

CITY OF NEW CASTLE, KENTUCKY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITORS' REPORTS

Year Ended June 30, 2010

CITY OF NEW CASTLE, KENTUCKY
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June 30, 2010

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The Honorable Judy Diederich, Mayor
and Members of the City Commission
of the City of New Castle
New Castle, Kentucky 40050

INDEPENDENT AUDITOR'S REPORT

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 Castle, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of New Castle, Kentucky'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Castle, Kentucky, as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2010, on our consideration of the City of New Castle, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements 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 on 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Honorable Judy Diederich, Mayor
and Members of the City Commission
of the City of New Castle
New Castle, Kentucky 40050

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of New Castle, Kentucky's financial statements as a whole. The combining and budget and actual financial statements of the proprietary fund types listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and budget and actual financial statements of the proprietary fund types are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

August 31, 2010

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2010

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash, including time deposits	\$ 191,432	\$ 197,818	\$ 389,250
Interest Receivable	-	325	325
Accounts Receivable (Net)	44,736	55,616	100,352
Due from Other Governments	3,973	-	3,973
Due from Other Funds	(48,915)	48,915	-
Prepaid Expenses	3,923	-	3,923
Total Current Assets	\$ 195,149	\$ 302,674	\$ 497,823
Noncurrent Assets:			
Restricted Assets			
Cash	\$ 770	\$ 214,147	\$ 214,917
Capital Assets (Net)	495,904	2,627,815	3,123,719
Total Noncurrent Assets	\$ 496,674	\$ 2,841,962	\$ 3,338,636
Total Assets	\$ 691,823	\$ 3,144,636	\$ 3,836,459
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	\$ 32,987	\$ 15,735	\$ 48,722
Accrued Compensated Absences	6,174	16,734	22,908
Accrued Taxes/Employee Withholding	2,183	904	3,087
Accrued Interest	674	-	674
Current Liabilities Payable from Restricted Assets:			
Construction Retainage Payable	-	1,000	1,000
Current Portion - Long-term Debt	7,671	30,300	37,971
Total Current Liabilities	\$ 49,689	\$ 64,673	\$ 114,362
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ -	\$ 897,619	\$ 897,619
Note Payable	23,374	-	23,374
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	13,325	13,325
Total Noncurrent Liabilities	\$ 23,374	\$ 910,944	\$ 934,318
Total Liabilities	\$ 73,063	\$ 975,617	\$ 1,048,680
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 464,859	\$ 1,699,896	\$ 2,164,755
Restricted for:			
Debt Service	-	198,090	198,090
Other Purposes	47,636	-	47,636
Unrestricted	106,265	271,033	377,298
Total Net Assets	\$ 618,760	\$ 2,169,019	\$ 2,787,779

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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

		Program Revenues		
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions / Programs				
Governmental Activities:				
General Government	\$ 121,536	\$ 17,243	\$ -	\$ -
Public Safety				
Police Department	64,863	7,885	3,371	8,146
Fire Department	61,231	38,471	8,250	-
Public Services	77,730	81,554	-	-
Highways & Streets	54,615	-	23,622	-
Total Governmental Activities	\$ 379,975	\$ 145,153	\$ 35,243	\$ 8,146
Business-type Activities				
Water	\$ 216,053	\$ 205,563	\$ -	\$ -
Sewer	227,272	212,731	3,910	262,331
Total Business-type Activities	\$ 443,325	\$ 418,294	\$ 3,910	\$ 262,331
Total Government	\$ 823,300	\$ 563,447	\$ 39,153	\$ 270,477
General Revenues:				
Taxes:				
Property Taxes				
Franchise Taxes				
Insurance Taxes				
Unrestricted Investment Income				
Gain on Sale of Fixed Assets				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - July 1				
Net Assets - June 30				

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (104,293)	\$ -	\$ (104,293)
(45,461)	-	(45,461)
(14,510)	-	(14,510)
3,824	-	3,824
<u>(30,993)</u>	<u>-</u>	<u>(30,993)</u>
<u>\$ (191,433)</u>	<u>\$ -</u>	<u>\$ (191,433)</u>
\$ -	\$ (10,490)	\$ (10,490)
-	251,700	251,700
<u>-</u>	<u>251,700</u>	<u>251,700</u>
\$ -	\$ 241,210	\$ 241,210
<u>-</u>	<u>241,210</u>	<u>241,210</u>
\$ (191,433)	\$ 241,210	\$ 49,777
<u>(191,433)</u>	<u>241,210</u>	<u>49,777</u>
\$ 61,817	\$ -	\$ 61,817
38,998	-	38,998
106,418	-	106,418
928	4,256	5,184
6,400	8,110	14,510
4,287	9,320	13,607
<u>\$ 218,848</u>	<u>\$ 21,686</u>	<u>\$ 240,534</u>
\$ 27,415	\$ 262,896	\$ 290,311
591,345	1,906,123	2,497,468
<u>\$ 618,760</u>	<u>\$ 2,169,019</u>	<u>\$ 2,787,779</u>

CITY OF NEW CASTLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

		Other	Total
	General Fund	Governmental	Governmental
ASSETS		Funds	Funds
Cash, including time deposits	\$ 125,544	\$ 65,888	\$ 191,432
Cash, restricted	770	-	770
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Licenses	29,448	-	29,448
Property Taxes	4,200	-	4,200
Garbage	7,333	-	7,333
Franchise Fees	3,755	-	3,755
Due from Other Governments	2,325	1,648	3,973
Prepaid Expenses	3,923	-	3,923
Total Assets	<u>\$ 177,298</u>	<u>\$ 67,536</u>	<u>\$ 244,834</u>
LIABILITIES			
Accounts Payable	\$ 13,087	\$ 19,900	\$ 32,987
Due to Other Funds	48,915	-	48,915
Accrued Compensated Absences	137	-	137
Accrued Taxes / Employee Withholding	2,183	-	2,183
Total Liabilities	<u>\$ 64,322</u>	<u>\$ 19,900</u>	<u>\$ 84,222</u>
FUND BALANCES			
Reserved for:			
Noncurrent Receivables/Prepaid Expense	\$ 3,923	\$ -	\$ 3,923
Unreserved, Reported in:			
General Fund	109,053	-	109,053
Special Revenue Funds	-	47,636	47,636
Total Fund Balances	<u>\$ 112,976</u>	<u>\$ 47,636</u>	<u>\$ 160,612</u>
Total Liabilities and Fund Balances	<u>\$ 177,298</u>	<u>\$ 67,536</u>	<u>\$ 244,834</u>

CITY OF NEW CASTLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2010

Total Governmental Fund Balances	\$ 160,612
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$806,601	495,904
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Long term liabilities are not due and payable in the current period and therefore not reported in the funds:

Obligations under notes payable	(31,045)
Accrued compensated absences	(6,037)
Accrued interest payable	(674)
	<hr/>

Net Assets of Governmental Activities	<u><u>\$ 618,760</u></u>
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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2010

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Property Taxes	\$ 61,817	\$ -	\$ 61,817
Franchise Taxes	38,998	-	38,998
Insurance Taxes	106,418	-	106,418
Charges for Services	81,554	-	81,554
Occupational Licenses	2,655	-	2,655
Interest Revenue	496	432	928
Donations	2,588	-	2,588
Rental Revenue	12,000	-	12,000
Fire Department	38,471	-	38,471
Miscellaneous Revenues	14,287	-	14,287
Proceeds from Outside Sources:			
KY Law Enforcement Found. Program	3,371	-	3,371
KY Public Safety Program	7,885	-	7,885
KY Office of Homeland Security	8,146	-	8,146
Federal Emergency Management Agency	5,981	-	5,981
State Fire Aid	8,250	-	8,250
Municipal Road Aid	-	17,641	17,641
Total Revenues	\$ 392,917	\$ 18,073	\$ 410,990
<u>EXPENDITURES</u>			
Current			
General Government	\$ 119,765	\$ -	\$ 119,765
Public Safety			
Police Department	65,068	-	65,068
Fire Department	33,088	-	33,088
Public Services	77,730	-	77,730
Highways and Streets	22,626	19,900	42,526
Capital Outlay	22,553	-	22,553
Debt Service			
Principal	9,007	-	9,007
Interest	993	-	993
Total Expenditures	\$ 350,830	\$ 19,900	\$ 370,730
Excess of Revenues Over (Under) Expenditures	\$ 42,087	\$ (1,827)	\$ 40,260
Fund Balances - July 1	70,889	49,463	120,352
Fund Balances - June 30	<u>\$ 112,976</u>	<u>\$ 47,636</u>	<u>\$ 160,612</u>

CITY OF NEW CASTLE, KENTUCKY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Net Changes in Fund Balances - Total Governmental Funds \$ 40,260

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

Governmental funds report capital outlays as expenditures.

However, in the Statement of Activities, the cost of those
assets is allocated over their estimated useful lives as
depreciation expense.

Capitalized Expenditures 22,553

Depreciation Expense (43,803)

Some expenses reported in the Statement of Activities,
such as compensated absences, do not require the use
of current financial resources and therefore are not
reported as expenditures in governmental funds.

3,672

Governmental funds only report the disposal of assets to the extent
proceeds are received from the sale. In the Statement of Activities,
a gain or loss is reported for each disposal. This is the difference in
the amount of the gain/loss vs. the proceeds received on asset
disposals.

(3,600)

Interest on long-term debt in the Statement of Activities differs from the
amount reported in the governmental funds because interest is
recognized as an expenditure in the funds when it is due, and thus
requires the use of current financial resources. In the Statement of
Activities, however, interest expense is recognized as the interest
accrues, regardless of when it is due.

(674)

Repayment of note principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
Statement of Net Assets.

9,007

Change in Net Assets of Governmental Activities

\$ 27,415

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2010

	<u>Water/Sewer Utilities Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash, including time deposits	\$ 197,818
Interest Receivable	325
Accounts Receivable (Net)	55,616
Due from Other Funds	<u>48,915</u>
Total Current Assets	\$ 302,674
Noncurrent Assets:	
Restricted Assets	
Cash, including time deposits	\$ 214,147
Capital Assets (Net)	<u>2,627,815</u>
Total Noncurrent Assets	\$ 2,841,962
Total Assets	\$ 3,144,636
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 15,735
Accrued Compensated Absences	16,734
Accrued Taxes / Employee Withholding	904
Current Liabilities Payable from Restricted Assets:	
Construction Retainage Payable	1,000
Revenue Bonds Payable	<u>30,300</u>
Total Current Liabilities	\$ 64,673
Noncurrent Liabilities:	
Revenue Bonds Payable	\$ 897,619
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	<u>13,325</u>
Total Noncurrent Liabilities	\$ 910,944
Total Liabilities	\$ 975,617
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 1,699,896
Restricted for:	
Debt Service	198,090
Unrestricted	<u>271,033</u>
Total Net Assets	\$ 2,169,019

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2010

	Water/Sewer Utilities Enterprise Fund
OPERATING REVENUES	
Water Sales	\$ 205,563
Sewer Services	212,731
Miscellaneous	<u>13,230</u>
Total Operating Revenues	<u>\$ 431,524</u>
OPERATING EXPENSES	
Salaries and Wages	\$ 77,316
Water and Sewer Supplies	15,053
Utilities	9,794
Rent	12,000
Payroll Taxes	5,940
Retirement Benefits	12,750
Vehicle Expenses	8,867
Postage and Office Supplies	5,516
Insurance	47,331
General & Admin. Expenses	25,745
Depreciation	94,778
Miscellaneous	438
Water Purchases	54,192
Repairs and Maintenance	<u>30,902</u>
Total Operating Expenses	<u>\$ 400,622</u>
Operating Income (Loss)	<u>\$ 30,902</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Revenue	\$ 4,256
Sale of Fixed Assets	8,110
Interest Expense	<u>(42,703)</u>
Total Non-Operating Revenues (Expenses):	<u>\$ (30,337)</u>
Net Income (Loss) Before Capital Contributions	\$ 565
Capital Contributions	<u>262,331</u>
Net Income (Loss)	\$ 262,896
Net Assets - July 1	<u>1,906,123</u>
Net Assets - June 30	<u><u>\$ 2,169,019</u></u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2010

		Water/Sewer Utilities Enterprise Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers		\$ 430,711
Payments to Suppliers		(229,604)
Payments to Employees		(72,170)
Receipts of Customer Meter Deposits		5,650
Refunds of Customer Meter Deposits		(3,625)
Net Cash Provided (Used) by Operating Activities		<u>\$ 130,962</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Rural Development Grant Proceeds		\$ 50,000
Kentucky Infrastructure Authority Grant Proceeds		433,951
Capital Lease Proceeds		59,664
Purchase of Capital Assets		(396,700)
Sale of Fixed Assets		8,110
Principal Paid on Capital Lease Obligations		(206,643)
Principal Paid on Capital Debt		(28,700)
Capitalized Interest Paid on Capital Debt		(1,033)
Interest Paid on Capital Debt		(42,703)
Net Cash Provided (Used) by Capital and Related Financing Activities		<u>\$ (124,054)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received		
Net Cash Provided (Used) by Investing Activities		<u>\$ 4,510</u>
Net Increase (Decrease) in Cash and Cash Equivalents		\$ 11,418
Balances - July 1		<u>290,047</u>
Balances - June 30		<u><u>\$ 301,465</u></u>
	Balances Per June 30, 2010 Statement of Net Assets	Balances Per June 30, 2010 Statement of Cash Flows
Cash-Unrestricted	\$ 87,318	\$ 87,318
Time Deposits-Unrestricted	110,500	-
Cash-Restricted	214,147	214,147
Total	<u>\$ 411,965</u>	<u><u>\$ 301,465</u></u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2010

Water/Sewer
Utilities
Enterprise Fund

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ 30,902
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	94,778
 Change in Assets and Liabilities:	
Receivables, Net	(813)
Accounts Payable	(867)
Due From Other Funds	(285)
Customer Meter Deposits	2,025
Accrued Compensated Absences	5,146
Accrued Taxes/Employee Withholding	76
	<hr/>
Net Cash Provided by Operating Activities	<u><u>\$ 130,962</u></u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2010, the Water/Sewer Utilities Enterprise Fund had \$5,338 outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting principles are discussed in subsequent subsections of this Note.

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

Primary Government:	City of New Castle
Blended Component Units:	Water/Sewer Utilities of New Castle

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, "The Financial Reporting Entity," and includes all component units of which the City appointed a voting majority of the units' board; the City is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate entities that meet the component unit criteria described above and whose governing body is the same as or designated by the City Commission or the component unit provides services entirely to the City. These component units' funds are blended into those of the City's by appropriate activity type.

Component units that are blended into the reporting activity types of the City's report are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Water/Sewer Utilities of New Castle	The City Commission operates a combined utilities system to provide residents of the City and certain outlying areas with water, sanitary sewers, and sewage treatment facilities. The City Commission approves the utility rates. The long-term debt of the Utilities is backed by the full faith and credit of the City and is, therefore, a contingent liability to the general government.	Enterprise Fund

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Government-wide Financial Statements: (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function or program of the City's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General Fund is the primary operating fund of the City and always is classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Proprietary Fund

Enterprise Fund

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the City of New Castle Water/Sewer Enterprise Fund.

Fiduciary Funds (Not included in government-wide statements)

None

Major and Nonmajor Funds

The funds are further classified as major or nonmajor as follows:

Fund	Brief Description
<i>Major:</i> General	See above for description.
Proprietary Fund: Water and Sewer	Accounts for activities in providing water and wastewater services to the public.
<i>Nonmajor:</i> Special Revenue Funds:	
Municipal Road Aid	Accounts for revenues and expenditures from the state gasoline tax.

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used as appropriate:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

- a. All governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

For the purpose of the Statement of Net Assets, "cash, including time deposits" includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, "cash and cash equivalents" include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Investments are carried at fair value. Fair value is based on quoted market price.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Those related to goods and services type transactions are classified as "due to and from other funds." Short-term interfund loans are reported as "interfund receivables and payables." Long-term interfund loans (noncurrent portion) are reported as "advances from and to other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include insurance license taxes, franchise taxes, and amounts due from other governments. Business-type activities report utilities and interest earnings as their major receivables.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as insurance license tax, franchise tax, and grants and other similar intergovernmental revenues since they are usually both measurable and available. Nonexchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable and interest earnings compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements, and the City has therefore chosen to report these items as expenditures/expenses at the time of purchase.

Fixed Assets

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1989.

Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. Only major general infrastructure assets acquired, significantly reconstructed, or significantly improved in fiscal years ending after June 30, 1980 have been included. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, AND EQUITY (Continued)

Fixed Assets (Continued)

- Buildings	25-40 years
- Improvements	20-25 years
- Machinery and Equipment	4-20 years
- Utility System	20-50 years
- Infrastructure	20-40 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash, investments, and grant funds receivable of the general fund and proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt obligation accounts and utility meter deposits.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable, notes/leases payable and accrued compensated absences.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Compensated Absences

Under the City's policies employees accumulate vacation time. Unused vacation time can be carried into the next fiscal year. Employees are paid for accumulated sick leave upon retirement or other termination. The liability for these compensated absences is recorded as a current liability.

Equity Classifications

Government-wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES AND EQUITY (Continued)

Equity Classifications (Continued)

- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

Revenues – Exchange and Non-exchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, insurance license taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Insurance license taxes are recognized to the extent known in the period for which the insurance company reports the fee collected. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent January 1, of the following year.

Property tax revenues are recognized when they become available. In the fund financial statements, property taxes are recorded as revenue in the period levied to the extent they are collected within sixty days after year end. An allowance for uncollectible delinquent property taxes is provided to the extent that their collectibility is improbable. Due to the immaterial amount of any additional property taxes receivable after the sixty-day period, no additional accrual is made in the government-wide financial statements.

The Honorable Judy Diederich, Mayor
and Members of the City Commission
of the City of New Castle
New Castle, Kentucky 40050

In planning and performing our audit of the financial statements of the City of New Castle, Kentucky as of and for the year ended June 30, 2010, we considered the order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

We previously reported on the City's internal control in our report dated August 31, 2010. A separate report contains our report on deficiencies in the City's internal control. This report does not affect our report dated August 31, 2010, on the financial statements of the City of New Castle, Kentucky.

We observed certain areas where procedural modifications or revisions to the internal control are needed. This letter summarizes our comments and suggestions for improvement.

We have cited the size of the administrative staff as a material weakness. The City has one employee who is responsible for billing, collecting, processing, and recording transactions. With one individual responsible for all of these functions, the error in the records increases.

In our review of the city's disbursements we found that checks were drawn by the Mayor [or other commissioner] and city clerk. This is a good procedure. However, there are the following areas for improvement:

- Receipts and disbursements for smaller checking accounts might be recorded in minutes on a quarterly basis. *already do this for*
- Paid invoices for prior years may want to be segregated from current year. *did 4 months ago*

The City has several accounts at present not established as interest bearing. Historically low, certain checking accounts should receive nominal interest.

The City should develop or acquire user instructions for all third-party access to the City's information system to alleviate interruptions in City operations.

We will review the status of these comments during our next audit engagement. We discussed many of these comments and suggestions with the Mayor and the City Commission and will be pleased to discuss them in further detail at your convenience, to conduct a study of these matters, or to assist you in implementing the recommendations. This report is intended solely for the information of management, City Commission, City of New Castle, Government and Rural Economic and Community Development Service and should not be used by anyone other than these specified parties.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

August 31, 2010

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. REVENUES, EXPENDITURES, AND EXPENSES (Continued)

Insurance License Tax

The City levies a 12% (twelve percent) license fee upon each insurance company which issues life insurance policies on the lives of persons residing within the corporate limits of the city of the first year's premiums actually collected.

The City levies a 12% (twelve percent) license fee upon each insurance company which issues any insurance policy which is not a life insurance policy of the premiums actually collected for policies on risks located within the corporate limits of the city. The tax imposed upon premium receipts is not levied upon premiums received for insuring employers against personal injuries to their employees, or death caused thereby, under the provisions of the Workers Compensation Act, and does not include premiums received on policies of health insurance. Insurance license fees are payable to the city within 30 (thirty) days after the end of each calendar quarter.

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds-By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay

Proprietary Fund-By Operating and Nonoperating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

The City adheres to the use restrictions established by Kentucky Revised Statutes when expenses are incurred for which both restricted and unrestricted net assets are available. The City has no policy defining which resources (restricted or unrestricted) to use first.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated.

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the City and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.A. FUND ACCOUNTING REQUIREMENTS

The City complies with all state and local laws and regulations requiring separate accounting or use of separate funds. Those funds requiring separate accounting used by the City include the following:

<u>Fund</u>	<u>Required By</u>
Municipal Road Aid	State Law

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Kentucky or political subdivision debt obligations, or surety bonds. As required by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee.

KRS 66.480 authorizes the City to invest in obligations of the United States and its agencies and instrumentalities including repurchase agreements, through sources including national and state banks chartered in Kentucky, obligations and contracts for future delivery backed by the full faith of the United States or its Agency, certificates of deposit and interest bearing accounts in institutions insured by the Federal Depository Insurance Corporation and other investments described therein provided that approved securities are pledged to secure those funds on deposit in an amount equal to the amount of those funds. The City may also invest in mutual funds meeting the requirements of the statute.

2.C. REVENUE RESTRICTIONS

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Municipal Road Aid	Street & Alley Purposes
Water and Sewer Revenue	Debt Service and Utility Operations
State Fire Aid	Fire Equipment Expenditures
Federal Emergency Management Agency	Disaster Related Expenditures
Kentucky Office of Homeland Security	Police Equipment Expenditures

For the year ended June 30, 2010, the City complied, in all material respects, with these revenue restrictions.

2.D. DEBT RESTRICTIONS AND COVENANTS

Utilities Depreciation Account

Under City Ordinance 1983-86, a Depreciation Account was established to provide funds for extraordinary repairs or extensions to the Water distribution system and/or make up any deficiency in the Bond and Interest Sinking Account. The original provisions of the ordinance required the sum of \$115 to be transferred monthly to the Depreciation Account "until there is accumulated" in account the sum of \$13,800, after which no further deposits need to be made into the account except to replace withdrawals.

With the issuance of the 1985 Sewer Revenue Bonds, City Ordinance 1983-86 was amended to increase the \$13,800 maximum accumulation to \$47,000. To meet this increased balance an additional monthly transfer of \$280 to the account was ordered.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.D. DEBT RESTRICTIONS AND COVENANTS (Continued)

Utilities Depreciation Account (Continued)

With the issuance of the 2002 Water Revenue Bonds, City Ordinance 1983-86 was amended to increase the \$47,000 maximum accumulation to \$64,800. To meet this increased balance an additional monthly transfer of \$145 to the account was ordered.

With the issuance of the 2006 Sewer Revenue Bonds, City Ordinance 1983-86 was amended to increase the \$64,800 maximum accumulation to \$73,200. To meet this increased balance an additional monthly transfer of \$70 to the account was ordered.

With the issuance of the 2009 Sewer Revenue Bonds, City Ordinance 1983-86 was amended to increase the \$73,200 maximum accumulation to \$77,400. To meet this increased balance an additional monthly transfer of \$35 to the account was ordered.

In addition to the required monthly deposit indicated above, the 1983-86 ordinance also states that any connection fees or insurance proceeds of the Enterprise Funds are to be deposited into the Depreciation Account as received.

The proper transfers and/or balances within the Depreciation accounts were sufficient to comply with these requirements.

Utilities Revenue Bond & Interest Sinking Account of 1983

The Revenue Bond and Interest Sinking Account of 1983 was established with the issuance of the 1983 City of New Castle Revenue Bonds. The bond ordinance provided for monthly transfers to be calculated as follows:

- (i) Beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one sixth (1/6) of the next succeeding interest installment to become due on all Bonds then outstanding; and
- (ii) Beginning in July 1985, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding July 1.

Utilities Revenue Bond & Interest Sinking Account of 1985

The Revenue Bond and Interest Sinking Account of 1985 was established with the issuance of the 1985 City of New Castle Revenue Bonds. The bond ordinance provided for monthly transfers to be calculated as follows:

- (i) Beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one sixth (1/6) of the next succeeding interest installment to become due on all Bonds then outstanding; and
- (ii) Beginning in July 1986, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding July 1.

Utilities Revenue Bond & Interest Sinking Account of 2002

The Revenue Bond and Interest Sinking Account of 2002 was established with the issuance of the 2002 City of New Castle Revenue Bonds. The bond ordinance provided for monthly transfers to be calculated as follows:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

2.D. DEBT RESTRICTIONS AND COVENANTS (Continued)

- (i) Beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one sixth (1/6) of the next succeeding interest installment to become due on all Bonds then outstanding; and
- (ii) Beginning in July 2004, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding July 1.

Utilities Revenue Bond & Interest Sinking Account of 2006

The Revenue Bond and Interest Sinking Account of 2006 was established with the issuance of the 2006 City of New Castle Revenue Bonds. The bond ordinance provided for monthly transfers to be calculated as follows:

- (i) Beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one sixth (1/6) of the next succeeding interest installment to become due on all Bonds then outstanding; and
- (ii) Beginning in July 2006, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding July 1.

Utilities Revenue Bond & Interest Sinking Account of 2009

The Revenue Bond and Interest Sinking Account of 2009 was established with the issuance of the 2009 City of New Castle Revenue Bonds. The bond ordinance provided for monthly transfers to be calculated as follows:

- (i) Beginning with and including the month in which interest shall last be payable from Bond proceeds, a sum equal to one sixth (1/6) of the next succeeding interest installment to become due on all Bonds then outstanding; and
- (ii) Beginning in July 2009, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding July 1.

Transfers were made as required during the year.

A funded short lived asset account is required under the letter of conditions establishing funding for the 2009 sewer system improvement project. Under this agreement, the City must deposit \$421 monthly into the account. This account may be used as needed to replace or add short lived assets in the City's sewer system. Transfers were made as required during the year.

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

City of New Castle's policies regarding deposits and investments are discussed in Note 2B. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2010. The categories of credit risk are defined as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the City (public trust) or by its agent in its name.

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. CASH AND INVESTMENTS (Continued)

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized with no written or approved collateral agreement.

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 549,104	\$ 408,697	\$ 140,407	\$ -	\$ 493,467
Time Deposits	110,500	-	110,500	-	110,500
Total Deposits	<u>\$ 659,604</u>	<u>\$ 408,697</u>	<u>\$ 250,907</u>	<u>\$ -</u>	<u>\$ 603,967</u>

Reconciliation to Statement of Net Assets:

Unrestricted Cash, Including Time Deposits	\$ 389,250
Restricted Cash	<u>214,917</u>
	<u>\$ 604,167</u>
Carrying Value (Above)	\$ 603,967
Plus Cash on Hand	<u>200</u>
	<u>\$ 604,167</u>

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

	Governmental Activities	Business-type Activities	Total
Downtown Revitalization	\$ 770	\$ -	\$ 770
Bond and Interest Sinking Account of 1983	-	23,253	23,253
Bond and Interest Sinking Account of 1985	-	50,747	50,747
Bond and Interest Sinking Account of 2002	-	12,268	12,268
Bond and Interest Sinking Account of 2006	-	18,642	18,642
Bond and Interest Sinking Account of 2009	-	3,425	3,425
Construction Account	-	90	90
Short Lived Assets Account	-	5,152	5,152
Depreciation Fund	-	84,603	84,603
Customer Deposits	-	15,967	15,967
	<u>\$ 770</u>	<u>\$ 214,147</u>	<u>\$ 214,917</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities consist of franchise tax (8%), insurance licenses (66%), property tax (1%), business licenses and other (25%) receivables. Receivables detail at June 30, 2009, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 49,393	\$ 61,847	\$ 111,240
Allowance for doubtful accounts	<u>(4,657)</u>	<u>(6,231)</u>	<u>(10,888)</u>
Net accounts receivable	<u>\$ 44,736</u>	<u>\$ 55,616</u>	<u>\$ 100,352</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance at July 1, 2009	Additions	Disposals	Balance at June 30, 2010
Governmental Activities:				
Land	\$ 44,100	\$ -	\$ 3,600	\$ 40,500
Buildings & Improvements	312,156	11,947	-	324,103
Machinery & Equipment	705,540	10,606	-	716,146
Infrastructure	221,756	-	-	221,756
Totals at Historical Cost	\$ 1,283,552	\$ 22,553	\$ 3,600	\$ 1,302,505
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 45,334	\$ 1,846	\$ -	\$ 47,180
Machinery & Equipment	553,231	33,062	-	586,293
Infrastructure	164,233	8,895	-	173,128
Total Accumulated Depreciation	\$ 762,798	\$ 43,803	\$ -	\$ 806,601
 Governmental Activities - Capital Assets, Net	<u>\$ 520,754</u>	<u>\$ (21,250)</u>	<u>\$ 3,600</u>	<u>\$ 495,904</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 1,771
Public Safety	
Police Department	3,467
Fire Department	26,476
Highways & Streets	3,194
Infrastructure	8,895
Total Depreciation Expense	<u>\$ 43,803</u>

	Balance at July 1, 2009	Additions	Disposals	Balance at June 30, 2010
Business-type Activities:				
Land & Right of Ways	\$ 33,150	\$ -	\$ -	\$ 33,150
Buildings & Improvements	55,356	9,106	-	64,462
Distribution System	3,199,023	509,221	-	3,708,244
Machinery & Equipment	158,487	90,672	24,179	224,980
Construction in Process	318,038	177,345	495,383	-
Totals at Historical Cost	\$ 3,764,054	\$ 786,344	\$ 519,562	\$ 4,030,836
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 46,757	\$ 2,297	\$ -	\$ 49,054
Distribution System	1,143,400	79,959	-	1,223,359
Machinery & Equipment	142,265	12,522	24,179	130,608
Total Accumulated Depreciaton	\$ 1,332,422	\$ 94,778	\$ 24,179	\$ 1,403,021
 Business-type capital assets, net	<u>\$ 2,431,632</u>	<u>\$ 691,566</u>	<u>\$ 495,383</u>	<u>\$ 2,627,815</u>

Depreciation Expense was charged to the business activities as follows:

Water	\$ 32,872
Sewer	61,906
Total Depreciation Expense	<u>\$ 94,778</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. SHORT-TERM DEBT

The City entered into a lease agreement with the Kentucky League of Cities Funding Trust as part of the financing necessary for its KY55-US421 sewer line extension project. The principal amount was limited to \$475,000 and was to be repaid through state grant proceeds. The lease was repaid in full in August, 2009.

Changes in Short-term Debt

The following is a summary of changes in short-term debt for the fiscal year ended June 30, 2010:

Type of Debt	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Current Portion
Business-type Activities					
Capital Lease Obligations	\$ 146,979	\$ 59,664	\$ 206,643	\$ -	\$ -
Totals	<u>\$ 146,979</u>	<u>\$ 59,664</u>	<u>\$ 206,643</u>	<u>\$ -</u>	<u>\$ -</u>

3.F. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities.

Governmental-type Activities:

As of June 30, 2010, the governmental long-term debt of the financial reporting entity consisted of the following:

Note Payable for fire department equipment	\$ 31,045
Current Portion	\$ 7,671
Noncurrent Portion	23,374
Total	<u>\$ 31,045</u>

Business-type Activities:

Bonds Payable:

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series of 1983, original issue amount of \$230,000, secured by utility revenues. Interest is charged at the rate of 5% per annum. Final maturity is July 1, 2023.

	\$ 130,000
Current Portion	\$ 7,000
Noncurrent Portion	123,000
Total Bonds Payable	<u>\$ 130,000</u>

City of New Castle, Kentucky, Sewer Utilities Revenue Bonds Series of 1985, original issue amount of \$568,000, secured by utility revenues. Interest is charged at the rate of 5% per annum. Final maturity is July 1, 2024.

	\$ 288,719
Current Portion	\$ 16,000
Noncurrent Portion	272,719
Total Bonds Payable	<u>\$ 288,719</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. LONG-TERM DEBT (Continued)

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series of 2002, original issue amount of \$300,000, secured by utility revenues. Interest is charged at the rate of 4.5% per annum. Final maturity is July 1, 2042.

\$	280,500
<hr/>	
Current Portion	\$ 4,000
Noncurrent Portion	276,500
Total Bonds Payable	<u>\$ 280,500</u>

City of New Castle, Kentucky, Sewer Utilities Revenue Bonds Series of 2006, original issue amount of \$147,000, secured by utility revenues. Interest is charged at the rate of 4.25% per annum. Final maturity is July 1, 2044.

\$	140,100
<hr/>	
Current Portion	\$ 1,900
Noncurrent Portion	138,200
Total Bonds Payable	<u>\$ 140,100</u>

City of New Castle, Kentucky, Sewer Utilities Revenue Bonds Series of 2009, original issue amount of \$90,000, secured by utility revenues. Interest is charged at the rate of 2.75% per annum. Final maturity is July 1, 2047.

\$	88,600
<hr/>	
Current Portion	\$ 1,400
Noncurrent Portion	87,200
Total Bonds Payable	<u>\$ 88,600</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2010:

<u>Type of Debt</u>	<u>Balance July 1, 2009</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2010</u>	<u>Current Portion</u>
Governmental Activities					
Note Payable	\$ 40,052	\$ -	\$ 9,007	\$ 31,045	\$ 7,671
Business-type Activities					
Bonds Payable	956,619	-	28,700	927,919	30,300
Total Debt	<u>\$ 996,671</u>	<u>\$ -</u>	<u>\$ 37,707</u>	<u>\$ 958,964</u>	<u>\$ 37,971</u>

Governmental Activities

Note Payable

The amount shown in the accompanying financial statement as note payable represents the City's future obligations to make annual payments with United Citizens Bank for fire equipment.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. LONG-TERM DEBT (Continued)

Governmental Activities (Continued)

The City's obligation under the note is a general obligation of the City. Under this obligation the full faith credit and revenue of the City are pledged for its payment.

The original balance of the note was \$40,052. Payments of \$9,060 principal and interest are due annually.

The City entered into a five year note for the fire equipment. The obligations of the note at June 30, 2010 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Total Payment	Balance at End of Year
				\$ 31,045
2010-11	\$ 7,671	\$ 1,389	\$ 9,060	23,374
2011-12	7,997	1,063	9,060	15,377
2012-13	8,336	724	9,060	7,041
2013-14	7,041	369	7,410	-
	<u>\$ 31,045</u>	<u>\$ 3,545</u>	<u>\$ 34,590</u>	<u>\$ -</u>

Business Activities

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series 1983

The original amount of the issue, the current amount outstanding, and the interest rate are summarized below:

Original Amount	Outstanding Balance	Interest Rate
\$230,000	\$130,000	5%

The Bonds mature on July 1, 2023, and are payable as to principal to Rural Economic and Community Development. The Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to redemption on July 1 of the years 1986 through 2023. Interest is payable semiannually (July 1, and January 1, commencing January 1, 1986).

Bonds maturing on or after July 1, 1994, are callable in reverse chronological order on any interest payment date. Notice of redemption must be delivered to holder at least thirty (30) days in advance. At redemption, holder will receive the face amount of the bond plus accrued interest. There will be no penalty for prepayment.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2010, for debt service (principal and interest) are as follows:

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bonds Outstanding At End of Year
				\$ 130,000
2011	\$ 7,000	\$ 6,500	\$ 13,500	123,000
2012	7,000	6,150	13,150	116,000
2013	8,000	5,800	13,800	108,000
2014	8,000	5,400	13,400	100,000
2015	9,000	5,000	14,000	91,000
2016-20	51,000	17,900	68,900	40,000
2021-23	40,000	4,200	44,200	-
	<u>\$ 130,000</u>	<u>\$ 50,950</u>	<u>\$ 180,950</u>	<u>\$ -</u>

Water Sinking

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. LONG-TERM DEBT (Continued)

Business Activities (Continued)

City of New Castle, Kentucky, Sewer Utilities Revenue Bonds Series 1985

The original amount of the issue, the current amount outstanding, and the interest rate are summarized below:

Original Amount	Outstanding Balance	Interest Rate
\$568,000	\$288,719	5%

The Bonds mature on July 1, 2024, and are payable as to principal to Rural Economic and Community Development. The Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to redemption on July 1 of the years 1988 through 2024. Interest is payable semiannually (July 1, and January 1, commencing July 1, 1988).

Bonds maturing on or after July 1, 1996, are callable in reverse chronological order on any interest payment date. Notice of redemption must be delivered to holder at least thirty (30) days in advance. At redemption, holder will receive the face amount of the bond plus accrued interest. There will be no penalty for prepayment. At the date of issuance of the bonds, the total cost of the project was overestimated by \$59,694. Therefore, this amount was called prior to the scheduled maturity date. An additional \$2,587 was called prior to scheduled maturity during the fiscal year ending June 30, 1988.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2010, for debt service (principal and interest) are as follows:

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bonds Outstanding At End of Year
				\$ 288,719
2011	\$ 16,000	\$ 14,436	\$ 30,436	272,719
2012	17,000	13,636	30,636	255,719
2013	18,000	12,786	30,786	237,719
2014	19,000	11,886	30,886	218,719
2015	20,000	10,936	30,936	198,719
2016-20	115,000	38,680	153,680	83,719
2021-24	83,719	8,594	92,313	-
	<u>\$ 288,719</u>	<u>\$ 110,954</u>	<u>\$ 399,673</u>	<u>\$ -</u>

*Sewer
Sinking*

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series 2002

The original amount of the issue, the current amount outstanding, and the interest rate are summarized below:

Original Amount	Outstanding Balance	Interest Rate
\$300,000	\$280,500	4.5%

The Bonds mature on July 1, 2042, and are payable as to principal to Rural Economic and Community Development. The Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to redemption on July 1 of the years 2005 through 2042. Interest is payable semiannually (July 1, and January 1, commencing July 1, 2003).

Bonds maturing on or after July 1, 2012, are callable in reverse chronological order on any interest payment date. Notice of redemption must be delivered to holder at least thirty (30) days in advance. At redemption, holder will receive the face amount of the bond plus accrued interest. There will be no penalty for prepayment.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2010, for debt service (principal and interest) are as follows:

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bonds Outstanding At End of Year
				\$ 280,500
2011	\$ 4,000	\$ 12,623	\$ 16,623	276,500
2012	4,000	12,443	16,443	272,500
2013	4,500	12,263	16,763	268,000
2014	4,500	12,060	16,560	263,500
2015	4,500	11,858	16,358	259,000
2016-20	27,000	55,958	82,958	232,000
2021-25	34,000	49,299	83,299	198,000
2026-30	43,000	40,861	83,861	155,000
2031-35	55,000	30,151	85,151	100,000
2036-40	68,500	16,629	85,129	31,500
2041-42	31,500	2,138	33,638	-
	<u>\$ 280,500</u>	<u>\$ 256,283</u>	<u>\$ 536,783</u>	<u>\$ -</u>

*Water
Tank*

City of New Castle, Kentucky, Sewer Utilities Revenue Bonds Series 2006

The original amount of the issue, the current amount outstanding, and the interest rate are summarized below:

Original Amount	Outstanding Balance	Interest Rate
\$147,000	\$140,100	4.25%

The Bonds mature on July 1, 2044, and are payable as to principal to Rural Economic and Community Development. The Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to redemption on July 1 of the years 2007 through 2044. Interest is payable semiannually (July 1, and January 1, commencing July 1, 2006).

Bonds maturing on or after July 1, 2015, are callable in reverse chronological order on any interest payment date. Notice of redemption must be delivered to holder at least thirty (30) days in advance. At redemption, holder will receive the face amount of the bond plus accrued interest. There will be no penalty for prepayment.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2010, for debt service (principal and interest) are as follows:

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bonds Outstanding At End of Year
				\$ 140,100
2011	\$ 1,900	\$ 5,955	\$ 7,855	138,200
2012	2,000	5,874	7,874	136,200
2013	2,100	5,789	7,889	134,100
2014	2,200	5,700	7,900	131,900
2015	2,300	5,606	7,906	129,600
2016-20	13,000	26,479	39,479	116,600
2021-25	15,800	23,492	39,292	100,800
2026-30	19,500	19,831	39,331	81,300
2031-35	24,000	15,324	39,324	57,300
2036-40	29,600	9,769	39,369	27,700
2041-44	27,700	2,951	30,651	-
	<u>\$ 140,100</u>	<u>\$ 126,770</u>	<u>\$ 266,870</u>	<u>\$ -</u>

*Sewer
2006*

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. LONG-TERM DEBT (Continued)

Business Activities (Continued)

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series 2009

The original amount of the issue, the current amount outstanding, and the interest rate are summarized below:

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$90,000	\$88,600	2.75%

The Bonds mature on July 1, 2047, and are payable as to principal to Rural Economic and Community Development. The Bonds are subject to mandatory sinking fund redemption at a price of par plus accrued interest to redemption on July 1 of the years 2010 through 2047. Interest is payable semiannually (July 1, and January 1, commencing July 1, 2010).

Bonds maturing on or after July 1, 2019, are callable in reverse chronological order on any interest payment date. Notice of redemption must be delivered to holder at least thirty (30) days in advance. At redemption, holder will receive the face amount of the bond plus accrued interest. There will be no penalty for prepayment.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2010, for debt service (principal and interest) are as follows:

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bond Outstanding At End of Year
				\$ 88,600
2011	\$ 1,400	\$ 2,437	\$ 3,837	87,200
2012	1,400	2,398	3,798	85,800
2013	1,500	2,360	3,860	84,300
2014	1,500	2,319	3,819	82,800
2015	1,600	2,277	3,877	81,200
2016-20	8,600	10,707	19,307	72,600
2021-25	9,900	9,453	19,353	62,700
2026-30	11,200	8,027	19,227	51,500
2031-35	12,800	6,399	19,199	38,700
2036-40	14,700	4,535	19,235	24,000
2041-45	17,000	2,395	19,395	7,000
2046-47	7,000	284	7,284	-
	<u>\$ 88,600</u>	<u>\$ 53,591</u>	<u>\$ 142,191</u>	<u>\$ -</u>

The bonds were issued to pay a portion of the costs of water system additions and sewer improvements to the City's combined municipal water and sewer distribution system. The revenue bonds are collateralized by the revenue of the utilities and the various special funds established by the bond ordinance.

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2010, are as follows:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.F. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 7,671	\$ 1,389	\$ 30,300	\$ 41,951
2012	7,997	1,063	31,400	40,501
2013	8,336	724	34,100	38,998
2014	7,041	369	35,200	37,365
2015	-	-	37,400	35,677
2016-20	-	-	214,600	149,724
2021-25	-	-	183,419	95,038
2026-30	-	-	73,700	68,719
2031-35	-	-	91,800	51,874
2036-40	-	-	112,800	30,933
2041-45	-	-	76,200	7,484
2046-47	-	-	7,000	284
Total	<u>\$ 31,045</u>	<u>\$ 3,545</u>	<u>\$ 927,919</u>	<u>\$ 598,548</u>

3.G. INTEREST EXPENSE

Interest expense for the governmental funds for the year ended June 30, 2010 was \$993. No interest has been capitalized for the governmental funds. Interest expense for the enterprise fund for the year ended June 30, 2010, was \$42,703. \$619 interest has been capitalized for the enterprise fund.

3.H. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2010, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
Enterprise Fund	General Fund	\$ 48,915	Advances for operating expenditures
Total		<u>\$ 48,915</u>	

3.I. FUND EQUITY

Restricted Net Assets

The following table shows the restricted net assets as shown on the Statement of Net Assets:

Governmental Activities (other purposes)

Activity	Restricted by	
Municipal Road Aid	State Law	\$ 47,636
		<u>\$ 47,636</u>

Business-type Activities

Enterprise Fund:

Restricted for Debt Service:

1983 Water Utilities Revenue Bonds-Cash	\$ 62,383
1985 Sewer Utilities Revenue Bonds-Cash	79,360
2002 Water Utilities Revenue Bonds-Cash	24,518
2006 Sewer Utilities Revenue Bonds-Cash	22,732
2009 Sewer Utilities Revenue Bonds-Cash	9,097
Total Restricted For Debt Service	<u>\$ 198,090</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.I. FUND EQUITY (Continued)

The following table shows the reservation/designation of fund equity as shown on the Balance Sheet – Governmental Funds:

The City has reserved the following amount of the fund balance at June 30, 2010, to indicate the lack of liquidity associated with the following assets:

General Fund:

Prepaid Insurance	<u>\$ 3,923</u>
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NOTE 4. OTHER NOTES

4.A. PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Commission as of July 1, 1988. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2009. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries. Information regarding total payroll for employees covered by the system for the year ended June 30, 2010, is not available.

Non-Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous duty positions of each participating county, city, and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the (COLA) is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the (COLA). The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the year ended June 30, 2009, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2009, participating employers contributed 13.5% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2009 was 13.5% of creditable compensation. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members'

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.A. PENSION PLAN (Continued)

accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

For non-hazardous duty, the required contributions to the plan were as follows:

	Annual Required Contributions	Actual Contributions	Percentage Contributed
June 30, 2009	\$ 425,830,683	\$ 310,669,790	72.9
June 30, 2008	544,853,127	353,038,626	64.8
June 30, 2007	398,108,795	281,493,082	70.7

Hazardous Employees Pension Plan

Plan Description - CERS is a cost-sharing multiple-employer defined benefit pension plan that covers substantially all regular full-time members employed in hazardous duty positions of each county and school board, and any additional eligible local agencies electing to participate in CERS. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed five percent in any plan year. Effective July 1, 2009, and on July 1 of each year thereafter, the (COLA) is limited to 1.5% provided the recipient has been receiving a benefit for at least 12 months prior to the effective date of the (COLA). The Kentucky General Assembly reserves the right to suspend or reduce cost-of-living adjustment if in its judgment the welfare of the Commonwealth so demands.

Contributions - For the year ended June 30, 2009, plan members were required to contribute 8% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2009, participating employers contributed 29.50% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2009 was 29.50% of creditable compensation. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 9% of their annual creditable compensation. Eight percent of the contribution was deposited to the member's account while 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 8% of their annual creditable compensation.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.A. PENSION PLAN (Continued)

For hazardous duty, the required contributions to the plan were as follows:

	<u>Required Contributions</u>	<u>Actual Contributions</u>	<u>Percentage Contributed</u>
June 30, 2009	\$ 195,813,713	\$ 149,564,856	76.4
June 30, 2008	232,805,702	162,687,708	70.0
June 30, 2007	169,828,737	132,282,426	77.9

The City's General Fund total payroll for the fiscal year ended June 30, 2010, was \$58,759. Contributions were based on \$56,659 (eligible gross wages). The total pension expense for the year ended June 30, 2010, was \$13,960 and \$3,690 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2010, was \$77,552. Contributions were based on \$73,352 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2010, was \$11,854 and \$3,668 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's contribution for the year ended June 30, 2009, (general fund and proprietary fund combined) was .004 percent of the System's total contribution requirements for all employers.

4.B. RISK MANAGEMENT

Insurance and Related Activities

The City is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risks are covered through the purchase of commercial insurance. The City is also subject to the risks associated with employee injury. These risks are covered through premiums paid to the Kentucky League of Cities, Workers' Compensation Trust. Such coverage is retrospectively rated and premiums may be adjusted based on experience.

4.C. COMMITMENTS & CONTINGENCIES

The City receives funding from Federal, State, and Local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based on the grantor's review, the funds are considered not to have been used for the intended purposes, the grantors may request a refund of monies advanced, or refuse to reimburse the City for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the City's grant programs is predicted upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The City was awarded a \$475,000 grant through Kentucky Infrastructure Authority for the acquisition, construction, and installation of the KY 55 – US 421 sewer line extension project. The project was completed during the fiscal year ending June 30, 2010. \$41,049 of grant funds are still available for additional sewer renovations not yet approved or requested.

The City approved a South Main wastewater line upgrade project for \$140,000. Rural development grant monies of \$50,000 and revenue bonds of \$90,000 are financing the project. The project was completed during the fiscal year ending June 30, 2010.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

Segment Information – Enterprise Fund The City maintains an enterprise fund which provides water and sewer services. Selected financial information for business segments of the enterprise fund for the year ended June 30, 2010, is presented as follows:

CONDENSED STATEMENT OF NET ASSETS

	Water	Sewer	Total
Assets:			
Due From Other Funds	\$ 17,215	\$ 31,700	\$ 48,915
Other Current Assets	109,376	144,383	253,759
Other Noncurrent Assets	102,868	111,279	214,147
Capital Assets (Net)	1,042,775	1,585,040	2,627,815
Total Assets	\$ 1,272,234	\$ 1,872,402	\$ 3,144,636
Liabilities:			
Other Current Liabilities	\$ 27,890	\$ 36,783	\$ 64,673
Noncurrent Liabilities	412,825	498,119	910,944
Total Liabilities	\$ 440,715	\$ 534,902	\$ 975,617
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 632,275	\$ 1,067,621	\$ 1,699,896
Restricted	86,901	111,189	198,090
Unrestricted	112,343	158,690	271,033
Total Net Assets	\$ 831,519	\$ 1,337,500	\$ 2,169,019

CONDENSED STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Water	Sewer	Total
Operating Revenues	\$ 209,289	\$ 222,235	\$ 431,524
Depreciation Expense	(32,872)	(61,906)	(94,778)
Other Operating Expenses	(163,551)	(142,293)	(305,844)
Operating Income (Loss)	\$ 12,866	\$ 18,036	\$ 30,902
Nonoperating Revenues (Expenses):			
Investment Income	\$ 2,024	\$ 2,232	\$ 4,256
Interest Expense	(19,630)	(23,073)	(42,703)
Capital Contributions	-	262,331	262,331
Sale of Fixed Assets	-	8,110	8,110
Transfers	2,636	(2,636)	-
Change in Net Assets	\$ (2,104)	\$ 265,000	\$ 262,896
Beginning Net Assets	833,623	1,072,500	1,906,123
Ending Net Assets	\$ 831,519	\$ 1,337,500	\$ 2,169,019

CONDENSED STATEMENT OF CASH FLOWS

	Water	Sewer	Total
Net Cash Provided (Used) by:			
Operating Activities	\$ 47,775	\$ 83,187	\$ 130,962
Capital and Related Financing Activities	(39,504)	(84,550)	(124,054)
Non-Capital Financing Activities	2,636	(2,636)	-
Investing Activities	2,181	2,329	4,510
Net Increase (Decrease)	\$ 13,088	\$ (1,670)	\$ 11,418
Beginning Cash and Cash Equivalents	116,776	173,271	290,047
Ending Cash and Cash Equivalents	\$ 129,864	\$ 171,601	\$ 301,465

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2010

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Income Tax Status

The City is exempt from federal and state income taxes. Accordingly, the financial statements include no provision for income taxes.

Economic Dependence

The City has a long-term contract with Henry County Water District #2 for the purchase of treated water. The contract is dated September 4, 2002, for a period of 40 years. The annual consumption limit is 73 million gallons per year.

CITY OF NEW CASTLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2010

	Budgeted Amounts			Variance With Final Budget Favorable (Unfavorable)
	Original	Final	Actual Amounts	
REVENUES				
Property Taxes	\$ 57,000	\$ 58,000	\$ 61,817	\$ 3,817
Franchise Taxes	36,000	37,000	38,998	1,998
Insurance Taxes	100,000	100,000	106,418	6,418
Charges for Services	77,730	80,000	81,554	1,554
Occupational Licenses	2,600	2,600	2,655	55
Interest Revenue	300	400	496	96
Donations	-	-	2,588	2,588
Rental Revenue	12,000	12,000	12,000	-
Fire Department	35,600	35,600	38,471	2,871
Miscellaneous Revenues	3,100	108,032	14,287	(93,745)
Proceeds from Outside Sources:				
KY Law Enforcement Foundation Program	4,000	4,000	3,371	(629)
KY Public Safety Program	6,000	7,000	7,885	885
KY Office of Homeland Security	-	-	8,146	8,146
Federal Emergency Management Agency	-	-	5,981	5,981
State Fire Aid	8,200	8,200	8,250	50
Total Revenues	\$ 342,530	\$ 452,832	\$ 392,917	\$ (59,915)
EXPENDITURES				
Current				
General Government	\$ 118,370	\$ 117,132	\$ 119,765	\$ (2,633)
Public Safety				
Police Department	82,904	81,487	65,068	16,419
Fire Department	51,300	51,300	33,088	18,212
Public Services	77,730	77,730	77,730	-
Highways & Streets	23,000	24,000	22,626	1,374
Capital Outlay	1,000	86,307	22,553	63,754
Debt Service				
Principal	-	-	9,007	(9,007)
Interest	-	-	993	(993)
Total Expenditures	\$ 354,304	\$ 437,956	\$ 350,830	\$ 87,126
Excess of Revenues Over (Under) Expenditures	\$ (11,774)	\$ 14,876	\$ 42,087	\$ 27,211
Fund Balances - July 1	69,520	42,646	70,889	28,243
Fund Balances - June 30	\$ 57,746	\$ 57,522	\$ 112,976	\$ 55,454

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2010

Budgetary Accounting

The City Commission follows these procedures in establishing the budgetary data for the general fund included in the required supplementary information.

- (1) The Mayor and City Clerk-Treasurer submit to the City Commission a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. Detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to June 30, the budget is legally enacted through passage of an ordinance.
- (4) The City Clerk-Treasurer presents monthly financial statements to the City Commission comparing actual year to date expenditures to budgeted expenditures.
- (5) Formal budgetary integration is employed as a management control device during the year.
- (6) The budget for the General Fund is prepared on the modified accrual basis of accounting.
- (7) Appropriations lapse at the end of each fiscal year.
- (8) The City Commission may authorize supplemental appropriations during the year. The budget was amended by ordinance once during the year.

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CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF NET ASSETS
ALL PROPRIETARY FUND TYPES
June 30, 2010, and 2009

ASSETS	June 30, 2010		Totals
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	
Current Assets:			
Cash, including time deposits	\$ 81,996	\$ 115,822	\$ 197,818
Interest Receivable	158	167	325
Accounts Receivable - (Net)	27,222	28,394	55,616
Due from Other Funds	17,215	31,700	48,915
Total Current Assets	\$ 126,591	\$ 176,083	\$ 302,674
Noncurrent Assets:			
Restricted Assets			
Cash, including time deposits	\$ 102,868	\$ 111,279	\$ 214,147
Construction Grant Receivable	-	-	-
Capital Assets (Net)	1,042,775	1,585,040	2,627,815
Total Noncurrent Assets	\$ 1,145,643	\$ 1,696,319	\$ 2,841,962
Total Assets	\$ 1,272,234	\$ 1,872,402	\$ 3,144,636
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 7,817	\$ 7,918	\$ 15,735
Accrued Compensated Absences	8,367	8,367	16,734
Accrued Taxes / Employee Withholding	706	198	904
Current Liabilities Payable from Restricted Assets:			
Construction Accounts Payable	-	-	-
Construction Retainage Payable	-	1,000	1,000
Accrued Interest Payable	-	-	-
Capital Lease Obligations	-	-	-
Revenue Bonds Payable	11,000	19,300	30,300
Total Current Liabilities	\$ 27,890	\$ 36,783	\$ 64,673
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ 399,500	\$ 498,119	\$ 897,619
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	13,325	-	13,325
Total Noncurrent Liabilities	\$ 412,825	\$ 498,119	\$ 910,944
Total Liabilities	\$ 440,715	\$ 534,902	\$ 975,617
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 632,275	\$ 1,067,621	\$ 1,699,896
Restricted for:			
Debt Service	86,901	111,189	198,090
Unrestricted	112,343	158,690	271,033
Total Net Assets	\$ 831,519	\$ 1,337,500	\$ 2,169,019

June 30, 2009		
Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
\$ 74,557	\$ 92,177	\$ 166,734
315	264	579
26,583	28,220	54,803
17,430	31,200	48,630
<u>\$ 118,885</u>	<u>\$ 151,861</u>	<u>\$ 270,746</u>
\$ 97,219	\$ 136,594	\$ 233,813
-	221,620	221,620
1,066,273	1,365,358	2,431,631
<u>\$ 1,163,492</u>	<u>\$ 1,723,572</u>	<u>\$ 2,887,064</u>
\$ 1,282,377	\$ 1,875,433	\$ 3,157,810
\$ 9,999	\$ 2,265	\$ 12,264
5,794	5,794	11,588
661	167	828
-	92,160	92,160
-	19,535	19,535
-	414	414
-	146,979	146,979
10,500	18,200	28,700
<u>\$ 26,954</u>	<u>\$ 285,514</u>	<u>\$ 312,468</u>
\$ 410,500	\$ 517,419	\$ 927,919
11,300	-	11,300
<u>\$ 421,800</u>	<u>\$ 517,419</u>	<u>\$ 939,219</u>
\$ 448,754	\$ 802,933	\$ 1,251,687
\$ 645,273	\$ 829,739	\$ 1,475,012
83,332	97,110	180,442
105,018	145,651	250,669
<u>\$ 833,623</u>	<u>\$ 1,072,500</u>	<u>\$ 1,906,123</u>

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ALL PROPRIETARY FUND TYPES
For the Fiscal Years Ended June 30, 2010 and 2009

	Year Ended June 30, 2010			Year Ended June 30, 2009		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals (Memorandum Only)	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals (Memorandum Only)
<u>OPERATING REVENUES</u>						
Water Sales	\$ 205,563	\$ -	\$ 205,563	\$ 198,774	\$ -	\$ 198,774
Sewer Services	-	212,731	212,731	-	199,805	199,805
Miscellaneous	3,726	9,504	13,230	2,866	881	3,747
Total Operating Revenues	\$ 209,289	\$ 222,235	\$ 431,524	\$ 201,640	\$ 200,486	\$ 402,126
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 38,646	\$ 38,671	\$ 77,316	\$ 35,041	\$ 35,011	\$ 70,052
Water and Sewer Supplies	4,268	10,785	15,053	4,029	9,844	13,873
Utilities	573	9,221	9,794	683	8,670	9,353
Rent	6,000	6,000	12,000	6,000	6,000	12,000
Payroll Taxes	2,969	2,971	5,940	2,708	2,708	5,416
Retirement Benefits	6,373	6,377	12,750	4,512	4,508	9,020
Vehicle Expenses	4,398	4,471	8,867	3,294	3,290	6,584
Postage and Office Supplies	2,600	2,916	5,516	2,387	2,284	4,671
Insurance	21,627	25,704	47,331	20,876	24,964	45,840
General & Admin. Expenses	13,857	11,888	25,745	10,179	11,512	21,691
Depreciation	32,872	61,906	94,778	32,507	48,774	81,281
Miscellaneous	103	335	438	-	180	180
Water Purchases	54,192	-	54,192	58,059	-	58,059
Repairs and Maintenance	7,948	22,954	30,902	2,855	19,324	22,179
Total Operating Expenses	\$ 196,423	\$ 204,199	\$ 400,622	\$ 183,130	\$ 177,069	\$ 360,199
Operating Income (Loss)	\$ 12,866	\$ 18,036	\$ 30,902	\$ 18,510	\$ 23,417	\$ 41,927
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Revenue	\$ 2,024	\$ 2,232	\$ 4,258	\$ 2,106	\$ 2,236	\$ 4,342
Sale of Fixed Assets	-	8,110	8,110	-	-	-
Interest Expense	(19,630)	(23,073)	(42,703)	(20,088)	(22,043)	(42,131)
Total Non-Operating Revenues (Expenses):	\$ (17,606)	\$ (12,731)	\$ (30,337)	\$ (17,982)	\$ (19,807)	\$ (37,789)
Net Income (Loss) Before Capital Contributions and Transfers	\$ (4,740)	\$ 5,305	\$ 565	\$ 528	\$ 3,610	\$ 4,138
Capital Contributions	-	262,331	262,331	-	221,620	221,620
Operating Transfers In (Out)	2,636	(2,636)	-	-	-	-
Net Income (Loss)	\$ (2,104)	\$ 265,000	\$ 262,896	\$ 528	\$ 225,230	\$ 225,758
Net Assets - July 1	833,823	1,072,500	1,906,123	833,095	847,270	1,680,365
Net Assets - June 30	\$ 831,519	\$ 1,337,500	\$ 2,169,019	\$ 833,623	\$ 1,072,500	\$ 1,906,123

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Years Ended June 30, 2010, and 2009

	Year Ended June 30, 2010			Year Ended June 30, 2009		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 208,650	\$ 222,061	\$ 430,711	\$ 199,270	\$ 195,556	\$ 394,826
Payments to Suppliers	(126,828)	(102,776)	(229,604)	(115,142)	(95,195)	(210,337)
Payments to Employees	(36,072)	(36,098)	(72,170)	(34,612)	(34,582)	(69,194)
Receipts of Customer Meter Deposits	5,650	-	5,650	4,875	-	4,875
Refunds of Customer Meter Deposits	(3,625)	-	(3,625)	(5,050)	-	(5,050)
Net Cash Provided (Used) by Operating Activities	\$ 47,775	\$ 83,187	\$ 130,962	\$ 49,341	\$ 65,779	\$ 115,120
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Rural Development Grant Proceeds	\$ -	\$ 50,000	\$ 50,000	\$ -	\$ -	\$ -
Kentucky Infrastructure Authority Grant Proceeds	-	433,951	433,951	-	-	-
Capital Lease Proceeds	-	59,664	59,664	-	146,979	146,979
Purchases of Capital Assets	(9,374)	(387,326)	(396,700)	(5,229)	(218,322)	(223,551)
Sale of Fixed Assets	-	8,110	8,110	-	-	-
Capitalized Interest Paid on Capital Debt	-	(1,033)	(1,033)	-	(469)	(469)
Rural Development Loan Proceeds	-	-	-	-	90,000	90,000
Principal Paid on Capital Debt	(10,500)	(224,843)	(235,343)	(9,500)	(16,800)	(26,300)
Interest Paid on Capital Debt	(19,630)	(23,073)	(42,703)	(20,088)	(22,043)	(42,131)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (39,504)	\$ (84,550)	\$ (124,054)	\$ (34,817)	\$ (20,655)	\$ (55,472)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Operating Transfer	\$ 2,636	\$ (2,636)	\$ -	\$ -	\$ -	\$ -
	\$ 2,636	\$ (2,636)	\$ -	\$ -	\$ -	\$ -
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	\$ 2,181	\$ 2,329	\$ 4,510	\$ 2,107	\$ 2,254	\$ 4,361
Net Cash Provided (Used) by Investing Activities	\$ 2,181	\$ 2,329	\$ 4,510	\$ 2,107	\$ 2,254	\$ 4,361
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 13,088	\$ (1,670)	\$ 11,418	\$ 16,631	\$ 47,378	\$ 64,009
Balances - July 1	116,776	173,271	290,047	100,145	125,893	226,038
Balances - June 30	\$ 129,864	\$ 171,601	\$ 301,465	\$ 116,776	\$ 173,271	\$ 290,047
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 12,866	\$ 18,036	\$ 30,902	\$ 18,510	\$ 23,417	\$ 41,927
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	32,872	61,906	94,778	32,507	48,774	81,281
Change in Assets and Liabilities:						
Receivables, Net	(639)	(174)	(813)	(2,370)	(4,930)	(7,300)
Accounts Payable	(2,182)	1,315	(867)	186	(437)	(251)
Due from Other Funds	215	(500)	(285)	215	(1,495)	(1,280)
Customer Meter Deposits Payable	2,025	-	2,025	(175)	-	(175)
Accrued Compensated Absences	2,573	2,573	5,146	429	429	858
Accrued Taxes/Employee Withholding	45	31	76	39	21	60
Net Cash Provided by Operating Activities	\$ 47,775	\$ 83,187	\$ 130,962	\$ 49,341	\$ 65,779	\$ 115,120

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2010, the Waterworks Enterprise Fund had no outstanding obligations and the Sewer Utilities Enterprise Fund had \$5,338 in outstanding obligations for the acquisition/construction of plant assets. At June 30, 2009, the Waterworks Enterprise Fund had no outstanding obligations and the Sewer Utilities Enterprise Fund had \$112,109 in outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2010
BUDGET AND ACTUAL
ALL PROPRIETARY FUND TYPES

	Water Utilities			Sewer Utilities		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<u>OPERATING REVENUES</u>						
Water Sales	\$ 211,500	\$ 205,563	\$ (5,937)	\$ -	\$ -	\$ -
Sewer Services	-	-	-	214,000	212,731	(1,269)
Miscellaneous	3,500	3,726	226	22,435	9,504	(12,931)
Total Operating Revenues	\$ 215,000	\$ 209,289	\$ (5,711)	\$ 236,435	\$ 222,235	\$ (14,200)
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 35,154	\$ 38,645	\$ (3,491)	\$ 35,154	\$ 38,671	\$ (3,517)
Water and Sewer Supplies	9,000	4,268	4,732	15,000	10,785	4,215
Utilities	800	573	227	9,200	9,221	(21)
Rent	6,000	6,000	-	6,000	6,000	-
Payroll Taxes	2,670	2,969	(299)	2,670	2,971	(301)
Retirement Benefits	5,700	6,373	(673)	5,700	6,377	(677)
Vehicle Expenses	4,700	4,396	304	4,900	4,471	429
Postage and Office Supplies	2,500	2,600	(100)	2,500	2,916	(416)
Insurance	23,600	21,627	1,973	29,000	25,704	3,296
General & Admin. Expenses	14,600	13,857	743	13,600	11,888	1,712
Depreciation	22,000	32,872	(10,872)	53,320	61,906	(8,586)
Miscellaneous	500	103	397	5,000	335	4,665
Water Purchases	61,000	54,192	6,808	-	-	-
Repairs and Maintenance	10,500	7,948	2,552	23,000	22,954	46
Total Operating Expenses	\$ 198,724	\$ 196,423	\$ 2,301	\$ 205,044	\$ 204,199	\$ 845
Operating Income (Loss)	\$ 16,276	\$ 12,866	\$ (3,410)	\$ 31,391	\$ 18,036	\$ (13,355)
<u>NON-OPERATING REVENUES (EXPENSES):</u>						
Interest Revenue	\$ 2,100	\$ 2,024	\$ (76)	\$ 2,500	\$ 2,232	\$ (268)
Sale of Fixed Assets	-	-	-	-	8,110	8,110
Interest Expense	(19,088)	(19,630)	(542)	(25,144)	(23,073)	2,071
Total Non-Operating Revenues (Expenses):	\$ (16,988)	\$ (17,606)	\$ (618)	\$ (22,644)	\$ (12,731)	\$ 9,913
Net Income (Loss) Before Capital Contributions and Transf	\$ (712)	\$ (4,740)	\$ (4,028)	\$ 8,747	\$ 5,305	\$ (3,442)
Capital Contributions	-	-	-	459,254	262,331	(196,923)
Operating Transfers In (Out)	-	2,636	2,636	-	(2,636)	(2,636)
Net Income (Loss)	\$ (712)	\$ (2,104)	\$ (1,392)	\$ 468,001	\$ 265,000	\$ (203,001)
Net Assets - July 1	177,101	833,623	656,522	216,527	1,072,500	855,973
Net Assets- June 30	\$ 176,389	\$ 831,519	\$ 655,130	\$ 684,528	\$ 1,337,500	\$ 652,972

The Honorable Judy Diederich, Mayor
and Members of the City Commission
of the City of New Castle
New Castle, Kentucky 40050

**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**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Castle, Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the City of New Castle, Kentucky's basic financial statements and have issued our report thereon dated August 31, 2010. 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 City of New Castle, Kentucky'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 of New Castle, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of New Castle, Kentucky'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 responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 10-1 and 10-2).

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a significant deficiency (Item 10-3).

The Honorable Judy Diederich, Mayor
and Members of the City Commission
of the City of New Castle
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of New Castle, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards, and which is described in the accompanying schedule of findings and responses as item 10-4.

We noted certain matters that we reported to management of City of New Castle, Kentucky, in a separate letter dated August 31, 2010.

City of New Castle, Kentucky's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit City of New Castle, Kentucky's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, City Commission, Kentucky Department of Local Government, Rural Economic and Community Development, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

August 31, 2010

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of City of New Castle, Kentucky.
2. Three deficiencies in internal control related to the audit of the financial statements are reported in the 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. Items 10-1 and 10-2 were reported as material weaknesses. Item 10-3 was reported as a significant deficiency.
3. One instance of noncompliance material to the financial statements of City of New Castle, Kentucky, which would be required to be reported in accordance with Government Auditing Standards, was disclosed during the audit. It is identified in the Schedule of Findings and Responses as 10-4.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

10-1 SIZE OF ENTITY

CONDITION:

Due to the size of administrative staff, internal control is limited. This condition was also cited as a material weakness in the Schedule of Findings and Responses for the year ended June 30, 2009 as item 09-1.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

CAUSE:

The staff size of the City limits the ability to rotate duties and implement checking procedures.

EFFECT:

The limitations on rotation of duties and checking procedures may affect the City's ability to record, process, summarize and report financial data.

RECOMMENDATION:

Management should strive to separate duties as staff and cost benefits allow.

RESPONSE:

We concur with the recommendation. Management believes adequate resources have been expended and control procedures implemented, that are commensurate with the size and responsibility of financial personnel.

10-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was cited as a material weakness in the Schedule of Findings and Responses for the year ended June 30, 2009 as item 09-2.

CRITERIA:

Internal controls should be in place to provide management with reasonable, but not absolute, assurance that financial statements and required notes are prepared in accordance with generally accepted accounting principles.

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended June 30, 2010

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

10-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (Continued)

CAUSE:

Management of the City are not sufficiently familiar with all accounting, financial reporting and disclosure requirements to prepare internal financial statements. The draft accrual basis (government-wide) financial statements and disclosures are prepared during the audit process. Entries are not entered into the City's general ledger and financial reports.

EFFECT:

Management engaged auditor to prepare the draft of the financial statements, including the related notes to the financial statements. Management reviewed, approved, and accepted responsibility for the financial statements prior to their issuance.

RECOMMENDATION:

Management should continue to be aware of its responsibilities in the preparation of its financial statements and continue to increase its involvement in understanding of that process.

RESPONSE:

We concur with the recommendation and will continue our efforts to improve our overall accounting knowledge.

10-3 RECONCILIATION OF CUSTOMER DEPOSITS

CONDITION:

The general ledger customer deposits payable account was not reconciled to the customer deposit subsidiary ledger at year-end.

CRITERIA:

Significant accounts in the general ledger should be reconciled to subsidiary ledgers in a timely manner.

CAUSE:

A proper reconciliation was not performed.

EFFECT:

The general ledger customer deposits payable balance was adjusted to the subsidiary balance upon completion of the annual audit.

RECOMMENDATION:

On a monthly basis, the general ledger customer deposits payable balance should be reconciled to the subsidiary ledger.

RESPONSE:

We concur with the recommendation.

COMPLIANCE AND OTHER MATTERS

10-4 VIOLATION OF KRS 65.7707

CONDITION:

The City of New Castle had outstanding debt (note-payable) at June 30, 2010. This condition was cited as a compliance issue in the Schedule of Findings and Responses for the year ended June 30, 2009 as item 09-3.

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended June 30, 2010

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

COMPLIANCE AND OTHER MATTERS (Continued)

10-4 VIOLATION OF KRS 65.7707 (Continued)

CRITERIA:

KRS 65.7707 states that notes payable, other than qualified long-term debt, must mature prior to the last day of the City's fiscal year.

CAUSE:

Procedures were not followed regarding Kentucky Revised Statutes.

EFFECT:

The City is in non-compliance with KRS 65.7707, as it had notes payable outstanding at June 30, 2010.

RECOMMENDATION:

The City should not enter into any debt maturing after the end of its fiscal year.

RESPONSE:

We will consider other financing sources for future needs.