

**City of New London**

**Independent Auditor's Report  
Management's Discussion and Analysis  
Financial Statements and Supplementary Information  
Independent Auditor's Report on Internal Control and Compliance  
Schedule of Findings and Questioned Costs**

**June 30, 2011**

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## City of New London

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike McBeth	Mayor	December, 2011
Joe White	Mayor Pro-Tem	December, 2011
Tony Kempker	Council Member	December, 2011
Mark Hempen	Council Member	December, 2013
Alisha Hudnall	Council Member	December, 2013
Dan Berner	Council Member	December, 2013
Kasi A. Howard	City Clerk/Treasurer	Indefinite
Jeri Lyles	Deputy Clerk/Secretary	Indefinite
Danny Cornell	Attorney	Indefinite
Scott Housman	Utility Board Chairman	November, 2015
Gary Blanck	Utility Chairman Pro-Tem	November, 2013
Ron Miller	Utility Trustee	November, 2011
Jerry Wilhelm	Utility Trustee	November, 2013
Daryl Gipple	Utility Trustee	November, 2015



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## Independent Auditor's Report

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 (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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 accounting principles generally accepted in the United States of America.

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 as of June 30, 2011, 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 report dated September 16, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New London's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the eight years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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.

*CPA Associates PC*

September 16, 2011

## **City of New London Management's Discussion and Analysis**

The City of New London (City) 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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2011 FINANCIAL HIGHLIGHTS**

- Receipts of the City's governmental activities (not including transfers) increased less than 1%, or approximately \$4,000, from fiscal 2010 to fiscal 2011.
- Disbursements increased 7%, or approximately \$66,000 in fiscal 2011 from fiscal 2010. Community and economic development, public works, and debt service decreased approximately \$27,000, \$47,000 and \$39,000, respectively. Capital projects, public safety and culture and recreation increased approximately \$155,000, \$15,000 and \$7,000, respectively.
- The City's total cash basis net assets increased 144%, or approximately \$2,582,000, from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities decreased approximately \$71,000 and the assets of the business type activities increased by approximately \$2,653,000.

### **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 and the City's indebtedness.

## **City of New London Management's Discussion and Analysis**

### **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 accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 3) the Capital Projects 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 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.

**City of New London  
Management's Discussion and Analysis**

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 decreased from a year ago, from approximately \$688,000 to approximately \$616,000. 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>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for services	\$ 5	\$ 10
Operating grants, contributions and restricted interest	233	225
Capital grants, contributions and restricted interest	13	14
General receipts:		
Property tax	394	375
Tax increment financing collections	-	32
Local option sales tax	156	140
Unrestricted interest on investments	11	17
Other general receipts	<u>140</u>	<u>135</u>
Total receipts	<u>952</u>	<u>948</u>
Disbursements:		
Public safety	300	285
Public works	175	222
Culture and recreation	144	137
Community and economic development	-	27
General government	159	157
Debt service	7	46
Capital projects	<u>261</u>	<u>106</u>
Total disbursements	<u>1,046</u>	<u>980</u>
Change in cash basis net assets before transfers	(94)	(32)
Transfers	<u>22</u>	<u>22</u>
Change in cash basis net assets	(72)	(10)
Cash basis net assets beginning of year	<u>688</u>	<u>698</u>
Cash basis net assets end of year	<u>\$ 616</u>	<u>\$ 688</u>

The City's total receipts for governmental activities increased by less than 1%, or approximately \$4,000. The total cost of all programs and services increased approximately \$66,000 with no new programs added this year. The significant increase in disbursements was the capital projects payments for the purchase of a building in fiscal year 2011.

**City of New London  
Management's Discussion and Analysis**

The cost of all governmental activities this year was approximately \$1,046,000, compared to approximately \$980,000 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 \$795,000 because some of the cost was paid by those directly benefited from the programs (\$5,000) or by other governments and organizations that subsidized certain programs with grants and contributions (\$246,000).

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)	Year Ended June 30,	
	<u>2011</u>	<u>2010</u>
Receipts:		
Program receipts:		
Charges for services:		
Water	\$ 172	\$ 165
Electric	1,574	1,465
Sewer	201	190
Sanitation	158	144
General receipts:		
Unrestricted interest on investments	26	30
Loan proceeds	4,410	205
Miscellaneous receipts	<u>71</u>	<u>83</u>
Total receipts	<u>6,612</u>	<u>2,282</u>
Disbursements:		
Water	261	219
Electric	3,176	1,635
Sewer	352	249
Sanitation	<u>147</u>	<u>135</u>
Total disbursements	<u>3,936</u>	<u>2,238</u>
Change in cash basis net assets before transfers	2,676	44
Transfers	<u>(22)</u>	<u>(22)</u>
Change in cash basis net assets	2,654	22
Cash basis net assets beginning of year	<u>1,110</u>	<u>1,088</u>
Cash basis net assets end of year	<u>\$ 3,764</u>	<u>\$ 1,110</u>

Total business type activities receipts for the fiscal year were approximately \$6.612 million compared to approximately \$2.282 million the prior year. The significant increase was primarily due to the receipt of approximately \$4.4 million in electric revenue capital loan notes. The cash balance increased approximately \$2,654,000 from the prior year because most of the bond proceeds received will not be spent until next fiscal year for the approved wind turbine project. Total disbursements for the fiscal year increased 75.9% to approximately \$3.936 million.

**INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of New London completed the year, its governmental funds reported a combined fund balance of approximately \$646,000, a decrease of approximately \$61,000 from last year's total of approximately \$707,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

**City of New London  
Management's Discussion and Analysis**

- 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 approximately \$333,000, an increase of approximately \$36,000 from the prior year. This increase was due to an increase in property taxes.
- The Road Use Tax Fund cash balance decreased by approximately \$101,000 to approximately \$48,000 during the fiscal year. This decrease was due to the purchase of road repair equipment in fiscal year 2011.
- The Capital Projects Fund decreased by approximately \$4,000 to approximately \$221,000 during the fiscal year.

**INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

Proprietary Funds

The cash balance of the Enterprise Funds increased by approximately \$2,656,000 to approximately \$3,727,000. This increase was primarily due to the receipt of approximately \$4.4 million in electric revenue capital loan notes for the wind turbine project. Most of the bond proceeds received will not be spent until next fiscal year for this project.

**BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget. The amendment was approved on May 3, 2011 and resulted in an increase in operating disbursements related to a cost overrun of approximately \$504,000 on various projects. Even with these budget amendments, the City exceeded the budget for the Public Safety, Debt Service, and Capital Projects functions for the year ended June 30, 2011. None of the amendments made during the 2011 fiscal year should have any impact on the 2012 fiscal year budget.

**DEBT ADMINISTRATION**

At June 30, 2011, the City had approximately \$5,224,000 in bonds and other long-term debt, compared to approximately \$946,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)	June 30,	
	<u>2011</u>	<u>2010</u>
Revenue notes	\$ 5,067	\$ 611
Capital loan notes	<u>157</u>	<u>335</u>
Total	<u>\$ 5,224</u>	<u>\$ 946</u>

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 capital loan notes of approximately \$157,000 is below its constitutional debt limit of approximately \$3.1 million.

**City of New London  
Management's Discussion and Analysis**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials and citizens considered many factors when setting the 2011 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 7.6%, versus 9.0% a year ago. These indicators were taken into account when adopting the budget for fiscal year 2011. The Trustees of the New London Municipal Utilities started the process to purchase and install a 1.5 Megawatt wind energy converter in fiscal year 2011. The Trustees made this decision in an attempt to become more self-sufficient and offset part of their purchased power cost.

**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 Kasi A. Howard, City Clerk, City of New London, 112 West Main Street, New London, Iowa 52645.

## **BASIC FINANCIAL STATEMENTS**

**City of New London**  
**Statement of Activities and Net Assets - Cash Basis**  
**As of and for the Year Ended June 30, 2011**

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Disbursements	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Functions / Programs:</b>							
Governmental activities:							
Public safety	\$ 299,799	\$ 2,154	\$ 31,266	\$ -	\$ (266,379)	\$ -	\$ (266,379)
Public works	174,753	153	185,510	-	10,910	-	10,910
Culture and recreation	144,401	-	16,088	-	(128,313)	-	(128,313)
General government	158,555	2,684	-	-	(155,871)	-	(155,871)
Debt service	7,776	-	-	-	(7,776)	-	(7,776)
Capital projects	260,827	-	-	13,158	(247,669)	-	(247,669)
Total governmental activities	<u>1,046,111</u>	<u>4,991</u>	<u>232,864</u>	<u>13,158</u>	<u>(795,098)</u>	<u>-</u>	<u>(795,098)</u>
Business type activities:							
Water	261,302	172,143	-	-	-	(89,159)	(89,159)
Electric	3,176,331	1,573,542	-	-	-	(1,602,789)	(1,602,789)
Sewer	351,562	201,025	-	-	-	(150,537)	(150,537)
Sanitation	146,615	158,376	-	-	-	11,761	11,761
Total business type activities	<u>3,935,810</u>	<u>2,105,086</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,830,724)</u>	<u>(1,830,724)</u>
Total	<u>\$ 4,981,921</u>	<u>\$ 2,110,077</u>	<u>\$ 232,864</u>	<u>\$ 13,158</u>	<u>(795,098)</u>	<u>(1,830,724)</u>	<u>(2,625,822)</u>
<b>General Receipts and Transfers:</b>							
Property tax levied for:							
General purposes					394,362	-	394,362
Local option sales tax					156,254	-	156,254
Unrestricted investment earnings					11,353	25,821	37,174
Loan proceeds					-	4,409,625	4,409,625
Miscellaneous					139,288	70,878	210,166
Sale of assets					500	-	500
Transfers					22,000	(22,000)	-
Total general receipts and transfers					<u>723,757</u>	<u>4,484,324</u>	<u>5,208,081</u>
Change in cash basis net assets					(71,341)	2,653,600	2,582,259
Cash basis net assets beginning of year					<u>687,568</u>	<u>1,109,640</u>	<u>1,797,208</u>
Cash basis net assets end of year					<u>\$ 616,227</u>	<u>\$ 3,763,240</u>	<u>\$ 4,379,467</u>
<b>Cash Basis Net Assets</b>							
Restricted:							
Expendable:							
Excess TIF					\$ 7,664	\$ -	\$ 7,664
Road use purposes					47,562	-	47,562
Debt service					-	3,055,519	3,055,519
Unrestricted					<u>561,001</u>	<u>707,721</u>	<u>1,268,722</u>
<b>Total cash basis net assets</b>					<u>\$ 616,227</u>	<u>\$ 3,763,240</u>	<u>\$ 4,379,467</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, 2011**

	General	Special Revenue Road Use	Capital Projects Fund	Other Nonmajor Governmental	Total
<b>Receipts:</b>					
Property tax	\$ 272,596	\$ -	\$ -	\$ 121,766	\$ 394,362
Other taxes	30,000	-	126,254	-	156,254
Use of money and property	66,851	-	6,754	-	73,605
Licenses and permits	595	-	-	-	595
Intergovernmental	55,912	175,216	13,158	-	244,286
Charges for services	28,799	-	-	-	28,799
Miscellaneous	<u>54,745</u>	<u>5,098</u>	<u>3,525</u>	<u>516</u>	<u>63,884</u>
Total receipts	<u>509,498</u>	<u>180,314</u>	<u>149,691</u>	<u>122,282</u>	<u>961,785</u>
<b>Disbursements:</b>					
Operating:					
Public safety	264,344	-	8,900	26,555	299,799
Public works	37,175	126,493	1,771	9,314	174,753
Culture and recreation	133,091	-	-	11,310	144,401
General government	91,032	-	-	67,523	158,555
Debt service	-	7,776	-	-	7,776
Capital projects	-	<u>147,435</u>	<u>113,392</u>	-	<u>260,827</u>
Total disbursements	<u>525,642</u>	<u>281,704</u>	<u>124,063</u>	<u>114,702</u>	<u>1,046,111</u>
Excess (deficiency) of receipts over disbursements	(16,144)	(101,390)	25,628	7,580	(84,326)
<b>Other financing sources (uses):</b>					
Sale of assets	500	-	-	-	500
Operating transfers in	51,935	-	-	-	51,935
Operating transfers out	<u>-</u>	<u>-</u>	<u>(29,935)</u>	<u>-</u>	<u>(29,935)</u>
Net change in cash balances	36,291	(101,390)	(4,307)	7,580	(61,826)
Cash balances beginning of year, restated	<u>296,936</u>	<u>148,952</u>	<u>225,383</u>	<u>36,115</u>	<u>707,386</u>
Cash balances end of year	<u>\$ 333,227</u>	<u>\$ 47,562</u>	<u>\$ 221,076</u>	<u>\$ 43,695</u>	<u>\$ 645,560</u>
<b>Cash Basis Fund Balances</b>					
Restricted:					
Excess TIF	\$ 7,664	\$ -	\$ -	\$ -	\$ 7,664
Road use purposes	-	47,562	-	-	47,562
Assigned for:					
Fire department purposes	22,292	-	-	-	22,292
Library purposes	105,651	-	-	-	105,651
Capital project purposes	-	-	221,076	-	221,076
Other purposes	6,433	-	-	43,695	50,128
Unassigned	<u>191,187</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>191,187</u>
<b>Total cash basis fund balances</b>	<u>\$ 333,227</u>	<u>\$ 47,562</u>	<u>\$ 221,076</u>	<u>\$ 43,695</u>	<u>\$ 645,560</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, 2011**

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**Total governmental funds cash balances (page 11)** \$ 645,560

*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 Activities and Net Assets.

(29,333)

**Cash basis net assets of governmental activities (page 10)** \$ 616,227

**Net change in cash balances (page 11)** \$ (61,826)

*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 in net assets of the Internal Service Fund is reported with governmental activities.

(9,515)

**Change in cash basis net assets of governmental activities (page 10)** \$ (71,341)

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, 2011**

	Enterprise Funds					Total	Internal Service Fund Employee Health
	Water	Electric	Sewer	Sanitation	Utility Deposits		
<b>Operating Receipts:</b>							
Charges for services	\$ 172,143	\$ 1,573,542	\$ 201,025	\$ 158,376	\$ -	\$ 2,105,086	\$ -
Total operating receipts	<u>172,143</u>	<u>1,573,542</u>	<u>201,025</u>	<u>158,376</u>	<u>-</u>	<u>2,105,086</u>	<u>-</u>
<b>Operating Disbursements:</b>							
Business type activities	<u>225,123</u>	<u>1,647,219</u>	<u>172,038</u>	<u>138,839</u>	<u>8,129</u>	<u>2,191,348</u>	<u>11,718</u>
Total operating disbursements	<u>225,123</u>	<u>1,647,219</u>	<u>172,038</u>	<u>138,839</u>	<u>8,129</u>	<u>2,191,348</u>	<u>11,718</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(52,980)</u>	<u>(73,677)</u>	<u>28,987</u>	<u>19,537</u>	<u>(8,129)</u>	<u>(86,262)</u>	<u>(11,718)</u>
<b>Non-operating receipts (disbursements):</b>							
Interest on investments	4,086	16,358	4,621	756	-	25,821	168
Miscellaneous	1,190	68,007	516	700	10,629	81,042	-
Revenue bond proceeds	17,525	4,372,600	19,500	-	-	4,409,625	-
Capital projects	(36,179)	(1,529,112)	(113,025)	-	-	(1,678,316)	-
Debt service	-	-	(66,499)	(7,776)	-	(74,275)	-
Net non-operating receipts (disbursements)	<u>(13,378)</u>	<u>2,927,853</u>	<u>(154,887)</u>	<u>(6,320)</u>	<u>10,629</u>	<u>2,763,897</u>	<u>168</u>
Excess (deficiency) of receipts over disbursements	<u>(66,358)</u>	<u>2,854,176</u>	<u>(125,900)</u>	<u>13,217</u>	<u>2,500</u>	<u>2,677,635</u>	<u>(11,550)</u>
Operating transfers out	<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	(66,358)	2,854,176	(136,900)	2,217	2,500	2,655,635	(11,550)
Cash balances beginning of year	<u>172,847</u>	<u>467,990</u>	<u>368,538</u>	<u>40,252</u>	<u>22,212</u>	<u>1,071,839</u>	<u>17,983</u>
Cash balances end of year	<u>\$ 106,489</u>	<u>\$ 3,322,166</u>	<u>\$ 231,638</u>	<u>\$ 42,469</u>	<u>\$ 24,712</u>	<u>\$ 3,727,474</u>	<u>\$ 6,433</u>
<b>Cash Basis Fund Balances</b>							
Reserved for debt service	\$ -	\$ 3,012,319	\$ -	\$ 43,200	\$ -	\$ 3,055,519	\$ -
Unreserved	<u>106,489</u>	<u>309,847</u>	<u>231,638</u>	<u>(731)</u>	<u>24,712</u>	<u>671,955</u>	<u>6,433</u>
<b>Total cash basis fund balances</b>	<u>\$ 106,489</u>	<u>\$ 3,322,166</u>	<u>\$ 231,638</u>	<u>\$ 42,469</u>	<u>\$ 24,712</u>	<u>\$ 3,727,474</u>	<u>\$ 6,433</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, 2011**

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**Total enterprise funds cash balances (page 13)** \$ 3,727,474

*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 Activities and Net Assets.

35,766

**Cash basis net assets of business type activities (page 10)** \$ 3,763,240

**Net change in cash balances (page 13)** \$ 2,655,635

*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 in net assets of the Internal Service Fund is reported with business type activities.

(2,035)

**Change in cash basis net assets of business type activities (page 10)** \$ 2,653,600

See notes to financial statements.

**City of New London**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies**

The City of New London (City) is a political subdivision of the State of Iowa located in Henry County. It was 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 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 (GASB) 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 GASB 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 Regional 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.

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

*Expendable 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.

**City of New London**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies** (continued)

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 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.

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.

Utility Deposit Fund accounts for deposits that are required when new customers begin using the City's utility services.

**City of New London**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

The City 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 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 accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned.

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.

Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purpose.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

**City of New London**  
**Notes to Financial Statements**

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**Note 1. Summary of Significant Accounting Policies (continued)**

Subsequent Events

The City performed an evaluation of subsequent events through September 16, 2011, which is the date the financial statements were issued. There have been no subsequent events that would require disclosure or recognition in the financial statements as of June 30, 2011.

Recently Adopted Accounting Pronouncements

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which provides clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The City adopted this statement on July 1, 2010.

**Note 2. Cash and Pooled Investments**

The City's deposits at June 30, 2011 were not 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 exceeded their depository resolution at one financial institution by \$288,248.

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 Level 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, 2011 were entirely in certificates of deposit.

**City of New London**  
**Notes to Financial Statements**

**Note 3. Bonds and Notes Payable**

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

Year Ended June 30,	Electric Revenue Capital Loan Notes		Sewer Revenue Bond		Water and Sewer Capital Loan Notes		Other Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 100,000	\$ 175,603	\$ 32,000	\$ 16,560	\$ -	\$ -	\$ 77,105	\$ 6,159
2013	175,000	159,758	33,000	15,600	27,875	-	78,487	3,330
2014	175,000	157,483	34,000	14,610	37,025	-	1,638	47
2015	180,000	154,508	35,000	13,590	-	-	-	-
2016	185,000	150,818	36,000	12,540	-	-	-	-
2017-2021	990,000	676,325	200,000	45,600	-	-	-	-
2022-2026	1,185,000	482,418	182,000	13,890	-	-	-	-
2027-2031	<u>1,460,000</u>	<u>204,842</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,450,000</u>	<u>\$ 2,161,755</u>	<u>\$ 552,000</u>	<u>\$ 132,390</u>	<u>\$ 64,900</u>	<u>\$ -</u>	<u>\$ 157,230</u>	<u>\$ 9,536</u>

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$727,000 in sewer revenue notes issued in April 2005. The notes are payable solely from sewer customer net receipts and are payable through 2025. The total principal and interest remaining to be paid on the notes is \$684,390. For the current year, principal and interest paid and total customer net receipts were \$49,948 and \$28,987, respectively.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$4,450,000 in electric revenue notes issued April 2011. The notes are payable solely from electric customer net receipts and are payable through 2031. Electricity user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements upon completion of the project.

The resolutions providing for the issuance of the sewer and 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.
- (b) Sufficient monthly transfers shall be made to separate electric and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- (c) Electric sinking fund must equal 110% of principal and interest payments due in the succeeding fiscal year. At June 30, 2011, the City has established an electric sinking fund with a balance of \$3,012,319.
- (d) Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements of the next fiscal year.

The City's sewer net revenues for the year ended June 30, 2011 were less than the required 110% of principal and interest due on the bonds.

**City of New London**  
**Notes to Financial Statements**

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**Note 4. Self-Insured Health Benefits**

The City of New London has an agreement to provide certain health benefits to its employees. The City pays 100% of the premium for health insurance. The City also pays 80% of the deductible up to the point where Wellmark Blue Cross Blue Shield of Iowa begins coverage. The total maximum reimbursement liability to be paid by the City is \$72,000. The City's cost related to this reimbursement for the year ended June 30, 2011 was approximately \$12,000.

**Note 5. 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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contributions are established by state statute. The City's contributions to IPERS for the years ended June 30, 2011, 2010, and 2009, were \$52,900, \$47,500 and \$44,400, respectively, equal to the required contributions for each year.

**Note 6. 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, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 20,000
Comp time	<u>1,000</u>
	<u>\$ 21,000</u>

The liability has been computed based on rates of pay as of June 30, 2011.

**Note 7. Related Party Transactions**

Business transactions between the City and City officials or employees totaled \$6,775 during the year ended June 30, 2011.

**City of New London**  
**Notes to Financial Statements**

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**Note 8. Major Supplier**

The Electric power is currently purchased through the Resale Power Group of Iowa. The total amount purchased was \$947,824 which represents 100% of the total kilowatt hours generated and purchased.

**Note 9. Commitments**

The principal commitments of the City are as follows:

Concrete for Child Care fence	\$ 10,000
Sweeper uni-loader	11,000
Library furnace	11,500
Brine truck	11,875
Residential development	20,000
Waste water treatment plant engineering	83,000
Wind turbine project	3,005,028

**Note 10. Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 14 active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$271.82 for single coverage and \$679.54 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$94,706 and plan members eligible for benefits did not contribute to the plan.

**Note 11. 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**

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**Note 12. Franchise Fees**

The City receives franchise fees from Mediacom Communications Corporation at 5% of their gross subscriber revenue. The agreement is for five years ending November 2011.

**Note 13. Unconditional Guarantee**

On April 4, 2008, the City of New London, upon resolution of the City Council, agreed to guarantee the performance by the New London Community and School District Foundation (Foundation) of all terms and conditions of the agreement between the Foundation and the United States Department of Agriculture. The loan was to finance the construction of a child care facility. The New London Community School District is the fee title holder of record, but subject to a leasehold interest granted to the Foundation.

The City of New London, upon notification by the United States Department of Agriculture of any default or non performance of said agreement by the Foundation, shall make payments to cure said default out of any funds of the City of New London, Iowa, including out of its General Operating Fund or its Debt Service Fund established pursuant to Iowa Code 384.4. This Unconditional Guarantee shall be binding on all successive city councils as it is the intent of the City of New London that this Unconditional Guarantee shall exist for as long as the indebtedness to the United States is outstanding. The City waives all defenses to this Unconditional Guarantee, and pledges its full faith and credit to the repayment and guarantee of the loan. As of June 30, 2011, the outstanding loan balance was \$953,845.

**Note 14. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to:	
General fund	\$ 51,935
Sewer revenue	<u>39,745</u>
	<u>\$ 91,680</u>
Transfer from:	
Sewer revenue	\$ 50,745
Sanitation revenue	11,000
Capital projects	<u>29,935</u>
	<u>\$ 91,680</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**REQUIRED SUPPLEMENTARY INFORMATION**

**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, 2011**

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds not Required to be Budgeted	Net	<u>Budgeted Amounts</u>		Final to Net Variance
					<u>Original</u>	<u>Final</u>	
Receipts:							
Property tax	\$ 394,362	\$ -	\$ -	\$ 394,362	\$ 389,015	\$ 389,015	\$ 5,347
Other city taxes	156,254	-	-	156,254	152,341	162,341	(6,087)
Use of money and property	73,605	25,989	168	99,426	96,159	136,159	(36,733)
Licenses and permits	595	-	-	595	2,300	2,300	(1,705)
Intergovernmental	244,286	-	-	244,286	214,685	224,685	19,601
Charges for service	28,799	2,105,086	-	2,133,885	2,628,500	2,628,500	(494,615)
Miscellaneous	<u>63,884</u>	<u>81,042</u>	<u>-</u>	<u>144,926</u>	<u>5,500</u>	<u>5,500</u>	<u>139,426</u>
Total receipts	<u>961,785</u>	<u>2,212,117</u>	<u>168</u>	<u>3,173,734</u>	<u>3,488,500</u>	<u>3,548,500</u>	<u>(374,766)</u>
Disbursements:							
Public safety	299,799	-	-	299,799	271,525	285,025	(14,774)
Public works	174,753	-	-	174,753	216,675	356,675	181,922
Culture and recreation	144,401	-	-	144,401	118,200	168,200	23,799
General government	158,555	-	-	158,555	165,600	165,600	7,045
Debt service	7,776	74,275	-	82,051	-	90,000	7,949
Capital projects	260,827	1,678,316	-	1,939,143	120,000	130,000	(1,809,143)
Business type activities	<u>-</u>	<u>2,203,066</u>	<u>11,718</u>	<u>2,191,348</u>	<u>2,685,500</u>	<u>2,885,500</u>	<u>694,152</u>
Total disbursements	<u>1,046,111</u>	<u>3,955,657</u>	<u>11,718</u>	<u>4,990,050</u>	<u>3,577,500</u>	<u>4,081,000</u>	<u>(909,050)</u>
Excess (deficiency) of receipts over disbursements	(84,326)	(1,743,540)	(11,550)	(1,816,316)	(89,000)	(532,500)	(1,283,816)
Other financing sources, net	<u>22,500</u>	<u>4,387,625</u>	<u>-</u>	<u>4,410,125</u>	<u>-</u>	<u>-</u>	<u>4,410,125</u>
Net change in cash balances	(61,826)	2,644,085	(11,550)	2,593,809	(89,000)	(532,500)	3,126,309
Cash balances beginning of year	<u>707,386</u>	<u>1,089,822</u>	<u>17,983</u>	<u>1,779,225</u>	<u>1,568,645</u>	<u>1,568,645</u>	<u>210,580</u>
Cash balances end of year	<u>\$ 645,560</u>	<u>\$ 3,733,907</u>	<u>\$ 6,433</u>	<u>\$ 4,373,034</u>	<u>\$ 1,479,645</u>	<u>\$ 1,036,145</u>	<u>\$ 3,336,889</u>

See accompanying independent auditor's report.

**City of New London**  
**Notes to Required Supplementary Information - Budgetary Reporting**

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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 not 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 the Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. 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 \$503,500. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Public Safety, Debt Service and Capital Projects functions.

**OTHER SUPPLEMENTARY INFORMATION**

**City of New London**  
**Schedule of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2011**

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	<u>Employee Benefit</u>
Receipts:	
Property taxes	\$ 121,766
Miscellaneous	<u>516</u>
Total receipts	<u>122,282</u>
Disbursements:	
Public safety	26,555
Public works	9,314
Culture and recreation	11,310
General government	<u>67,523</u>
Total disbursements	<u>114,702</u>
Net change in cash balances	7,580
Cash balances beginning of year	<u>36,115</u>
Cash balances end of year	<u>\$ 43,695</u>

See accompanying independent auditor's report.

**City of New London  
Statement of Indebtedness  
Year Ended June 30, 2011**

<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>	<u>Interest Due and Unpaid</u>
<b>Revenue bonds/notes:</b>									
Sewer revenue capital loan bond	4/07/05	3.00%	\$ 727,000	\$ 583,000	\$ -	\$ 31,000	\$ 552,000	\$ 18,948	\$ -
Water revenue capital loan notes	11/09/09	0.00%	100,000	11,875	17,525	-	29,400	-	-
Sewer revenue capital loan notes	11/10/09	0.00%	100,000	16,000	19,500	-	35,500	-	-
Electric revenue capital loan notes	4/28/11	1.10-4.60%	4,450,000	-	<u>4,450,000</u>	-	<u>4,450,000</u>	-	-
Total				<u>610,875</u>	<u>4,487,025</u>	<u>31,000</u>	<u>5,066,900</u>	<u>18,948</u>	<u>-</u>
<b>Other debt:</b>									
Danville State Bank-fire truck	11/20/03	6.00%	135,809	45,511	-	14,655	30,856	3,345	-
Land contract purchase	9/02/08	3.50%	206,804	124,082	-	41,361	82,721	4,343	-
Daimler Chrysler-Freightliner truck	11/25/08	4.55%	106,469	64,066	-	20,413	43,653	2,914	-
Danville State Bank-aerial truck	2/09/10	3.00%	101,000	<u>101,000</u>	-	<u>101,000</u>	-	<u>2,382</u>	-
Total				<u>334,659</u>	<u>-</u>	<u>177,429</u>	<u>157,230</u>	<u>12,984</u>	<u>-</u>
Total of all debt				<u>\$ 945,534</u>	<u>\$ 4,487,025</u>	<u>\$ 208,429</u>	<u>\$ 5,224,130</u>	<u>\$ 31,932</u>	<u>\$ -</u>

See accompanying independent auditor's report.

**City of New London**  
**Bond and Note Maturities**  
**June 30, 2011**

**Other Debt**

Year Ending June 30,	<u>Fire Truck</u>		<u>Land</u>		<u>Freightliner Truck</u>		<u>Other Debt Totals</u>
	<u>Danville State Bank</u>		<u>Contract Purchase</u>		<u>Daimler Chrysler</u>		
	Issued November 20, 2003		Issued September 2, 2008		Issued November 25, 2008		
	Interest		Interest		Interest		
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Amount</u>
2012	6.00%	\$ 14,403	3.50%	\$ 41,361	4.55%	\$ 21,341	\$ 77,105
2013	6.00%	14,815	3.50%	41,360	4.55%	22,312	78,487
2014	6.00%	<u>1,638</u>		<u>-</u>		<u>-</u>	<u>1,638</u>
		<u>\$ 30,856</u>		<u>\$ 82,721</u>		<u>\$ 43,653</u>	<u>\$ 157,230</u>

Year Ending June 30,	<u>Electric Revenue Note</u>		<u>Sewer Revenue Bond</u>		<u>Water Revenue Note</u>		<u>Sewer Revenue Note</u>		Revenue Note/Bond Totals
	Issued April 28, 2011		Issued April 7, 2005		Issued November 9, 2009		Issued November 10, 2009		
	Interest		Interest		Interest		Interest		
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	
2012	1.10%	\$ 100,000	3.00%	\$ 32,000		\$ -		\$ -	\$ 132,000
2013	1.30%	175,000	3.00%	33,000	0.00%	11,875	0.00%	16,000	235,875
2014	1.70%	175,000	3.00%	34,000	0.00%	17,525	0.00%	19,500	246,025
2015	2.05%	180,000	3.00%	35,000		-		-	215,000
2016	2.35%	185,000	3.00%	36,000		-		-	221,000
2017	2.60%	185,000	3.00%	38,000		-		-	223,000
2018	2.95%	190,000	3.00%	39,000		-		-	229,000
2019	3.25%	200,000	3.00%	40,000		-		-	240,000
2020	3.40%	205,000	3.00%	41,000		-		-	246,000
2021	3.65%	210,000	3.00%	42,000		-		-	252,000
2022	3.90%	220,000	3.00%	43,000		-		-	263,000
2023	4.05%	230,000	3.00%	45,000		-		-	275,000
2024	4.15%	235,000	3.00%	46,000		-		-	281,000
2025	4.25%	245,000	3.00%	48,000		-		-	293,000
2026	4.35%	255,000		-		-		-	255,000
2027	4.40%	265,000		-		-		-	265,000
2028	4.45%	280,000		-		-		-	280,000
2029	4.50%	290,000		-		-		-	290,000
2030	4.55%	305,000		-		-		-	305,000
2031	4.60%	<u>320,000</u>		<u>-</u>		<u>-</u>		<u>-</u>	<u>320,000</u>
		<u>\$ 4,450,000</u>		<u>\$ 552,000</u>		<u>\$ 29,400</u>		<u>\$ 35,500</u>	<u>\$ 5,066,900</u>

See accompanying independent auditor's report.

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

	Year Ended June 30,								
	<u>2011</u>	<u>2010</u>	<u>2009*</u>	<u>2008*</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>	<u>2004*</u>	<u>2003*</u>
<b>Receipts:</b>									
Property tax	\$ 394,362	\$ 375,342	\$ 362,711	\$ 355,068	\$ 346,641	\$ 336,364	\$ 338,933	\$ 335,928	\$ 324,636
Tax increment financing collections	-	31,920	31,500	30,071	29,378	31,645	30,930	27,147	26,431
Other city taxes	156,254	140,104	163,702	166,066	146,881	150,312	145,255	135,775	102,167
Use of money and property	73,605	78,524	83,865	97,782	83,138	69,169	64,074	63,820	67,960
Licenses and permits	595	1,110	505	865	880	1,480	2,232	1,745	1,543
Intergovernmental	244,286	239,987	480,174	651,234	300,204	208,805	205,790	243,872	258,095
Charges for services	28,799	25,028	11,909	29,041	26,892	28,185	28,418	36,718	9,313
Miscellaneous	<u>63,884</u>	<u>67,308</u>	<u>21,819</u>	<u>33,053</u>	<u>18,775</u>	<u>22,943</u>	<u>36,157</u>	<u>35,203</u>	<u>31,352</u>
Total	<u>\$ 961,785</u>	<u>\$ 959,323</u>	<u>\$ 1,156,185</u>	<u>\$ 1,363,180</u>	<u>\$ 952,789</u>	<u>\$ 848,903</u>	<u>\$ 851,789</u>	<u>\$ 880,208</u>	<u>\$ 821,497</u>
<b>Disbursements:</b>									
<b>Operating:</b>									
Public safety	\$ 299,799	\$ 284,877	\$ 275,522	\$ 376,362	\$ 296,617	\$ 256,482	\$ 229,864	\$ 228,702	\$ 276,349
Public works	174,753	222,489	184,477	229,548	172,628	208,992	176,035	187,660	172,797
Culture and recreation	144,401	136,748	105,726	118,635	114,108	115,307	105,579	89,922	110,880
Community and economic development	-	27,285	43,493	-	-	-	-	200	-
General government	158,555	157,057	154,095	139,578	122,309	117,137	114,271	124,696	120,708
Debt service	7,776	45,903	31,672	30,725	26,440	27,645	64,666	48,874	37,011
Capital projects	<u>260,827</u>	<u>106,326</u>	<u>422,931</u>	<u>586,374</u>	<u>134,885</u>	<u>43,767</u>	<u>81,130</u>	<u>212,581</u>	<u>175,915</u>
Total	<u>\$ 1,046,111</u>	<u>\$ 980,685</u>	<u>\$ 1,217,916</u>	<u>\$ 1,481,222</u>	<u>\$ 866,987</u>	<u>\$ 769,330</u>	<u>\$ 771,545</u>	<u>\$ 892,635</u>	<u>\$ 893,660</u>

\*Amounts do not include all bank activity for the library

See accompanying independent auditor's report.



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**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

Honorable Mayor and  
Members of the City Council:

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 City of New London, Iowa (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated September 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 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.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City and other parties to whom the City may report, including federal awarding agencies and pass-through entities. 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 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.

*CPA Associates PC*

September 16, 2011

**City of New London**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Part I: Findings Related to the Financial Statements**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-11 Preparation of Financial Statements - The City does not have an internal control system designed to provide for the preparation of the financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore, as auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual for a governmental entity similar in population to the City of New London. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition.

Recommendation - We realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, can be considered costly and ineffective. However, the City's management and those charged with governance should decide whether to accept the degree of risk associated with this condition.

Response - The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion - Response accepted.

I-B-11 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent one individual employee from handling a transaction from its inception to its completion. Management has not separated incompatible activities of personnel, thereby creating risks related to the safeguarding of cash and the accuracy of the financial statements.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City Council and management should continue to provide oversight and direction based upon their direct knowledge of the City's operations and day-to-day contact with employees to control and safeguard assets.

Response - The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion - Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**City of New London**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Part II: Other Findings Related to Required Statutory Reporting**

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011 exceeded the amounts budgeted in the public safety, debt service and capital projects functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

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

Conclusion - Response accepted.

II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 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-E-11 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-F-11 Revenue Notes - The sewer revenue bond sinking fund was not established and monthly transfers were not made to the sewer revenue bond sinking fund as required by the sewer revenue bond resolution.

Recommendation - Monthly transfers should be made to the sewer revenue bond sinking fund as required by the sewer revenue bond resolution.

Response - The City will start the transfer of money to the sewer revenue bond sinking fund.

Conclusion - Response accepted.

II-G-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa except as noted in Finding II-K-11.

**City of New London**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Part II: Other Findings Related to Required Statutory Reporting (continued)**

II-H-11 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title, and Business Connection</u>	<u>Transactions</u>	<u>Amount</u>
Dennis Bozarth, Employee	Fence building, per bid	\$6,700
Donald Warth, Employee	Lot mowing	75

In accordance with Chapter 362.5(11) of the Code of Iowa, the transaction for the lot mowing does not appear to represent conflicts of interest since the total transaction was less than \$1,500 during the fiscal year. The transaction for the fence building does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(3)(d) of the Code of Iowa.

II-I-11 Revenue Bonds - The provisions of the sewer revenue bonds require sewer user rates be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.

During the year ended June 30, 2011, the City was not in compliance with the net revenue requirement for the sewer revenue bonds as required by the bond resolution.

Recommendation - The City should ensure sewer user rates are established at a level which produces net revenues of 110% of the annual principal and interest payments on the bonds.

Response - We will consider increasing the sewer rates to cover this requirement.

Conclusion - Response accepted.

II-J-11 Separately Maintained Records - The City of New London maintains a separate checking account for flag football. This account is separate from the City's accounts allowing transactions to go unrecorded. Accordingly, certain donations and expenditures from these accounts are not being appropriately included on the City's financial statements. The expenditures may not meet the requirements of public purpose and may not be appropriately included within the budget as required by the Code of Iowa.

Recommendation - Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received or expended for any city purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and reported to the Council on a monthly basis.

Response - The City should ensure that procedures are in place to document all receipts and expenditures in accordance with the Code of Iowa.

Conclusion - Response accepted.

**City of New London**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2011**

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**Part II: Other Findings Related to Required Statutory Reporting (continued)**

II-K- 11 Official Depositories - A resolution naming official depositories has been adopted by the Council. The maximum deposit amounts stated in the resolution were exceeded during the year ended June 30, 2011.

Recommendation - The resolution naming official depositories should be reviewed and adjusted to cover anticipated balances at all approved depositories.

Response - The resolution naming official depositories will be reviewed to cover anticipated balances.

Conclusion - Response accepted.

II-L-11 Urban Renewal Tax Increment Fund - The Urban Renewal Tax Increment Fund balance at June 30, 2011 appears to be an excessive amount.

Recommendation - The City should spend this money on improvements in the TIF district. If the City does not have a need for this money in that district, the City should send this overage back to the County.

Response - The City is going to use the money for a project in the district.

Conclusion - Response accepted.