 2007
Jeri Willingham	Council Member	December, 2007
Paula Turner-Coates	City Clerk/Treasurer	December 2005
Patrick Brau	Attorney	December 2005
Scott Housman	Utility Board Chairman	November, 2009
Ron Miller	Utility Trustee	November, 2005
Gary Blanck	Utility Trustee	November, 2007
Jerry Wilhelm	Utility Trustee	November, 2007
Ed Pilch	Utility Trustee	November, 2009
Jeri Lyles	Deputy Clerk/Secretary	December 2005

James Walker, CPA
James Egerton, CPA
Kimberly Hunsaker, CPA
Melodee Walker, CPA
Stephanie Hoschek, CPA
William Hesse, LPA



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Independent Auditor's Report

To the Honorable Mayor and Members of City Council
City of New London, Iowa

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, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements 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 U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions 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 our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis 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 as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 17, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated August 26, 2004 on our consideration of the City of New London's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis on pages 4 through 9 and budgetary comparison information on pages 23 through 24 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of New London's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2003 (none of which is presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information, as listed in the table of contents, 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Walker Egerton & Hurstaker PC

August 26, 2004

City of New London Management's Discussion and Analysis

The City of New London provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 7.15%, or approximately \$58,700, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$11,000 and bond proceeds increased \$136,000.
- Disbursements decreased less than 1.0%, or approximately \$1,000 in fiscal 2004 from fiscal 2003. Debt service disbursements increased approximately \$11,900. Capital projects increased \$36,700.
- The City's total cash basis net assets decreased less than 1.0%, or approximately \$1,300, from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased approximately \$151,700 and the assets of the business type activities decreased by approximately \$153,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

- Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.
- The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.
- The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government wide statement by providing information about the most significant funds.
- Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.
- Required Supplementary Information further explains and supports the financial statements with a comparison to the City's budget for the year.
- Other Supplementary Information provides detailed information about the nonmajor governmental funds.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains the Enterprise Funds to provide information for the electrical distribution, waterworks, refuse collection and sanitary sewer system, all considered to be major funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$314,000 to \$465,623. The analysis that follows focuses on the changes in cash balance for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)	Year ended June 30,	
	<u>2004</u>	<u>2003</u>
Receipts and transfers:		
Property tax	\$ 336	\$ 325
Tax increment financing collections	27	26
Local option sales tax	136	102
Road use funds	161	158
Grants and reimbursements	52	42
Property tax replacement	-	21
Use of money and property	64	68
Charges for services	37	24
Other receipts	74	55
Bond proceeds	136	-
Transfers, net	<u>22</u>	<u>(15)</u>
Total receipts and transfers	<u>1,045</u>	<u>806</u>
Disbursements:		
Public safety	229	276
Public works	188	173
Culture and recreation	90	111
General government	125	121
Debt service	49	37
Capital projects	<u>212</u>	<u>176</u>
Total disbursements	<u>893</u>	<u>894</u>
Increase (decrease) in cash basis net assets	152	(88)
Cash basis net assets beginning of year	<u>314</u>	<u>402</u>
Cash basis net assets end of year	<u>\$ 466</u>	<u>\$ 314</u>

The City's total receipts for governmental activities increased by 29.8%, or \$240,000. The total cost of all programs and services remained approximately the same, \$893,000 with no new programs added this year. The only significant increase in receipts was primarily the result of proceeds received from the issuance of capital loan notes.

The City increased property tax rates in 2004 by an average of 1.0 percent. This increase raised the City's property tax receipts by approximately \$11,000 in 2004. Based on increases in the total assessed valuation, property tax receipts are budgeted to increase by an additional \$600 next year.

The cost of all governmental activities this year was \$893,000, compared to \$894,000 last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was only \$804,000 because some of the cost was paid by those directly benefited from the programs (\$37,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$52,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$804,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	Year Ended June 30,	
	<u>2004</u>	<u>2003</u>
Program receipts		
Water charges	\$ 172	173
Electric	1,232	1,243
Sewer	179	176
Sanitation	114	112
Other miscellaneous receipts	<u>141</u>	<u>133</u>
Total receipts	<u>1,838</u>	<u>1,837</u>
Disbursements and transfers:		
Water	220	147
Electric	1,511	1,395
Sewer	152	270
Sanitation	86	89
Transfers	<u>22</u>	<u>15</u>
Total disbursements and transfers	<u>1,991</u>	<u>1,916</u>
(Decrease) in cash balance	(153)	(79)
Cash basis net assets beginning of year	<u>1,287</u>	<u>1,366</u>
Cash basis net assets end of year	\$ <u>1,134</u>	\$ <u>1,287</u>

Total business type activities receipts for the fiscal year were \$1.84 million, the same as the prior year. The cash balance decreased by approximately \$153,000 from the prior year because of debt service repayments. Total disbursements and transfers for the fiscal year increased by approximately 3.90% to a total of \$1.99 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's funds is to provide information on near-term inflows, outflows and cash balances of spendable resources. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

Governmental Funds

- The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the cash balance of the General Fund was \$352,100, a decrease of \$27,000 from the prior year. The City's Sidewalk Program of \$20,000 was changed this year from the General Fund to the Capital Improvement Fund and the Debt Service Fund of \$7,000 was not levied for this budget year. The City Clerk will be more alert in levying funds for the appropriate year.

- The Road Use Tax Fund cash balance increased by \$13,000 to \$54,000 during the fiscal year. This increase was attributable to decreased spending requirements and additional revenue from the State of Iowa, Department of Transportation, for tax jurisdiction payments.
- The Local Option Sales Tax was established in previous years to provide additional general fund revenues to reduce the City's reliance on property tax revenues and provide a reliable funding source for 100% of capital projects.

Proprietary Funds

The cash balance of the Enterprise Funds decreased by approximately \$153,000 to \$1,134,300.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on May 20, 2004 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$176,000 on various capital projects. The City had sufficient cash balances to absorb these additional costs and the purchase of a fire truck through a local bank loan.

Even with these budget amendments, the City exceeded the budget for the Debt Service and Capital Projects functions for the year ended June 30, 2004. None of the amendments made during the 2004 fiscal year should have any impact on the 2005 fiscal year budget.

DEBT ADMINISTRATION

At June 30, 2004, the City had approximately \$1,809,000 in bonds and other long-term debt, compared to approximately \$2,194,000 last year, as shown below.

Outstanding debt at year-end (in thousands) (Expressed in Thousands)	June 30,	
	<u>2004</u>	<u>2003</u>
General obligation bonds	\$ 120	\$ 130
Revenue bonds	1,500	1,705
Capital loan notes	174	339
Urban renewal tax increment financing	<u>15</u>	<u>20</u>
Total	<u>\$ 1,809</u>	<u>\$ 2,194</u>

Debt decreased as a result of enterprise revenues being applied to the debt in accordance with the debt provisions.

The Constitution of the State of Iowa limits the amount of general obligation debt that cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding combined general obligation debt and urban renewal tax increment financing revenue bonds of \$309,000 is below its constitutional debt limit of approximately \$2.0 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the 2005 fiscal year budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy. Unemployment in the County now stands at 5.6 percent, versus 5.4 percent a year ago. This compares with the State's unemployment rate of 3.4 percent and the national rate of 3.9 percent.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2004 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and modest increases in energy prices in 2003-2004.

These indicators were taken into account when adopting the budget for fiscal year 2005. In looking ahead for the 2004-2005 budget year the City has began a \$1.73 million Wastewater project using Community Development Block Grant Fund of \$400,000 and the Department of Natural Resources will grant a State Revolving Loan of \$727,000 through a bond issue. The City has increased the resident's sanitary sewer rate by 5% and added a monthly \$3.00 minimum charge to accommodate the loan payment.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the City Clerk, City of New London, 112 West Main Street, New London, Iowa 52645.

Respectfully submitted,

Paula Turner-Coates
City Clerk/Treasurer

City of New London
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2004

Functions / Programs:	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Service	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
Public safety	\$ 228,702	\$ 24,422	\$ 43,643	\$ -	\$ (160,637)	\$ -	\$ (160,637)
Public works	187,660	5,619	-	-	(182,041)	-	(182,041)
Culture and recreation	89,922	3,309	8,663	-	(77,950)	-	(77,950)
Community and economic development	200	-	-	-	(200)	-	(200)
General government	124,696	3,368	-	-	(121,328)	-	(121,328)
Debt service	48,874	-	-	-	(48,874)	-	(48,874)
Capital projects	<u>212,581</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(212,581)</u>	<u>-</u>	<u>(212,581)</u>
Total government activities	892,635	36,718	52,306	-	(803,611)	-	(803,611)
Business type activities							
Water	219,932	171,580	-	-	-	(48,352)	48,352
Electric	1,510,854	1,231,777	-	-	-	(279,077)	279,077
Sewer	151,705	178,950	-	-	-	(27,245)	(27,245)
Sanitation	<u>85,979</u>	<u>114,239</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(28,260)</u>	<u>(28,260)</u>
Total business type activities	<u>1,968,470</u>	<u>1,696,546</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(271,924)</u>	<u>271,924</u>
Total	<u>\$ 2,861,105</u>	<u>\$ 1,733,264</u>	<u>\$ 52,306</u>	<u>\$ -</u>	<u>(803,611)</u>	<u>(271,924)</u>	<u>(1,075,535)</u>
General Receipts:							
Property tax levied for:							
General purposes					335,928	-	335,928
Tax increment financing					27,147	-	27,147
Local option sales tax					135,775	-	135,775
Road use tax					161,328	-	161,328
Unrestricted investment earnings					9,820	29,269	39,089
Loan proceeds					135,809	-	135,809
Transfers					22,000	(22,000)	-
Miscellaneous					<u>127,422</u>	<u>111,771</u>	<u>239,193</u>
Total general receipts and transfers					<u>955,229</u>	<u>119,040</u>	<u>1,074,269</u>
Change in cash basis net assets					151,618	(152,884)	(1,266)
Cash basis net assets beginning of year, as restated					<u>314,005</u>	<u>1,287,212</u>	<u>1,601,217</u>
Cash basis net assets end of year					<u>\$ 465,623</u>	<u>\$ 1,134,328</u>	<u>\$ 1,599,951</u>
Cash Basis Net Assets							
Restricted:							
Streets					\$ 50,493	\$ -	\$ 50,493
Sales Tax					-	-	-
Other purposes					48,992	-	48,992
Unrestricted					<u>366,138</u>	<u>1,134,328</u>	<u>1,500,466</u>
Total cash basis net assets					<u>\$ 465,623</u>	<u>\$ 1,134,328</u>	<u>\$ 1,599,951</u>

See notes to financial statements.

City of New London
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2004

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Other Nonmajor Governmental</u>	<u>Total</u>
		<u>Road Use</u>			
Receipts:					
Property tax	\$ 235,775	\$ -	\$ 74	\$ 100,079	\$ 335,928
Tax increment financing collections	-	-	27,147	-	27,147
Other taxes	10,457	-	-	125,318	135,775
Use of money and property	63,820	-	-	-	63,820
License and permits	1,745	-	-	-	1,745
Intergovernmental	82,544	161,328	-	-	243,872
Charges for services	36,718	-	-	-	36,718
Miscellaneous	31,176	-	-	4,027	35,203
Total receipts	<u>462,235</u>	<u>161,328</u>	<u>27,221</u>	<u>229,424</u>	<u>880,208</u>
Disbursements:					
Operating:					
Public safety	201,246	-	-	27,456	228,702
Public works	22,362	131,788	-	33,510	187,660
Culture and recreation	80,729	-	-	9,193	89,922
Community and economic development	200	-	-	-	200
General government	68,233	-	-	56,463	124,696
Debt service	5,497	18,872	24,505	-	48,874
Capital projects	210,836	1,745	-	-	212,581
Total disbursements	<u>589,103</u>	<u>152,405</u>	<u>24,505</u>	<u>126,622</u>	<u>892,635</u>
Excess (deficiency) of receipts over disbursements	(126,868)	8,923	2,716	102,802	(12,427)
Other financing sources (uses):					
Loan proceeds	135,809	-	-	-	135,809
Operating transfers in (out)	17,992	4,052	-	(44)	22,000
Net change in cash balances	(26,933)	12,975	2,716	102,758	145,382
Cash balances beginning of year	<u>325,201</u>	<u>41,570</u>	<u>(43,162)</u>	<u>(25,133)</u>	<u>298,476</u>
Cash balances end of year	<u>\$ 352,134</u>	<u>\$ 54,545</u>	<u>\$ (40,446)</u>	<u>\$ 77,625</u>	<u>\$ 443,858</u>
Cash Basis Fund Balances					
Reserved:					
Debt service	\$ -	\$ -	\$ (40,446)	\$ -	\$ (40,446)
Unreserved:					
General fund	352,134	-	-	28,633	380,767
Special revenue fund	-	54,545	-	-	54,545
Capital projects fund	-	-	-	48,992	48,992
Total cash basis fund balances	<u>\$ 352,134</u>	<u>\$ 54,545</u>	<u>\$ (40,446)</u>	<u>\$ 77,625</u>	<u>\$ 443,858</u>

See notes to financial statements.

City of New London
Reconciliation of the Statement of Cash
Receipts, Disbursements and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Governmental Funds
As of and for the year ended June 30, 2004

Total governmental funds cash balances (page 11)	\$	443,858
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.

21,765

Cash basis net assets of governmental activities (page 10)	\$	<u><u>465,623</u></u>
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Net change in cash balances (page 11)	\$	145,382
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with governmental activities.

6,236

Change in cash balance of governmental activities (page 10)	\$	<u><u>151,618</u></u>
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See notes to financial statements.

City of New London
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2004

	Enterprise Funds						Internal
	<u>Water</u> <u>Revenue</u>	<u>Electric</u> <u>Revenue</u>	<u>Sewer</u> <u>Revenue</u>	<u>Sanitation</u> <u>Revenue</u>	<u>Utility</u> <u>Deposits</u>	<u>Total</u>	<u>Service Fund</u> <u>Employee</u> <u>Health</u>
Receipts:							
Use of money and property:							
Charges for services	\$ 171,580	\$ 1,231,777	\$ 178,950	\$ 114,239	\$ -	\$ 1,696,546	\$ 15,760
Interest	11,196	15,122	2,494	457	-	29,269	363
Miscellaneous	-	106,897	-	179	5,000	112,076	-
	<u>182,776</u>	<u>1,353,796</u>	<u>181,444</u>	<u>114,875</u>	<u>5,000</u>	<u>1,837,891</u>	<u>16,123</u>
Disbursements:							
Business type activities							
Operations	150,740	1,154,525	114,825	85,979	5,800	1,511,869	4,393
Capital outlay	69,192	60,992	7,004	-	-	137,188	-
Debt service	-	295,337	29,876	-	-	325,213	-
	<u>219,932</u>	<u>1,510,854</u>	<u>151,705</u>	<u>85,979</u>	<u>5,800</u>	<u>1,974,270</u>	<u>4,392</u>
Excess (deficiency) of receipts over disbursements	<u>(37,156)</u>	<u>(157,058)</u>	<u>29,739</u>	<u>28,896</u>	<u>(800)</u>	<u>(136,379)</u>	<u>11,731</u>
Other financing sources (uses):							
Operating transfers in	-	10,177	-	-	-	10,177	-
Operating transfers out	-	-	(21,177)	(11,000)	-	(32,177)	-
	<u>-</u>	<u>10,177</u>	<u>(21,177)</u>	<u>(11,000)</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>
Net change in cash balances	(37,156)	(146,881)	8,562	17,896	(800)	(158,379)	11,731
Cash balances, beginning of year	<u>284,613</u>	<u>708,144</u>	<u>256,117</u>	<u>15,788</u>	<u>14,901</u>	<u>1,279,563</u>	<u>23,178</u>
Cash balances, end of year	<u>\$ 247,457</u>	<u>\$ 561,263</u>	<u>\$ 264,679</u>	<u>\$ 33,684</u>	<u>\$ 14,101</u>	<u>\$ 1,121,184</u>	<u>\$ 34,909</u>
Cash Basis Fund Balances							
Reserved for debt service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	<u>247,457</u>	<u>561,263</u>	<u>264,679</u>	<u>33,684</u>	<u>14,101</u>	<u>1,121,184</u>	<u>34,909</u>
Total cash basis fund balances	<u>\$ 247,457</u>	<u>\$ 561,263</u>	<u>\$ 264,679</u>	<u>\$ 33,684</u>	<u>\$ 14,101</u>	<u>\$ 1,121,184</u>	<u>\$ 34,909</u>

See notes to financial statements.

City of New London
Reconciliation of the Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
to the Statement of Activities and Net Assets -
Proprietary Funds
As of and for the year ended June 30, 2004

Total enterprise funds cash balances (page 13) \$ 1,121,184

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets of the Internal Service Fund are included in business type activities in the Statement of Net Assets.

13,144

Cash basis net assets of business type activities (page 10) \$ 1,134,328

Net change in cash balances (page 13) \$ (158,379)

Amounts reported for business type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Fund is used by management to charge the costs of employee health benefits to individual funds. The change on net assets of the Internal Service Fund is reported with business type activities.

5,495

Change in cash balance of business type activities (page 10) \$ (152,884)

See notes to financial statements.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies

The City of New London is a political subdivision of the State of Iowa located in Henry County. It was first incorporated in 1861 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, community and economic development and general government services. The City also provides electric, water, refuse collection and sewer utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of New London has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Des Moines County Solid Waste Commission; Henry County Assessor's Conference Board; Henry County Emergency Management Commission, and Henry County Joint E911 Service Board.

Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt and the Urban Renewal Tax Increment projects.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities. Local option sales tax is recorded in this fund.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 1. Summary of Significant Accounting Policies (continued)

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Electric Fund accounts for the operation and maintenance of the City owned electric utility system.

The Sanitation Fund accounts for the operation and maintenance of the City's solid waste collection system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City of New London maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service capital projects functions.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 2. Cash and Pooled Investments

The City's deposits at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1 which means that the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 were entirely in certificates of deposit.

Note 3. Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, general obligation notes and other debt are as follows:

Year Ended June	General Obligation Bonds		Urban Renewal Tax Increment Financing		Electric Revenue Bonds		Other Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 15,000	\$ 7,090	\$ 5,000	\$ 915	\$ 220,000	\$ 79,576	\$ 38,318	\$ 4,873
2006	15,000	6,220	5,000	615	230,000	68,026	25,455	3,983
2007	15,000	5,330	5,000	310	240,000	55,950	12,500	3,181
2008	20,000	4,425	-	-	255,000	43,350	12,859	2,822
2009	20,000	3,245	-	-	270,000	29,836	13,222	2,459
2010-2014	35,000	2,870	-	-	285,000	15,390	72,070	6,336
	<u>\$ 120,000</u>	<u>\$ 29,180</u>	<u>\$ 15,000</u>	<u>\$ 1,840</u>	<u>\$ 1,500,000</u>	<u>\$ 292,128</u>	<u>\$ 174,424</u>	<u>\$ 23,654</u>

The urban renewal tax increment revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out urban renewal projects of the City. The notes and bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not general obligations of the City, however, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the electric revenue bonds include the following provisions.

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 3. Bonds and Notes Payable (continued)

- (b) Sufficient monthly transfers shall be made to separate electric revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Monthly transfers equal to a sum of one-twelfth of the principal of the Revenue Bonds maturing on the next maturity date plus one-sixth of the interest coming due on the next interest payment date shall be made to the Sinking Fund for the purpose of making bond interest and principal payments when due. At June 30, 2004, this restricted fund had a balance of approximately \$140,700 and is included as part of the Electric Revenue Fund balance.
- (d) A minimum of \$1,000 per month shall be transferred to the Repair and Replacement Fund until a fund balance of \$50,000 is attained. These funds are to be used solely to pay the cost of extraordinary maintenance expense or repairs and capital improvements to the system. At June 30, 2004, this restricted fund had a balance of \$50,000 and is included as part of the Electric Revenue Fund balance.

Note 4. Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$38,000, \$37,900 and \$34,900, respectively, equal to the required contributions for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and other termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 13,300
Personal and holiday	<u>1,300</u>
	<u>\$ 14,600</u>

The liability has been computed based on rates of pay as of June 30, 2004.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 6. Self-Insured Health Benefits

The City of New London has agreed with its employees to provide certain health benefits.

The City pays 100 percent of the premium for health insurance. The City also pays 80 percent of the deductible up to the point where Blue Cross Blue Shield of Iowa begins coverage. The City's liability for self-insured health benefits was approximately \$31,200 at June 30, 2004.

Note 7. Related Party Transactions

No transactions were noted during the course of the audit between the City and City officials.

Note 8. Major Supplier

Most of the Utilities' power is currently purchased through the Resale Power Group of Iowa. The total amount purchased was \$318,022 which represents 100% of the total kilowatt hours generated and purchased.

Note 9. Joint Venture

The City is a participant in the Des Moines County Regional Solid Waste Commission, a political subdivision pursuant to the Code of Iowa Chapter 28E. The purpose of the agreement is to provide area governments with solid waste disposal sources. The City currently provides one member of the fifteen-member Board. Financial statements of the Waste Commission are available at the Commission office, 1818 West Burlington Avenue, West Burlington, Iowa, 52655.

Note 10. Commitments

The City has committed to the following significant purchases as of June 30, 2004.

Utility pickup truck	\$20,575
Street construction	27,700

Note 11. Franchise Fees

The City receives franchise fees from Mediacom Communications Corporation at 3% of their gross subscriber revenue. The agreement is for 25 years ending January of 2006.

Note 12. Risk Management

The City of New London is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 13. Inter-Fund Loan

The City entered into an agreement to borrow \$100,000 from the New London Municipal Utilities to be used on a storm sewer project. Payments are due on or before June 30 of each year commencing on June 30, 1995. The entire remaining principal balance plus interest due is to be paid before June 30, 2005. The utility retains the right to declare a utility emergency, and to call the entire principal and interest balance due at any time of this agreement, giving the City 30 days to refinance the loan and repay the Utility in full. The balance as of June 30, 2004 is \$5,000.

The interest rate is to be determined annually on January 1, and will be the higher of the APY for a one-year CD at Danville State Savings Bank or Mercantile Bank of Mt. Pleasant.

Note 14. Deficit Fund Balances

The following Funds had a deficit balance at year end:

Debt Service Fund	\$40,446
Employee benefits	700

The deficit balances were a result of costs incurred prior to availability of funds. The deficit will be eliminated upon receipt of urban renewal TIF collections and local option taxes.

Note 15. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2004, disbursements in the Capital Projects and Debt Service functions exceeded the amounts budgeted.

Note 16. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to:	
General fund	\$ 17,992
Road use	4,052
Electric revenue	<u>10,177</u>
	<u>\$ 32,221</u>
Transfer from:	
Sewer revenue	\$ 21,177
Sanitation revenue	11,000
Employee benefit funds	<u>44</u>
	<u>\$ 32,221</u>

City of New London
Notes to Financial Statements
Year Ended June 30, 2004

Note 17. Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial reports the City's governmental and business type activities. Beginning net assets have been restated to include the allocation of the Internal Service Fund.

	Governmental Activities	Business Type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 298,476	\$ 1,279,563
Internal Service Fund	<u>15,529</u>	<u>7,649</u>
Cash basis net assets July 1, 2003, as restated	<u>\$ 314,005</u>	<u>\$ 1,287,212</u>

City of New London
Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds
Actual to Budget
Year Ended June 30, 2004

	Governmental Funds <u>Actual</u>	Proprietary Fund Type <u>Actual</u>	Less Funds not Required to be Budgeted	<u>Net</u>	Budgeted <u>Original</u>	Amounts <u>Final</u>	Final to Net <u>Variance</u>
Receipts:							
Property tax	\$ 335,928	\$ -	\$ -	\$ 335,928	\$ 335,384	\$ 335,384	\$ 544
Tax increment financing collections	27,147	-	-	27,147	24,505	24,505	2,642
Other city taxes	135,775	-	-	135,775	133,063	133,063	2,712
Use of money and property	63,820	29,269	363	92,726	64,000	64,000	28,726
Licenses and permits	1,745	-	-	1,745	2,950	2,950	(1,205)
Intergovernmental	243,872	-	-	243,872	242,142	242,142	1,730
Charges for service	36,718	1,696,546	15,760	1,717,504	2,266,450	2,266,450	(548,946)
Miscellaneous	<u>35,203</u>	<u>112,076</u>	<u>-</u>	<u>147,279</u>	<u>807,750</u>	<u>807,750</u>	<u>(660,471)</u>
Total receipts	<u>880,208</u>	<u>1,837,891</u>	<u>16,123</u>	<u>2,701,976</u>	<u>3,876,244</u>	<u>3,876,244</u>	<u>(1,174,268)</u>
Disbursements:							
Public safety	228,702	-	-	228,702	263,843	439,843	211,141
Public works	187,660	-	-	187,660	199,660	199,660	12,000
Culture and recreation	89,922	-	-	89,922	98,740	98,740	8,818
Community and economic development	200	-	-	200	2,330	2,330	2,130
General government	124,696	-	-	124,696	144,260	144,260	19,564
Debt service	48,874	-	-	48,874	24,505	24,505	(24,369)
Capital projects	212,581	-	-	212,581	102,666	102,666	(109,915)
Business type activities	-	1,974,270	4,392	1,969,878	2,396,346	2,396,346	426,468
Non-program	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>892,635</u>	<u>1,974,270</u>	<u>4,392</u>	<u>2,862,513</u>	<u>3,232,350</u>	<u>3,408,350</u>	<u>545,837</u>
Excess (deficiency) of receipts over disbursements	(12,427)	(136,379)	11,731	(160,537)	643,894	467,894	
Other financing sources (uses)	<u>157,809</u>	<u>(22,000)</u>	<u>-</u>	<u>135,809</u>	<u>-</u>	<u>176,000</u>	
Net change in cash balances	145,382	(158,379)	11,731	(24,728)	643,894	643,894	
Balances beginning of year	<u>298,476</u>	<u>1,279,563</u>	<u>25,230</u>	<u>1,552,809</u>	<u>1,453,758</u>	<u>1,453,758</u>	
Balances end of year	<u>\$ 443,858</u>	<u>\$ 1,121,184</u>	<u>\$ 36,961</u>	<u>\$ 1,528,081</u>	<u>\$ 2,097,652</u>	<u>\$ 2,097,652</u>	

See accompanying independent auditor's report.

City of New London
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds, except blended component units, Internal Service, non-expendable trust, and agency funds (when they exist). The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, budget amendments increased budgeted disbursements by \$176,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the Capital Projects and Debt Service functions.

City of New London
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2004

	<u>Grants</u>	<u>Employee Benefit</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Receipts:				
Property taxes	\$ -	\$ 100,079	\$ -	\$ 100,079
Local option sales tax	-	-	125,318	125,318
CTAA	-	-	-	-
Miscellaneous	-	4,027	-	4,027
Total receipts	<u>-</u>	<u>104,106</u>	<u>125,318</u>	<u>229,424</u>
Disbursements:				
Public safety	-	24,790	2,666	27,456
Public works	-	13,354	20,156	33,510
Culture and recreation	-	9,193	-	9,193
General government	-	56,463	-	56,463
	<u>-</u>	<u>103,800</u>	<u>22,822</u>	<u>99,166</u>
Total disbursements	<u>-</u>	<u>103,800</u>	<u>22,822</u>	<u>126,622</u>
Excess (deficiency) of receipts over disbursements	-	306	102,496	102,802
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	(44)	-	(44)
	<u>-</u>	<u>(44)</u>	<u>-</u>	<u>(44)</u>
Net change in cash balances	-	262	102,496	102,758
Cash balances, beginning of year	<u>29,333</u>	<u>(962)</u>	<u>(53,504)</u>	<u>(25,133)</u>
Cash balances, end of year	<u>\$ 29,333</u>	<u>\$ (700)</u>	<u>\$ 48,992</u>	<u>\$ 77,625</u>

See accompanying independent auditor's report.

**City of New London
Statement of Indebtedness
Year Ended June 30, 2004**

<u>Obligation</u>	<u>Date of Issuance</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
General obligation bonds:								
Capital loan note	09/01/99	4.50-5.50%	\$ 110,000	\$ 95,000	\$ -	\$ 5,000	\$ 90,000	\$ 4,980
Capital loan note	09/01/99	6.75-8.20%	55,000	<u>35,000</u>	<u>-</u>	<u>5,000</u>	<u>30,000</u>	<u>2,715</u>
				<u>130,000</u>	<u>-</u>	<u>10,000</u>	<u>\$ 120,000</u>	<u>\$ 7,695</u>
Urban renewal tax increment financing:								
Sanitary sewer	08/01/94	5.05-6.20%	55,000	<u>20,000</u>	<u>-</u>	<u>5,000</u>	<u>15,000</u>	<u>1,210</u>
Revenue Bond:								
Electric revenue bond	05/10/00	5.25-5.40%	2,270,000	<u>1,705,000</u>	<u>-</u>	<u>205,000</u>	<u>1,500,000</u>	<u>90,337</u>
Other debt:								
Ford Motor Company	06/14/02	6.75%	21,387	5,151	-	5,151	-	346
Danville Bank-backhoe	08/06/02	4.25%	20,375	20,375	-	20,375	-	864
Danville Bank-fire truck	11/20/03	2.875%	135,809	-	135,809	-	135,809	-
Caterpillar Financial-generator	08/08/02	4.78%	270,500	250,740	-	250,740	-	5,474
Elgin Sweeper Company	11/09/00	6.79%	115,006	<u>62,292</u>	<u>-</u>	<u>23,677</u>	<u>38,615</u>	<u>3,834</u>
				<u>338,558</u>	<u>135,809</u>	<u>299,943</u>	<u>174,424</u>	<u>10,518</u>
Total				<u>\$ 2,193,558</u>	<u>\$ 135,809</u>	<u>\$ 519,943</u>	<u>\$ 1,809,424</u>	<u>\$ 109,760</u>

See accompanying independent auditor's report.

**City of New London
Bond and Note Maturities
June 30, 2004**

----- **General Obligation Bonds** -----

Year Ending <u>June 30,</u>	----- Urban Renewal ----- Tax Increment Financing Sanitary Sewer <u>Issued August 1, 1994</u>		<u>Capital Loan Note</u> <u>Issued September 1, 1999</u>		<u>Capital Loan Note</u> <u>Issued September 1, 1999</u>		General Obligation Bonds <u>Totals</u>	----- Electric Revenue Bond ----- <u>Issued May 10, 2000</u>	
	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>
2005	6.00%	\$ 5,000	7.40%	\$ 5,000	5.00%	\$ 10,000	\$ 15,000	5.25%	\$ 220,000
2006	6.10%	5,000	7.60%	5,000	5.10%	10,000	15,000	5.25%	230,000
2007	6.20%	5,000	7.80%	5,000	5.15%	10,000	15,000	5.25%	240,000
2008	--	-	8.00%	5,000	5.20%	15,000	20,000	5.30%	255,000
2009	--	-	8.10%	5,000	5.30%	15,000	20,000	5.35%	270,000
2010	--	-	8.20%	5,000	5.40%	15,000	20,000	5.40%	285,000
2011	--	-	--	-	5.50%	<u>15,000</u>	<u>15,000</u>	--	-
		<u>\$ 15,000</u>		<u>\$ 30,000</u>		<u>\$ 90,000</u>	<u>\$ 120,000</u>		<u>\$ 1,500,000</u>

----- **Other Debt** -----

Year Ending <u>June 30,</u>	<u>Elgin Street Sweeper</u> <u>Issued November 9, 2000</u>		<u>Fire Truck</u> <u>Danville State Bank</u> <u>Issued November 20, 2003</u>		Other Debt <u>Totals</u>
	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Amount</u>	
2005	6.79%	\$ 25,311	2.875%	\$ 13,007	\$ 38,318
2006	6.79%	13,304	2.875%	12,151	25,455
2007	--	-	2.875%	12,500	12,500
2008	--	-	2.875%	12,859	12,859
2009	--	-	2.875%	13,222	13,222
2010	--	-	2.875%	13,609	13,609
2011	--	-	2.875%	14,000	14,000
2012	--	-	2.875%	14,403	14,403
2013	--	-	2.875%	14,815	14,815
2014	--	-	2.875%	<u>15,243</u>	<u>15,243</u>
		<u>\$ 38,615</u>		<u>\$ 135,809</u>	<u>\$ 174,424</u>

See accompanying independent auditor's report.

City of New London
Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

	<u>Years Ended June 30,</u>	
	<u>2004</u>	<u>2003</u>
Receipts:		
Property tax	\$ 335,928	\$ 324,636
Tax increment financing collections	27,147	26,431
Other city taxes	135,775	102,167
Use of money and property	63,820	67,960
Licenses and permits	1,745	1,543
Intergovernmental	243,872	258,095
Charges for services	36,718	-
Miscellaneous	<u>35,203</u>	<u>40,665</u>
Total	<u>\$ 880,208</u>	<u>\$ 821,497</u>
 Disbursements:		
Operating:		
Public safety	\$ 228,702	\$ 276,349
Public works	187,660	172,797
Culture and recreation	89,922	110,880
Community and economic development	200	-
General government	124,696	120,708
Debt service	48,874	37,011
Capital projects	<u>212,581</u>	<u>175,915</u>
Total	<u>\$ 892,635</u>	<u>\$ 893,660</u>

See accompanying independent auditor's report.

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Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of New London, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 26, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of New London's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items II-B-04 and II-J-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of New London's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. None of the reportable conditions described above is a material weakness. Prior year reportable conditions have been resolved except for item I-A-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of New London and other parties to whom the City of New London may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of New London during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Walker Egerton & Hurstaker PC

August 26, 2004

**City of New London
Schedule of Findings
Year Ended June 30, 2004**

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS

I-A-04 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We currently utilize Council members to review invoices and approve for payment, however, we will continue to review procedures in an effort to obtain mainimum internal control procedures over financial transactions and reports.

Conclusion - Response acknowledged.

Part II: Other Findings Related to Statutory Reporting

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the capital projects and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-04 Business Transactions - We noted no evidence of business transactions between the City and City officials or employees which we believed to be in violation of statutory provisions.

**City of New London
Schedule of Findings
Year Ended June 30, 2004**

- II-F-04 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Bonds and Revenue Notes - The City has complied with the revenue bond and note resolutions.
- II-I-04 Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.
- II-J-04 Financial Condition - The Debt Service Fund and the Employee Benefits funds have deficit balances at June 30, 2004 of \$40,446 and \$700, respectively.

Recommendation -We understand that project costs incurred prior to receipt of TIF collections and property tax collections created the deficit in these accounts. However, the City should monitor the progress of the TIF receipts and property tax collections and review the control procedures throughout the collection period.

Response - We will consider this.

Conclusion - Response accepted.

FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION