

City of New London

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

June 30, 2005

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**City of New London
City Officials
June 30, 2005**

<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	Indefinite
Patrick Brau	Attorney	Indefinite
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	Indefinite

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, 2005, 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 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 opinions.

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, 2005, 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.

In accordance with Government Auditing Standards, we have also issued our reports dated August 31, 2005 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 22 through 23 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 two years ended June 30, 2004 (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 & Hunsaker PC

August 31, 2005

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities (not including debt proceeds) decreased 3.235%, or approximately \$28,400, from fiscal 2004 to fiscal 2005. Property tax increased approximately \$3,000 and intergovernmental receipts decreased \$38,100.
- Disbursements decreased more than 13.5%, or approximately \$121,000 in fiscal 2005 from fiscal 2004. Capital Projects decreased approximately \$131,500. Culture and recreation increased \$15,700.
- The City's total cash basis net assets increased 12.60%, or approximately \$202,500, from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities increased approximately \$104,600 and the assets of the business type activities increased by approximately \$97,900.

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, sanitary sewer system, electrical distribution and refuse collection. 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 \$465,623 to \$570,243. 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,	
	2005	2004
Receipts and transfers:		
Property tax	\$ 339	\$ 336
Tax increment financing collections	31	27
Local option sales tax	145	136
Road use funds	161	161
Grants and reimbursements	45	52
Property tax replacement	-	-
Use of money and property	64	64
Charges for services	28	37
Other receipts	41	74
Bond proceeds	-	136
Transfers, net	<u>22</u>	<u>22</u>
Total receipts and transfers	<u>876</u>	<u>1,045</u>
Disbursements:		
Public safety	230	229
Public works	176	188
Culture and recreation	106	90
General government	114	125
Debt service	65	49
Capital projects	<u>81</u>	<u>212</u>
Total disbursements	<u>772</u>	<u>893</u>
Increase in cash basis net assets	104	152
Cash basis net assets beginning of year	<u>466</u>	<u>314</u>
Cash basis net assets end of year	<u>\$ 570</u>	<u>\$ 466</u>

The City's total receipts for governmental activities decreased by 16.2%, or \$169,000. The prior year receipts included loan proceeds of \$136,000. The total cost of all programs and services decreased approximately \$121,000 with no new programs added this year. The only significant decrease in disbursements was the reduction of capital projects carried out during the year.

The cost of all governmental activities this year was \$772,000, compared to \$893,000 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 \$712,500 because some of the cost was paid by those directly benefited from the programs (\$11,100) or by other governments and organizations that subsidized certain programs with grants and contributions (\$48,000). The City paid for the remaining "public benefit" portion of governmental activities with approximately \$712,500 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>2005</u>	<u>2004</u>
Program receipts		
Water charges	\$ 174	\$ 172
Electric	1,287	1,232
Sewer	192	179
Sanitation	118	114
Loan proceeds	38	-
Other miscellaneous receipts	<u>185</u>	<u>141</u>
Total receipts	<u>1,994</u>	<u>1,838</u>
Disbursements and transfers:		
Water	169	220
Electric	1,371	1,511
Sewer	231	152
Sanitation	103	86
Transfers	<u>22</u>	<u>22</u>
Total disbursements and transfers	<u>1,896</u>	<u>1,991</u>
Increase (decrease) in cash balance	98	(153)
Cash basis net assets beginning of year	<u>1,134</u>	<u>1,287</u>
Cash basis net assets end of year	<u>\$ 1,232</u>	<u>\$ 1,134</u>

Total business type activities receipts for the fiscal year were \$1.99 million compared to \$1.84 million the prior year. The cash balance increased by approximately \$98,000 from the prior year because of the loan proceeds in the current year, and an electrical rate increase January 1, 2004, water rate increase as of January 1, 2005, and sewer rate increase on November 1, 2004.

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 \$356,800, a decrease of \$4,700 from the prior year. The City's Sidewalk Program of \$8,000 was changed this year from the General Fund to the Capital Improvement Fund.

- The Road Use Tax Fund cash balance increased by \$22,200 to \$76,800 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 and investing \$70,068 for future street projects.
- 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 increased by approximately \$97,900 to \$1,232,200. This increase was due to loan proceeds and raising the rates to pay the State Revolving Loan Fund for the sanitary sewer project and to keep up with operating cost increases.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget. The amendment was approved on June 7, 2005 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$47,000 on various projects. Even with these budget amendments, the City exceeded the budget for the Debt Service function for the year ended June 30, 2005. None of the amendments made during the 2005 fiscal year should have any impact on the 2006 fiscal year budget.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$1,555,100 in bonds and other long-term debt, compared to approximately \$1,809,000 last year, as shown below.

	Outstanding debt at year-end (Expressed in Thousands)	
	June 30, <u>2005</u>	<u>2004</u>
General obligation bonds	\$ 105	\$ 120
Revenue bonds	1,325	1,500
Capital loan notes	115	174
Urban renewal tax increment financing	<u>10</u>	<u>15</u>
Total	<u>\$ 1,555</u>	<u>\$ 1,809</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 \$229,800 is below its constitutional debt limit of approximately \$1.4 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 2006 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 5.9 percent, versus 5.6 percent a year ago. This compares with the State's unemployment rate of 4.6 percent. These indicators were taken into account when adopting the budget for fiscal year 2006.

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 requests 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, 2005

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	\$ 229,864	\$ 7,663	\$ 29,720	\$ 1,114	\$ (191,367)	\$ -	\$ (191,367)
Public works	176,035	928	-	-	(175,107)	-	(175,107)
Culture and recreation	105,579	-	17,130	-	(88,449)	-	(88,449)
Community and economic development	-	-	-	-	-	-	-
General government	114,271	2,496	-	-	(111,775)	-	(111,775)
Debt service	64,666	-	-	-	(64,666)	-	(64,666)
Capital projects	81,130	-	-	-	(81,130)	-	(81,130)
Total government activities	771,545	11,087	46,850	1,114	(712,494)	-	(712,494)
Business type activities							
Water	168,912	174,328	-	-	-	5,416	(5,416)
Electric	1,371,314	1,286,844	-	-	-	(84,470)	84,470
Sewer	231,418	192,208	-	-	-	39,210	39,210
Sanitation	102,487	117,649	-	-	-	(15,162)	(15,162)
Total business type activities	1,874,131	1,771,029	-	-	-	(103,102)	103,102
Total	\$ 2,645,676	\$ 1,782,116	\$ 46,850	\$ 1,114	(712,494)	(103,102)	(815,596)
General Receipts:							
Property tax levied for:							
General purposes					338,933	-	338,933
Tax increment financing					30,930	-	30,930
Local option sales tax					145,255	-	145,255
Road use tax					161,054	-	161,054
Unrestricted investment earnings					8,550	21,556	30,106
Loan proceeds					-	38,000	38,000
Transfers					22,000	(22,000)	-
Miscellaneous					110,392	163,402	273,794
Total general receipts and transfers					817,114	200,958	1,018,072
Change in cash basis net assets					104,620	97,856	202,476
Cash basis net assets beginning of year, as restated					465,623	1,134,328	1,599,951
Cash basis net assets end of year					\$ 570,243	\$ 1,232,184	\$ 1,802,427
Cash Basis Net Assets							
Restricted:							
Streets					\$ 76,763	\$ -	\$ 76,763
Capital projects					138,664	-	138,664
Other purposes					(2,019)	257,561	255,542
Unrestricted					356,835	974,623	1,331,458
Total cash basis net assets					\$ 570,243	\$ 1,232,184	\$ 1,802,427

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, 2005

	Special Revenue					Total
	General	Road Use	Capital Projects Fund	Debt Service	Other Nonmajor Governmental	
Receipts:						
Property tax	\$ 229,919	\$ -	\$ -	\$ 12,161	\$ 96,853	\$ 338,933
Tax increment financing collections	-	-	-	30,930	-	30,930
Other taxes	-	-	145,255	-	-	145,255
Use of money and property	63,375	-	699	-	-	64,074
Licenses and permits	2,232	-	-	-	-	2,232
Intergovernmental	44,736	161,054	-	-	-	205,790
Charges for services	28,418	-	-	-	-	28,418
Miscellaneous	<u>26,815</u>	<u>9,342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,157</u>
Total receipts	<u>395,495</u>	<u>170,396</u>	<u>145,954</u>	<u>43,091</u>	<u>96,853</u>	<u>851,789</u>
Disbursements:						
Operating:						
Public safety	204,436	-	2,666	-	22,762	229,864
Public works	24,385	110,405	33,616	-	7,629	176,035
Culture and recreation	94,686	-	-	-	10,893	105,579
General government	58,483	-	-	-	55,788	114,271
Debt service	23,481	12,380	-	28,805	-	64,666
Capital projects	<u>39,789</u>	<u>21,341</u>	<u>20,000</u>	<u>-</u>	<u>-</u>	<u>81,130</u>
Total disbursements	<u>445,260</u>	<u>144,126</u>	<u>56,282</u>	<u>28,805</u>	<u>97,072</u>	<u>771,545</u>
Excess (deficiency) of receipts over disbursements	(49,765)	26,270	89,672	14,286	(219)	80,244
Other financing sources (uses):						
Operating transfers in (out)	<u>54,466</u>	<u>(4,052)</u>	<u>-</u>	<u>-</u>	<u>(28,414)</u>	<u>22,000</u>
Net change in cash balances	(4,701)	22,218	89,672	14,286	(28,633)	102,244
Cash balances beginning of year	<u>352,134</u>	<u>54,545</u>	<u>48,992</u>	<u>(40,446)</u>	<u>28,633</u>	<u>443,858</u>
Cash balances end of year	<u>\$ 356,835</u>	<u>\$ 76,763</u>	<u>\$ 138,664</u>	<u>\$ (26,160)</u>	<u>\$ -</u>	<u>\$ 546,102</u>
Cash Basis Fund Balances						
Reserved:						
Debt service	\$ -	\$ -	\$ -	\$ (26,160)	\$ -	\$ (26,160)
Unreserved:						
General fund	356,835	-	-	-	-	356,835
Special revenue fund	-	76,763	-	-	-	76,763
Capital projects fund	<u>-</u>	<u>-</u>	<u>138,664</u>	<u>-</u>	<u>-</u>	<u>138,664</u>
Total cash basis fund balances	<u>\$ 356,835</u>	<u>\$ 76,763</u>	<u>\$ 138,664</u>	<u>\$ (26,160)</u>	<u>\$ -</u>	<u>\$ 546,102</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, 2005

Total governmental funds cash balances (page 11) \$ 546,102

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.

24,141

Cash basis net assets of governmental activities (page 10) \$ 570,243

Net change in cash balances (page 11) \$ 102,244

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.

2,376

Change in cash balance of governmental activities (page 10) \$ 104,620

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, 2005

	Enterprise Funds						Internal Service Fund
	Water <u>Revenue</u>	Electric <u>Revenue</u>	Sewer <u>Revenue</u>	Sanitation <u>Revenue</u>	Utility <u>Deposits</u>	<u>Total</u>	Employee <u>Health</u>
Receipts:							
Use of money and property:							
Charges for services	\$ 174,328	\$ 1,286,844	\$ 192,208	\$ 117,649	\$ -	\$ 1,771,029	\$ 16,160
Interest	7,630	9,564	3,815	547	-	21,556	508
Intergovernmental	-	-	45,596	-	-	45,596	-
Miscellaneous	1,749	98,413	3,190	587	12,200	116,139	-
	<u>183,707</u>	<u>1,394,821</u>	<u>244,809</u>	<u>118,783</u>	<u>12,200</u>	<u>1,954,320</u>	<u>16,668</u>
Disbursements:							
Business type activities							
Operations	143,089	1,005,040	105,072	102,487	6,500	1,362,188	6,126
Capital outlay	25,823	66,699	97,460	-	-	189,982	-
Debt service	-	299,575	28,886	-	-	328,461	-
	<u>168,912</u>	<u>1,371,314</u>	<u>231,418</u>	<u>102,487</u>	<u>6,500</u>	<u>1,880,631</u>	<u>6,126</u>
Excess of receipts over disbursements	<u>14,795</u>	<u>23,507</u>	<u>13,391</u>	<u>16,296</u>	<u>5,700</u>	<u>73,689</u>	<u>10,542</u>
Other financing sources (uses):							
Loan proceeds	-	-	38,000	-	-	38,000	-
Operating transfers in	-	312,000	-	-	-	312,000	-
Operating transfers out	-	(312,000)	(11,000)	(11,000)	-	(334,000)	-
	<u>-</u>	<u>-</u>	<u>(11,000)</u>	<u>(11,000)</u>	<u>-</u>	<u>(22,000)</u>	<u>-</u>
Net change in cash balances	14,795	23,507	40,391	5,296	5,700	89,689	10,542
Cash balances, beginning 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 balances, end of year	<u>\$ 262,252</u>	<u>\$ 584,770</u>	<u>\$ 305,070</u>	<u>\$ 38,980</u>	<u>\$ 19,801</u>	<u>\$ 1,210,873</u>	<u>\$ 45,451</u>
Cash Basis Fund Balances							
Reserved for equipment replacement	\$ -	\$ -	\$ 232,061	\$ 25,500	\$ -	\$ 257,561	\$ -
Unreserved	<u>262,252</u>	<u>584,770</u>	<u>73,009</u>	<u>13,480</u>	<u>19,801</u>	<u>953,312</u>	<u>45,451</u>
Total cash basis fund balances	<u>\$ 262,252</u>	<u>\$ 584,770</u>	<u>\$ 305,070</u>	<u>\$ 38,980</u>	<u>\$ 19,801</u>	<u>\$ 1,210,873</u>	<u>\$ 45,451</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, 2005

Total enterprise funds cash balances (page 13) \$ 1,210,873

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.

21,311

Cash basis net assets of business type activities (page 10) \$ 1,232,184

Net change in cash balances (page 13) \$ 89,689

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.

8,167

Change in cash balance of business type activities (page 10) \$ 97,856

See notes to financial statements.

City of New London
Notes to Financial Statements
Year Ended June 30, 2005

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, 2005

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, 2005

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, 2005, disbursements exceeded the amounts budgeted in the debt service capital projects functions.

City of New London
Notes to Financial Statements
Year Ended June 30, 2005

Note 2. Cash and Pooled Investments

The City's deposits at June 30, 2005 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, 2005 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 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing		Electric Revenue Bonds		Other Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 15,000	\$ 6,220	\$ 5,000	\$ 615	\$ 230,000	\$ 68,026	\$ 12,151	\$ 3,531
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	35,000	2,870	-	-	285,000	15,390	13,609	2,072
2011-2014	-	-	-	-	-	-	50,479	4,264
	<u>\$ 105,000</u>	<u>\$ 22,090</u>	<u>\$ 10,000</u>	<u>\$ 925</u>	<u>\$ 1,280,000</u>	<u>\$ 212,552</u>	<u>\$ 114,820</u>	<u>\$ 18,329</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, 2005

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, 2005, this restricted fund had a balance of approximately \$156,100 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, 2005, 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 6.16% and 9.23%, respectively. For the year ended June 30, 2004, the contribution rates for police employees and the City were 5.93% and 8.907%, respectively, and for the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003, were \$37,400, \$38,000 and \$37,900, 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, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 12,100
Personal and holiday	<u>1,100</u>
	<u>\$ 13,200</u>

The liability has been computed based on rates of pay as of June 30, 2005.

City of New London
Notes to Financial Statements
Year Ended June 30, 2005

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 Wellmark Blue Cross Blue Shield of Iowa begins coverage. The City's liability for self-insured health benefits was approximately \$34,500 at June 30, 2005.

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 \$478,530 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's 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, 2005.

Balance of car purchase	\$ 4,000
Water treatment controls	12,177

The City has begun a sewer replacement project. The completed cost of the project is expected to be \$1,127,000. \$400,000 of the cost will be funded with a CDBG grant, and the balance to be paid with a loan through the State Revolving Loan fund. At June 30, 2005, \$38,000 had been drawn down on this project with a 1% loan fee added (\$7,270) for a total debt of \$45,270.

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.

City of New London
Notes to Financial Statements
Year Ended June 30, 2005

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.

Note 13. Deficit Fund Balances

The following Fund had a deficit balance at year end:

Debt Service Fund	\$ 26,160
-------------------	-----------

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 14. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the function level. During the year ended June 30, 2005, disbursements in the Debt Service function exceeded the amounts budgeted.

Note 15. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to:	
General fund	\$ 54,466
Employee benefits	<u>919</u>
	<u>\$ 55,385</u>
Transfer from:	
Sewer revenue	\$ 11,000
Sanitation revenue	11,000
Grants	29,333
Road use	<u>4,052</u>
	<u>\$ 55,385</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
Required Supplementary Information
Year Ended June 30, 2005

	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	\$ 338,933	\$ -	\$ -	\$ 338,933	\$ 336,617	\$ 336,617	\$ 2,316
Tax increment financing collections	30,930	-	-	30,930	28,400	28,400	2,530
Other city taxes	145,255	-	-	145,255	112,837	112,837	32,418
Use of money and property	64,074	21,556	508	85,122	40,790	40,790	44,332
Licenses and permits	2,232	-	-	2,232	2,750	2,750	(518)
Intergovernmental	205,790	45,596	-	251,386	205,529	205,529	45,857
Charges for service	28,418	1,771,029	16,160	1,783,287	2,291,320	2,291,320	(508,033)
Miscellaneous	<u>36,157</u>	<u>116,139</u>	<u>-</u>	<u>152,296</u>	<u>95,800</u>	<u>95,800</u>	<u>56,496</u>
Total receipts	<u>851,789</u>	<u>1,954,320</u>	<u>16,668</u>	<u>2,789,441</u>	<u>3,114,043</u>	<u>3,114,043</u>	<u>(324,602)</u>
Disbursements:							
Public safety	229,864	-	-	229,864	258,763	283,763	53,899
Public works	176,035	-	-	176,035	189,285	205,285	29,250
Culture and recreation	105,579	-	-	105,579	100,345	106,345	766
Community and economic development	-	-	-	-	-	-	-
General government	114,271	-	-	114,271	121,560	121,560	7,289
Debt service	64,666	-	-	64,666	28,755	28,755	(35,911)
Capital projects	81,130	-	-	81,130	335,000	335,000	253,870
Business type activities	-	1,880,631	6,126	1,874,505	2,288,570	2,288,570	414,065
Non-program	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total disbursements	<u>771,545</u>	<u>1,880,631</u>	<u>6,126</u>	<u>2,646,050</u>	<u>3,322,278</u>	<u>3,369,278</u>	<u>723,228</u>
Excess (deficiency) of receipts over disbursements	80,244	73,689	10,542	143,391	(208,235)	(255,235)	
Other financing sources	<u>22,000</u>	<u>16,000</u>	<u>-</u>	<u>38,000</u>	<u>178,000</u>	<u>225,000</u>	
Net change in cash balances	102,244	89,689	10,542	181,391	(30,235)	(30,235)	
Balances beginning of year	<u>443,858</u>	<u>1,121,184</u>	<u>34,909</u>	<u>1,530,133</u>	<u>1,414,982</u>	<u>1,414,982</u>	
Balances end of year	<u>\$ 546,102</u>	<u>\$ 1,210,873</u>	<u>\$ 45,451</u>	<u>\$ 1,711,524</u>	<u>\$ 1,384,747</u>	<u>\$ 1,384,747</u>	

See accompanying independent auditor's report.

City of New London
Notes to Required Supplementary Information - Budgetary Reporting
June 30, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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 Funds, and Fiduciary 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 \$47,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the Debt Service function.

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, 2005

	<u>Grants</u>	<u>Employee Benefit</u>	<u>Total</u>
Receipts:			
Property taxes	\$ -	\$ 96,853	\$ 96,853
CTAA	-	-	-
Miscellaneous	-	-	-
Total receipts	<u>-</u>	<u>96,853</u>	<u>96,853</u>
Disbursements:			
Public safety	-	22,762	22,762
Public works	-	7,629	7,629
Culture and recreation	-	10,893	10,893
General government	-	55,788	55,788
Total disbursements	<u>-</u>	<u>97,072</u>	<u>97,072</u>
Excess (deficiency) of receipts over disbursements	-	(219)	(219)
Other financing sources (uses):			
Operating transfers in	-	919	919
Operating transfers (out)	<u>(29,333)</u>	<u>-</u>	<u>(29,333)</u>
	<u>(29,333)</u>	<u>919</u>	<u>(28,414)</u>
Net change in cash balances	(29,333)	700	(28,633)
Cash balances, beginning of year	<u>29,333</u>	<u>(700)</u>	<u>28,633</u>
Cash balances, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of New London
Statement of Indebtedness
Year Ended June 30, 2005**

<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	\$ 90,000	\$ -	\$ 10,000	\$ 80,000	\$ 4,735
Capital loan note	09/01/99	6.75-8.20%	55,000	<u>30,000</u>	<u>-</u>	<u>5,000</u>	<u>25,000</u>	<u>2,355</u>
				<u>120,000</u>	<u>-</u>	<u>15,000</u>	<u>105,000</u>	<u>7,090</u>
Urban renewal tax increment financing:								
Sanitary sewer	08/01/94	5.05-6.20%	55,000	<u>15,000</u>	<u>-</u>	<u>5,000</u>	<u>10,000</u>	<u>915</u>
Revenue Bond:								
Electric revenue bond	05/10/00	5.25-5.40%	2,270,000	1,500,000	-	220,000	1,280,000	79,575
Sewer revenue capital loan notes (1)	04/07/05	3.00%	727,000	<u>-</u>	<u>45,270</u>	<u>-</u>	<u>45,270</u>	<u>-</u>
				<u>1,500,000</u>	<u>45,270</u>	<u>220,000</u>	<u>1,325,270</u>	<u>79,575</u>
Other debt:								
Danville Bank-fire truck	11/20/03	2.875%	135,809	135,809	-	20,989	114,820	2,492
Elgin Sweeper Company	11/09/00	6.79%	115,006	<u>38,615</u>	<u>-</u>	<u>38,615</u>	<u>-</u>	<u>2,651</u>
				<u>174,424</u>	<u>-</u>	<u>59,604</u>	<u>114,820</u>	<u>5,143</u>
Total				<u>\$ 1,809,424</u>	<u>\$ -</u>	<u>\$ 299,604</u>	<u>\$ 1,555,090</u>	<u>\$ 92,723</u>

(1) Drawdowns are not complete, repayment schedule not available at this time.

See accompanying independent auditor's report.

**City of New London
Bond and Note Maturities
June 30, 2005**

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

Year Ending <u>June 30,</u>	----- Urban Renewal ----- Tax Increment Financing <u>Sanitary Sewer</u> <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>	
	Interest <u>Rate</u>	<u>Amount</u>	Interest <u>Rate</u>	<u>Amount</u>	Interest <u>Rate</u>	<u>Amount</u>	<u>Amount</u>	Interest <u>Rate</u>	<u>Amount</u>
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>-</u>
		<u>\$ 10,000</u>		<u>\$ 25,000</u>		<u>\$ 80,000</u>	<u>\$ 105,000</u>		<u>\$ 1,280,000</u>

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

Year Ending <u>June 30,</u>	<u>Fire Truck</u> <u>Danville State Bank</u> <u>Issued November 20, 2003</u>	
	Interest <u>Rate</u>	<u>Amount</u>
2006	2.875%	\$ 12,151
2007	2.875%	12,500
2008	2.875%	12,859
2009	2.875%	13,222
2010	2.875%	13,609
2011	2.875%	14,000
2012	2.875%	14,403
2013	2.875%	14,815
2014	2.875%	<u>7,261</u>
		<u>\$ 114,820</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>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 338,933	\$ 335,928	\$ 324,636
Tax increment financing collections	30,930	27,147	26,431
Other city taxes	145,255	135,775	102,167
Use of money and property	64,074	63,820	67,960
Licenses and permits	2,232	1,745	1,543
Intergovernmental	205,790	243,872	258,095
Charges for services	28,418	36,718	-
Miscellaneous	<u>36,157</u>	<u>35,203</u>	<u>40,665</u>
Total	<u>\$ 851,789</u>	<u>\$ 880,208</u>	<u>\$ 821,497</u>
Disbursements:			
Operating:			
Public safety	\$ 229,864	\$ 228,702	\$ 276,349
Public works	176,035	187,660	172,797
Culture and recreation	105,579	89,922	110,880
Community and economic development	-	200	-
General government	114,271	124,696	120,708
Debt service	64,666	48,874	37,011
Capital projects	<u>81,130</u>	<u>212,581</u>	<u>175,915</u>
Total	<u>\$ 771,545</u>	<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, 2005, and have issued our report thereon dated August 31, 2005. 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 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, 2005 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-05 and II-J-05.

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-05.

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 31, 2005

**City of New London
Schedule of Findings
Year Ended June 30, 2005**

Part I: Findings Related to the Financial Statements

REPORTABLE CONDITIONS

I-A-05 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-05 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, 2005.

II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 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-05 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-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-E-05 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, 2005**

- II-F-05 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-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-05 Bonds and Revenue Notes - The City has complied with the revenue bond and note resolutions.
- II-I-05 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-05 Financial Condition - The Debt Service Fund has a deficit balances at June 30, 2005 of \$26,160.

Recommendation - We understand that project costs incurred prior to receipt of TIF collections and property tax collections created the deficit in this 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.

- II-K-05 Payment of General Obligation Bonds - Certain general obligation bonds were paid from the General Fund and the Road Use Fund. Chapter 384.4 of the Code of Iowa states in part that "Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the Debt Service Fund.

Recommendation - The City should transfer from the General Fund and Road Use Fund to the Debt Service Fund account for future funding contributions. Payments of the debt should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION