

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

**Year Ended June 30, 2017**

**CITY OF NEW CASTLE, KENTUCKY**  
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June 30, 2017

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# RAISOR, ZAPP & WOODS, PSC

## Certified Public Accountants

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

### INDEPENDENT AUDITOR'S REPORT

#### 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, 2017, and the related notes to the financial statements, which collectively comprise the City of New Castle, Kentucky'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, 2017, 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.

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

#### Other Matters

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 44 and 45, the Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 46, and Schedule of City Contributions – County Employees Retirement System on page 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 comparative combining financial statements and the 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 financial statements and the 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 financial statements and the 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 31, 2017, 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 solely 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 the effectiveness of the City of New Castle, Kentucky's 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*

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

August 31, 2017

CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF NET POSITION  
June 30, 2017

	Governmental Activities	Business-type Activities	Total
<b><u>ASSETS</u></b>			
Current Assets:			
Cash, including time deposits	\$ 214,199	\$ 222,065	\$ 436,264
Interest Receivable	-	57	57
Accounts Receivable (Net)	47,008	62,725	109,733
Due from Other Governments	2,563	-	2,563
Due from Other Funds	(22,800)	22,800	-
Prepaid Expenses	13,281	-	13,281
Total Current Assets	\$ 254,251	\$ 307,647	\$ 561,898
Noncurrent Assets:			
Restricted Assets			
Cash	\$ 13,041	\$ 396,677	\$ 409,718
Capital Assets (Net)	558,347	2,177,678	2,736,025
Total Noncurrent Assets	\$ 571,388	\$ 2,574,355	\$ 3,145,743
Total Assets	\$ 825,639	\$ 2,882,002	\$ 3,707,641
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
Attributable to Employee Pension Plan	\$ 25,497	\$ 38,246	\$ 63,743
<b><u>LIABILITIES</u></b>			
Current Liabilities:			
Accounts Payable	\$ 20,122	\$ 13,399	\$ 33,521
Accrued Compensated Absences	2,405	4,528	6,933
Accrued Taxes/Employee Withholding	6,281	1,066	7,347
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	750	-	750
Current Portion - Capital Lease Obligation	10,000	-	10,000
Current Portion - Revenue Bonds Payable	-	42,800	42,800
Total Current Liabilities	\$ 39,558	\$ 61,793	\$ 101,351
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ -	\$ 636,519	\$ 636,519
Capital Lease Obligation	80,000	-	80,000
Accrued Compensated Absences	14,496	22,576	37,072
Net Pension Liability	102,009	153,012	255,021
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	18,425	18,425
Total Noncurrent Liabilities	\$ 196,505	\$ 830,532	\$ 1,027,037
Total Liabilities	\$ 236,063	\$ 892,325	\$ 1,128,388
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Attributable to Employee Pension Plan	\$ 3,901	\$ 5,854	\$ 9,755
<b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	\$ 468,347	\$ 1,498,359	\$ 1,966,706
Restricted for:			
Debt Service	11,090	375,823	386,913
Other Purposes	55,486	-	55,486
Unrestricted	76,249	147,887	224,136
Total Net Position	\$ 611,172	\$ 2,022,069	\$ 2,633,241

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CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Functions / Programs</b>				
<b>Governmental Activities:</b>				
General Government	\$ 178,590	\$ 2,030	\$ -	\$ -
Public Safety				
Police Department	30,800	-	-	-
Fire Department	62,803	37,909	11,000	-
Public Services	78,680	80,594	-	-
Highways & Streets	105,351	-	18,636	-
<b>Total Governmental Activities</b>	<b>\$ 456,224</b>	<b>\$ 120,533</b>	<b>\$ 29,636</b>	<b>\$ -</b>
<b>Business-type Activities</b>				
Water	\$ 236,688	\$ 242,539	\$ -	\$ -
Sewer	239,843	245,150	-	-
<b>Total Business-type Activities</b>	<b>\$ 476,531</b>	<b>\$ 487,689</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Total Government</b>	<b>\$ 932,755</b>	<b>\$ 608,222</b>	<b>\$ 29,636</b>	<b>\$ -</b>

**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

Governmental Activities	Business-type Activities	Total
\$ (176,560)	\$ -	\$ (176,560)
(30,800)	-	(30,800)
(13,894)	-	(13,894)
1,914	-	1,914
<u>(86,988)</u>	<u>-</u>	<u>(86,988)</u>
<u>\$ (306,328)</u>	<u>\$ -</u>	<u>\$ (306,328)</u>
\$ -	\$ 5,851	\$ 5,851
-	5,307	5,307
<u>\$ -</u>	<u>\$ 11,158</u>	<u>\$ 11,158</u>
<u>\$ (306,328)</u>	<u>\$ 11,158</u>	<u>\$ (295,170)</u>
\$ 72,650	\$ -	\$ 72,650
48,235	-	48,235
132,603	-	132,603
156	652	808
7,675	7,050	14,725
<u>\$ 261,319</u>	<u>\$ 7,702</u>	<u>\$ 269,021</u>
\$ (45,009)	\$ 18,860	\$ (26,149)
656,181	2,003,209	2,659,390
<u>\$ 611,172</u>	<u>\$ 2,022,069</u>	<u>\$ 2,633,241</u>

CITY OF NEW CASTLE, KENTUCKY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

ASSETS	General Fund	Other Governmental Funds	Total Governmental Funds
Cash, including time deposits	\$ 160,420	\$ 53,779	\$ 214,199
Cash, restricted	13,041	-	13,041
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Licenses	36,823	-	36,823
Property Taxes	1,706	-	1,706
Garbage	6,532	-	6,532
Franchise Fees	1,947	-	1,947
Due from Other Governments	856	1,707	2,563
Prepaid Expenses	13,281	-	13,281
<b>Total Assets</b>	<b><u>\$ 234,606</u></b>	<b><u>\$ 55,486</u></b>	<b><u>\$ 290,092</u></b>
<b>LIABILITIES</b>			
Accounts Payable	\$ 20,122	\$ -	\$ 20,122
Due to Other Funds	22,800	-	22,800
Accrued Compensated Absences	566	-	566
Accrued Taxes / Employee Withholding	6,281	-	6,281
<b>Total Liabilities</b>	<b><u>\$ 49,769</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 49,769</u></b>
<b>FUND BALANCES</b>			
Nonspendable	\$ 13,281	\$ -	\$ 13,281
Restricted for:			
Fire Truck	11,090	-	11,090
Special Revenue Funds	-	55,486	55,486
Assigned to:			
Downtown Revitalization	1,951	-	1,951
Unassigned	158,515	-	158,515
<b>Total Fund Balances</b>	<b><u>\$ 184,837</u></b>	<b><u>\$ 55,486</u></b>	<b><u>\$ 240,323</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 234,606</u></b>	<b><u>\$ 55,486</u></b>	<b><u>\$ 290,092</u></b>

CITY OF NEW CASTLE, KENTUCKY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2017

Total Governmental Fund Balances	\$ 240,323
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 \$906,215	558,347
Deferred Outflows of Resources Attributable to Employee Pension Plan	25,497
Long term liabilities are not due and payable in the current period and therefore not reported in the funds:	
Accrued compensated absences	(16,335)
Accrued Interest	(750)
Capital Lease Obligation	(90,000)
Net Pension Liabilities	(102,009)
Deferred Inflows of Resources Attributable to Employee Pension Plan	<u>(3,901)</u>
Net Position of Governmental Activities	<u><u>\$ 611,172</u></u>

CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES</u></b>			
Property Taxes	\$ 72,650	\$ -	\$ 72,650
Franchise Taxes	48,235	-	48,235
Insurance Taxes	132,603	-	132,603
Charges for Services	80,594	-	80,594
Occupational Licenses	2,030	-	2,030
Interest Revenue	75	81	156
Fire Department	37,909	-	37,909
Miscellaneous Revenues	7,675	-	7,675
Proceeds from Outside Sources:			
State Fire Aid	11,000	-	11,000
Municipal Road Aid	-	18,363	18,363
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 392,771	\$ 18,444	\$ 411,215
<b><u>EXPENDITURES</u></b>			
Current			
General Government	\$ 162,672	\$ -	\$ 162,672
Public Safety			
Police Department	30,800	-	30,800
Fire Department	45,514	-	45,514
Public Services	78,680	-	78,680
Highways and Streets	56,176	36,000	92,176
Capital Outlay	28,320	-	28,320
Debt Service			
Principal	10,000	-	10,000
Interest and Other Charges	3,150	-	3,150
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 415,312	\$ 36,000	\$ 451,312
Net Change in Fund Balances	\$ (22,541)	\$ (17,556)	\$ (40,097)
Fund Balances - July 1	<hr/> 207,378	<hr/> 73,042	<hr/> 280,420
Fund Balances - June 30	<hr/> <u>\$ 184,837</u>	<hr/> <u>\$ 55,486</u>	<hr/> <u>\$ 240,323</u>

CITY OF NEW CASTLE, KENTUCKY  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 For the Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ (40,097)
 <i>Amounts reported for governmental activities in the statement of activities are different because:</i>	
 Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capitalized Expenditures	28,320
Depreciation Expense	(38,354)
 Repayment of note payable/capital lease obligation is an expenditure in the governmental funds, but the repayment reduces note payable and capital lease obligation long-term liabilities in the Statement of Net Position.	
	10,000
 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.	
	83
 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.	
	145
 Governmental funds report city pension contributions as expenditures. However in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
	<u>(5,106)</u>
 Change in Net Position of Governmental Activities	 <u><u>\$ (45,009)</u></u>

CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF NET POSITION  
PROPRIETARY FUND  
June 30, 2017

	<u>Water/Sewer Utilities Enterprise Fund</u>
<b>ASSETS</b>	
<b>Current Assets:</b>	
Cash, including time deposits	\$ 222,065
Interest Receivable	57
Accounts Receivable (Net)	62,725
Due from Other Funds	<u>22,800</u>
<b>Total Current Assets</b>	<b>\$ 307,647</b>
<b>Noncurrent Assets:</b>	
<b>Restricted Assets</b>	
Cash, including time deposits	\$ 396,677
Capital Assets (Net)	<u>2,177,678</u>
<b>Total Noncurrent Assets</b>	<b>\$ 2,574,355</b>
<b>Total Assets</b>	<b>\$ 2,882,002</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Attributable to Employee Pension Plan	<u>\$ 38,246</u>
<b>LIABILITIES</b>	
<b>Current Liabilities:</b>	
Accounts Payable	\$ 13,399
Accrued Compensated Absences	4,528
Accrued Taxes / Employee Withholding	1,066
<b>Current Liabilities Payable from Restricted Assets:</b>	
Revenue Bonds Payable	<u>42,800</u>
<b>Total Current Liabilities</b>	<b>\$ 61,793</b>
<b>Noncurrent Liabilities:</b>	
Revenue Bonds Payable	\$ 636,519
Accrued Compensated Absences	22,576
Net Pension Liability	153,012
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>	
Customer Deposits Payable	<u>18,425</u>
<b>Total Noncurrent Liabilities</b>	<b>\$ 830,532</b>
<b>Total Liabilities</b>	<b>\$ 892,325</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Attributable to Employee Pension Plan	<u>\$ 5,854</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	\$ 1,498,359
Restricted for:	
Debt Service	375,823
Unrestricted	<u>147,887</u>
<b>Total Net Position</b>	<b>\$ 2,022,069</b>

CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
PROPRIETARY FUND  
For the Year Ended June 30, 2017

	<u>Water/Sewer Utilities Enterprise Fund</u>
<b>OPERATING REVENUES</b>	
Water Sales	\$ 242,539
Sewer Services	245,150
Miscellaneous	<u>7,050</u>
 Total Operating Revenues	 <u>\$ 494,739</u>
<b>OPERATING EXPENSES</b>	
Salaries and Wages	\$ 80,433
Water and Sewer Supplies	26,951
Utilities	14,337
Payroll Taxes	5,894
Retirement Benefits	23,031
Vehicle Expenses	7,316
Postage and Office Supplies	4,015
Insurance	59,448
General & Admin. Expenses	21,446
Depreciation	105,743
Miscellaneous	70
Water Purchases	76,870
Repairs and Maintenance	<u>18,966</u>
 Total Operating Expenses	 <u>\$ 444,520</u>
 Operating Income (Loss)	 <u>\$ 50,219</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Interest Revenue	\$ 652
Interest Expense	<u>(32,011)</u>
 Total Non-Operating Revenues (Expenses):	 <u>\$ (31,359)</u>
 Change in Net Position	 <u>\$ 18,860</u>
 Net Position - July 1	 <u>2,003,209</u>
 Net Position - June 30	 <u><u>\$ 2,022,069</u></u>

CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2017

<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	<u>Water/Sewer Utilities Enterprise Fund</u>	
Receipts from Customers	\$	492,995
Payments to Suppliers		(257,206)
Payments to Employees		(79,781)
Receipts of Customer Meter Deposits		5,150
Refunds of Customer Meter Deposits		(4,950)
Net Cash Provided (Used) by Operating Activities	<u>\$</u>	<u>156,208</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchase of Capital Assets	\$	(43,505)
Principal Paid on Capital Debt		(41,200)
Interest Paid on Capital Debt		(32,011)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$</u>	<u>(116,716)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	\$	655
Net Cash Provided (Used) by Investing Activities	<u>\$</u>	<u>655</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	40,147
Balances - July 1		<u>498,095</u>
Balances - June 30	<u>\$</u>	<u>538,242</u>
	<u>Balances Per June 30, 2017 Statement of Net Position</u>	<u>Balances Per June 30, 2017 Statement of Cash Flows</u>
Cash-Unrestricted	\$ 222,065	\$ 222,065
Time Deposits-Restricted	80,500	-
Cash-Restricted	316,177	316,177
Total	<u>\$ 618,742</u>	<u>\$ 538,242</u>

CITY OF NEW CASTLE, KENTUCKY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
For the Year Ended June 30, 2017

	<u>Water/Sewer Utilities Enterprise Fund</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	
Operating Income (Loss)	\$ 50,219
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	105,743
Pension Expense	7,662
Change in Assets and Liabilities:	
Receivables, Net	(1,744)
Accounts Payable	(6,398)
Due From Other Funds	(200)
Customer Meter Deposits	200
Accrued Compensated Absences	652
Accrued Taxes/Employee Withholding	74
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 156,208</u></b>

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At June 30, 2017, the Water/Sewer Utilities Enterprise Fund had no outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BASIC FINANCIAL STATEMENTS

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- NOTE 4. OTHER NOTES**
- A. County Employees' Retirement System – Non-Hazardous Employees Pension Plan
  - B. Risk Management
  - C. Commitments and Contingencies
  - D. Miscellaneous

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Description of entity: City of New Castle, Kentucky is a “home rule 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, 2017

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, 2017

**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, 2017

**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, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, 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, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, 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 utility revenues 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 ageing 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, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, 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 are 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.

Debt issuance costs are expensed as incurred.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commonwealth of Kentucky's County Employees' Retirement System (CERS), and additions to/deductions from CERS's fiduciary net position have been determined on the same basis as they are reported by CERS.

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.

Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred Outflows of Resources and Deferred Inflows of Resources are not assets or liabilities; revenues or expenses. Rather, they represent resources or the use of resources related to future periods.

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. ASSETS, LIABILITIES, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND EQUITY  
(Continued)

Equity Classifications

*Government-wide Statements*

Equity is classified as net position 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.
- 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

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

**Property Tax**

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

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

**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:

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

**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, 2017

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, 2017, the City complied, in all material respects, with these revenue restrictions.

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

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, 2017

**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, 2017. The categories of credit risk are defined as follows:

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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	\$ 39,281	\$ 39,281	\$ -	\$ -	\$ 38,831
Time/Savings Deposits	901,909	507,164	394,745	-	806,641
<b>Total Deposits</b>	<b>\$ 941,190</b>	<b>\$ 546,445</b>	<b>\$ 394,745</b>	<b>\$ -</b>	<b>\$ 845,472</b>

Reconciliation to Statement of Net Position:

Unrestricted Cash, Including Time Deposits	\$ 436,264
Restricted Cash	409,718
	<u>\$ 845,982</u>
 Carrying Value (Above)	 \$ 845,472
Plus Cash on Hand	510
	<u>\$ 845,982</u>

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

	Governmental Activities	Business-type Activities	Total
Downtown Revitalization	\$ 1,951	\$ -	\$ 1,951
Fire Truck	11,090	-	11,090
Bond and Interest Sinking Account of 1983	-	54,420	54,420
Bond and Interest Sinking Account of 1985	-	48,483	48,483
Bond and Interest Sinking Account of 2002	-	22,540	22,540
Bond and Interest Sinking Account of 2006	-	47,566	47,566
Bond and Interest Sinking Account of 2009	-	26,948	26,948
Short Lived Assets Account	-	17,792	17,792
Depreciation Fund	-	158,073	158,073
Customer Deposits	-	20,855	20,855
	<u>\$ 13,041</u>	<u>\$ 396,677</u>	<u>\$ 409,718</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 (4%), insurance licenses (78%), property tax (4%), business licenses and other (14%) receivables. Receivables detail at June 30, 2017, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 48,684	\$ 70,047	\$ 118,731
Allowance for doubtful accounts	(1,676)	(7,322)	(8,998)
 Net accounts receivable	 <u>\$ 47,008</u>	 <u>\$ 62,725</u>	 <u>\$ 109,733</u>

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance at July 1, 2016	Additions	Disposals	Balance at June 30, 2017
<b>Governmental Activities:</b>				
Land	\$ 81,100	\$ -	\$ -	\$ 81,100
Buildings & Improvements	389,686	-	-	389,686
Machinery & Equipment	711,310	28,320	5,510	734,120
Infrastructure	259,656	-	-	259,656
Totals at Historical Cost	<u>\$ 1,441,752</u>	<u>\$ 28,320</u>	<u>\$ 5,510</u>	<u>\$ 1,464,562</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 93,539	\$ 9,284	\$ -	\$ 102,823
Machinery & Equipment	557,023	25,766	5,510	577,279
Infrastructure	222,809	3,304	-	226,113
Total Accumulated Depreciation	<u>\$ 873,371</u>	<u>\$ 38,354</u>	<u>\$ 5,510</u>	<u>\$ 906,215</u>
Governmental Activities - Capital Assets, Net	<u>\$ 568,381</u>	<u>\$ (10,034)</u>	<u>\$ -</u>	<u>\$ 558,347</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 8,708
Public Safety	
Fire Department	17,289
Highways & Streets	10,228
Infrastructure	2,129
Total Depreciation Expense	<u>\$ 38,354</u>

	Balance at July 1, 2016	Additions	Disposals	Balance at June 30, 2017
<b>Business-type Activities:</b>				
Land & Right of Ways	\$ 33,150	\$ -	\$ -	\$ 33,150
Buildings & Improvements	69,716	-	-	69,716
Distribution System	3,893,627	-	-	3,893,627
Machinery & Equipment	242,333	14,505	18,370	238,468
Construction in Process	-	29,000	-	29,000
Totals at Historical Cost	<u>\$ 4,238,826</u>	<u>\$ 43,505</u>	<u>\$ 18,370</u>	<u>\$ 4,263,961</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 56,209	\$ 614	\$ -	\$ 56,823
Distribution System	1,737,786	86,109	-	1,823,895
Machinery & Equipment	204,915	19,020	18,370	205,565
Total Accumulated Depreciation	<u>\$ 1,998,910</u>	<u>\$ 105,743</u>	<u>\$ 18,370</u>	<u>\$ 2,086,283</u>
Business-type capital assets, net	<u>\$ 2,239,916</u>	<u>\$ (62,238)</u>	<u>\$ -</u>	<u>\$ 2,177,678</u>

Depreciation Expense was charged to the business activities as follows:

Water	\$ 35,522
Sewer	70,221
Total Depreciation Expense	<u>\$ 105,743</u>

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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, 2017, 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	\$ 90,000
Current Portion	\$ 10,000
Noncurrent Portion	80,000
Total Capital Lease Obligations	\$ 90,000

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.

Current Portion	\$ 10,000
Noncurrent Portion	62,000
Total Bonds Payable	\$ 72,000

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.

Current Portion	\$ 23,000
Noncurrent Portion	132,719
Total Bonds Payable	\$ 155,719

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.

Current Portion	\$ 5,500
Noncurrent Portion	243,500
Total Bonds Payable	\$ 249,000

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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.

	\$ 124,700
Current Portion	\$ 2,600
Noncurrent Portion	122,100
Total Bonds Payable	\$ 124,700

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.

	\$ 77,900
Current Portion	\$ 1,700
Noncurrent Portion	76,200
Total Bonds Payable	\$ 77,900

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2017:

Type of Debt	Balance July 1, 2016	Additions	Reductions	Balance June 30, 2017	Current Portion
<b>Governmental Activities</b>					
Capital Lease Obligations	\$ 100,000	\$ -	\$ 10,000	\$ 90,000	\$ 10,000
Accrued Compensated Absences	16,637	4,878	4,614	16,901	2,405
Total	\$ 116,637	\$ 4,878	\$ 14,614	\$ 106,901	\$ 12,405
<b>Business-type Activities</b>					
Bonds Payable	\$ 720,519	\$ -	\$ 41,200	\$ 679,319	\$ 42,800
Accrued Compensated Absences	26,452	7,873	7,221	27,104	4,528
Total	\$ 746,971	\$ 7,873	\$ 48,421	\$ 706,423	\$ 47,328

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, 2017 are as follows:

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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>
					\$ 90,000
2018	\$ 10,000	\$ 2,250	\$ 675	\$ 12,925	80,000
2019	10,000	2,050	650	12,700	70,000
2020	10,000	1,850	625	12,475	60,000
2021	10,000	1,650	600	12,250	50,000
2022	15,000	1,425	575	17,000	35,000
2023-25	35,000	1,800	1,500	38,300	-
	<u>\$ 90,000</u>	<u>\$ 11,025</u>	<u>\$ 4,625</u>	<u>\$ 105,650</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	\$72,000	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, 2017, 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>
				\$ 72,000
2018	\$ 10,000	\$ 3,600	\$ 13,600	62,000
2019	11,000	3,100	14,100	51,000
2020	11,000	2,550	13,550	40,000
2021	12,000	2,000	14,000	28,000
2022	12,000	1,400	13,400	16,000
2023	16,000	800	16,800	-
	<u>\$ 72,000</u>	<u>\$ 13,450</u>	<u>\$ 85,450</u>	<u>\$ -</u>

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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

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

Original Amount	Outstanding Balance	Interest Rate
\$568,000	\$155,719	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, 2017, 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
	\$	\$	\$	\$
2018	23,000	7,786	30,786	155,719
2019	24,000	6,636	30,636	132,719
2020	25,000	5,436	30,436	108,719
2021	26,000	4,186	30,186	83,719
2022	28,000	2,886	30,886	57,719
2023-24	29,719	1,522	31,241	29,719
	\$ 155,719	\$ 28,452	\$ 184,171	\$ -

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

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

Original Amount	Outstanding Balance	Interest Rate
\$300,000	\$249,000	4.5%

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

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

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2017, 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>
				\$ 249,000
2018	\$ 5,500	\$ 11,205	\$ 16,705	243,500
2019	5,500	10,958	16,458	238,000
2020	6,000	10,710	16,710	232,000
2021	6,000	10,440	16,440	226,000
2022	6,500	10,170	16,670	219,500
2023-27	37,500	46,149	83,649	182,000
2028-32	47,500	36,901	84,401	134,500
2033-37	60,000	25,089	85,089	74,500
2038-42	74,500	10,329	84,829	-
	<u>\$ 249,000</u>	<u>\$ 171,951</u>	<u>\$ 420,951</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	\$124,700	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, 2017, 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>
				\$ 124,700
2018	\$ 2,600	\$ 5,300	\$ 7,900	122,100
2019	2,700	5,190	7,890	119,400
2020	2,800	5,075	7,875	116,600
2021	2,900	4,956	7,856	113,700
2022	3,000	4,833	7,833	110,700
2023-27	17,200	22,118	39,318	93,500
2028-32	21,200	18,141	39,341	72,300
2033-37	26,100	13,241	39,341	46,200
2038-42	32,200	7,198	39,398	14,000
2043-44	14,000	880	14,880	-
	<u>\$ 124,700</u>	<u>\$ 86,932</u>	<u>\$ 211,632</u>	<u>\$ -</u>

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

City of New Castle, Kentucky, Sewer Utilities Revenue Bonds Series 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	\$77,900	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, 2017, 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
				\$ 77,900
2018	\$ 1,700	\$ 2,143	\$ 3,843	76,200
2019	1,800	2,096	3,896	74,400
2020	1,800	2,046	3,846	72,600
2021	1,900	1,997	3,897	70,700
2022	1,900	1,945	3,845	68,800
2023-27	10,400	8,903	19,303	58,400
2028-32	11,800	7,403	19,203	46,600
2033-37	13,600	5,684	19,284	33,000
2038-42	15,500	3,714	19,214	17,500
2043-47	17,500	1,446	18,946	-
	\$ 77,900	\$ 37,377	\$ 115,277	\$ -

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.

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2017, are as follows:

Fiscal Year	Governmental Activities			Business-type Activities	
	Principal	Interest	Fiscal Charges	Principal	Interest
2018	\$ 10,000	\$ 2,250	\$ 675	\$ 42,800	\$ 30,034
2019	10,000	2,050	650	45,000	27,980
2020	10,000	1,850	625	46,600	25,817
2021	10,000	1,650	600	48,800	23,579
2022	15,000	1,425	575	51,400	21,234
2023-27	35,000	1,800	1,500	110,819	79,492
2028-32	-	-	-	80,500	62,445
2033-37	-	-	-	99,700	44,014
2038-42	-	-	-	122,200	21,241
2043-47	-	-	-	31,500	2,326
Total	\$ 90,000	\$ 11,025	\$ 4,625	\$ 679,319	\$ 338,162

3.F. INTEREST EXPENSE

\$3,150 interest expense has been reported for the governmental funds financial statements for the year ended June 30, 2017. Interest expense associated with capital lease obligations and reported in the government wide financial statements was \$3,067. Interest expense for the enterprise fund for the year ended June 30, 2017, was \$32,011. No interest has been capitalized.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2017, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
Enterprise Fund	General Fund	\$ 22,800	Advances for operating expenditures
Total		\$ 22,800	

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

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

3.H. FUND EQUITY

Restricted Net Position

The following table illustrates the restrictions shown on the Statement of Net Position:

Governmental Activities:

Activity	Restricted by	
Restricted for Debt Service:		
General Fund	Debt Agreement	<u>\$ 11,090</u>
Restricted for Other Purposes:		
Municipal Road Aid	State Law	<u>\$ 55,486</u>

Business-type Activities

Enterprise Fund:

Restricted for Debt Service:

1983 Water Utilities Revenue Bonds-Cash	\$ 138,547
1985 Sewer Utilities Revenue Bonds-Cash	84,240
2002 Water Utilities Revenue Bonds-Cash	47,054
2006 Sewer Utilities Revenue Bonds-Cash	57,778
2009 Sewer Utilities Revenue Bonds-Cash	48,204
Total Restricted For Debt Service	<u>\$ 375,823</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, 2017, to indicate the lack of liquidity associated with the following assets:

General Fund:	
Prepaid Insurance	<u>\$ 13,281</u>

The City has reported the following restricted portion of the general fund's fund balance at June 30, 2017, to indicate the amounts restricted as to use by debt agreement:

General Fund:	
Fire Truck	<u>\$ 11,090</u>

The City has reported the following restricted portion of the other governmental funds' fund balance at June 30, 2017, to indicate the amounts restricted as to use by statute:

Other Governmental Funds:	
Municipal Road Aid	<u>\$ 55,486</u>

The City has reported \$1,951 of the general fund's fund balance as assigned at June 30, 2017, indicating amounts intended for use in downtown revitalization.

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the Commissioners. Electing employees and all new employees of the City may participate in the System.

Under the provision of Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. The most recent financial report, dated June 30, 2016, may be obtained from <https://kyret.ky.gov/Audit%20Reports/Audit%20Report%20June%2030,%202015-2016.pdf>. Additionally, the Kentucky Retirement System issues a publically available financial report that includes the Schedules of Employer Allocations and Pension amounts by Employer. The most recent report, dated June 30, 2016 may be obtained from <https://kyret.ky.gov/Audited%20Report%20Links/KRS%206-30-16%20Proportionate%20Share%20Audit%20Report.pdf>.

**Plan Description** – CERS is a cost-sharing multiple-employer defined benefit pension plan that covers 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, COLAs 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 5% 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 12 months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the 12 months preceding the effective date of the COLA. The Kentucky General Assembly reserves the right to suspend or reduce the COLA if, in its judgment, the welfare of the Commonwealth so demands. No COLA has been granted since July 1, 2011.

**Basis of Accounting** – CERS's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan. Premium payments are recognized when due and payable in accordance with the terms of the plan. Administrative and investment expenses are recognized when incurred.

**Method Used to Value Investments** – Investments of the plan are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Short-term investments are reported at cost, which approximates fair value. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the dividend date. Gain (loss) on investments includes KRS' gains and losses on investments bought and sold as well as held during the fiscal year.

**Benefits provided** – CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date Unreduced retirement Reduced retirement	Before September 1, 2008 27 years service or 65 years old At least 5 years service and 55 years old
Tier 2	Participation date Unreduced retirement  Reduced retirement	September 1, 2008 – December 31, 2013 At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87 At least 10 years service and 60 years old

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN  
 (Continued)

Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old Or age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not available

Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits.

*Contributions* - For the fiscal year ended June 30, 2016, plan members who began participating prior to September 1, 2008, were required to contribute 5% of their annual creditable compensation. These members were classified in the Tier 1 structure of benefits. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 78.545(33), 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 fiscal year ended June 30, 2016 participating employers contributed 17.06% of each employer's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2016 was 17.06%. Administrative costs of KRS are financed through employer contributions and investment earnings.

Plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. These members were classified in the Tier 2 structure of benefits. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created for the payment of health insurance benefits 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.

Plan members who began participating on, or after, January 1, 2014, were required to contribute to the Cash Balance Plan. These members were classified in the Tier 3 structure of benefits. The Cash Balance Plan is known as a hybrid plan because it has characteristics of both a defined benefit plan and a defined contribution plan. Members in the plan contribute a set percentage of their salary each month to their own account. Non-hazardous members contribute 5% of their annual creditable compensation and 1% to the health insurance fund which is not credited to the member's account and is not refundable. The employer contribution rate is set annually by the Board based on an actuarial valuation. The employer contributes a set percentage of the member's salary. Each month, when employer contributions are received, an employer pay credit is deposited to the member's account. For non-hazardous members, their account is credited with a 4% employer pay credit. The employer pay credit represents a portion of the employer contribution.

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN  
 (Continued)

*Methods and Assumptions Used in Calculation of Actuarially Determined Contributions*

Per the GASB Statement No. 68 Report for the County Employees Retirement System prepared as of June 30, 2016, the actuarially determined contribution rates are determined on an annual basis beginning with the fiscal year ending 2018, determined as of July 1, 2016. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30 year period. The following actuarial methods and assumptions were used to determine contribution rates reported for all KRS Systems:

Actuarial Cost Method	Entry Age
Amortization Method	Level of Percentage of Payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5 year Smoothed Market
Inflation	3.25%
Salary Increase	4%, average, including Inflation
Investment Rate of Return	7.5%, Net of Pension Plan Investment Expense, including Inflation

There were no changes of benefit terms during the year ended June 30, 2016.

The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary Increases	4%, average, including inflation
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Cash Equivalent Long Term Expected Real Rate of Return
Combined Equity	44%	5.4%
Combined Fixed Income	19%	1.5%
Real Return (Diversified Inflation Strategies)	10%	3.5%
Real Estate	5%	4.5%
Absolute Return (Diversified Hedge Funds)	10%	4.25%
Private Equity	10%	8.5%
Cash Equivalent	2%	-0.25%
<b>Total</b>	<b>100%</b>	

The projection of cash flows used to determine the discount rate assumed that the employer would contribute the actuarially determined contribution rate of projected compensation. The remaining amortization period of the unfunded actuarial accrued liability is 27 years. Once the unfunded actuarial accrued liability is fully amortized, the employer will only contribute the normal cost rate and the administrative expense rate on the close payroll for existing members.

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN  
(Continued)

*Methods and Assumptions Used in Calculation of Actuarially Determined Contributions (Continued)*

The actuarial valuation date upon which the total pension liability was based is June 30, 2015. An expected total pension liability is determined as of June 30, 2016, using standard roll forward techniques. The roll forward calculation adds the annual cost (also called the service cost), subtracts the actual benefit payments and refunds for the plan year, then applies the expected investment rate of return for the year.

The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013. The long term assumed rate of return was based upon an analysis adopted by the Board of Trustees on December 3, 2015. The discount rate used to measure the total pension liability remained at 7.5%. The long term assumed investment rate of return and discount rate were based upon an analysis adopted by the Board of Trustees on December 3, 2015.

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated December 3, 2015. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The projection of cash flows used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate of projected compensation over the remaining amortization period of the unfunded actuarial accrued liability.

The discount rate determination does not use a municipal bond rate. Projected future benefit payments for all current plan members were projected through 2117.

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate*

The following table presents the net pension liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2016], calculated using the discount rate of 7.5%, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN  
 (Continued)

*Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate (Continued)*

As of June 30, 2016	1% Decrease [6.5%]	Current Discount [7.5%]	1% Increase [8.5%]
Net Pension Liability	\$ 6,135,625,606	\$ 4,923,618,237	\$ 3,884,686,628
City's Proportionate Share	317,825	255,021	201,227

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension*

At June 30, 2017, the City reported a liability of \$255,021 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2016, and was based on the actual liability of the employees and former employees relative to the total liability of the system as determined by an actuarial valuation as of those dates. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was 0.00518 percent, which is an increase of 0.00009% for the year ended June 30, 2016.

The City's total payroll for the fiscal year ended June 30, 2017 was \$136,196. Contributions to CERS were based on \$122,260 (eligible gross wages). The total employer contributions for the year ended June 30, 2017 were \$22,838.

All contributions were made as required.

The City's contribution for the County Employees' Retirement System's year(s) ended June 30, 2016, was 0.00518 percent of the System's total contribution requirements for all employers.

For the year ended June 30, 2017, the City recognized pension expense of \$35,984. At June 30, 2017 the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	June 30, 2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 1,113	\$ -
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	23,975	-
Change in Assumptions	13,510	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	2,307	9,755
City Contributions Made Subsequent to the NPL Measurement Date	22,838	-
<b>Total</b>	<b>\$ 63,743</b>	<b>\$ 9,755</b>

CITY OF NEW CASTLE, KENTUCKY  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 June 30, 2017

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN  
 (Continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the County Employee Retirement System Pension (Continued)*

\$22,838 reported as deferred outflows of resources related to pensions arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net pension liability in the years ended June 30, 2018. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on pension plan investments will be netted and amortized over five years and recognized in pension expense. Amounts reported as deferred outflows of resources due to the difference between expected and actual experience, change of assumptions, and changes in proportion and differences between employer contributions and proportionate share of contributions will be amortized and recognized in pension expense over the expected remaining service lives of all employees. Total amortization to be recognized in pension expense is presented below as follows:

Year Ended June 30, 2017:	Increase (Decrease) to Pension Expense
2018	\$ 8,496
2019	6,994
2020	10,121
2021	5,539
	\$ 31,150

*Payable to the Pension Plan*

At June 30, 2017, the City reported a payable of \$2,788 for the outstanding amount of contributions required for the year then ended. This amount represents the employee withholding and employer match for the last month of the year then ended. The payable includes both pension and insurance contributions.

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 predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

The City has submitted applications for water main replacement (South Main Street – Ky. 421) and a Phase 1 Sewer System Rehabilitation Project totaling \$890,000. The anticipated financing for this project is \$445,000 CDBG grant proceeds and a \$445,000 Kentucky Infrastructure Authority Revolving Fund (Fund B) loan.

**CITY OF NEW CASTLE, KENTUCKY**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
June 30, 2017

**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, 2017, is presented as follows:

**CONDENSED STATEMENT OF NET POSITION**

	Water	Sewer	Total
<b>Assets:</b>			
Due From Other Funds	\$ 11,400	\$ 11,400	\$ 22,800
Other Current Assets	181,457	103,390	284,847
Other Noncurrent Assets	206,455	190,222	396,677
Capital Assets (Net)	865,332	1,312,346	2,177,678
<b>Total Assets</b>	<b>\$ 1,264,644</b>	<b>\$ 1,617,358</b>	<b>\$ 2,882,002</b>
<b>Deferred Outflows of Resources:</b>			
Other Debits	\$ 19,123	\$ 19,123	\$ 38,246
<b>Liabilities:</b>			
Other Current Liabilities	\$ 29,394	\$ 32,399	\$ 61,793
Noncurrent Liabilities	411,719	418,813	830,532
<b>Total Liabilities</b>	<b>\$ 441,113</b>	<b>\$ 451,212</b>	<b>\$ 892,325</b>
<b>Deferred Inflows of Resources:</b>			
Other Credits	\$ 2,927	\$ 2,927	\$ 5,854
<b>Net Position:</b>			
Net Investment in Capital Assets	\$ 544,332	\$ 954,027	\$ 1,498,359
Restricted	185,601	190,222	375,823
Unrestricted	109,794	38,093	147,887
<b>Total Net Position</b>	<b>\$ 839,727</b>	<b>\$ 1,182,342</b>	<b>\$ 2,022,069</b>

**CONDENSED STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

	Water	Sewer	Total
Operating Revenues	\$ 248,564	\$ 246,175	\$ 494,739
Depreciation Expense	(35,522)	(70,221)	(105,743)
Other Operating Expenses	(185,636)	(153,141)	(338,777)
<b>Operating Income (Loss)</b>	<b>\$ 27,406</b>	<b>\$ 22,813</b>	<b>\$ 50,219</b>
<b>Nonoperating Revenues (Expenses):</b>			
Investment Income	\$ 421	\$ 231	\$ 652
Interest Expense	(15,530)	(16,481)	(32,011)
<b>Change in Net Position</b>	<b>\$ 12,297</b>	<b>\$ 6,563</b>	<b>\$ 18,860</b>
<b>Beginning Net Position</b>	<b>827,430</b>	<b>1,175,779</b>	<b>2,003,209</b>
<b>Ending Net Position</b>	<b>\$ 839,727</b>	<b>\$ 1,182,342</b>	<b>\$ 2,022,069</b>

**CONDENSED STATEMENT OF CASH FLOWS**

	Water	Sewer	Total
<b>Net Cash Provided (Used) by:</b>			
Operating Activities	\$ 66,775	\$ 89,433	\$ 156,208
Capital and Related Financing Activities	(59,490)	(57,226)	(116,716)
Investing Activities	421	234	655
<b>Net Increase (Decrease)</b>	<b>\$ 7,706</b>	<b>\$ 32,441</b>	<b>\$ 40,147</b>
<b>Beginning Cash and Cash Equivalents</b>	<b>293,060</b>	<b>205,035</b>	<b>498,095</b>
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 300,766</b>	<b>\$ 237,476</b>	<b>\$ 538,242</b>

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
June 30, 2017

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.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued Statement 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. This statement requires the liability of employers to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. The City is evaluating the requirements of this statement.

CITY OF NEW CASTLE, KENTUCKY  
 BUDGETARY COMPARISON SCHEDULE  
 GENERAL FUND  
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		Favorable (Unfavorable)
<b>REVENUES</b>				
Property Taxes	\$ 70,000	\$ 70,000	\$ 72,650	\$ 2,650
Franchise Taxes	44,000	45,000	48,235	3,235
Insurance Taxes	132,000	124,000	132,603	8,603
Charges for Services	78,700	73,000	80,594	7,594
Occupational Licenses	2,000	2,030	2,030	-
Interest Revenue	100	100	75	(25)
Fire Department	38,950	38,950	37,909	(1,041)
Miscellaneous Revenues	4,300	18,370	7,675	(10,695)
Proceeds from Outside Sources:				
State Fire Aid	8,250	8,250	11,000	2,750
<b>Total Revenues</b>	<b>\$ 378,300</b>	<b>\$ 379,700</b>	<b>\$ 392,771</b>	<b>\$ 13,071</b>
<b>EXPENDITURES</b>				
<b>Current</b>				
General Government	\$ 179,054	\$ 167,771	\$ 162,672	\$ 5,099
Public Safety				
Police Department	30,800	30,800	30,800	-
Fire Department	65,400	65,400	45,514	19,886
Public Services	78,700	73,000	78,680	(5,680)
Highways & Streets	50,823	50,752	56,176	(5,424)
Capital Outlay	24,400	32,400	28,320	4,080
Debt Service				
Principal	10,000	10,000	10,000	-
Interest and Other Charges	3,056	3,056	3,150	(94)
<b>Total Expenditures</b>	<b>\$ 442,233</b>	<b>\$ 433,179</b>	<b>\$ 415,312</b>	<b>\$ 17,867</b>
<b>Net Change in Fund Balance</b>	<b>\$ (63,933)</b>	<b>\$ (53,479)</b>	<b>\$ (22,541)</b>	<b>\$ 30,938</b>
<b>Fund Balances - July 1</b>	<b>211,939</b>	<b>201,725</b>	<b>207,378</b>	<b>5,653</b>
<b>Fund Balances - June 30</b>	<b>\$ 148,006</b>	<b>\$ 148,246</b>	<b>\$ 184,837</b>	<b>\$ 36,591</b>

CITY OF NEW CASTLE, KENTUCKY  
NOTES TO BUDGETARY COMPARISON SCHEDULE  
For the Year Ended June 30, 2017

**Budgetary Accounting**

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

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

CITY OF NEW CASTLE, KENTUCKY  
 SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 COUNTY EMPLOYEES RETIREMENT SYSTEM  
 June 30, 2017

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
City's proportion of the net pension liability (asset) %	0.005180%	0.005093%	0.005733%
City proportionate share of the net pension liability (asset)	\$ 255,021	\$ 218,994	\$ 186,000
City's covered - employee payroll	\$ 123,558	\$ 118,836	\$ 139,290
City proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	206.40%	184.28%	133.53%
Pension plans (CERS) fiduciary net position as a percentage of the total pension liability	55.5%	59.97%	66.8%

Calculations are based on Kentucky Retirement Systems' Schedules of Employer Allocations and Pension Amounts by Employer for the fiscal years shown.

GASB 68 requires the City to present the above information for 10 years. The information will be expanded annually until a full 10 - year trend is compiled.

There were no changes of benefit terms. However, the following changes in assumptions were adopted by the Board of Trustees and reflected in the valuation performed as of June 30, 2015:

- The assumed investment rate of return was decreased from 7.75% to 7.5%.
- The assumed rate of inflation was reduced from 3.5% to 3.25%.
- The assumed rate of wage inflation was reduced from 1% to .75%.
- Payroll growth assumption was reduced from 4.5% to 4%.
- The mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females).
- For healthy retire members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back four years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted.
- The assumed rates of retirement, withdrawal, and disability were updated to more accurately reflect experience.

CITY OF NEW CASTLE, KENTUCKY  
 SCHEDULE OF CITY CONTRIBUTIONS  
 County Employees Retirement System  
 Last Ten (10) Years Ending June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Contractually (Employer) Required Contribution	\$ 22,838	\$ 21,079	\$ 20,998	\$ 24,798	\$ 22,424	\$ 21,661	\$ 17,965	\$ 25,814	\$ 22,963	\$ 25,437
Contributions in Relation to the Contractually Required Contributions	<u>\$ (22,838)</u>	<u>\$ (21,079)</u>	<u>\$ (20,998)</u>	<u>\$ (24,798)</u>	<u>\$ (22,424)</u>	<u>\$ (21,661)</u>	<u>\$ (17,965)</u>	<u>\$ (25,814)</u>	<u>\$ (22,963)</u>	<u>\$ (25,437)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>									
City's Covered - Employee Payroll	\$ 122,260	\$ 123,558	\$ 118,836	\$ 139,290	\$ 114,702	\$ 113,885	\$ 106,115	\$ 130,011	\$ 127,668	\$ 120,313
Contributions as a Percentage of Covered - Employee Payroll	18.68%	17.06%	17.67%	17.80%	19.55%	19.02%	16.93%	19.86%	17.99%	21.14%

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CITY OF NEW CASTLE, KENTUCKY  
 COMPARATIVE COMBINING STATEMENT OF NET POSITION  
 ALL PROPRIETARY FUND TYPES  
 June 30, 2017, and 2016

	June 30, 2017		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
<b>ASSETS</b>			
<b>Current Assets:</b>			
Cash, including time deposits	\$ 149,311	\$ 72,754	\$ 222,065
Interest Receivable	44	13	57
Accounts Receivable - (Net)	32,102	30,623	62,725
Due from Other Funds	11,400	11,400	22,800
<b>Total Current Assets</b>	<b>\$ 192,857</b>	<b>\$ 114,790</b>	<b>\$ 307,647</b>
<b>Noncurrent Assets:</b>			
<b>Restricted Assets</b>			
Cash, including time deposits	\$ 206,455	\$ 190,222	\$ 396,677
Capital Assets (Net)	865,332	1,312,346	2,177,678
<b>Total Noncurrent Assets</b>	<b>\$ 1,071,787</b>	<b>\$ 1,502,568</b>	<b>\$ 2,574,355</b>
<b>Total Assets</b>	<b>\$ 1,264,644</b>	<b>\$ 1,617,358</b>	<b>\$ 2,882,002</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Attributable to Employee Pension Plan	\$ 19,123	\$ 19,123	\$ 38,246
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Accounts Payable	\$ 10,775	\$ 2,624	\$ 13,399
Accrued Compensated Absences	2,264	2,264	4,528
Accrued Taxes / Employee Withholding	855	211	1,066
<b>Current Liabilities Payable from Restricted Assets:</b>			
Revenue Bonds Payable	15,500	27,300	42,800
<b>Total Current Liabilities</b>	<b>\$ 29,394</b>	<b>\$ 32,399</b>	<b>\$ 61,793</b>
<b>Noncurrent Liabilities:</b>			
Revenue Bonds Payable	\$ 305,500	\$ 331,019	\$ 636,519
Accrued Compensated Absences	11,288	11,288	22,576
Net Pension Liability	76,506	76,506	153,012
<b>Noncurrent Liabilities Payable from Restricted Assets:</b>			
Customer Deposits Payable	18,425	-	18,425
<b>Total Noncurrent Liabilities</b>	<b>\$ 411,719</b>	<b>\$ 418,813</b>	<b>\$ 830,532</b>
<b>Total Liabilities</b>	<b>\$ 441,113</b>	<b>\$ 451,212</b>	<b>\$ 892,325</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Attributable to Employee Pension Plan	\$ 2,927	\$ 2,927	\$ 5,854
<b>NET POSITION</b>			
Net Investment in Capital Assets	\$ 544,332	\$ 954,027	\$ 1,498,359
<b>Restricted for:</b>			
Debt Service	185,601	190,222	375,823
Unrestricted	109,794	38,093	147,887
<b>Total Net Position</b>	<b>\$ 839,727</b>	<b>\$ 1,182,342</b>	<b>\$ 2,022,069</b>

June 30, 2016		
Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
\$ 130,388	\$ 50,466	\$ 180,854
44	16	60
32,939	28,042	60,981
10,300	12,300	22,600
<u>\$ 173,671</u>	<u>\$ 90,824</u>	<u>\$ 264,495</u>
\$ 217,672	\$ 180,069	\$ 397,741
871,894	1,368,022	2,239,916
<u>\$ 1,089,566</u>	<u>\$ 1,548,091</u>	<u>\$ 2,637,657</u>
<u>\$ 1,263,237</u>	<u>\$ 1,638,915</u>	<u>\$ 2,902,152</u>
\$ 14,084	\$ 14,084	\$ 28,168
\$ 11,073	\$ 8,724	\$ 19,797
2,646	2,646	5,292
804	188	992
15,000	26,200	41,200
<u>\$ 29,523</u>	<u>\$ 37,758</u>	<u>\$ 67,281</u>
\$ 321,000	\$ 358,319	\$ 679,319
10,580	10,580	21,160
65,698	65,698	131,396
18,225	-	18,225
<u>\$ 415,503</u>	<u>\$ 434,597</u>	<u>\$ 850,100</u>
<u>\$ 445,026</u>	<u>\$ 472,355</u>	<u>\$ 917,381</u>
\$ 4,865	\$ 4,865	\$ 9,730
\$ 535,894	\$ 983,503	\$ 1,519,397
196,878	180,069	376,947
94,658	12,207	106,865
<u>\$ 827,430</u>	<u>\$ 1,175,779</u>	<u>\$ 2,003,209</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, 2017 and 2016

	Year Ended June 30, 2017			Year Ended June 30, 2016		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals (Memorandum Only)	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals (Memorandum Only)
<b><u>OPERATING REVENUES</u></b>						
Water Sales	\$ 242,539	\$ -	\$ 242,539	\$ 236,272	\$ -	\$ 236,272
Sewer Services	-	245,150	245,150	-	219,479	219,479
Miscellaneous	6,025	1,025	7,050	8,405	3,123	11,528
<b>Total Operating Revenues</b>	<b>\$ 248,564</b>	<b>\$ 246,175</b>	<b>\$ 494,739</b>	<b>\$ 244,677</b>	<b>\$ 222,602</b>	<b>\$ 467,279</b>
<b><u>OPERATING EXPENSES</u></b>						
Salaries and Wages	\$ 40,129	\$ 40,304	\$ 80,433	\$ 40,963	\$ 41,038	\$ 82,001
Water and Sewer Supplies	5,850	21,101	26,951	2,998	23,965	26,963
Utilities	812	13,525	14,337	829	13,598	14,427
Payroll Taxes	2,941	2,953	5,894	2,969	2,974	5,943
Retirement Benefits	11,499	11,532	23,031	8,000	8,012	16,012
Vehicle Expenses	3,658	3,658	7,316	3,340	3,318	6,658
Postage and Office Supplies	1,915	2,100	4,015	1,832	1,759	3,591
Insurance	29,724	29,724	59,448	24,818	24,818	49,636
General & Admin. Expenses	10,513	10,933	21,446	10,731	11,469	22,200
Depreciation	35,522	70,221	105,743	33,736	68,027	101,763
Miscellaneous	-	70	70	182	2,682	2,864
Water Purchases	76,870	-	76,870	76,138	-	76,138
Repairs and Maintenance	1,725	17,241	18,966	1,945	22,802	24,747
<b>Total Operating Expenses</b>	<b>\$ 221,158</b>	<b>\$ 223,362</b>	<b>\$ 444,520</b>	<b>\$ 208,481</b>	<b>\$ 224,462</b>	<b>\$ 432,943</b>
<b>Operating Income (Loss)</b>	<b>\$ 27,406</b>	<b>\$ 22,813</b>	<b>\$ 50,219</b>	<b>\$ 36,196</b>	<b>\$ (1,860)</b>	<b>\$ 34,336</b>
<b><u>NON-OPERATING REVENUES (EXPENSES)</u></b>						
Interest Revenue	\$ 421	\$ 231	\$ 652	\$ 377	\$ 298	\$ 675
Interest Expense	(15,530)	(16,481)	(32,011)	(16,205)	(17,677)	(33,882)
<b>Total Non-Operating Revenues (Expenses):</b>	<b>\$ (15,109)</b>	<b>\$ (16,250)</b>	<b>\$ (31,359)</b>	<b>\$ (15,828)</b>	<b>\$ (17,379)</b>	<b>\$ (33,207)</b>
<b>Change in Net Position</b>	<b>\$ 12,297</b>	<b>\$ 6,563</b>	<b>\$ 18,860</b>	<b>\$ 20,368</b>	<b>\$ (19,239)</b>	<b>\$ 1,129</b>
<b>Net Position - July 1</b>	<b>827,430</b>	<b>1,175,779</b>	<b>2,003,209</b>	<b>807,062</b>	<b>1,195,018</b>	<b>2,002,080</b>
<b>Net Position - June 30</b>	<b>\$ 839,727</b>	<b>\$ 1,182,342</b>	<b>\$ 2,022,069</b>	<b>\$ 827,430</b>	<b>\$ 1,175,779</b>	<b>\$ 2,003,209</b>

CITY OF NEW CASTLE, KENTUCKY  
COMPARATIVE COMBINING STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES  
For the Years Ended June 30, 2017, and 2016

	Year Ended June 30, 2017			Year Ended June 30, 2016		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
	<b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>					
Receipts from Customers	\$ 249,401	\$ 243,594	\$ 492,995	\$ 244,091	\$ 223,053	\$ 467,144
Payments to Suppliers	(143,023)	(114,183)	(257,206)	(130,376)	(107,962)	(238,338)
Payments to Employees	(39,803)	(39,978)	(79,781)	(39,225)	(39,300)	(78,525)
Receipts of Customer Meter Deposits	5,150	-	5,150	7,700	-	7,700
Refunds of Customer Meter Deposits	(4,950)	-	(4,950)	(5,950)	-	(5,950)
Net Cash Provided (Used) by Operating Activities	<u>\$ 66,775</u>	<u>\$ 89,433</u>	<u>\$ 156,208</u>	<u>\$ 76,240</u>	<u>\$ 75,791</u>	<u>\$ 152,031</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u></b>						
Purchases of Capital Assets	\$ (28,960)	\$ (14,545)	\$ (43,505)	\$ (2,955)	\$ (75,806)	\$ (78,761)
Principal Paid on Capital Debt	(15,000)	(26,200)	(41,200)	(14,000)	(25,000)	(39,000)
Interest Paid on Capital Debt	(15,530)	(16,481)	(32,011)	(16,205)	(17,677)	(33,882)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (59,490)</u>	<u>\$ (57,226)</u>	<u>\$ (116,716)</u>	<u>\$ (33,160)</u>	<u>\$ (118,483)</u>	<u>\$ (151,643)</u>
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>						
Interest Received	\$ 421	\$ 234	\$ 655	\$ 382	\$ 325	\$ 707
Proceeds from Certificates of Deposits	-	-	-	-	30,000	30,000
Net Cash Provided (Used) by Investing Activities	<u>\$ 421</u>	<u>\$ 234</u>	<u>\$ 655</u>	<u>\$ 382</u>	<u>\$ 30,325</u>	<u>\$ 30,707</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 7,706	\$ 32,441	\$ 40,147	\$ 43,462	\$ (12,367)	\$ 31,095
Balances - July 1	293,060	205,035	498,095	249,598	217,402	467,000
Balances - June 30	<u>\$ 300,766</u>	<u>\$ 237,476</u>	<u>\$ 538,242</u>	<u>\$ 293,060</u>	<u>\$ 205,035</u>	<u>\$ 498,095</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u></b>						
Operating Income (Loss)	\$ 27,406	\$ 22,813	\$ 50,219	\$ 36,196	\$ (1,860)	\$ 34,336
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	35,522	70,221	105,743	33,736	68,027	101,763
Pension Expense	3,831	3,831	7,662	1,068	1,068	2,136
Change in Assets and Liabilities:						
Receivables, Net	837	(2,581)	(1,744)	(586)	451	(135)
Accounts Payable	(298)	(6,100)	(6,398)	1,666	5,703	7,369
Due from Other Funds	(1,100)	900	(200)	650	650	1,300
Customer Meter Deposits Payable	200	-	200	1,750	-	1,750
Accrued Compensated Absences	326	326	652	1,738	1,738	3,476
Accrued Taxes/Employee Withholding	51	23	74	22	14	36
Net Cash Provided by Operating Activities	<u>\$ 66,775</u>	<u>\$ 89,433</u>	<u>\$ 156,208</u>	<u>\$ 76,240</u>	<u>\$ 75,791</u>	<u>\$ 152,031</u>

**SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

At June 30, 2017, and June 30, 2016, 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, 2017  
BUDGET AND ACTUAL  
ALL PROPRIETARY FUND TYPES

	Water Utilities			Sewer Utilities		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b><u>OPERATING REVENUES</u></b>						
Water Sales	\$ 255,900	\$ 242,539	\$ (13,361)	\$ -	\$ -	\$ -
Sewer Services	-	-	-	245,000	245,150	150
Miscellaneous	5,600	6,025	425	25	1,025	1,000
<b>Total Operating Revenues</b>	<b>\$ 261,500</b>	<b>\$ 248,564</b>	<b>\$ (12,936)</b>	<b>\$ 245,025</b>	<b>\$ 246,175</b>	<b>\$ 1,150</b>
<b><u>OPERATING EXPENSES</u></b>						
Salaries and Wages	\$ 40,500	\$ 40,129	\$ 371	\$ 40,500	\$ 40,304	\$ 196
Water and Sewer Supplies	7,000	5,850	1,150	25,000	21,101	3,899
Utilities	800	812	(12)	14,200	13,525	675
Payroll Taxes	3,600	2,941	659	3,600	2,953	647
Retirement Benefits	7,300	11,499	(4,199)	7,300	11,532	(4,232)
Vehicle Expenses	4,000	3,658	342	4,000	3,658	342
Postage and Office Supplies	2,000	1,915	85	2,200	2,100	100
Insurance	27,215	29,724	(2,509)	27,215	29,724	(2,509)
General & Admin. Expenses	11,500	10,513	987	12,300	10,933	1,367
Depreciation	26,190	35,522	(9,332)	48,820	70,221	(21,401)
Miscellaneous	2,500	-	2,500	2,570	70	2,500
Water Purchases	81,000	76,870	4,130	-	-	-
Repairs and Maintenance	2,400	1,725	675	24,900	17,241	7,659
<b>Total Operating Expenses</b>	<b>\$ 216,005</b>	<b>\$ 221,158</b>	<b>\$ (5,153)</b>	<b>\$ 212,605</b>	<b>\$ 223,362</b>	<b>\$ (10,757)</b>
<b>Operating Income (Loss)</b>	<b>\$ 45,495</b>	<b>\$ 27,406</b>	<b>\$ (18,089)</b>	<b>\$ 32,420</b>	<b>\$ 22,813</b>	<b>\$ (9,607)</b>
<b><u>NON-OPERATING REVENUES (EXPENSES):</u></b>						
Interest Revenue	\$ 400	\$ 421	\$ 21	\$ 300	\$ 231	\$ (69)
Interest Expense	(15,530)	(15,530)	-	(16,481)	(16,481)	-
<b>Total Non-Operating Revenues (Expenses):</b>	<b>\$ (15,130)</b>	<b>\$ (15,109)</b>	<b>\$ 21</b>	<b>\$ (16,181)</b>	<b>\$ (16,250)</b>	<b>\$ (69)</b>
<b>Change in Net Position</b>	<b>\$ 30,365</b>	<b>\$ 12,297</b>	<b>\$ (18,068)</b>	<b>\$ 16,239</b>	<b>\$ 6,563</b>	<b>\$ (9,676)</b>
<b>Net Position - July 1</b>	<b>293,815</b>	<b>827,430</b>	<b>533,615</b>	<b>209,322</b>	<b>1,175,779</b>	<b>966,457</b>
<b>Net Position - June 30</b>	<b>\$ 324,180</b>	<b>\$ 839,727</b>	<b>\$ 515,547</b>	<b>\$ 225,561</b>	<b>\$ 1,182,342</b>	<b>\$ 956,781</b>

# RAISOR, ZAPP & WOODS, PSC

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

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 the City of New Castle, Kentucky as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of New Castle, Kentucky's basic financial statements and have issued our report thereon dated August 31, 2017.

### 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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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 have not been identified. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses, that we consider to be material weaknesses (Items 2017-001 and 2017-002).

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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*

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

August 31, 2017

CITY OF NEW CASTLE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
For the Year Ended June 30, 2017

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unmodified opinion on whether the financial statements of City of New Castle, Kentucky were prepared in accordance with GAAP.
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 2017-001 and 2017-002 were reported as material weaknesses.
3. No instances of noncompliance material to the financial statements of City of New Castle, Kentucky were disclosed during the audit.

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT**

**GOVERNMENT AUDITING STANDARDS**

**DEFICIENCIES IN INTERNAL CONTROL**

**2017-001 SIZE OF ENTITY**

**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.

**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, 2016 as item 2016-001.

**CONTEXT:**

The City is a small entity with one office employee to process and record financial transactions.

**EFFECT:**

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

**CAUSE:**

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

**RECOMMENDATION:**

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

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

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.

**2017-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES**

**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.

**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, 2016 as item 2016-002.

CITY OF NEW CASTLE, KENTUCKY  
SCHEDULE OF FINDINGS AND RESPONSES (Continued)  
For the Year Ended June 30, 2017

**B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)**

**DEFICIENCIES IN INTERNAL CONTROL (Continued)**

**2017-002 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (Continued)**

**CONTEXT:**

The City Clerk does not prepare a complete set of financial statements including required note disclosures.

**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.

**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.

**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.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

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

**COMPLIANCE AND OTHER MATTERS**

None