

CITY OF NEW CASTLE, KENTUCKY

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITORS' REPORTS**

Year Ended June 30, 2014

CITY OF NEW CASTLE, KENTUCKY
TABLE OF CONTENTS
June 30, 2014

Independent Auditor's Opinion	1-2
Basic Financial Statements:	
Statement of Net Position	3
Statement of Activities	4-5
Balance Sheet – Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Statement of Net Position – Proprietary Fund	10
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Fund	11
Statement of Cash Flows – Proprietary Fund	12-13
Notes to Basic Financial Statements	14-39
Required Supplemental Information	
Budgetary Comparison Schedule – General Fund	40
Notes to Budgetary Comparison Schedule	41
Other Supplemental Information	
Comparative Combining Statement of Net Position - All Proprietary Fund Types	42-43
Comparative Combining Statement of Revenues, Expenses, and Changes in Net Position – All Proprietary Fund Types	44
Comparative Combining Statement of Cash Flows - All Proprietary Fund Types	45
Statement of Revenues, Expenses, and Changes in Net Position – All Proprietary Fund Types – Budget and Actual	46
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	47-48
Schedule of Findings and Responses	49-50

**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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 40 and 41 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board,

The Honorable Dennis Benham, Mayor
and Members of the City Commission
of the City of New Castle
New Castle, Kentucky 40050

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.

Management has omitted the 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.


Other 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 basic financial statements. 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 basic financial statements.

The comparative combining and budget and actual financial statements of the proprietary fund types listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative combining and budget and actual financial statements of the proprietary fund types listed in the table of contents are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2014, 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* in considering City of New Castle, Kentucky's internal control over financial reporting and compliance.



RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

August 28, 2014

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2014

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current Assets:			
Cash, including time deposits	\$ 309,443	\$ 98,125	\$ 407,568
Interest Receivable	-	179	179
Accounts Receivable (Net)	38,796	55,830	94,626
Due from Other Governments	2,183	-	2,183
Due from Other Funds	(20,130)	20,130	-
Prepaid Expenses	4,781	-	4,781
	\$ 335,073	\$ 174,264	\$ 509,337
Noncurrent Assets:			
Restricted Assets			
Cash	\$ 9,542	\$ 409,400	\$ 418,942
Capital Assets (Net)	618,571	2,361,471	2,980,042
Total Noncurrent Assets	\$ 628,113	\$ 2,770,871	\$ 3,398,984
Total Assets	\$ 963,186	\$ 2,945,135	\$ 3,908,321
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	\$ 28,787	\$ 12,383	\$ 41,170
Accrued Compensated Absences	9,221	26,106	35,327
Accrued Taxes/Employee Withholding	4,712	904	5,616
Note Payable	10,000	-	10,000
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	958	-	958
Current Portion - Capital Lease Obligation	5,000	-	5,000
Current Portion - Revenue Bonds Payable	-	37,400	37,400
	\$ 58,678	\$ 76,793	\$ 135,471
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ -	\$ 759,519	\$ 759,519
Note Payable	10,000	-	10,000
Capital Lease Obligation	110,000	-	110,000
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	16,075	16,075
Total Noncurrent Liabilities	\$ 120,000	\$ 775,594	\$ 895,594
Total Liabilities	\$ 178,678	\$ 852,387	\$ 1,031,065
<u>NET POSITION</u>			
Net Investment in Capital Assets	\$ 483,571	\$ 1,564,552	\$ 2,048,123
Restricted for:			
Debt Service	8,291	391,357	399,648
Other Purposes	73,179	-	73,179
Unrestricted	219,467	136,839	356,306
Total Net Position	\$ 784,508	\$ 2,092,748	\$ 2,877,256

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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2014

	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Functions / Programs				
Governmental Activities:				
General Government	\$ 163,480	\$ 6,748	\$ -	\$ -
Public Safety				
Police Department	25,150	-	-	-
Fire Department	60,894	37,479	8,250	-
Public Services	71,538	71,692	-	-
Highways & Streets	78,757	-	21,761	-
Total Governmental Activities	<u>\$ 399,819</u>	<u>\$ 115,919</u>	<u>\$ 30,011</u>	<u>\$ -</u>
Business-type Activities				
Water	\$ 217,645	\$ 221,181	\$ -	\$ -
Sewer	238,943	197,787	-	-
Total Business-type Activities	<u>\$ 456,588</u>	<u>\$ 418,968</u>	<u>\$ -</u>	<u>\$ -</u>
Total Government	<u>\$ 856,407</u>	<u>\$ 534,887</u>	<u>\$ 30,011</u>	<u>\$ -</u>

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

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (156,732)	\$ -	\$ (156,732)
(25,150)	-	(25,150)
(15,165)	-	(15,165)
154	-	154
<u>(56,996)</u>	<u>-</u>	<u>(56,996)</u>
<u>\$ (253,889)</u>	<u>\$ -</u>	<u>\$ (253,889)</u>
\$ -	\$ 3,536	\$ 3,536
-	(41,156)	(41,156)
<u>\$ -</u>	<u>\$ (37,620)</u>	<u>\$ (37,620)</u>
<u>\$ (253,889)</u>	<u>\$ (37,620)</u>	<u>\$ (291,509)</u>
\$ 70,586	\$ -	\$ 70,586
44,253	-	44,253
143,258	-	143,258
192	1,132	1,324
6,936	5,996	12,932
<u>\$ 265,225</u>	<u>\$ 7,128</u>	<u>\$ 272,353</u>
\$ 11,336	\$ (30,492)	\$ (19,156)
773,172	2,123,240	2,896,412
<u>\$ 784,508</u>	<u>\$ 2,092,748</u>	<u>\$ 2,877,256</u>

CITY OF NEW CASTLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014

ASSETS	General Fund	Other Governmental Funds	Total Governmental Funds
Cash, including time deposits	\$ 238,154	\$ 71,289	\$ 309,443
Cash, restricted	9,542	-	9,542
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Licenses	25,229	-	25,229
Property Taxes	5,803	-	5,803
Garbage	5,966	-	5,966
Franchise Fees	1,798	-	1,798
Due from Other Governments	293	1,890	2,183
Prepaid Expenses	4,781	-	4,781
Total Assets	<u>\$ 291,566</u>	<u>\$ 73,179</u>	<u>\$ 364,745</u>
LIABILITIES			
Accounts Payable	\$ 28,787	\$ -	\$ 28,787
Due to Other Funds	20,130	-	20,130
Accrued Compensated Absences	156	-	156
Accrued Taxes / Employee Withholding	4,712	-	4,712
Total Liabilities	<u>\$ 53,785</u>	<u>\$ -</u>	<u>\$ 53,785</u>
FUND BALANCES			
Nonspendable	\$ 4,781	\$ -	\$ 4,781
Restricted for:			
Fire Truck	8,291	-	8,291
Special Revenue Funds	-	73,179	73,179
Assigned to:			
Downtown Revitalization	1,251	-	1,251
Unassigned	223,458	-	223,458
Total Fund Balances	<u>\$ 237,781</u>	<u>\$ 73,179</u>	<u>\$ 310,960</u>
Total Liabilities and Fund Balances	<u>\$ 291,566</u>	<u>\$ 73,179</u>	<u>\$ 364,745</u>

CITY OF NEW CASTLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014

Total Governmental Fund Balances	\$ 310,960
Amounts reported for governmental activities in the statement of net position 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 \$843,658	618,571
Long term liabilities are not due and payable in the current period and therefore not reported in the funds:	
Accrued compensated absences	(9,065)
Accrued Interest	(958)
Note Payable	(20,000)
Capital Lease Obligation	<u>(115,000)</u>
Net Position of Governmental Activities	<u><u>\$ 784,508</u></u>

CITY OF NEW CASTLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
 GOVERNMENTAL FUNDS
 For the Year Ended June 30, 2014

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Property Taxes	\$ 70,586	\$ -	\$ 70,586
Franchise Taxes	44,253	-	44,253
Insurance Taxes	143,258	-	143,258
Charges for Services	71,692	-	71,692
Occupational Licenses	2,485	-	2,485
Interest Revenue	129	63	192
Donations	3,855	-	3,855
Rental Revenue	408	-	408
Fire Department	37,479	-	37,479
Miscellaneous Revenues	6,936	-	6,936
Proceeds from Outside Sources:			
State Fire Aid	8,250	-	8,250
Municipal Road Aid	-	21,761	21,761
	\$ 389,331	\$ 21,824	\$ 411,155
Total Revenues	\$ 389,331	\$ 21,824	\$ 411,155
<u>EXPENDITURES</u>			
Current			
General Government	\$ 155,687	\$ -	\$ 155,687
Public Safety			
Police Department	25,150	-	25,150
Fire Department	40,102	-	40,102
Public Services	71,538	-	71,538
Highways and Streets	48,230	19,925	68,155
Capital Outlay	196,503	-	196,503
Debt Service			
Interest and Other Charges	2,300	-	2,300
	\$ 539,510	\$ 19,925	\$ 559,435
Total Expenditures	\$ 539,510	\$ 19,925	\$ 559,435
Excess of Revenues Over (Under) Expenditures	\$ (150,179)	\$ 1,899	\$ (148,280)
Other Financing Sources (Uses):			
Capital Lease Proceeds	\$ 115,000	\$ -	\$ 115,000
Note Proceeds	20,000	-	20,000
	\$ 135,000	\$ -	\$ 135,000
Total Other Financing Sources (Uses)	\$ 135,000	\$ -	\$ 135,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ (15,179)	\$ 1,899	\$ (13,280)
Fund Balances - July 1	252,960	71,280	324,240
Fund Balances - June 30	\$ 237,781	\$ 73,179	\$ 310,960

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, 2014

Net Changes in Fund Balances - Total Governmental Funds \$ (13,280)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capitalized Expenditures	196,503
Depreciation Expense	(36,544)

Capital lease proceeds were obtained to acquire a fire truck. The amount financed by the capital lease proceeds is reported in the governmental funds as a source of financing. However, the lease is not reported as revenue in the Statement of Activities, but rather constitutes a long-term liability in the Statement of Net Assets. (115,000)

Note proceeds were obtained by the City to purchase a parking lot. The amount financed by the loan is reported in the governmental funds as a source of financing. However, the loan is not reported as revenue in the Statement of Activities, but rather constitutes a long-term liability in the Statement of Net Assets. (20,000)

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. (958)

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 the governmental funds. 615

Change in Net Position of Governmental Activities \$ 11,336

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2014

	<u>Water/Sewer Utilities Enterprise Fund</u>
ASSETS	
Current Assets:	
Cash, including time deposits	\$ 98,125
Interest Receivable	179
Accounts Receivable (Net)	55,830
Due from Other Funds	<u>20,130</u>
Total Current Assets	\$ 174,264
Noncurrent Assets:	
Restricted Assets	
Cash, including time deposits	\$ 409,400
Capital Assets (Net)	<u>2,361,471</u>
Total Noncurrent Assets	\$ 2,770,871
Total Assets	\$ 2,945,135
LIABILITIES	
Current Liabilities:	
Accounts Payable	\$ 12,383
Accrued Compensated Absences	26,106
Accrued Taxes / Employee Withholding	904
Current Liabilities Payable from Restricted Assets:	
Revenue Bonds Payable	<u>37,400</u>
Total Current Liabilities	\$ 76,793
Noncurrent Liabilities:	
Revenue Bonds Payable	\$ 759,519
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	<u>16,075</u>
Total Noncurrent Liabilities	\$ 775,594
Total Liabilities	\$ 852,387
NET POSITION	
Net Investment in Capital Assets	\$ 1,564,552
Restricted for:	
Debt Service	391,357
Unrestricted	<u>136,839</u>
Total Net Position	\$ 2,092,748

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Water/Sewer Utilities Enterprise Fund</u>
OPERATING REVENUES	
Water Sales	\$ 221,181
Sewer Services	197,787
Miscellaneous	<u>5,996</u>
Total Operating Revenues	<u>\$ 424,964</u>
OPERATING EXPENSES	
Salaries and Wages	\$ 93,007
Water and Sewer Supplies	22,705
Utilities	16,430
Payroll Taxes	6,767
Retirement Benefits	16,997
Vehicle Expenses	9,593
Postage and Office Supplies	3,673
Insurance	54,344
General & Admin. Expenses	16,536
Depreciation	98,482
Miscellaneous	786
Water Purchases	59,985
Repairs and Maintenance	<u>19,920</u>
Total Operating Expenses	<u>\$ 419,225</u>
Operating Income (Loss)	<u>\$ 5,739</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Revenue	\$ 1,132
Interest Expense	<u>(37,363)</u>
Total Non-Operating Revenues (Expenses):	<u>\$ (36,231)</u>
Change in Net Position	\$ (30,492)
Net Position - July 1	<u>2,123,240</u>
Net Position - June 30	<u><u>\$ 2,092,748</u></u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>Water/Sewer Utilities Enterprise Fund</u>	
Receipts from Customers	\$ 424,210	
Payments to Suppliers	(224,854)	
Payments to Employees	(96,651)	
Receipts of Customer Meter Deposits	4,975	
Refunds of Customer Meter Deposits	(4,125)	
Net Cash Provided (Used) by Operating Activities	\$ 103,555	
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchase of Capital Assets	\$ (18,249)	
Principal Paid on Capital Debt	(35,200)	
Interest Paid on Capital Debt	(37,363)	
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (90,812)	
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received		
Net Cash Provided (Used) by Investing Activities	\$ 1,141	
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 13,884	
Balances - July 1	383,141	
Balances - June 30	\$ 397,025	
	Balances Per June 30, 2014 Statement of Net Position	Balances Per June 30, 2014 Statement of Cash Flows
Cash-Unrestricted	\$ 98,125	\$ 98,125
Time Deposits-Restricted	110,500	-
Cash-Restricted	298,900	298,900
Total	\$ 507,525	\$ 397,025

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2014

	<u>Water/Sewer Utilities Enterprise Fund</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating Income (Loss)	\$ 5,739
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	98,482
Change in Assets and Liabilities:	
Receivables, Net	(754)
Accounts Payable	(6,696)
Due From Other Funds	9,540
Customer Meter Deposits	850
Accrued Compensated Absences	(3,644)
Accrued Taxes/Employee Withholding	38
	38
Net Cash Provided by Operating Activities	\$ 103,555

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2014, 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

INDEX

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. Financial Reporting Entity
- B. Basis of Presentation
- C. Measurement Focus and Basis of Accounting
- D. Assets, Liabilities, and Equity
- E. Revenues, Expenditures, and Expenses

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Fund Accounting Requirements
- B. Deposits and Investments, Laws and Regulations
- C. Revenue Restrictions
- D. Debt Restrictions and Covenants

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

- A. Cash and Investments
- B. Restricted Assets
- C. Accounts Receivable
- D. Capital Assets
- E. Long-term Debt
- F. Interest Expense
- G. Interfund Transactions and Balances
- H. Fund Equity

NOTE 4. OTHER NOTES

- A. Pension Plan
- B. Risk Management
- C. Commitments and Contingencies
- D. Miscellaneous

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of entity: City of New Castle, Kentucky is a rural fifth class city with population of approximately 1,000. It is operated under Kentucky Revised Statutes mayor/commission form of government. The entity serves approximately 400 water and sewer customers. The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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. 61, "The Financial Reporting Entity: Omnibus" 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 Position 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, 2014

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 expenditures/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, 2014

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.
 <i>Proprietary Fund:</i> 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 Position 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, 2014

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 position (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 position.
- 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 Position 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 Position, "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, 2014

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 Position.

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 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 compose the majority of proprietary fund receivables. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable.

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. 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, 2014

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. Net investment in capital assets – 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, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

- b. Restricted net position – Consists of net position 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 position – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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, 2014

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 position 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, 2014

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, 2014, the City complied, in all material respects, with these revenue restrictions.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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, 2014

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, 2014. The categories of credit risk are defined as follows:

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

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	\$ 775,999	\$ 459,743	\$ 316,256	\$ -	\$ 715,630
Time Deposits	110,500	-	110,500	-	110,500
Total Deposits	\$ 886,499	\$ 459,743	\$ 426,756	\$ -	\$ 826,130

Reconciliation to Statement of Net Position:

Unrestricted Cash, Including Time Deposits	\$ 407,568
Restricted Cash	418,942
	<u>\$ 826,510</u>
 Carrying Value (Above)	 \$ 826,130
Plus Cash on Hand	380
	<u>\$ 826,510</u>

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

	Governmental Activities	Business-type Activities	Total
Downtown Revitalization	\$ 1,251	\$ -	\$ 1,251
Fire Truck	8,291	-	8,291
Bond and Interest Sinking Account of 1983	-	41,829	41,829
Bond and Interest Sinking Account of 1985	-	43,954	43,954
Bond and Interest Sinking Account of 2002	-	17,945	17,945
Bond and Interest Sinking Account of 2006	-	35,220	35,220
Bond and Interest Sinking Account of 2009	-	16,913	16,913
Short Lived Assets Account	-	42,276	42,276
Depreciation Fund	-	193,220	193,220
Customer Deposits	-	18,043	18,043
	<u>\$ 9,542</u>	<u>\$ 409,400</u>	<u>\$ 418,942</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 (5%), insurance licenses (65%), property tax (15%), business licenses and other (15%) receivables. Receivables detail at June 30, 2014, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 44,054	\$ 58,428	\$ 102,482
Allowance for doubtful accounts	<u>(5,258)</u>	<u>(2,598)</u>	<u>(7,856)</u>
 Net accounts receivable	 <u>\$ 38,796</u>	 <u>\$ 55,830</u>	 <u>\$ 94,626</u>

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Governmental Activities:				
Land	\$ 45,500	\$ 50,000	\$ -	\$ 95,500
Buildings & Improvements	376,811	5,383	-	382,194
Machinery & Equipment	611,297	141,120	13,138	739,279
Infrastructure	245,256	-	-	245,256
Totals at Historical Cost	<u>\$ 1,278,864</u>	<u>\$ 196,503</u>	<u>\$ 13,138</u>	<u>\$ 1,462,229</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 65,940	\$ 9,019	\$ -	\$ 74,959
Machinery & Equipment	557,078	19,000	13,138	562,940
Infrastructure	197,234	8,525	-	205,759
Total Accumulated Depreciation	<u>\$ 820,252</u>	<u>\$ 36,544</u>	<u>\$ 13,138</u>	<u>\$ 843,658</u>
Governmental Activities - Capital Assets, Net	<u><u>\$ 458,612</u></u>	<u><u>\$ 159,959</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 618,571</u></u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 8,408
Public Safety	
Fire Department	17,534
Highways & Streets	3,252
Infrastructure	7,350
Total Depreciation Expense	<u><u>\$ 36,544</u></u>

	Balance at July 1, 2013	Additions	Disposals	Balance at June 30, 2014
Business-type Activities:				
Land & Right of Ways	\$ 33,150	\$ -	\$ -	\$ 33,150
Buildings & Improvements	69,716	-	-	69,716
Distribution System	3,805,697	18,249	-	3,823,946
Machinery & Equipment	231,754	-	-	231,754
Totals at Historical Cost	<u>\$ 4,140,317</u>	<u>\$ 18,249</u>	<u>\$ -</u>	<u>\$ 4,158,566</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 53,479	\$ 910	\$ -	\$ 54,389
Distribution System	1,474,583	86,352	-	1,560,935
Machinery & Equipment	170,551	11,220	-	181,771
Total Accumulated Depreciaton	<u>\$ 1,698,613</u>	<u>\$ 98,482</u>	<u>\$ -</u>	<u>\$ 1,797,095</u>
Business-type capital assets, net	<u><u>\$ 2,441,704</u></u>	<u><u>\$ (80,233)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,361,471</u></u>

Depreciation Expense was charged to the business activities as follows:

Water	\$ 33,674
Sewer	64,808
Total Depreciation Expense	<u><u>\$ 98,482</u></u>

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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, 2014, the governmental long-term debt of the financial reporting entity consisted of the following:

Capital Lease Obligations:

Capital lease obligation for purchase of a used tanker fire truck	\$ 115,000
Current Portion	\$ 5,000
Noncurrent Portion	110,000
Total Capital Lease Obligations	\$ 115,000

Note Payable:

Note Payable for parking lot property - \$20,000 non-interest bearing financed through an individual, secured by the property, dated February 11, 2014. Two years of annual payments with final maturity of February 11, 2016.	\$ 20,000
Current Portion	\$ 10,000
Noncurrent Portion	10,000
Total Bonds Payable	\$ 20,000

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.	\$ 100,000
Current Portion	\$ 9,000
Noncurrent Portion	91,000
Total Bonds Payable	\$ 100,000

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.	\$ 218,719
Current Portion	\$ 20,000
Noncurrent Portion	198,719
Total Bonds Payable	\$ 218,719

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.	\$ 263,500
Current Portion	\$ 4,500
Noncurrent Portion	259,000
Total Bonds Payable	\$ 263,500

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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 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.

	<u>\$</u>	<u>131,900</u>
Current Portion	\$	2,300
Noncurrent Portion		<u>129,600</u>
Total Bonds Payable	<u>\$</u>	<u>131,900</u>

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

	<u>\$</u>	<u>82,800</u>
Current Portion	\$	1,600
Noncurrent Portion		<u>81,200</u>
Total Bonds Payable	<u>\$</u>	<u>82,800</u>

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2014:

<u>Type of Debt</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2014</u>	<u>Current</u> <u>Portion</u>
Governmental Activities					
Capital Lease Obligations	\$ -	\$ 115,000	\$ -	\$ 115,000	\$ 5,000
Note Payable	-	20,000	-	20,000	10,000
Total	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ -</u>	<u>\$ 135,000</u>	<u>\$ 15,000</u>
Business-type Activities					
Bonds Payable	\$ 832,119	\$ -	\$ 35,200	\$ 796,919	\$ 37,400
Total	<u>\$ 832,119</u>	<u>\$ -</u>	<u>\$ 35,200</u>	<u>\$ 796,919</u>	<u>\$ 37,400</u>

Governmental Activities

Capital Lease Obligations

Included in the amount shown in the accompanying financial statements as lease obligations represents the City's future obligations to make lease payments under a ten year, variable rate (2.0% to 3.0%) lease agreement with Kentucky Bond Corporation, aggregating \$115,000 for a used tanker fire truck.

The City's obligation under the lease is a general obligation of the City and is secured by fire equipment purchased with the proceeds. Under this obligation the full faith, credit and revenue of the City are pledged for its payment.

Payments ranging from \$801 to \$1,342 which includes principal, interest and fiscal charges are due monthly during the terms of the lease. The obligations of the lease at June 30, 2014 are as follows:

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.E. LONG-TERM DEBT (Continued)

Governmental Activities (Continued)

<u>Fiscal Year</u>	<u>Principal Payment</u>	<u>Interest Payment</u>	<u>Fiscal Charges</u>	<u>Total Payment</u>	<u>Balance at End of Year</u>
					\$ 115,000
2015	\$ 5,000	\$ 2,544	\$ 716	\$ 8,260	110,000
2016	10,000	2,650	725	13,375	100,000
2017	10,000	2,450	700	13,150	90,000
2018	10,000	2,250	675	12,925	80,000
2019	10,000	2,050	650	12,700	70,000
2020-24	65,000	6,575	2,838	74,413	5,000
2025	5,000	150	462	5,612	-
	<u>\$ 115,000</u>	<u>\$ 18,669</u>	<u>\$ 6,766</u>	<u>\$ 140,435</u>	<u>\$ -</u>

Note Payable

The original balance of the note was \$20,000. The note is payable in annual installments of \$10,000 (principal only) through February, 2016. Interest is charged at the rate of 0.00%. The principal balance outstanding at June 30, 2014 is \$20,000.

Assuming the note is not liquidated prior to maturity, the annual minimum obligation of the City at June 30, 2014 for debt service, (principal) is as follows:

<u>Fiscal Year</u>	<u>Principal Due</u>	<u>Interest Due</u>	<u>Total Retirement for Year</u>	<u>Note Balance Outstanding At End of Year</u>
2015	\$ 10,000	\$ -	\$ 10,000	\$ 20,000
2016	10,000	-	10,000	-
	<u>\$ 20,000</u>	<u>\$ -</u>	<u>\$ 20,000</u>	<u>\$ -</u>

Business Activities

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

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

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$230,000	\$100,000	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, 2014, for debt service (principal and interest) are as follows:

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

<u>Fiscal Year</u>	<u>Bond Due</u>	<u>Interest Due</u>	<u>Total Retirement for Year</u>	<u>Bonds Outstanding At End of Year</u>
				\$ 100,000
2015	\$ 9,000	\$ 5,000	\$ 14,000	91,000
2016	9,000	4,550	13,550	82,000
2017	10,000	4,100	14,100	72,000
2018	10,000	3,600	13,600	62,000
2019	11,000	3,100	14,100	51,000
2020-23	51,000	6,750	57,750	-
	<u>\$ 100,000</u>	<u>\$ 27,100</u>	<u>\$ 127,100</u>	<u>\$ -</u>

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:

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$568,000	\$218,719	5%

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

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

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2014, for debt service (principal and interest) are as follows:

<u>Fiscal Year</u>	<u>Bond Due</u>	<u>Interest Due</u>	<u>Total Retirement for Year</u>	<u>Bonds Outstanding At End of Year</u>
				\$ 218,719
2015	\$ 20,000	\$ 10,936	\$ 30,936	198,719
2016	21,000	9,936	30,936	177,719
2017	22,000	8,886	30,886	155,719
2018	23,000	7,786	30,786	132,719
2019	24,000	6,636	30,636	108,719
2020-24	108,719	14,030	122,749	-
	<u>\$ 218,719</u>	<u>\$ 58,210</u>	<u>\$ 276,929</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:

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$300,000	\$263,500	4.5%

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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, 2014, 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
2015	\$ 4,500	\$ 11,858	\$ 16,358	\$ 263,500
2016	5,000	11,655	16,655	259,000
2017	5,000	11,430	16,430	254,000
2018	5,500	11,205	16,705	249,000
2019	5,500	10,958	16,458	243,500
2020-24	32,500	50,761	83,261	238,000
2025-29	41,000	42,706	83,706	205,500
2030-34	52,500	32,514	85,014	164,500
2035-39	65,500	19,576	85,076	112,000
2040-42	46,500	4,231	50,731	46,500
	<u>\$ 263,500</u>	<u>\$ 206,894</u>	<u>\$ 470,394</u>	<u>\$ -</u>

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	\$131,900	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, 2014, for debt service (principal and interest) are as follows:

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bonds Outstanding At End of Year
				\$ 131,900
2015	\$ 2,300	\$ 5,606	\$ 7,906	129,600
2016	2,400	5,508	7,908	127,200
2017	2,500	5,406	7,906	124,700
2018	2,600	5,300	7,900	122,100
2019	2,700	5,190	7,890	119,400
2020-24	15,200	24,138	39,338	104,200
2025-29	18,700	20,626	39,326	85,500
2030-34	23,000	16,301	39,301	62,500
2035-39	28,400	10,976	39,376	34,100
2040-44	34,100	4,401	38,501	-
	<u>\$ 131,900</u>	<u>\$ 103,452</u>	<u>\$ 235,352</u>	<u>\$ -</u>

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:

Original Amount	Outstanding Balance	Interest Rate
\$90,000	\$82,800	2.75%

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

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

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2014, 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
				\$ 82,800
2015	\$ 1,600	\$ 2,277	\$ 3,877	81,200
2016	1,600	2,233	3,833	79,600
2017	1,700	2,189	3,889	77,900
2018	1,700	2,143	3,843	76,200
2019	1,800	2,096	3,896	74,400
2020-24	9,600	9,717	19,317	64,800
2025-29	10,900	8,326	19,226	53,900
2030-34	12,500	6,743	19,243	41,400
2035-39	14,300	4,928	19,228	27,100
2040-44	16,500	2,848	19,348	10,600
2045-47	10,600	576	11,176	-
	<u>\$ 82,800</u>	<u>\$ 44,076</u>	<u>\$ 126,876</u>	<u>\$ -</u>

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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, 2014, are as follows:

Fiscal Year	Governmental Activities			Business-type Activities	
	Principal	Interest	Fiscal Charges	Principal	Interest
2015	\$ 15,000	\$ 2,544	\$ 716	\$ 37,400	\$ 35,677
2016	20,000	2,650	725	39,000	33,882
2017	10,000	2,450	700	41,200	32,011
2018	10,000	2,250	675	42,800	30,034
2019	10,000	2,050	650	45,000	27,980
2020-24	65,000	6,575	2,838	217,019	105,396
2025-29	5,000	150	462	70,600	71,658
2030-34	-	-	-	88,000	55,558
2035-39	-	-	-	108,200	35,480
2040-44	-	-	-	97,100	11,480
2045-47	-	-	-	10,600	576
Total	<u>\$ 135,000</u>	<u>\$ 18,669</u>	<u>\$ 6,766</u>	<u>\$ 796,919</u>	<u>\$ 439,732</u>

3.F. INTEREST EXPENSE

No interest expense has been reported for the governmental funds financial statements for the year ended June 30, 2014. However, debt issuance costs of \$2,300 associated with the issuance of the capital lease through the Kentucky Bond Corporation have been recorded as an expenditure. Accrued interest expense associated with capital lease obligations and reported in the government wide financial statements was \$958. Interest expense for the enterprise fund for the year ended June 30, 2014, was \$37,363. No interest has been capitalized.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2014, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
Enterprise Fund	General Fund	\$ 20,130	Advances for operating expenditures
Total		<u>\$ 20,130</u>	

CITY OF NEW CASTLE, KENTUCKY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2014

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

3.H. FUND EQUITY

Restricted Net Assets

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

Governmental Activities:

Activity	Restricted by	
Restricted for Debt Service:		
General Fund	Debt Agreement	<u>\$ 8,291</u>
Restricted for Other Purposes:		
Municipal Road Aid	State Law	<u>\$ 73,179</u>

Business-type Activities

Enterprise Fund:

Restricted for Debt Service:

1983 Water Utilities Revenue Bonds-Cash	\$ 141,749
1985 Sewer Utilities Revenue Bonds-Cash	108,326
2002 Water Utilities Revenue Bonds-Cash	37,206
2006 Sewer Utilities Revenue Bonds-Cash	42,689
2009 Sewer Utilities Revenue Bonds-Cash	<u>61,387</u>
Total Restricted For Debt Service	<u>\$ 391,357</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, 2014, to indicate the lack of liquidity associated with the following assets:

General Fund:	
Prepaid Insurance	<u>\$ 4,781</u>

The City has reported the following restricted portion of the general funds fund balance at June 30, 2014, to indicate the amounts restricted as to use by debt agreement:

General Fund:	
Fire Truck	<u>\$ 8,291</u>

The City has reported the following restricted portion of the other governmental fund's fund balance at June 30, 2014, to indicate the amounts restricted as to use by statute:

Other Governmental Funds:	
Municipal Road Aid	<u>\$ 73,179</u>

The City has reported \$1,251 of the general fund's fund balance as assigned at June 30, 2014, indicating amounts intended for use in downtown revitalization.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

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, 2013. 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, 2014, 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) were 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. On July 1, 2013, the COLA was not granted.

Contributions - For the year ended June 30, 2013, 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, 2013, participating employers contributed 19.55% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2013 was 19.55%. 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, 2014

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	Percentage Contributed
June 30, 2013	490,475,114	454,906,887	92.7%
June 30, 2012	476,185,027	447,661,027	94.0%
June 30, 2011	432,414,052	435,404,150	100.7%

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, 2014, was \$52,579. Contributions were based on \$45,727 (eligible gross wages). The total pension expense for the year ended June 30, 2014, was \$7,124 and \$2,042 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, 2014, was \$95,771. Contributions were based on \$93,563 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2014, was \$17,674 and \$4,679 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, 2013, (general fund and proprietary fund combined) was .005 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, 2014

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

Segment Information – Enterprise Fund The City maintains an enterprise fund which provides water and sewer services. Selected financial information for business segments of the enterprise fund for the year ended June 30, 2014, is presented as follows:

CONDENSED STATEMENT OF NET POSITION

	Water	Sewer	Total
Assets:			
Due From Other Funds	\$ 3,390	\$ 16,740	\$ 20,130
Other Current Assets	97,812	56,322	154,134
Other Noncurrent Assets	196,997	212,403	409,400
Capital Assets (Net)	936,349	1,425,122	2,361,471
Total Assets	\$ 1,234,548	\$ 1,710,587	\$ 2,945,135
Liabilities:			
Other Current Liabilities	\$ 35,793	\$ 41,000	\$ 76,793
Noncurrent Liabilities	366,075	409,519	775,594
Total Liabilities	\$ 401,868	\$ 450,519	\$ 852,387
Net Position:			
Net Investment in Capital Assets	\$ 572,849	\$ 991,703	\$ 1,564,552
Restricted	178,954	212,403	391,357
Unrestricted	80,877	55,962	136,839
Total Net Assets	\$ 832,680	\$ 1,260,068	\$ 2,092,748

CONDENSED STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	Water	Sewer	Total
Operating Revenues	\$ 226,787	\$ 198,177	\$ 424,964
Depreciation Expense	(33,674)	(64,808)	(98,482)
Other Operating Expenses	(166,511)	(154,232)	(320,743)
Operating Income (Loss)	\$ 26,602	\$ (20,863)	\$ 5,739
Nonoperating Revenues (Expenses):			
Investment Income	\$ 561	\$ 571	\$ 1,132
Interest Expense	(17,460)	(19,903)	(37,363)
Change in Net Position	\$ 9,703	\$ (40,195)	\$ (30,492)
Beginning Net Position	822,977	1,300,263	2,123,240
Ending Net Position	\$ 832,680	\$ 1,260,068	\$ 2,092,748

CONDENSED STATEMENT OF CASH FLOWS

	Water	Sewer	Total
Net Cash Provided (Used) by:			
Operating Activities	\$ 62,429	\$ 41,126	\$ 103,555
Capital and Related Financing Activities	(29,960)	(60,852)	(90,812)
Investing Activities	565	576	1,141
Net Increase (Decrease)	\$ 33,034	\$ (19,150)	\$ 13,884
Beginning Cash and Cash Equivalents	177,592	205,549	383,141
Ending Cash and Cash Equivalents	\$ 210,626	\$ 186,399	\$ 397,025

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2014

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Income Tax Status

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

Economic Dependence

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

Expenditures Over Appropriations

Total expenditures of \$537,210 exceeded appropriations of \$436,010 by \$103,500 in the General Fund. The General Fund budget did not reflect capital outlay expenditures to acquire a fire truck due to an oversight by City Council.

Recently Issued Accounting Pronouncements

In June 2012, the GASB issued Statement 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement 27*. GASB 68 is effective for periods beginning after June 15, 2014. Under this statement governments will be required to report the net pension liability associated with its' employee's pension as a liability in their accrual-based financial statements. A government has a present obligation to pay deferred benefits earned by its employees. "*Net Pension Liability*" represents the government's obligation to pay deferred benefits when the total pension [plan's] liability exceeds the pension plan's net assets. This reporting requirement is an important change that will more clearly depict the government's financial position. While this information will, in some cases give the appearance that a government is financially weaker than it was previously, the financial reality of the government's situation will not have changed. Management is currently evaluating the impact of the adoption of this statement on the City's financial statements.

CITY OF NEW CASTLE, KENTUCKY
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 For the Year Ended June 30, 2014

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 69,000	\$ 69,000	\$ 70,586	\$ 1,586
Franchise Taxes	38,000	38,000	44,253	6,253
Insurance Taxes	120,000	123,000	143,258	20,258
Charges for Services	70,935	70,935	71,692	757
Occupational Licenses	2,400	2,485	2,485	-
Interest Revenue	200	120	129	9
Donations	3,000	3,000	3,855	855
Rental Revenue	200	100	408	308
Fire Department	34,750	33,047	37,479	4,432
Miscellaneous Revenues	1,900	2,554	6,936	4,382
Proceeds from Outside Sources:				
State Fire Aid	8,250	8,250	8,250	-
Kentucky Transportation Cabinet	250,000	-	-	-
Total Revenues	\$ 598,635	\$ 350,491	\$ 389,331	\$ 38,840
EXPENDITURES				
Current				
General Government	\$ 145,503	\$ 180,565	\$ 155,687	\$ 24,878
Public Safety				
Police Department	25,000	25,000	25,150	(150)
Fire Department	64,500	56,207	40,102	16,105
Public Services	70,935	70,935	71,538	(603)
Highways & Streets	26,982	33,548	48,230	(14,682)
Capital Outlay	250,000	67,500	196,503	(129,003)
Debt Service				
Interest and Other Charges	-	2,255	2,300	(45)
Total Expenditures	\$ 582,920	\$ 436,010	\$ 539,510	\$ (103,500)
Excess of Revenues Over (Under) Expenditures	\$ 15,715	\$ (85,519)	\$ (150,179)	\$ (64,660)
Other Financing Sources (Uses):				
Capital Lease Proceeds	\$ -	\$ 107,000	\$ 115,000	\$ 8,000
Note Payable	-	-	20,000	20,000
Total Other Financing sources (Uses)	\$ -	\$ 107,000	\$ 135,000	\$ 28,000
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 15,715	\$ 21,481	\$ (15,179)	\$ (36,660)
Fund Balances - July 1	254,307	253,901	252,960	(941)
Fund Balances - June 30	\$ 270,022	\$ 275,382	\$ 237,781	\$ (37,601)

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2014

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. The budget did not reflect related capital outlay expenditures to acquire fire truck due to an oversight by City Council.
- (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 POSITION
 ALL PROPRIETARY FUND TYPES
 June 30, 2014, and 2013

ASSETS	June 30, 2014		Totals
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	
Current Assets:			
Cash, including time deposits	\$ 68,629	\$ 29,496	\$ 98,125
Interest Receivable	81	98	179
Accounts Receivable - (Net)	29,102	26,728	55,830
Due from Other Funds	3,390	16,740	20,130
Total Current Assets	\$ 101,202	\$ 73,062	\$ 174,264
Noncurrent Assets:			
Restricted Assets			
Cash, including time deposits	\$ 196,997	\$ 212,403	\$ 409,400
Capital Assets (Net)	936,349	1,425,122	2,361,471
Total Noncurrent Assets	\$ 1,133,346	\$ 1,637,525	\$ 2,770,871
Total Assets	\$ 1,234,548	\$ 1,710,587	\$ 2,945,135
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 8,495	\$ 3,888	\$ 12,383
Accrued Compensated Absences	13,053	13,053	26,106
Accrued Taxes / Employee Withholding	745	159	904
Current Liabilities Payable from Restricted Assets:			
Revenue Bonds Payable	13,500	23,900	37,400
Total Current Liabilities	\$ 35,793	\$ 41,000	\$ 76,793
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ 350,000	\$ 409,519	\$ 759,519
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	16,075	-	16,075
Total Noncurrent Liabilities	\$ 366,075	\$ 409,519	\$ 775,594
Total Liabilities	\$ 401,868	\$ 450,519	\$ 852,387
NET POSITION			
Net Investment in Capital Assets	\$ 572,849	\$ 991,703	\$ 1,564,552
Restricted for:			
Debt Service	178,954	212,403	391,357
Unrestricted	80,877	55,962	136,839
Total Net Position	\$ 832,680	\$ 1,260,068	\$ 2,092,748

June 30, 2013		
Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
\$ 45,285	\$ 49,212	\$ 94,497
85	103	188
28,678	26,398	55,076
8,030	21,640	29,670
<u>\$ 82,078</u>	<u>\$ 97,353</u>	<u>\$ 179,431</u>
\$ 187,307	\$ 211,837	\$ 399,144
<u>970,023</u>	<u>1,471,681</u>	<u>2,441,704</u>
<u>\$ 1,157,330</u>	<u>\$ 1,683,518</u>	<u>\$ 2,840,848</u>
<u>\$ 1,239,408</u>	<u>\$ 1,780,871</u>	<u>\$ 3,020,279</u>
\$ 9,635	\$ 9,444	\$ 19,079
14,875	14,875	29,750
696	170	866
<u>12,500</u>	<u>22,700</u>	<u>35,200</u>
<u>\$ 37,706</u>	<u>\$ 47,189</u>	<u>\$ 84,895</u>
\$ 363,500	\$ 433,419	\$ 796,919
<u>15,225</u>	<u>-</u>	<u>15,225</u>
<u>\$ 378,725</u>	<u>\$ 433,419</u>	<u>\$ 812,144</u>
<u>\$ 416,431</u>	<u>\$ 480,608</u>	<u>\$ 897,039</u>
\$ 594,023	\$ 1,015,562	\$ 1,609,585
169,685	211,837	381,522
59,269	72,864	132,133
<u>\$ 822,977</u>	<u>\$ 1,300,263</u>	<u>\$ 2,123,240</u>

CITY OF NEW CASTLE, KENTUCKY
 COMPARATIVE COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 ALL PROPRIETARY FUND TYPES
 For the Fiscal Years Ended June 30, 2014 and 2013

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	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	\$ 221,181	\$ -	\$ 221,181	\$ 214,665	\$ -	\$ 214,665
Sewer Services	-	197,787	197,787	-	219,305	219,305
Miscellaneous	5,606	390	5,996	6,156	2,050	8,206
Total Operating Revenues	\$ 226,787	\$ 198,177	\$ 424,964	\$ 220,821	\$ 221,355	\$ 442,176
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 46,838	\$ 46,169	\$ 93,007	\$ 43,634	\$ 43,620	\$ 87,254
Water and Sewer Supplies	2,464	20,241	22,705	2,627	14,901	17,528
Utilities	875	15,555	16,430	855	15,539	16,394
Rent	-	-	-	6,000	6,000	12,000
Payroll Taxes	3,408	3,359	6,767	3,332	3,331	6,663
Retirement Benefits	8,562	8,435	16,997	8,587	8,584	17,171
Vehicle Expenses	4,833	4,760	9,593	3,780	3,741	7,521
Postage and Office Supplies	2,079	1,594	3,673	2,489	2,298	4,787
Insurance	27,042	27,302	54,344	25,207	25,788	50,995
General & Admin. Expenses	9,404	7,132	16,536	11,438	11,340	22,778
Depreciation	33,674	64,808	98,482	33,990	65,165	99,155
Miscellaneous	303	483	786	-	-	-
Water Purchases	59,985	-	59,985	61,610	-	61,610
Repairs and Maintenance	718	19,202	19,920	2,159	36,121	38,280
Total Operating Expenses	\$ 200,185	\$ 219,040	\$ 419,225	\$ 205,708	\$ 236,428	\$ 442,136
Operating Income (Loss)	\$ 26,602	\$ (20,863)	\$ 5,739	\$ 15,113	\$ (15,073)	\$ 40
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Revenue	\$ 561	\$ 571	\$ 1,132	\$ 623	\$ 690	\$ 1,313
Interest Expense	(17,460)	(19,903)	(37,363)	(18,063)	(20,934)	(38,997)
Total Non-Operating Revenues (Expenses):	\$ (16,899)	\$ (19,332)	\$ (36,231)	\$ (17,440)	\$ (20,244)	\$ (37,684)
Change in Net Position	\$ 9,703	\$ (40,195)	\$ (30,492)	\$ (2,327)	\$ (35,317)	\$ (37,644)
Net Position - July 1	822,977	1,300,263	2,123,240	825,304	1,335,580	2,160,884
Net Position - June 30	\$ 832,680	\$ 1,260,068	\$ 2,092,748	\$ 822,977	\$ 1,300,263	\$ 2,123,240

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Years Ended June 30, 2014, and 2013

	Year Ended June 30, 2014			Year Ended June 30, 2013		
	Water Utilities	Sewer Utilities	Totals	Water Utilities	Sewer Utilities	Totals
	Enterprise Fund	Enterprise Fund		Enterprise Fund	Enterprise Fund	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Receipts from Customers	\$ 226,363	\$ 197,847	\$ 424,210	\$ 218,398	\$ 222,857	\$ 441,255
Payments to Suppliers	(116,124)	(108,730)	(224,854)	(116,761)	(116,191)	(232,952)
Payments to Employees	(48,660)	(47,991)	(96,651)	(40,820)	(40,806)	(81,626)
Receipts of Customer Meter Deposits	4,975	-	4,975	4,975	-	4,975
Refunds of Customer Meter Deposits	(4,125)	-	(4,125)	(3,875)	-	(3,875)
Net Cash Provided (Used) by Operating Activities	<u>\$ 62,429</u>	<u>\$ 41,126</u>	<u>\$ 103,555</u>	<u>\$ 61,917</u>	<u>\$ 65,860</u>	<u>\$ 127,777</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>						
Purchases of Capital Assets	\$ -	\$ (18,249)	\$ (18,249)	\$ (8,669)	\$ (19,816)	\$ (28,485)
Principal Paid on Capital Debt	(12,500)	(22,700)	(35,200)	(12,500)	(21,600)	(34,100)
Interest Paid on Capital Debt	(17,460)	(19,903)	(37,363)	(18,063)	(20,934)	(38,997)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (29,960)</u>	<u>\$ (60,852)</u>	<u>\$ (90,812)</u>	<u>\$ (39,232)</u>	<u>\$ (62,350)</u>	<u>\$ (101,582)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Interest Received	\$ 565	\$ 576	\$ 1,141	\$ 663	\$ 689	\$ 1,352
Net Cash Provided (Used) by Investing Activities	<u>\$ 565</u>	<u>\$ 576</u>	<u>\$ 1,141</u>	<u>\$ 663</u>	<u>\$ 689</u>	<u>\$ 1,352</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 33,034	\$ (19,150)	\$ 13,884	\$ 23,348	\$ 4,199	\$ 27,547
Balances - July 1	177,592	205,549	383,141	154,244	201,350	355,594
Balances - June 30	<u>\$ 210,626</u>	<u>\$ 186,399</u>	<u>\$ 397,025</u>	<u>\$ 177,592</u>	<u>\$ 205,549</u>	<u>\$ 383,141</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>						
Operating Income (Loss)	\$ 26,602	\$ (20,863)	\$ 5,739	\$ 15,113	\$ (15,073)	\$ 40
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	33,674	64,808	98,482	33,990	65,165	99,155
Change in Assets and Liabilities:						
Receivables, Net	(424)	(330)	(754)	(2,423)	1,502	(921)
Accounts Payable	(1,140)	(5,556)	(6,696)	1,349	1,787	3,136
Due from Other Funds	4,640	4,900	9,540	9,970	9,660	19,630
Customer Meter Deposits Payable	850	-	850	1,100	-	1,100
Accrued Compensated Absences	(1,822)	(1,822)	(3,644)	2,814	2,814	5,628
Accrued Taxes/Employee Withholding	49	(11)	38	4	5	9
Net Cash Provided by Operating Activities	<u>\$ 62,429</u>	<u>\$ 41,126</u>	<u>\$ 103,555</u>	<u>\$ 61,917</u>	<u>\$ 65,860</u>	<u>\$ 127,777</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2014, 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, 2013, 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.

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Fiscal Year Ended June 30, 2014
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	\$ 232,000	\$ 221,181	\$ (10,819)	\$ -	\$ -	\$ -
Sewer Services	-	-	-	202,000	197,787	(4,213)
Miscellaneous	5,300	5,606	306	400	390	(10)
Total Operating Revenues	\$ 237,300	\$ 226,787	\$ (10,513)	\$ 202,400	\$ 198,177	\$ (4,223)
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 47,067	\$ 46,838	\$ 229	\$ 47,300	\$ 46,169	\$ 1,131
Water and Sewer Supplies	4,000	2,464	1,536	25,000	20,241	4,759
Utilities	800	875	(75)	15,700	15,555	145
Payroll Taxes	3,700	3,408	292	3,700	3,359	341
Retirement Benefits	8,800	8,562	238	8,854	8,435	419
Vehicle Expenses	6,000	4,833	1,167	5,300	4,760	540
Postage and Office Supplies	2,000	2,079	(79)	2,000	1,594	406
Insurance	22,402	27,042	(4,640)	22,402	27,302	(4,900)
General & Admin. Expenses	8,900	9,404	(504)	8,520	7,132	1,388
Depreciation	26,190	33,674	(7,484)	53,872	64,808	(10,936)
Miscellaneous	500	303	197	500	483	17
Water Purchases	62,500	59,985	2,515	-	-	-
Repairs and Maintenance	7,200	718	6,482	21,500	19,202	2,298
Total Operating Expenses	\$ 200,059	\$ 200,185	\$ (126)	\$ 214,648	\$ 219,040	\$ (4,392)
Operating Income (Loss)	\$ 37,241	\$ 26,602	\$ (10,639)	\$ (12,248)	\$ (20,863)	\$ (8,615)
<u>NON-OPERATING REVENUES (EXPENSES):</u>						
Interest Revenue	\$ 500	\$ 561	\$ 61	\$ 600	\$ 571	\$ (29)
Interest Expense	(17,460)	(17,460)	-	(19,905)	(19,903)	2
Total Non-Operating Revenues (Expenses):	\$ (16,960)	\$ (16,899)	\$ 61	\$ (19,305)	\$ (19,332)	\$ (27)
Change in Net Position	\$ 20,281	\$ 9,703	\$ (10,578)	\$ (31,553)	\$ (40,195)	\$ (8,642)
Net Position - July 1	232,375	822,977	590,602	261,530	1,300,263	1,038,733
Net Position - June 30	\$ 252,656	\$ 832,680	\$ 580,024	\$ 229,977	\$ 1,260,068	\$ 1,030,091

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 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, 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, 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, 2014, and the related notes to the financial statements, which collectively comprise City of New Castle, Kentucky's basic financial statements and have issued our report thereon dated August 28, 2014.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered City of New Castle, Kentucky's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of City of New Castle, Kentucky's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control 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 2014-1 and 2014-2).

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

COMPLIANCE AND OTHER MATTERS

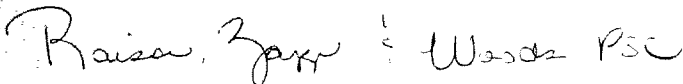
As part of obtaining reasonable assurance about whether City of New Castle, Kentucky's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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 2014-3.

CITY OF NEW CASTLE, KENTUCKY'S RESPONSE TO FINDINGS

City of New Castle, Kentucky's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. City of New Castle, Kentucky's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants
Carrollton, Kentucky

August 28, 2014

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified 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 Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 2014-1 and 2014-2 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 as Item 2014-3.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

2014-1 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, 2013 as item 13-1.

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.

2014-2 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, 2013 as item 13-2.

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, 2014

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2014-2 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 and 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

2014-3 VIOLATION OF KRS 65.7707

CONDITION:

The City of New Castle had outstanding debt (note-payable) at June 30, 2014.

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 not in compliance with KRS 65.7707, as it had notes payable outstanding at June 30, 2014.

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.