

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

Year Ended June 30, 2011

CITY OF NEW CASTLE, KENTUCKY
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The Honorable Dennis Benham, 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, 2011, 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, 2011, 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, 2011, 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 39 and 40 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 Dennis Benham, 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, 2011

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2011

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current Assets:			
Cash, including time deposits	\$ 255,406	\$ 188,963	\$ 444,369
Interest Receivable	-	297	297
Accounts Receivable (Net)	41,265	52,877	94,142
Due from Other Governments	1,938	-	1,938
Due from Other Funds	(52,403)	52,403	-
Prepaid Expenses	3,977	-	3,977
	\$ 250,183	\$ 294,540	\$ 544,723
Noncurrent Assets:			
Restricted Assets			
Cash	\$ 1,328	\$ 243,016	\$ 244,344
Capital Assets (Net)	459,077	2,590,261	3,049,338
Total Noncurrent Assets	\$ 460,405	\$ 2,833,277	\$ 3,293,682
Total Assets	\$ 710,588	\$ 3,127,817	\$ 3,838,405
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	\$ 14,366	\$ 12,019	\$ 26,385
Accrued Compensated Absences	7,284	19,932	27,216
Accrued Taxes/Employee Withholding	4,358	853	5,211
Accrued Interest	432	-	432
Current Liabilities Payable from Restricted Assets:			
Current Portion - Long-term Debt	7,997	31,400	39,397
Total Current Liabilities	\$ 34,437	\$ 64,204	\$ 98,641
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ -	\$ 866,219	\$ 866,219
Note Payable	10,732	-	10,732
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	13,500	13,500
Total Noncurrent Liabilities	\$ 10,732	\$ 879,719	\$ 890,451
Total Liabilities	\$ 45,169	\$ 943,923	\$ 989,092
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 440,348	\$ 1,692,642	\$ 2,132,990
Restricted for:			
Debt Service	-	226,978	226,978
Other Purposes	67,887	-	67,887
Unrestricted	157,184	264,274	421,458
Total Net Assets	\$ 665,419	\$ 2,183,894	\$ 2,849,313

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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions / Programs				
Governmental Activities:				
General Government	\$ 117,319	\$ 20,116	\$ -	\$ -
Public Safety				
Police Department	27,512	-	-	-
Fire Department	74,325	36,579	8,250	-
Public Services	69,474	72,232	-	-
Highways & Streets	34,702	-	19,924	-
Total Governmental Activities	\$ 323,332	\$ 128,927	\$ 28,174	\$ -
Business-type Activities				
Water	\$ 215,827	\$ 206,509	\$ -	\$ -
Sewer	235,656	209,683	-	41,049
Total Business-type Activities	\$ 451,483	\$ 416,192	\$ -	\$ 41,049
Total Government	\$ 774,815	\$ 545,119	\$ 28,174	\$ 41,049

General Revenues:
Taxes:
 Property Taxes
 Franchise Taxes
 Insurance Taxes
Unrestricted Investment Income
Miscellaneous
Total General Revenues
Change in Net Assets
Net Assets - July 1
Net Assets - June 30

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (97,203)	\$ -	\$ (97,203)
(27,512)	-	(27,512)
(29,496)	-	(29,496)
2,758	-	2,758
(14,778)	-	(14,778)
<u>\$ (166,231)</u>	<u>\$ -</u>	<u>\$ (166,231)</u>
\$ -	\$ (9,318)	\$ (9,318)
-	15,076	15,076
<u>\$ -</u>	<u>\$ 5,758</u>	<u>\$ 5,758</u>
<u>\$ (166,231)</u>	<u>\$ 5,758</u>	<u>\$ (160,473)</u>
\$ 63,217	\$ -	\$ 63,217
38,273	-	38,273
107,228	-	107,228
774	2,819	3,593
3,398	6,298	9,696
<u>\$ 212,890</u>	<u>\$ 9,117</u>	<u>\$ 222,007</u>
\$ 46,659	\$ 14,875	\$ 61,534
618,760	2,169,019	2,787,779
<u>\$ 665,419</u>	<u>\$ 2,183,894</u>	<u>\$ 2,849,313</u>

CITY OF NEW CASTLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

ASSETS	General Fund	Other Governmental Funds	Total Governmental Funds
Cash, including time deposits	\$ 189,219	\$ 66,187	\$ 255,406
Cash, restricted	1,328	-	1,328
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Licenses	28,269	-	28,269
Property Taxes	2,618	-	2,618
Garbage	6,865	-	6,865
Franchise Fees	3,211	-	3,211
Miscellaneous	302	-	302
Due from Other Governments	238	1,700	1,938
Prepaid Expenses	3,977	-	3,977
Total Assets	<u>\$ 236,027</u>	<u>\$ 67,887</u>	<u>\$ 303,914</u>
LIABILITIES			
Accounts Payable	\$ 14,366	\$ -	\$ 14,366
Due to Other Funds	52,403	-	52,403
Accrued Compensated Absences	140	-	140
Accrued Taxes / Employee Withholding	4,358	-	4,358
Total Liabilities	<u>\$ 71,267</u>	<u>\$ -</u>	<u>\$ 71,267</u>
FUND BALANCES			
Nonspendable	\$ 3,977	\$ -	\$ 3,977
Restricted for:			
Special Revenue Funds	-	67,887	67,887
Assigned to:			
Downtown Revitalization	1,328	-	1,328
Unassigned	159,455	-	159,455
Total Fund Balances	<u>\$ 164,760</u>	<u>\$ 67,887</u>	<u>\$ 232,647</u>
Total Liabilities and Fund Balances	<u>\$ 236,027</u>	<u>\$ 67,887</u>	<u>\$ 303,914</u>

CITY OF NEW CASTLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2011

Total Governmental Fund Balances	\$ 232,647
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 \$740,255	459,077
Long term liabilities are not due and payable in the current period and therefore not reported in the funds:	
Obligations under notes payable	(18,729)
Accrued compensated absences	(7,144)
Accrued interest payable	(432)
	<u> </u>
Net Assets of Governmental Activities	<u>\$ 665,419</u>

CITY OF NEW CASTLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2011

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property Taxes	\$ 63,217	\$ -	\$ 63,217
Franchise Taxes	38,273	-	38,273
Insurance Taxes	107,228	-	107,228
Charges for Services	72,232	-	72,232
Occupational Licenses	2,520	-	2,520
Interest Revenue	447	327	774
Donations	4,937	-	4,937
Rental Revenue	12,659	-	12,659
Fire Department	36,579	-	36,579
Miscellaneous Revenues	3,398	-	3,398
Proceeds from Outside Sources:			
State Fire Aid	8,250	-	8,250
Municipal Road Aid	-	19,924	19,924
	<u> </u>	<u> </u>	<u> </u>
Total Revenues	<u>\$ 349,740</u>	<u>\$ 20,251</u>	<u>\$ 369,991</u>
<u>EXPENDITURES</u>			
Current			
General Government	\$ 115,877	\$ -	\$ 115,877
Public Safety			
Police Department	20,687	-	20,687
Fire Department	47,062	-	47,062
Public Services	69,474	-	69,474
Highways and Streets	22,387	-	22,387
Capital Outlay	8,969	-	8,969
Debt Service			
Principal	12,316	-	12,316
Interest	1,184	-	1,184
	<u> </u>	<u> </u>	<u> </u>
Total Expenditures	<u>\$ 297,956</u>	<u>\$ -</u>	<u>\$ 297,956</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 51,784</u>	<u>\$ 20,251</u>	<u>\$ 72,035</u>
Fund Balances - July 1	<u>112,976</u>	<u>47,636</u>	<u>160,612</u>
Fund Balances - June 30	<u>\$ 164,760</u>	<u>\$ 67,887</u>	<u>\$ 232,647</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, 2011

Net Changes in Fund Balances - Total Governmental Funds	\$ 72,035
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
 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	8,969
Depreciation Expense	(39,144)
 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.	
	(1,107)
 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.	
	(6,652)
 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.	
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 Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	
	<u>12,316</u>
 Change in Net Assets of Governmental Activities	 <u><u>\$ 46,659</u></u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2011

	<u>Water/Sewer Utilities Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash, including time deposits	\$ 188,963
Interest Receivable	297
Accounts Receivable (Net)	52,877
Due from Other Funds	<u>52,403</u>
Total Current Assets	<u>\$ 294,540</u>
Noncurrent Assets:	
Restricted Assets	
Cash, including time deposits	\$ 243,016
Capital Assets (Net)	<u>2,590,261</u>
Total Noncurrent Assets	<u>\$ 2,833,277</u>
Total Assets	<u>\$ 3,127,817</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 12,019
Accrued Compensated Absences	19,932
Accrued Taxes / Employee Withholding	853
Current Liabilities Payable from Restricted Assets:	
Revenue Bonds Payable	<u>31,400</u>
Total Current Liabilities	<u>\$ 64,204</u>
Noncurrent Liabilities:	
Revenue Bonds Payable	\$ 866,219
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	<u>13,500</u>
Total Noncurrent Liabilities	<u>\$ 879,719</u>
Total Liabilities	<u>\$ 943,923</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 1,692,642
Restricted for:	
Debt Service	226,978
Unrestricted	264,274
Total Net Assets	<u>\$ 2,183,894</u>

CITY OF NEW CASTLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND
 For the Year Ended June 30, 2011

	<u>Water/Sewer Utilities Enterprise Fund</u>
OPERATING REVENUES	
Water Sales	\$ 206,509
Sewer Services	209,683
Miscellaneous	<u>6,298</u>
 Total Operating Revenues	 <u>\$ 422,490</u>
OPERATING EXPENSES	
Salaries and Wages	\$ 79,001
Water and Sewer Supplies	16,082
Utilities	13,189
Rent	12,000
Payroll Taxes	6,062
Retirement Benefits	13,479
Vehicle Expenses	5,968
Postage and Office Supplies	4,753
Insurance	50,532
General & Admin. Expenses	23,301
Depreciation	98,425
Miscellaneous	660
Water Purchases	60,190
Repairs and Maintenance	<u>25,891</u>
 Total Operating Expenses	 <u>\$ 409,533</u>
 Operating Income (Loss)	 <u>\$ 12,957</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Revenue	\$ 2,819
Interest Expense	<u>(41,950)</u>
 Total Non-Operating Revenues (Expenses):	 <u>\$ (39,131)</u>
 Net Income (Loss) Before Capital Contributions	 <u>\$ (26,174)</u>
Capital Contributions	<u>41,049</u>
 Net Income (Loss)	 <u>\$ 14,875</u>
 Net Assets - July 1	 <u>2,169,019</u>
 Net Assets - June 30	 <u>\$ 2,183,894</u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2011

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>Water/Sewer Utilities Enterprise Fund</u>	
Receipts from Customers	\$	425,229
Payments to Suppliers		(235,024)
Payments to Employees		(75,803)
Receipts of Customer Meter Deposits		5,375
Refunds of Customer Meter Deposits		(5,200)
Net Cash Provided (Used) by Operating Activities	<u>\$</u>	<u>114,577</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Kentucky Infrastructure Authority Grant Proceeds	\$	41,049
Purchase of Capital Assets		(66,209)
Principal Paid on Capital Debt		(30,300)
Interest Paid on Capital Debt		(41,950)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$</u>	<u>(97,410)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received		
Net Cash Provided (Used) by Investing Activities	<u>\$</u>	<u>2,847</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	20,014
Balances - July 1		<u>301,465</u>
Balances - June 30	<u>\$</u>	<u>321,479</u>
	Balances Per June 30, 2011 Statement of Net Assets	Balances Per June 30, 2011 Statement of Cash Flows
Cash-Unrestricted	\$ 78,463	\$ 78,463
Time Deposits-Unrestricted	110,500	-
Cash-Restricted	243,016	243,016
Total	<u>\$ 431,979</u>	<u>\$ 321,479</u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2011

	<u>Water/Sewer Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 12,957
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	98,425
 Change in Assets and Liabilities:	
Receivables, Net	2,739
Accounts Payable	622
Due From Other Funds	(3,488)
Customer Meter Deposits	175
Accrued Compensated Absences	3,198
Accrued Taxes/Employee Withholding	<u>(51)</u>
 Net Cash Provided by Operating Activities	 <u>\$ 114,577</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2011, the Water/Sewer Utilities Enterprise Fund had no outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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, 2011

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, 2011

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, 2011

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, 2011

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 significant 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, 2011

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, 2011

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 follows:

- a. Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).
- b. Restricted - amounts that can be used only for specific purposes because of (a) constitutional provisions or enabling legislation or (b) externally imposed constraints.
- c. Committed - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.
- d. Assigned - amounts intended to be used for specific purposes but that do not meet the criteria to be classified as restricted or committed. This is the residual fund balance classification for all governmental funds except the general fund.
- e. Unassigned - this is the residual classification for the general fund.

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.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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. The City also has no stabilization arrangements at this time.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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

For the year ended June 30, 2011, the City complied, in all material respects, with these revenue restrictions.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

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.

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

2.D. DEBT RESTRICTIONS AND COVENANTS (Continued)

- (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:

- (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, 2011. The categories of credit risk are defined as follows:

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS (Continued)

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.

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	\$ 633,627	\$ 425,364	\$ 208,263	\$ -	\$ 577,933
Time Deposits	110,500	-	110,500	-	110,500
Total Deposits	<u>\$ 744,127</u>	<u>\$ 425,364</u>	<u>\$ 318,763</u>	<u>\$ -</u>	<u>\$ 688,433</u>

Reconciliation to Statement of Net Assets:

Unrestricted Cash, Including Time Deposits	\$ 444,369
Restricted Cash	244,344
	<u>\$ 688,713</u>
Carrying Value (Above)	\$ 688,433
Plus Cash on Hand	280
	<u>\$ 688,713</u>

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

	Governmental Activities	Business-type Activities	Total
Downtown Revitalization	\$ 1,328	\$ -	\$ 1,328
Bond and Interest Sinking Account of 1983	-	27,922	27,922
Bond and Interest Sinking Account of 1985	-	52,911	52,911
Bond and Interest Sinking Account of 2002	-	13,660	13,660
Bond and Interest Sinking Account of 2006	-	22,808	22,808
Bond and Interest Sinking Account of 2009	-	6,788	6,788
Short Lived Assets Account	-	10,204	10,204
Depreciation Fund	-	92,684	92,684
Customer Deposits	-	16,039	16,039
	<u>\$ 1,328</u>	<u>\$ 243,016</u>	<u>\$ 244,344</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 (69%), property tax (6%), business licenses and other (17%) receivables. Receivables detail at June 30, 2010, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 46,915	\$ 55,785	\$ 102,700
Allowance for doubtful accounts	(5,650)	(2,908)	(8,558)
Net accounts receivable	<u>\$ 41,265</u>	<u>\$ 52,877</u>	<u>\$ 94,142</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental Activities:				
Land	\$ 40,500	\$ -	\$ -	\$ 40,500
Buildings & Improvements	324,103	6,802	-	330,905
Machinery & Equipment	716,146	2,167	112,142	606,171
Infrastructure	221,756	-	-	221,756
Totals at Historical Cost	<u>\$ 1,302,505</u>	<u>\$ 8,969</u>	<u>\$ 112,142</u>	<u>\$ 1,199,332</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 47,180	\$ 2,363	\$ -	\$ 49,543
Machinery & Equipment	586,293	29,431	105,490	510,234
Infrastructure	173,128	7,350	-	180,478
Total Accumulated Depreciation	<u>\$ 806,601</u>	<u>\$ 39,144</u>	<u>\$ 105,490</u>	<u>\$ 740,255</u>
Governmental Activities - Capital Assets, Net	<u>\$ 495,904</u>	<u>\$ (30,175)</u>	<u>\$ (6,652)</u>	<u>\$ 459,077</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 1,442
Public Safety	
Police Department	173
Fire Department	26,321
Highways & Streets	3,858
Infrastructure	7,350
Total Depreciation Expense	<u>\$ 39,144</u>

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Business-type Activities:				
Land & Right of Ways	\$ 33,150	\$ -	\$ -	\$ 33,150
Buildings & Improvements	64,462	5,254	-	69,716
Distribution System	3,708,244	51,283	-	3,759,527
Machinery & Equipment	224,980	4,334	-	229,314
Totals at Historical Cost	<u>\$ 4,030,836</u>	<u>\$ 60,871</u>	<u>\$ -</u>	<u>\$ 4,091,707</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 49,054	\$ 2,203	\$ -	\$ 51,257
Distribution System	1,223,359	82,914	-	1,306,273
Machinery & Equipment	130,608	13,308	-	143,916
Total Accumulated Depreciation	<u>\$ 1,403,021</u>	<u>\$ 98,425</u>	<u>\$ -</u>	<u>\$ 1,501,446</u>
Business-type capital assets, net	<u>\$ 2,627,815</u>	<u>\$ (37,554)</u>	<u>\$ -</u>	<u>\$ 2,590,261</u>

Depreciation Expense was charged to the business activities as follows:

Water	\$ 33,036
Sewer	65,389
Total Depreciation Expense	<u>\$ 98,425</u>

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.E. 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, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

Note Payable for fire department equipment	\$	18,729
Current Portion	\$	7,997
Noncurrent Portion		10,732
Total	\$	18,729

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.

	\$	123,000
Current Portion	\$	7,000
Noncurrent Portion		116,000
Total Bonds Payable	\$	123,000

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.

	\$	272,719
Current Portion	\$	17,000
Noncurrent Portion		255,719
Total Bonds Payable	\$	272,719

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.

	\$	276,500
Current Portion	\$	4,000
Noncurrent Portion		272,500
Total Bonds Payable	\$	276,500

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.

	\$	138,200
Current Portion	\$	2,000
Noncurrent Portion		136,200
Total Bonds Payable	\$	138,200

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

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.

	\$ 87,200
Current Portion	\$ 1,400
Noncurrent Portion	85,800
Total Bonds Payable	\$ 87,200

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2011:

Type of Debt	Balance July 1, 2010	Issued	Redeemed	Balance June 30, 2011	Current Portion
Governmental Activities					
Note Payable	\$ 31,045	\$ -	\$ 12,316	\$ 18,729	\$ 7,997
Business-type Activities					
Bonds Payable	927,919	-	30,300	897,619	31,400
Total Debt	\$ 958,964	\$ -	\$ 42,616	\$ 916,348	\$ 39,397

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.

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 (4.25%) are due annually.

The City entered into a five year note for the fire equipment. The obligations of the note at June 30, 2011 are as follows:

Fiscal Year	Principal Payment	Interest Payment	Total Payment	Balance at End of Year
				\$ 18,729
2012	\$ 7,997	\$ 1,063	\$ 9,060	10,732
2013	8,336	724	9,060	2,396
2014	2,396	102	2,498	-
	\$ 18,729	\$ 1,889	\$ 20,618	\$ -

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Governmental Activities (Continued)

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	\$123,000	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, 2011, 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
				\$ 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	9,000	4,550	13,550	82,000
2017-21	54,000	15,350	69,350	28,000
2022-23	28,000	2,200	30,200	-
	\$ 123,000	\$ 44,450	\$ 167,450	\$ -

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	\$272,719	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

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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, 2011, 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
				\$ 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	21,000	9,936	30,936	177,719
2017-21	120,000	32,930	152,930	57,719
2022-24	57,719	4,408	62,127	-
	<u>\$ 272,719</u>	<u>\$ 96,518</u>	<u>\$ 369,237</u>	<u>\$ -</u>

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	\$276,500	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.

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2011, 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
				\$ 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	5,000	11,655	16,655	254,000
2017-21	28,000	54,743	82,743	226,000
2022-26	36,000	47,769	83,769	190,000
2027-31	45,000	38,926	83,926	145,000
2032-36	57,500	27,676	85,176	87,500
2037-41	71,500	13,547	85,047	16,000
2042	16,000	720	16,720	-
	<u>\$ 276,500</u>	<u>\$ 243,660</u>	<u>\$ 520,160</u>	<u>\$ -</u>

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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:

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$147,000	\$138,200	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, 2011, 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
				\$ 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	2,400	5,508	7,908	127,200
2017-21	13,500	25,927	39,427	113,700
2022-26	16,500	22,820	39,320	97,200
2027-31	20,300	19,003	39,303	76,900
2032-36	25,000	14,304	39,304	51,900
2037-41	30,900	8,511	39,411	21,000
2042-44	21,000	1,773	22,773	-
	\$ 138,200	\$ 120,815	\$ 259,015	\$ -

City of New Castle, Kentucky, Sewer 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	\$87,200	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.

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.E. 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, 2011, 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
				\$ 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	1,600	2,233	3,833	79,600
2017-21	8,900	10,471	19,371	70,700
2022-26	10,100	9,181	19,281	60,600
2027-31	11,500	7,719	19,219	49,100
2032-36	13,200	6,047	19,247	35,900
2037-41	15,100	4,130	19,230	20,800
2042-46	17,500	1,928	19,428	3,300
2047	3,300	91	3,391	-
	<u>\$ 87,200</u>	<u>\$ 51,154</u>	<u>\$ 138,354</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, 2011, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 7,997	\$ 1,063	\$ 31,400	\$ 40,501
2013	8,336	724	34,100	38,998
2014	2,396	102	35,200	37,365
2015	-	-	37,400	35,677
2016	-	-	39,000	33,882
2017-21	-	-	224,400	139,421
2022-26	-	-	148,319	86,378
2027-31	-	-	76,800	65,648
2032-36	-	-	95,700	48,027
2037-41	-	-	117,500	26,188
2042-46	-	-	54,500	4,421
2047	-	-	3,300	91
Total	<u>\$ 18,729</u>	<u>\$ 1,889</u>	<u>\$ 897,619</u>	<u>\$ 556,597</u>

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

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

3.F. INTEREST EXPENSE

Interest expense for the governmental funds for the year ended June 30, 2011 was \$1,184. Interest expense for the enterprise fund for the year ended June 30, 2011, was \$41,950. No interest has been capitalized.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2011, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
Enterprise Fund	General Fund	\$ 52,403	Advances for operating expenditures
Total		<u>\$ 52,403</u>	

3.H. 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	\$ 67,887
		<u>\$ 67,887</u>

Business-type Activities

Enterprise Fund:

Restricted for Debt Service:

1983 Water Utilities Revenue Bonds-Cash	\$ 68,585
1985 Sewer Utilities Revenue Bonds-Cash	85,058
2002 Water Utilities Revenue Bonds-Cash	27,661
2006 Sewer Utilities Revenue Bonds-Cash	27,741
2009 Sewer Utilities Revenue Bonds-Cash	17,933
Total Restricted For Debt Service	<u>\$ 226,978</u>

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

The City has reported the following nonspendable amount of the general fund's fund balance at June 30, 2011, to indicate the lack of liquidity associated with the following assets:

General Fund:	
Prepaid Insurance	<u>\$ 3,977</u>

The City has reported the following restricted portion of the other governmental fund's fund balance at June 30, 2011, to indicate the amounts restricted as to use by statute:

Other Governmental Funds	
Municipal Road Aid	<u>\$ 67,887</u>

The City has reported \$1,328 of the General Fund as assigned at June 30, 2011, indicating amounts intended for use in downtown revitalization.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2011

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, 2010. 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, 2011, 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. Prior to July 1, 2009, 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). If the recipient has been receiving a benefit for less than twelve months prior to the effective date of COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding 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, 2010, 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, 2010, participating employers contributed 16.16% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2010 was 20.91%. 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' 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.

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

NOTE 4. OTHER NOTES (Continued)

4.A. PENSION PLAN (Continued)

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

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5%
June 30, 2009	425,830,683	303,046,162	7,623,628	73.0%
June 30, 2008	544,853,127	347,035,445	6,003,181	64.8%

The Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from CERS. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance for current beneficiaries.

The City's General Fund total payroll for the fiscal year ended June 30, 2011, was \$31,704. Contributions were based on \$29,604 (eligible gross wages). The total pension expense for the year ended June 30, 2011, was \$5,012 and \$1,480 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, 2011, was \$80,711. Contributions were based on \$76,511 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2011, was \$12,953 and \$3,826 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, 2010, (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.

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

NOTE 4. OTHER NOTES (Continued)

4.C. COMMITMENTS & CONTINGENCIES (Continued)

The City was awarded a \$475,000 grant in March, 2009 through Kentucky Infrastructure Authority for the acquisition, construction, and installation of the KY 55 – US 421 sewer line extension project. The original project was completed during the fiscal year ending June 30, 2010. The remaining funds, \$41,049 were expended during the fiscal year ending June 30, 2011 for Spring Hill Subdivision Sewer Renovations.

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, 2011, is presented as follows:

CONDENSED STATEMENT OF NET ASSETS

	Water	Sewer	Total
Assets:			
Due From Other Funds	\$ 17,720	\$ 34,683	\$ 52,403
Other Current Assets	109,877	132,260	242,137
Other Noncurrent Assets	112,284	130,732	243,016
Capital Assets (Net)	1,020,932	1,569,329	2,590,261
Total Assets	\$ 1,260,813	\$ 1,867,004	\$ 3,127,817
Liabilities:			
Other Current Liabilities	\$ 30,160	\$ 34,044	\$ 64,204
Noncurrent Liabilities	402,000	477,719	879,719
Total Liabilities	\$ 432,160	\$ 511,763	\$ 943,923
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 621,432	\$ 1,071,210	\$ 1,692,642
Restricted	96,246	130,732	226,978
Unrestricted	110,975	153,299	264,274
Total Net Assets	\$ 828,653	\$ 1,355,241	\$ 2,183,894

CONDENSED STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Water	Sewer	Total
Operating Revenues	\$ 211,662	\$ 210,828	\$ 422,490
Depreciation Expense	(33,036)	(65,389)	(98,425)
Other Operating Expenses	(163,668)	(147,440)	(311,108)
Operating Income (Loss)	\$ 14,958	\$ (2,001)	\$ 12,957
Nonoperating Revenues (Expenses):			
Investment Income	\$ 1,299	\$ 1,520	\$ 2,819
Interest Expense	(19,123)	(22,827)	(41,950)
Capital Contributions	-	41,049	41,049
Change in Net Assets	\$ (2,866)	\$ 17,741	\$ 14,875
Beginning Net Assets	831,519	1,337,500	2,169,019
Ending Net Assets	\$ 828,653	\$ 1,355,241	\$ 2,183,894

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2011

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

CONDENSED STATEMENT OF CASH FLOWS

Net Cash Provided (Used) by:	Water	Sewer	Total
Operating Activities	\$ 50,514	\$ 64,063	\$ 114,577
Capital and Related Financing Activities	(41,316)	(56,094)	(97,410)
Investing Activities	1,299	1,548	2,847
Net Increase (Decrease)	\$ 10,497	\$ 9,517	\$ 20,014
Beginning Cash and Cash Equivalents	129,864	171,601	301,465
Ending Cash and Cash Equivalents	\$ 140,361	\$ 181,118	\$ 321,479

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, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 57,000	\$ 61,000	\$ 63,217	\$ 2,217
Franchise Taxes	36,000	36,000	38,273	2,273
Insurance Taxes	100,000	108,000	107,228	(772)
Charges for Services	80,000	73,500	72,232	(1,268)
Occupational Licenses	2,600	2,500	2,520	20
Interest Revenue	400	400	447	47
Donations	-	-	4,937	4,937
Rental Revenue	32,500	12,500	12,659	159
Fire Department	35,600	35,050	36,579	1,529
Miscellaneous Revenues	2,600	2,180	3,398	1,218
Proceeds from Outside Sources:				
KY Law Enforcement Foundation Program	-	2,058	-	(2,058)
State Fire Aid	8,200	8,250	8,250	-
Total Revenues	\$ 354,900	\$ 341,438	\$ 349,740	\$ 8,302
EXPENDITURES				
Current				
General Government	\$ 141,770	\$ 124,700	\$ 115,877	\$ 8,823
Public Safety				
Police Department	43,120	20,000	20,687	(687)
Fire Department	51,300	70,300	47,062	23,238
Public Services	80,000	78,111	69,474	8,637
Highways & Streets	27,250	25,750	22,387	3,363
Capital Outlay	3,840	4,794	8,969	(4,175)
Debt Service				
Principal	-	-	1,184	(1,184)
Interest	-	-	12,316	(12,316)
Total Expenditures	\$ 347,280	\$ 323,655	\$ 297,956	\$ 25,699
Excess of Revenues Over (Under) Expenditures	\$ 7,620	\$ 17,783	\$ 51,784	\$ 34,001
Fund Balances - July 1	100,950	129,133	112,976	(16,157)
Fund Balances - June 30	\$ 108,570	\$ 146,916	\$ 164,760	\$ 17,844

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2011

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, 2011, and 2010

ASSETS	June 30, 2011		Totals
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	
Current Assets:			
Cash, including time deposits	\$ 83,077	\$ 105,886	\$ 188,963
Interest Receivable	158	139	297
Accounts Receivable - (Net)	26,642	26,235	52,877
Due from Other Funds	17,720	34,683	52,403
Total Current Assets	\$ 127,597	\$ 166,943	\$ 294,540
Noncurrent Assets:			
Restricted Assets			
Cash, including time deposits	\$ 112,284	\$ 130,732	\$ 243,016
Capital Assets (Net)	1,020,932	1,569,329	2,590,261
Total Noncurrent Assets	\$ 1,133,216	\$ 1,700,061	\$ 2,833,277
Total Assets	\$ 1,260,813	\$ 1,867,004	\$ 3,127,817
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 8,521	\$ 3,498	\$ 12,019
Accrued Compensated Absences	9,966	9,966	19,932
Accrued Taxes / Employee Withholding	673	180	853
Current Liabilities Payable from Restricted Assets:			
Construction Retainage Payable	-	-	-
Revenue Bonds Payable	11,000	20,400	31,400
Total Current Liabilities	\$ 30,160	\$ 34,044	\$ 64,204
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ 388,500	\$ 477,719	\$ 866,219
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	13,500	-	13,500
Total Noncurrent Liabilities	\$ 402,000	\$ 477,719	\$ 879,719
Total Liabilities	\$ 432,160	\$ 511,763	\$ 943,923
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 621,432	\$ 1,071,210	\$ 1,692,642
Restricted for:			
Debt Service	96,246	130,732	226,978
Unrestricted	110,975	153,299	264,274
Total Net Assets	\$ 828,653	\$ 1,355,241	\$ 2,183,894

June 30, 2010		
Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
\$ 81,996	\$ 115,822	\$ 197,818
158	167	325
27,222	28,394	55,616
17,215	31,700	48,915
<u>\$ 126,591</u>	<u>\$ 176,083</u>	<u>\$ 302,674</u>
\$ 102,868	\$ 111,279	\$ 214,147
1,042,775	1,585,040	2,627,815
<u>\$ 1,145,643</u>	<u>\$ 1,696,319</u>	<u>\$ 2,841,962</u>
<u>\$ 1,272,234</u>	<u>\$ 1,872,402</u>	<u>\$ 3,144,636</u>
\$ 7,817	\$ 7,918	\$ 15,735
8,367	8,367	16,734
706	198	904
-	1,000	1,000
11,000	19,300	30,300
<u>\$ 27,890</u>	<u>\$ 36,783</u>	<u>\$ 64,673</u>
\$ 399,500	\$ 498,119	\$ 897,619
13,325	-	13,325
<u>\$ 412,825</u>	<u>\$ 498,119</u>	<u>\$ 910,944</u>
<u>\$ 440,715</u>	<u>\$ 534,902</u>	<u>\$ 975,617</u>
\$ 632,275	\$ 1,067,621	\$ 1,699,896
86,901	111,189	198,090
112,343	158,690	271,033
<u>\$ 831,519</u>	<u>\$ 1,337,500</u>	<u>\$ 2,169,019</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, 2011 and 2010

	Year Ended June 30, 2011			Year Ended June 30, 2010		
	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	\$ 206,509	\$ -	\$ 206,509	\$ 205,563	\$ -	\$ 205,563
Sewer Services	-	209,683	209,683	-	212,731	212,731
Miscellaneous	5,153	1,145	6,298	3,726	9,504	13,230
Total Operating Revenues	\$ 211,662	\$ 210,828	\$ 422,490	\$ 209,289	\$ 222,235	\$ 431,524
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 39,570	\$ 39,431	\$ 79,001	\$ 38,645	\$ 38,671	\$ 77,316
Water and Sewer Supplies	3,558	12,524	16,082	4,268	10,785	15,053
Utilities	708	12,481	13,189	573	9,221	9,794
Rent	6,000	6,000	12,000	6,000	6,000	12,000
Payroll Taxes	3,036	3,026	6,062	2,969	2,971	5,940
Retirement Benefits	6,751	6,728	13,479	6,373	6,377	12,750
Vehicle Expenses	2,964	3,004	5,968	4,396	4,471	8,867
Postage and Office Supplies	2,425	2,328	4,753	2,600	2,916	5,516
Insurance	23,360	27,172	50,532	21,627	25,704	47,331
General & Admin. Expenses	11,783	11,518	23,301	13,857	11,888	25,745
Depreciation	33,036	65,389	98,425	32,872	61,906	94,778
Miscellaneous	387	273	660	103	335	438
Water Purchases	60,190	-	60,190	54,192	-	54,192
Repairs and Maintenance	2,936	22,955	25,891	7,948	22,954	30,902
Total Operating Expenses	\$ 196,704	\$ 212,829	\$ 409,533	\$ 196,423	\$ 204,199	\$ 400,622
Operating Income (Loss)	\$ 14,958	\$ (2,001)	\$ 12,957	\$ 12,866	\$ 18,036	\$ 30,902
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Revenue	\$ 1,299	\$ 1,520	\$ 2,819	\$ 2,024	\$ 2,232	\$ 4,256
Sale of Fixed Assets	-	-	-	-	8,110	8,110
Interest Expense	(19,123)	(22,827)	(41,950)	(19,630)	(23,073)	(42,703)
Total Non-Operating Revenues (Expenses):	\$ (17,824)	\$ (21,307)	\$ (39,131)	\$ (17,606)	\$ (12,731)	\$ (30,337)
Net Income (Loss) Before Capital Contributions and Transfers	\$ (2,866)	\$ (23,308)	\$ (26,174)	\$ (4,740)	\$ 5,305	\$ 565
Capital Contributions	-	41,049	41,049	-	262,331	262,331
Operating Transfers In (Out)	-	-	-	2,636	(2,636)	-
Net Income (Loss)	\$ (2,866)	\$ 17,741	\$ 14,875	\$ (2,104)	\$ 265,000	\$ 262,896
Net Assets - July 1	831,519	1,337,500	2,169,019	833,623	1,072,500	1,906,123
Net Assets - June 30	\$ 828,653	\$ 1,355,241	\$ 2,183,894	\$ 831,519	\$ 1,337,500	\$ 2,169,019

CITY OF NEW CASTLE, KENTUCKY
 COMPARATIVE COMBINING STATEMENTS OF CASH FLOWS
 ALL PROPRIETARY FUND TYPES
 For the Years Ended June 30, 2011, and 2010

	Year Ended June 30, 2011			Year Ended June 30, 2010		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
	<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>					
Receipts from Customers	\$ 212,242	\$ 212,987	\$ 425,229	\$ 208,650	\$ 222,061	\$ 430,711
Payments to Suppliers	(123,932)	(111,092)	(235,024)	(126,828)	(102,776)	(229,604)
Payments to Employees	(37,971)	(37,832)	(75,803)	(36,072)	(36,098)	(72,170)
Receipts of Customer Meter Deposits	5,375	-	5,375	5,650	-	5,650
Refunds of Customer Meter Deposits	(5,200)	-	(5,200)	(3,625)	-	(3,625)
Net Cash Provided (Used) by Operating Activities	<u>\$ 50,514</u>	<u>\$ 64,063</u>	<u>\$ 114,577</u>	<u>\$ 47,775</u>	<u>\$ 83,187</u>	<u>\$ 130,962</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>						
Rural Development Grant Proceeds	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000
Kentucky Infrastructure Authority Grant Proceeds	-	41,049	41,049	-	433,951	433,951
Capital Lease Proceeds	-	-	-	-	59,664	59,664
Purchases of Capital Assets	(11,193)	(55,016)	(66,209)	(9,374)	(387,326)	(396,700)
Sale of Fixed Assets	-	-	-	-	8,110	8,110
Capitalized Interest Paid on Capital Debt	-	-	-	-	(1,033)	(1,033)
Principal Paid on Capital Debt	(11,000)	(19,300)	(30,300)	(10,500)	(224,843)	(235,343)
Interest Paid on Capital Debt	(19,123)	(22,827)	(41,950)	(19,630)	(23,073)	(42,703)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (41,316)</u>	<u>\$ (56,094)</u>	<u>\$ (97,410)</u>	<u>\$ (39,504)</u>	<u>\$ (84,550)</u>	<u>\$ (124,054)</u>
<u>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</u>						
Operating Transfer	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,636</u>	<u>\$ (2,636)</u>	<u>\$ -</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,636</u>	<u>\$ (2,636)</u>	<u>\$ -</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Interest Received	\$ 1,299	\$ 1,548	\$ 2,847	\$ 2,181	\$ 2,329	\$ 4,510
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,299</u>	<u>\$ 1,548</u>	<u>\$ 2,847</u>	<u>\$ 2,181</u>	<u>\$ 2,329</u>	<u>\$ 4,510</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 10,497	\$ 9,517	\$ 20,014	\$ 13,088	\$ (1,670)	\$ 11,418
Balances - July 1	129,864	171,601	301,465	116,776	173,271	290,047
Balances - June 30	<u>\$ 140,361</u>	<u>\$ 181,118</u>	<u>\$ 321,479</u>	<u>\$ 129,864</u>	<u>\$ 171,601</u>	<u>\$ 301,465</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>						
Operating Income (Loss)	\$ 14,958	\$ (2,001)	\$ 12,957	\$ 12,866	\$ 18,036	\$ 30,902
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	33,036	65,389	98,425	32,872	61,906	94,778
Change in Assets and Liabilities:						
Receivables, Net	580	2,159	2,739	(639)	(174)	(813)
Accounts Payable	704	(82)	622	(2,182)	1,315	(867)
Due from Other Funds	(505)	(2,983)	(3,488)	215	(500)	(285)
Customer Meter Deposits Payable	175	-	175	2,025	-	2,025
Accrued Compensated Absences	1,599	1,599	3,198	2,573	2,573	5,146
Accrued Taxes/Employee Withholding	(33)	(18)	(51)	45	31	76
Net Cash Provided by Operating Activities	<u>\$ 50,514</u>	<u>\$ 64,063</u>	<u>\$ 114,577</u>	<u>\$ 47,775</u>	<u>\$ 83,187</u>	<u>\$ 130,962</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2011, the Waterworks Enterprise Fund had no outstanding obligations and the Sewer Utilities Enterprise Fund had no outstanding obligations for the acquisition/construction of plant assets. 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.

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
For the Fiscal Year Ended June 30, 2011
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	\$ 218,580	\$ 206,509	\$ (12,071)	\$ -	\$ -	\$ -
Sewer Services	-	-	-	220,000	209,683	(10,317)
Miscellaneous	6,900	5,153	(1,747)	2,800	1,145	(1,655)
Total Operating Revenues	\$ 225,480	\$ 211,662	\$ (13,818)	\$ 222,800	\$ 210,828	\$ (11,972)
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 38,000	\$ 39,570	\$ (1,570)	\$ 36,737	\$ 39,431	\$ (2,694)
Water and Sewer Supplies	14,180	3,558	10,622	18,140	12,524	5,616
Utilities	800	708	92	12,200	12,481	(281)
Rent	6,000	6,000	-	6,000	6,000	-
Payroll Taxes	3,100	3,036	64	3,100	3,026	74
Retirement Benefits	6,100	6,751	(651)	6,100	6,728	(628)
Vehicle Expenses	3,100	2,964	136	3,100	3,004	96
Postage and Office Supplies	2,500	2,425	75	2,500	2,328	172
Insurance	25,800	23,360	2,440	31,200	27,172	4,028
General & Admin. Expenses	14,900	11,783	3,117	14,800	11,518	3,282
Depreciation	26,190	33,036	(6,846)	53,872	65,389	(11,517)
Miscellaneous	500	387	113	500	273	227
Water Purchases	61,000	60,190	810	-	-	-
Repairs and Maintenance	5,000	2,936	2,064	22,740	22,955	(215)
Total Operating Expenses	\$ 207,170	\$ 196,704	\$ 10,466	\$ 210,989	\$ 212,829	\$ (1,840)
Operating Income (Loss)	\$ 18,310	\$ 14,958	\$ (3,352)	\$ 11,811	\$ (2,001)	\$ (13,812)
<u>NON-OPERATING REVENUES (EXPENSES):</u>						
Interest Revenue	\$ 1,500	\$ 1,299	\$ (201)	\$ 1,500	\$ 1,520	\$ 20
Interest Expense	(19,130)	(19,123)	7	(22,592)	(22,827)	(235)
Total Non-Operating Revenues (Expenses):	\$ (17,630)	\$ (17,824)	\$ (194)	\$ (21,092)	\$ (21,307)	\$ (215)
Net Income (Loss) Before Capital Contributions and Transf	\$ 680	\$ (2,866)	\$ (3,546)	\$ (9,281)	\$ (23,308)	\$ (14,027)
Capital Contributions	-	-	-	41,049	41,049	-
Net Income (Loss)	\$ 680	\$ (2,866)	\$ (3,546)	\$ 31,768	\$ 17,741	\$ (14,027)
Net Assets - July 1	184,687	831,519	646,832	227,080	1,337,500	1,110,420
Net Assets- June 30	\$ 185,367	\$ 828,653	\$ 643,286	\$ 258,848	\$ 1,355,241	\$ 1,096,393

The Honorable Dennis Benham, 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, 2011, which collectively comprise City of New Castle, Kentucky's basic financial statements and have issued our report thereon dated August 31, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered 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 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.

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 11-1 and 11-2).

The Honorable Dennis Benham, Mayor
and Members of the City Commission
of the City of New Castle
Page Two

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 11-3.

We noted certain matters that we reported to management of City of New Castle, Kentucky, in a separate letter dated August 31, 2011.

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 Kentucky Infrastructure Authority, 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, 2011

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of City of New Castle, Kentucky.
2. Two 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 11-1 and 11-2 were reported as material weaknesses.
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 11-3.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

11-1 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, 2010 as item 10-1.

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.

11-2 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, 2010 as item 10-2.

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, 2011

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

11-2 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.

COMPLIANCE AND OTHER MATTERS

11-3 VIOLATION OF KRS 65.7707

CONDITION:

The City of New Castle had outstanding debt (note-payable) at June 30, 2011. This condition was cited as a compliance issue in the Schedule of Findings and Responses for the year ended June 30, 2010 as item 10-4.

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, 2011.

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.