

CITY OF NEW CASTLE, KENTUCKY
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITORS' REPORTS
Year Ended June 30, 2018

CITY OF NEW CASTLE, KENTUCKY
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RAISOR, ZAPP & WOODS, PSC

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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, 2018, 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, 2018, 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 50 and 51, the Schedule of the City's Proportionate Share of the Net Pension Liability – County Employees Retirement System on page 52, the Schedule of City Contributions (Pension) – County Employees Retirement System on page 53, the Schedule of City's Proportionate Share of the Net OPEB Liability – County Employees Retirement System on page 54, and the Schedule of City's Contributions (OPEB) – County Employees Retirement System on page 55 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 September 21, 2018, 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

September 21, 2018

Raisor, Zapp & Woods, P.S.C.
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
<u>ASSETS</u>			
Current Assets:			
Cash, including time deposits	\$ 229,149	\$ 243,727	\$ 472,876
Interest Receivable	-	57	57
Accounts Receivable (Net)	42,706	64,390	107,096
Due from Other Governments	3,279	-	3,279
Due from Other Funds	(21,400)	21,400	-
	\$ 253,734	\$ 329,574	\$ 583,308
Noncurrent Assets:			
Restricted Assets			
Cash	\$ 12,681	\$ 453,400	\$ 466,081
Capital Assets (Net)	523,582	2,742,057	3,265,639
Total Noncurrent Assets	\$ 536,263	\$ 3,195,457	\$ 3,731,720
Total Assets	\$ 789,997	\$ 3,525,031	\$ 4,315,028
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Attributable to Employee Pension Plan	\$ 38,895	\$ 58,342	\$ 97,237
Attributable to Employee Benefit Plan	11,187	16,780	27,967
Total Deferred Outflows of Resources	\$ 50,082	\$ 75,122	\$ 125,204
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	\$ 14,961	\$ 10,398	\$ 25,359
Retainage Payable	-	53,647	53,647
Accrued Compensated Absences	2,852	4,790	7,642
Accrued Taxes/Employee Withholding	6,294	1,004	7,298
Note Payable	-	22,000	22,000
Accrued Interest	-	102	102
Current Liabilities Payable from Restricted Assets:			
Accrued Interest	667	-	667
Current Portion - Capital Lease Obligation	10,000	-	10,000
Current Portion - Revenue Bonds Payable	-	45,000	45,000
Total Current Liabilities	\$ 34,774	\$ 136,941	\$ 171,715
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ -	\$ 591,519	\$ 591,519
Note Payable	-	292,685	292,685
Capital Lease Obligation	70,000	-	70,000
Accrued Compensated Absences	12,111	19,824	31,935
Net Pension Liability	117,557	176,338	293,895
Net OPEB Liability	40,375	60,564	100,939
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	18,825	18,825
Total Noncurrent Liabilities	\$ 240,043	\$ 1,159,755	\$ 1,399,798
Total Liabilities	\$ 274,817	\$ 1,296,696	\$ 1,571,513
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Attributable to Employee Pension Plan	\$ 13,964	\$ 20,944	\$ 34,908
Attributable to Employee Benefit Plan	2,114	3,170	5,284
Total Deferred Inflows of Resources	\$ 16,078	\$ 24,114	\$ 40,192
<u>NET POSITION</u>			
Net Investment in Capital Assets	\$ 443,582	\$ 1,737,206	\$ 2,180,788
Restricted for:			
Debt Service	11,047	432,173	443,220
Other Purposes	60,033	-	60,033
Unrestricted	34,522	109,964	144,486
Total Net Position	\$ 549,184	\$ 2,279,343	\$ 2,828,527

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges For Services</u>	<u>Operating Grants and Contributions</u>
Functions / Programs			
Governmental Activities:			
General Government	\$ 163,643	\$ -	\$ -
Public Safety			
Police Department	40,851	4,414	-
Fire Department	80,507	37,936	11,000
Public Services	79,220	80,877	-
Highways & Streets	94,276	-	18,440
Total Governmental Activities	\$ 458,497	\$ 123,227	\$ 29,440
Business-type Activities			
Water	\$ 253,489	\$ 240,883	\$ -
Sewer	256,840	249,282	-
Total Business-type Activities	\$ 510,329	\$ 490,165	\$ 313,286
Total Government	\$ 968,826	\$ 613,392	\$ 29,440

General Revenues:

Taxes:

- Property Taxes
- Franchise Taxes
- Insurance Taxes
- Unrestricted Investment Income
- Miscellaneous
- Total General Revenues

Change in Net Position

Net Position - July 1 (As Previously Stated)

Restatement - GASB Statement 75

Net Position - July 1 (As Restated)

Net Position - June 30

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

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (163,643)	\$ -	\$ (163,643)
(36,437)	-	(36,437)
(31,571)	-	(31,571)
1,657	-	1,657
<u>(75,836)</u>	<u>-</u>	<u>(75,836)</u>
<u>\$ (305,830)</u>	<u>\$ -</u>	<u>\$ (305,830)</u>
\$ -	\$ 112,708	\$ 112,708
<u>-</u>	<u>180,414</u>	<u>180,414</u>
<u>\$ -</u>	<u>\$ 293,122</u>	<u>\$ 293,122</u>
<u>\$ (305,830)</u>	<u>\$ 293,122</u>	<u>\$ (12,708)</u>
\$ 76,253	\$ -	\$ 76,253
50,006	-	50,006
144,159	-	144,159
180	684	864
2,346	7,122	9,468
<u>\$ 272,944</u>	<u>\$ 7,806</u>	<u>\$ 280,750</u>
<u>\$ (32,886)</u>	<u>\$ 300,928</u>	<u>\$ 268,042</u>
\$ 611,172	\$ 2,022,069	\$ 2,633,241
<u>(29,102)</u>	<u>(43,654)</u>	<u>(72,756)</u>
<u>\$ 582,070</u>	<u>\$ 1,978,415</u>	<u>\$ 2,560,485</u>
<u>\$ 549,184</u>	<u>\$ 2,279,343</u>	<u>\$ 2,828,527</u>

CITY OF NEW CASTLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

<u>ASSETS</u>	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash, including time deposits	\$ 170,866	\$ 58,283	\$ 229,149
Cash, restricted	12,681	-	12,681
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Licenses	32,705	-	32,705
Property Taxes	766	-	766
Garbage	7,282	-	7,282
Franchise Fees	1,953	-	1,953
Due from Other Governments	1,529	1,750	3,279
	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$ 227,782</u>	<u>\$ 60,033</u>	<u>\$ 287,815</u>
<u>LIABILITIES</u>			
Accounts Payable	\$ 14,961	\$ -	\$ 14,961
Due to Other Funds	21,400	-	21,400
Accrued Compensated Absences	164	-	164
Accrued Taxes / Employee Withholding	6,294	-	6,294
	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>\$ 42,819</u>	<u>\$ -</u>	<u>\$ 42,819</u>
<u>FUND BALANCES</u>			
Restricted for:			
Fire Truck	\$ 11,047	\$ -	\$ 11,047
Special Revenue Funds	-	60,033	60,033
Assigned to:			
Downtown Revitalization	1,634	-	1,634
Unassigned	172,282	-	172,282
Total Fund Balances	<u>\$ 184,963</u>	<u>\$ 60,033</u>	<u>\$ 244,996</u>
	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$ 227,782</u>	<u>\$ 60,033</u>	<u>\$ 287,815</u>

CITY OF NEW CASTLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Governmental Fund Balances	\$ 244,996
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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 \$944,980	523,582
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Deferred Outflows of Resources	
Attributable to Employee Pension Plan	38,895
Attributable to Employee Benefit Plan	11,187

Long term liabilities are not due and payable in the current period and therefore not reported in the funds:

Accrued compensated absences	(14,799)
Accrued Interest	(667)
Capital Lease Obligation	(80,000)
Net Pension Liability	(117,557)
Net OPEB Liability	(40,375)

Deferred Inflows of Resources	
Attributable to Employee Pension Plan	(13,964)
Attributable to Employee Benefit Plan	(2,114)

Net Position of Governmental Activities	<u>\$ 549,184</u>
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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES</u>			
Property Taxes	\$ 76,253	\$ -	\$ 76,253
Franchise Taxes	50,006	-	50,006
Insurance Taxes	144,159	-	144,159
Charges for Services	80,877	-	80,877
Interest Revenue	128	52	180
Fire Department	37,936	-	37,936
Miscellaneous Revenues	2,346	-	2,346
Proceeds from Outside Sources:			
State Fire Aid	11,000	-	11,000
Municipal Road Aid	-	18,440	18,440
KY Public Safety Program	4,414	-	4,414
	<u>407,119</u>	<u>18,492</u>	<u>425,611</u>
Total Revenues	<u>\$ 407,119</u>	<u>\$ 18,492</u>	<u>\$ 425,611</u>
<u>EXPENDITURES</u>			
Current			
General Government	\$ 149,384	\$ -	\$ 149,384
Public Safety			
Police Department	40,851	-	40,851
Fire Department	57,667	-	57,667
Public Services	79,220	-	79,220
Highways and Streets	62,946	13,945	76,891
Capital Outlay	4,000	-	4,000
Debt Service			
Principal	10,000	-	10,000
Interest and Other Charges	2,925	-	2,925
	<u>406,993</u>	<u>13,945</u>	<u>420,938</u>
Total Expenditures	<u>\$ 406,993</u>	<u>\$ 13,945</u>	<u>\$ 420,938</u>
Net Change in Fund Balances	\$ 126	\$ 4,547	\$ 4,673
Fund Balances - July 1	<u>184,837</u>	<u>55,486</u>	<u>240,323</u>
Fund Balances - June 30	<u>\$ 184,963</u>	<u>\$ 60,033</u>	<u>\$ 244,996</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, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 4,673

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

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

Capitalized Expenditures	4,000
Depreciation Expense	(38,765)

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. 1,536

Governmental funds report city pension contributions as expenditures.
However in the Statement of Activities, the cost of pension
benefits earned is reported as pension expense. (12,213)

Governmental funds report city OPEB contributions as expenditures.
However in the Statement of Activities, the cost of OPEB
benefits earned is reported as OPEB employee benefit expense. (2,200)

Change in Net Position of Governmental Activities \$ (32,886)

**CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET POSITION
PROPRIETARY FUND
June 30, 2018**

**Water/Sewer
Utilities
Enterprise Fund**

ASSETS

Current Assets:

Cash, including time deposits	\$	243,727
Interest Receivable		57
Accounts Receivable (Net)		64,390
Due from Other Funds		21,400
Total Current Assets	\$	329,574

Noncurrent Assets:

Restricted Assets		
Cash, including time deposits	\$	453,400
Capital Assets (Net)		2,742,057
Total Noncurrent Assets	\$	3,195,457

Total Assets	\$	3,525,031
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DEFERRED OUTFLOWS OF RESOURCES

Attributable to Employee Pension Plan	\$	58,342
Attributable to Employee Benefit Plan		16,780
Total Deferred Outflows of Resources	\$	75,122

LIABILITIES

Current Liabilities:

Accounts Payable	\$	10,398
Retainage Payable		53,647
Accrued Compensated Absences		4,790
Accrued Taxes / Employee Withholding		1,004
Note Payable		22,000
Accrued Interest		102
Current Liabilities Payable from Restricted Assets:		
Revenue Bonds Payable		45,000
Total Current Liabilities	\$	136,941

Noncurrent Liabilities:

Revenue Bonds Payable	\$	591,519
Note Payable		292,685
Accrued Compensated Absences		19,824
Net Pension Liability		176,338
Net OPEB Liability		60,564
Noncurrent Liabilities Payable from Restricted Assets:		
Customer Deposits Payable		18,825
Total Noncurrent Liabilities	\$	1,159,755

Total Liabilities	\$	1,296,696
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DEFERRED INFLOWS OF RESOURCES

Attributable to Employee Pension Plan	\$	20,944
Attributable to Employee Benefit Plan		3,170
Total Deferred Inflows of Resources	\$	24,114

NET POSITION

Net Investment in Capital Assets	\$	1,790,853
Restricted for:		
Debt Service		432,173
Unrestricted		56,317
Total Net Position	\$	2,279,343

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2018

	Water/Sewer Utilities Enterprise Fund
<u>OPERATING REVENUES</u>	
Water Sales	\$ 240,883
Sewer Services	249,282
Miscellaneous	7,122
	\$ 497,287
<u>OPERATING EXPENSES</u>	
Salaries and Wages	\$ 79,863
Water and Sewer Supplies	28,954
Utilities	14,712
Payroll Taxes	5,846
Retirement Benefits	29,888
OPEB Benefits	7,156
Vehicle Expenses	6,005
Postage and Office Supplies	4,493
Insurance	64,352
General & Admin. Expenses	21,615
Depreciation	104,572
Miscellaneous	325
Water Purchases	80,338
Repairs and Maintenance	32,177
	\$ 480,296
Total Operating Expenses	\$ 480,296
Operating Income (Loss)	\$ 16,991
<u>NON-OPERATING REVENUES (EXPENSES)</u>	
Interest Revenue	\$ 684
Interest Expense	(30,033)
	\$ (29,349)
Total Non-Operating Revenues (Expenses):	\$ (29,349)
Income (Loss) Before Contributions	\$ (12,358)
Capital Contributions	313,286
	\$ 300,928
Change in Net Position	\$ 300,928
Net Position - July 1 (As Previously Stated)	\$ 2,022,069
Restatement - GASB Statement 75	(43,654)
Net Position - July 1 (As Restated)	\$ 1,978,415
Net Position - June 30	\$ 2,279,343

**CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2018**

	Water/Sewer Utilities Enterprise Fund	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Receipts from Customers	\$	495,622
Payments to Suppliers		(275,825)
Payments to Employees		(82,432)
Receipts of Customer Meter Deposits		5,325
Refunds of Customer Meter Deposits		(4,925)
Net Cash Provided (Used) by Operating Activities	<u>\$</u>	<u>137,765</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>		
Purchase of Capital Assets	\$	(615,202)
Principal Paid on Capital Debt		(42,800)
Interest Paid on Capital Debt		(30,033)
Note Proceeds		314,685
Capital Contributions		313,286
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$</u>	<u>(60,064)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Interest Received	\$	684
Net Cash Provided (Used) by Investing Activities	<u>\$</u>	<u>684</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$	78,385
Balances - July 1		<u>538,242</u>
Balances - June 30	<u>\$</u>	<u>616,627</u>
	Balances Per June 30, 2018 Statement of Net Position	Balances Per June 30, 2018 Statement of Cash Flows
Cash-Unrestricted	\$ 243,727	\$ 243,727
Time Deposits-Restricted	80,500	-
Cash-Restricted	372,900	372,900
Total	<u>\$ 697,127</u>	<u>\$ 616,627</u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2018

**Water/Sewer
Utilities
Enterprise Fund**

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

Operating Income (Loss)	\$	16,991
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation Expense		104,572
Pension Expense		18,320
OPEB Expense		3,300
Change in Assets and Liabilities:		
Receivables, Net		(1,665)
Accounts Payable		(3,001)
Due From Other Funds		1,400
Customer Meter Deposits		400
Accrued Compensated Absences		(2,490)
Accrued Taxes/Employee Withholding		(62)
		(62)
Net Cash Provided by Operating Activities	\$	137,765

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2018, the Water/Sewer Utilities Enterprise Fund had \$53,647 outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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, 2018

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, 2018

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, 2018

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, 2018

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 significant improved in fiscal years ending after June 30, 1980 have been included. These assets have been valued at estimated historical cost.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net 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, 2018

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.

Long-term Debt

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.

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.

Post Employment Benefits Other Than Pensions

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB 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.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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,

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Property Tax

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

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

Insurance License Tax

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

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

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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
CDBG Grant	Water & Sewer Rehabilitation Project

For the year ended June 30, 2018, the City complied, in all material respects, with these revenue restrictions.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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, 2018

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.

The Kentucky Infrastructure Authority note payable requires \$1,100 be added to the replacement account each December 1 until the balance reaches \$22,000 and maintained for the life of the loan. The first reserve requirement transfer is due December 1, 2018.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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, 2018. The categories of credit risk are defined as follows:

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

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

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	\$ 59,063	\$ 59,063	\$ -	\$ -	\$ 58,016
Time/Savings Deposits	947,496	533,769	413,727	-	880,551
Total Deposits	<u>\$ 1,006,559</u>	<u>\$ 592,832</u>	<u>\$ 413,727</u>	<u>\$ -</u>	<u>\$ 938,567</u>

Reconciliation to Statement of Net Position:

Unrestricted Cash, Including Time Deposits	\$ 472,876
Restricted Cash	466,081
	<u>\$ 938,957</u>
Carrying Value (Above)	\$ 938,567
Plus Cash on Hand	390
	<u>\$ 938,957</u>

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

	Governmental Activities	Business-type Activities	Total
Downtown Revitalization	\$ 1,634	\$ -	\$ 1,634
Fire Truck	11,047	-	11,047
Bond and Interest Sinking Account of 1983	-	58,914	58,914
Bond and Interest Sinking Account of 1985	-	50,129	50,129
Bond and Interest Sinking Account of 2002	-	23,850	23,850
Bond and Interest Sinking Account of 2006	-	51,693	51,693
Bond and Interest Sinking Account of 2009	-	30,320	30,320
Short Lived Assets Account	-	22,854	22,854
Depreciation Fund	-	194,412	194,412
Customer Deposits	-	21,228	21,228
	<u>\$ 12,681</u>	<u>\$ 453,400</u>	<u>\$ 466,081</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of customer accounts receivable. Accounts receivable of the governmental activities consist of franchise tax (5%), insurance licenses (77%), property tax (2%), business licenses and other (16%) receivables. Receivables detail at June 30, 2018, is as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Accounts receivable	\$ 44,696	\$ 73,070	\$ 117,766
Allowance for doubtful accounts	(1,990)	(8,680)	(10,670)
Net accounts receivable	<u>\$ 42,706</u>	<u>\$ 64,390</u>	<u>\$ 107,096</u>

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Balance at July 1, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 2018</u>
Governmental Activities:				
Land	\$ 81,100	\$ -	\$ -	\$ 81,100
Buildings & Improvements	389,686	-	-	389,686
Machinery & Equipment	734,120	4,000	-	738,120
Infrastructure	259,656	-	-	259,656
Totals at Historical Cost	<u>\$ 1,464,562</u>	<u>\$ 4,000</u>	<u>\$ -</u>	<u>\$ 1,468,562</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 102,823	\$ 9,284	\$ -	\$ 112,107
Machinery & Equipment	577,279	28,054	-	605,333
Infrastructure	226,113	1,427	-	227,540
Total Accumulated Depreciation	<u>\$ 906,215</u>	<u>\$ 38,765</u>	<u>\$ -</u>	<u>\$ 944,980</u>
Governmental Activities - Capital Assets, Net	<u>\$ 558,347</u>	<u>\$ (34,765)</u>	<u>\$ -</u>	<u>\$ 523,582</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 8,220
Public Safety	
Fire Department	19,998
Highways & Streets	10,295
Infrastructure	252
Total Depreciation Expense	<u>\$ 38,765</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.D. CAPITAL ASSETS (Continued)

	Balance at July 1, 2017	Additions	Disposals	Balance at June 30, 2018
<u>Business-type Activities:</u>				
Land & Right of Ways	\$ 33,150	\$ -	\$ -	\$ 33,150
Buildings & Improvements	69,716	-	-	69,716
Distribution System	3,893,627	-	-	3,893,627
Machinery & Equipment	238,468	16,119	6,450	248,137
Construction in Process	29,000	652,831	-	681,831
Totals at Historical Cost	<u>\$ 4,263,961</u>	<u>\$ 668,950</u>	<u>\$ 6,450</u>	<u>\$ 4,926,461</u>
Less: Accumulated Depreciation				
Buildings & Improvements	\$ 56,823	\$ 910	\$ -	\$ 57,733
Distribution System	1,823,894	88,422	-	1,912,316
Machinery & Equipment	205,565	15,240	6,450	214,355
Total Accumulated Depreciation	<u>\$ 2,086,282</u>	<u>\$ 104,572</u>	<u>\$ 6,450</u>	<u>\$ 2,184,404</u>
Governmental Activities - Capital Assets, Net	<u>\$ 2,177,679</u>	<u>\$ 564,378</u>	<u>\$ -</u>	<u>\$ 2,742,057</u>
Depreciation Expense was charged to the business activities as follows:				
Water	\$ 35,701			
Sewer	68,871			
Total Depreciation Expense	<u>\$ 104,572</u>			

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.

As of June 30, 2018, the long-term debt of the financial reporting entity consisted of the following:

Governmental-type Activities:

Capital Lease Obligations:

Capital lease obligation for purchase of a used tanker fire truck	<u>\$ 80,000</u>
Current Portion	\$ 10,000
Noncurrent Portion	70,000
Total Capital Lease Obligations	<u>\$ 80,000</u>

Business-type Activities:

Bonds Payable:

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series of 1983, original issue amount of \$230,000, secured by utility revenues. Interest is charged at the rate of 5% per annum. Final maturity is July 1, 2023.	<u>\$ 62,000</u>
Current Portion	\$ 11,000
Noncurrent Portion	51,000
Total Bonds Payable	<u>\$ 62,000</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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 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.

	<u>\$ 132,719</u>
Current Portion	\$ 24,000
Noncurrent Portion	108,719
Total Bonds Payable	\$ 132,719

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.

	<u>\$ 243,500</u>
Current Portion	\$ 5,500
Noncurrent Portion	238,000
Total Bonds Payable	\$ 243,500

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

	<u>\$ 122,100</u>
Current Portion	\$ 2,700
Noncurrent Portion	119,400
Total Bonds Payable	\$ 122,100

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

	<u>\$ 76,200</u>
Current Portion	\$ 1,800
Noncurrent Portion	74,400
Total Bonds Payable	\$ 76,200

Notes Payable:

Kentucky Infrastructure Authority represents a 20 year loan secured by water and sewer revenues. Interest is charged at the rate of 0.25%. The original advanced principal balance is \$314,685. With potential eligible future additional draws, the maximum principal balance would be \$445,000. Semi-annual payments of approximately \$22,000 begin December 1, 2018 with final maturity projected to be June 1, 2038.

	<u>\$ 314,685</u>
Current Portion	\$ 22,000
Noncurrent Portion	292,685
Total Bonds Payable	\$ 314,685

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.E. LONG-TERM DEBT (Continued)

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2018:

<u>Type of Debt</u>	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2018</u>	<u>Current</u> <u>Portion</u>
Governmental Activities					
Capital Lease Obligations	\$ 90,000	\$ -	\$ 10,000	\$ 80,000	\$ 10,000
Accrued Compensated Absences	16,901	5,381	7,319	14,963	2,852
Total	<u>\$ 106,901</u>	<u>\$ 5,381</u>	<u>\$ 17,319</u>	<u>\$ 94,963</u>	<u>\$ 12,852</u>
Business-type Activities					
Bonds Payable	\$ 679,319	\$ -	\$ 42,800	\$ 636,519	\$ 45,000
Note Payable	-	314,685	-	314,685	22,000
Accrued Compensated Absences	27,104	8,764	11,254	24,614	4,790
Total	<u>\$ 706,423</u>	<u>\$ 323,449</u>	<u>\$ 54,054</u>	<u>\$ 975,818</u>	<u>\$ 71,790</u>

Governmental Activities

Capital Lease Obligations

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

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

Payments ranging from \$801 to \$1,342 which includes principal, interest and fiscal charges are due monthly under the terms of the lease. The obligations of the lease at June 30, 2018 are as follows:

<u>Fiscal year</u>	<u>Principal</u> <u>Payment</u>	<u>Interest</u> <u>Payment</u>	<u>Fiscal</u> <u>Charges</u>	<u>Total</u> <u>Payment</u>	<u>Balance at</u> <u>End of Year</u>
					\$ 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	15,000	1,050	538	16,588	20,000
2024-25	20,000	750	962	21,712	-
	<u>\$ 80,000</u>	<u>\$ 8,775</u>	<u>\$ 3,950</u>	<u>\$ 92,725</u>	<u>-</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.E. LONG-TERM DEBT (Continued)

Business Activities

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

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

Original Amount	Outstanding Balance	Interest Rate
\$230,000	\$62,000	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, 2018, 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
2019	\$ 11,000	\$ 3,100	\$ 14,100	\$ 62,000
2020	11,000	2,550	13,550	51,000
2021	12,000	2,000	14,000	40,000
2022	12,000	1,400	13,400	28,000
2023	16,000	800	16,800	16,000
	\$ 62,000	\$ 9,850	\$ 71,850	\$ -

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	\$132,719	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.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.E. LONG-TERM DEBT (Continued)

City of New Castle, Kentucky, Water Utilities Revenue Bonds Series 1985 (Continued)

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2018, 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>
				\$ 132,719
2019	\$ 24,000	\$ 6,636	\$ 30,636	108,719
2020	25,000	5,436	30,436	83,719
2021	26,000	4,186	30,186	57,719
2022	28,000	2,886	30,886	29,719
2023	29,000	1,486	30,486	719
2024	719	36	755	-
	<u>\$ 132,719</u>	<u>\$ 20,666</u>	<u>\$ 153,385</u>	<u>\$ -</u>

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

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

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$300,000	\$243,500	4.5%

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

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

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2018, 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>
				\$ 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	7,000	9,878	16,878	212,500
2024-28	39,000	44,461	83,461	173,500
2029-33	50,000	34,764	84,764	123,500
2034-38	62,500	22,389	84,889	61,000
2039-42	61,000	6,976	67,976	-
	<u>\$ 243,500</u>	<u>\$ 160,746</u>	<u>\$ 404,246</u>	<u>\$ -</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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 2006

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

Original Amount	Outstanding Balance	Interest Rate
\$147,000	\$122,100	4.25%

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

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

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2018, 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
	\$	\$	\$	\$
2019	2,700	5,190	7,890	122,100
2020	2,800	5,075	7,875	119,400
2021	2,900	4,956	7,856	116,600
2022	3,000	4,833	7,833	113,700
2023	3,200	4,705	7,905	110,700
2024-28	17,900	21,387	39,287	107,500
2029-33	22,100	17,240	39,340	89,600
2034-38	27,200	12,132	39,332	67,500
2039-43	33,600	5,829	39,429	40,300
2044	6,700	285	6,985	6,700
	\$ 122,100	\$ 81,632	\$ 203,732	\$ -

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	\$76,200	2.75%

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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 2009 (Continued)

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, 2018, 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>Bond Outstanding At End of Year</u>
2019	\$ 1,800	\$ 2,096	\$ 3,896	\$ 76,200
2020	1,800	2,046	3,846	74,400
2021	1,900	1,997	3,897	72,600
2022	1,900	1,945	3,845	70,700
2023	2,000	1,892	3,892	68,800
2024-28	10,600	8,617	19,217	66,800
2029-33	12,200	7,079	19,279	56,200
2034-38	13,900	5,310	19,210	44,000
2039-43	16,000	3,288	19,288	30,100
2044-47	14,100	964	15,064	14,100
	<u>\$ 76,200</u>	<u>\$ 35,234</u>	<u>\$ 111,434</u>	<u>\$ -</u>

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

Note Payable – Kentucky Infrastructure Authority

The original balance of the Kentucky Infrastructure Authority note is \$314,685. The note is payable in semi-annual payments of approximately \$22,000 (principal and interest) through June, 2038. Interest is charged at the rate of 0.25% per annum along with a 0.1% service fee based on the unpaid principal balance. The principal balance outstanding at June 30, 2018 is \$314,685.

Assuming the note has no additional advances or is not liquidated prior to maturity, the annual minimum obligation of the funds at June 30, 2018 for debt service, (principal and interest) are as follows:

<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>
2019	\$ 22,000	\$ 773	\$ 315	\$ 23,088	\$ 314,685
2020	22,157	718	293	23,168	292,685
2021	22,162	662	271	23,095	270,528
2022	22,217	607	248	23,072	248,366
2023	22,272	551	226	23,049	226,149
2024-28	112,202	1,919	740	114,861	203,877
2029-33	91,675	521	184	92,380	91,675
	<u>\$ 314,685</u>	<u>\$ 5,751</u>	<u>\$ 2,277</u>	<u>\$ 322,713</u>	<u>-</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

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

3.E. LONG-TERM DEBT (Continued)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2018, are as follows:

<u>Fiscal year</u>	<u>Governmental Activities</u>			<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Fiscal Charges</u>	<u>Principal</u>	<u>Interest</u>	<u>Fiscal Charges</u>
2019	\$ 10,000	\$ 2,050	\$ 650	\$ 67,000	\$ 28,753	\$ 315
2020	10,000	1,850	625	68,757	26,535	293
2021	10,000	1,650	600	70,962	24,241	271
2022	15,000	1,425	575	73,617	21,841	248
2023	15,000	1,050	538	79,472	19,312	226
2024-28	20,000	750	962	180,421	76,420	740
2029-33	-	-	-	175,975	59,604	184
2034-38	-	-	-	103,600	39,831	-
2039-43	-	-	-	110,600	16,093	-
2044-47	-	-	-	20,800	1,249	-
	<u>\$ 80,000</u>	<u>\$ 8,775</u>	<u>\$ 3,950</u>	<u>\$ 951,204</u>	<u>\$ 313,879</u>	<u>\$ 2,277</u>

3.F. INTEREST EXPENSE

\$2,925 interest expense has been reported for the governmental funds financial statements for the year ended June 30, 2018. Interest expense associated with capital lease obligations and reported in the government wide financial statements was \$2,842. Interest expense for the enterprise fund for the year ended June 30, 2018, was \$30,033. \$183 interest has been capitalized.

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2018, consisted of the following individual fund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
Enterprise Fund	General Fund	\$ 21,400	Advances for operating expenditures
Total		<u>\$ 21,400</u>	

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 June 30, 2018

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>\$ 11,047</u>
Restricted for Other Purposes:		
Municipal Road Aid	State Law	<u>\$ 60,033</u>

Business-type Activities

Enterprise Fund:

Restricted for Debt Service:

1983 Water Utilities Revenue Bonds-Cash	\$ 189,939
1985 Sewer Utilities Revenue Bonds-Cash	72,308
2002 Water Utilities Revenue Bonds-Cash	50,116
2006 Sewer Utilities Revenue Bonds-Cash	62,749
2009 Sewer Utilities Revenue Bonds-Cash	<u>57,061</u>
Total Restricted For Debt Service	<u>\$ 432,173</u>

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

The City has reported the following restricted portion of the general fund's fund balance at June 30, 2018, to indicate the amounts restricted as to use by debt agreement:

General Fund:	
Fire Truck	<u>\$ 11,047</u>

The City has reported the following restricted portion of the other governmental funds' fund balance at June 30, 2018, to indicate the amounts restricted as to use by statute:

Other Governmental Funds:	
Municipal Road Aid	<u>\$ 60,033</u>

The City has reported the following portion of the general fund's fund balance as assigned at June 30, 2018, indicating amounts intended to be used for specific purposes.

General Fund:	
Downtown Revitalization	<u>\$ 1,634</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) 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. Under the provisions of Kentucky Revised Statute ("KRS") Section 61.701, the KRS Board administers the Kentucky Retirement Systems Insurance Fund. The statutes provide for an insurance fund to provide group hospital and medical benefits to retirees drawing a benefit from the pension funds administered by KRS, which includes CERS.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS's pension and insurance funds. Additionally, the Kentucky Retirement System issues publicly available financial reports that include the Schedules of Employer Allocations and Pension amounts, and the Schedules of Employer Allocations of Post Employment Benefits Other Than Pension amounts, by employer. The most recent financial reports, dated June 30, 2017, may be obtained on-line as follows:

- Kentucky Retirement Systems Audit Report – 2017
<https://kyret.ky.gov/About/Internal-Audit/Documents/2017%20Audited%20Financial%20Statements%20and%20Independent%20Auditor's%20Reports.pdf>
- Kentucky Retirement Systems Schedule of Employer Allocations and Pension Amounts – Audit Report 2017 – GASB 68
<https://kyret.ky.gov/Employers/GASB/Audited%20Reports/2017%20GASB%2068%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>
- Kentucky Retirement Systems Schedules of Employer Allocations and OPEB Amounts by Employer – Audit Report 2017 – GASB 75
<https://kyret.ky.gov/Employers/GASB/Audited%20Reports/2017%20GASB%2075%20Proportionate%20Share%20Audit%20Report%20with%20Schedules.pdf>

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/Investment Objectives – 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. Investment returns are recorded net of investment fees.

The investment objectives of the portfolios are to produce results that exceed the stated goals over both short-term and long-term periods.

- Shorter-Term (5 years and less): The returns of the particular asset classes of the managed funds of the Systems, measured on an annual basis, should exceed the return achieved by a policy benchmark portfolio composed of comparable unmanaged market indices.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

- **Medium-Term (5 to 30 years):** The returns of the particular asset classes of the managed funds of the Systems, measured on a rolling year basis should exceed the returns achieved by a policy benchmark portfolio composed of comparable unmanaged market indices and perform above the median of an appropriate peer universe, if there is one.
- **Longer-Term:** The total assets of the Systems should achieve a return of 6.25% for CERS pension and insurance plans. This is measured over 30 to 40 years which exceeds the actuarially required rate of return while also exceeding the return achieved by its total fund benchmark.

Asset Allocation Board Policy as of June 30, 2017 was as follows:

	2017
Combined Equity	50.80%
Combined Fixed Income	14.00%
Private Equity	10.00%
Absolute Return	10.00%
Real Return	8.00%
Real Estate	5.00%
Cash	2.20%
	100.00%

Total fund return for the year ended June 30, 2017 was 13.47%.

Pension 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. After July 1, 2009, 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.

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

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.

There were no changes in benefit terms during the year ended June 30, 2017.

Contributions - Participating employers are 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, 2017 participating employers contributed 18.68% of each employee's creditable compensation. The actuarially determined rates set by the Board for the fiscal year ended June 30, 2017 was 18.68%. Administrative costs of KRS are financed through employer contributions and investment earnings.

Employer contributions for the year ended June 30, 2017, were allocated 13.95% to CERS's pension fund and 4.73% to CERS' OPEB (health insurance) fund, respectively.

For the fiscal year ended June 30, 2017, 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. Plan members who began participating on, or after, September 1, 2008 and before January 1, 2014, 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, for plan members who began participating on, or after, September 1, 2008, the 1% contribution to the 401(h) account is non-refundable and is forfeited.

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 an additional 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, 2018

NOTE 4. OTHER NOTES

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) 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, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015 actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate these contribution rates are as follows:

Item	CERS Non-Hazardous
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay
Amortization Period:	28 Years, Closed
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)

In general, the assumptions and methods used in the valuation (as shown above) are based on the actuarial experience study for the five-year period ending June 30, 2013, submitted April 30, 2014, and adopted by the Board on December 4, 2014.

Changes in the investment return, price inflation, and payroll growth assumption were adopted by the Board in May and July 2017 for use with the June 30, 2017 valuation in order to reflect future economic expectations. These changes in assumptions since the prior valuation are as follows:

The assumed investment return was changed from 7.50% to 6.25%. The price inflation assumption was changed from 3.25% to 2.30%, which also resulted in a 0.95% decrease in the salary increase assumption at all years of service. The payroll growth assumption (applicable for the amortization unfunded actuarial accrued liabilities) was changed from 4.00% to 2.00%.

Methods and Assumptions Used in Calculation of the Actuarially Determined Net Pension Liability

The total pension liability is based on an actuarial valuation date of June 30, 2016. The total pension liability was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. Gabriel, Roeder, Smith & Co (GRS) did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's valuations results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of their replication. Information disclosed for years prior to June 30, 2017, was prepared by KRS's prior actuary, Cavanaugh Macdonald Consulting, LLC.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Methods and Assumptions Used in Calculation of the Actuarially Determined Net Pension Liability (Continued)

The single discount rate of 6.25% was used to measure the total pension liability for the fiscal year ending June 30, 2017 which is a decrease of 1.25% from the prior year. This single discount rate was based on the expected rate of return on pension plan investments. Based on the stated assumptions and the projection of cash flows as of each fiscal year ending, the pension plan's fiduciary net position and future contributions were projected to be sufficient to finance all the future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability. The projection of cash flows used to determine the single discount rate assumes that the participating employers in the System contribute the actuarially determined contribution rate in all future years. The discount rate determination does not use a municipal bond rate.

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 \$293,895 for its proportionate share of the net pension liability. The net pension liability for CERS was measured as of June 30, 2017 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, 2017, the City's proportion was 0.005021 percent, which is a decrease of 0.000159 percent for the year ended June 30, 2017.

The City's total payroll for the fiscal year ended June 30, 2018 was \$134,517. Contributions to CERS were based on \$125,217 (eligible gross wages). The total employer contributions to the pension plan for the year ended June 30, 2018 were \$17,035.

All contributions were made as required.

The City's contribution for the County Employees' Retirement System's year ended June 30, 2017 was 0.005021 percent of the System's total contribution requirements for all employers.

For the year ended June 30, 2018 the City recognized pension expense of \$48,331. At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to CERS pensions from the following sources:

	<u>June 30, 2018</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 365	\$ 7,460
Change in Assumptions	54,232	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	1,350	7,807
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	23,276	19,641
District Contributions Made Subsequent to the NPL Measurement Date	<u>18,014</u>	<u>-</u>
Total	<u>\$ 97,237</u>	<u>\$ 34,908</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) 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)

\$18,014 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 year ended June 30, 2019. 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 and deferred inflows 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, 2018:	Increase (Decrease) to Pension Expense
2019	\$ 18,322
2020	20,810
2021	8,957
2022	(3,774)
	\$ 44,315

Payable to the Pension Plan

At June 30, 2018, the City reported a payable of \$2,158 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.

Sensitivity of the City'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, 2017], calculated using the discount rates of 6.25% for the year ended June 30, 2017, as well as what CERS' net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2017</u>	<u>1% Decrease [5.25%]</u>	<u>Current Discount [6.25%]</u>	<u>1% Increase [7.25%]</u>
Net Pension Liability	\$ 7,382,285,260	\$ 5,853,307,463	\$ 4,574,328,530
City's Proportionate Share	370,665	293,895	229,677

Insurance Plan Description – The Kentucky Retirement Systems' Insurance Fund (Insurance Fund) was established to provide hospital and medical insurance for eligible members receiving benefits from KERS, CERS, and SPRS. The eligible non-Medicare retirees are covered by the Department of Employee Insurance (DEI) plans. KRS submits the premium payments to DEI. The Board contracts with Humana to provide health care benefits to the eligible Medicare retirees through a Medicare Advantage Plan. The Insurance Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance. A portion of the insurance premiums are withheld from benefit payments for members including those of the CERS Non-Hazardous system.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Contributions

As a result of House Bill 290 (2004 Kentucky General Assembly), medical insurance benefits are calculated differently for members who began participating on, or after, July 1, 2003. Once members reach a minimum vesting period of 10 years, non-hazardous employees whose participation began on, or after, July 1, 2003, earn \$10 per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. This dollar amount is subject to adjustment annually, which is currently 1.5%, based upon Kentucky Revised Statutes. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 78.852. The Kentucky General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

The amount of contribution paid by the Insurance Fund is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Portion Paid by Insurance Fund Paid by Insurance Fund (%)</u>
20+ years	100.00%
15-19 years	75.00%
10-14 years	50.00%
4-9 years	25.00%
Less than 4 years	0.00%

For members participating on or after July 1, 2003, the dollar contribution for fiscal year 2017 was \$13.18 for CERS Non-Hazardous members.

For the fiscal year ended June 30, 2017, plan members who began on, or after, September 1, 2008 (classified in the Tier 2 or Tier 3 structure of benefits) were required to contribute 1% of their annual creditable compensation 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).

If a member terminates employment the 1% contribution to the 401(h) account is non-refundable and is forfeited.

Participating employers are required to contribute at an actuarially determined rate as described previously.

Methods and Assumptions Used in Calculation of Actuarially Determined Contributions

Per the GASB Statement No. 75 Report for Postemployment Benefits Other than Pensions for the Kentucky County Employees Retirement System prepared as of June 30, 2017, the actuarially determined contribution rates effective for fiscal year ending 2017 are calculated as of June 30, 2015. Based on the June 30, 2015, actuarial valuation report (produced by the prior actuary, Cavanaugh Macdonald Consulting, LLC), the actuarial methods and assumptions used to calculate those rates are as follows:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

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

Item	CERS Non-Hazardous
Actuarial Cost Method:	Entry Age Normal
Asset Valuation Method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Amortization Method:	Level Percent of Pay
Amortization Period:	28 Years, Closed
Payroll Growth:	4.00%
Investment Return:	7.50%
Inflation:	3.25%
Salary Increases:	4.00%, average
Mortality:	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females)
<i>Healthcare Trend Rates:</i>	
Pre-65	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Post-65	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.0% over a period of 2 years.

Subsequent to the actuarial valuation date, but prior to the measurement date, the Board adopted updated actuarial assumptions which were used in performing the actuarial valuations as of June 30, 2017. Specifically, the total OPEB liability as of June 30, 2017, was determined using a 2.30% price inflation assumption and an assumed rate of return of 6.25%.

Methods and Assumptions Used in Calculation of the Actuarially Determined Net OPEB Liability

The total OPEB Liability was rolled-forward from the valuation date of June 30, 2016 to the plan's fiscal year ending June 30, 2017, using generally accepted actuarial principles. GRS did not conduct the June 30, 2016, actuarial valuation; however, GRS did replicate the prior actuary's (Cavanaugh Macdonald Consulting, LLC) valuation results on the same assumptions, methods, and data, as of that date. The roll-forward is based on the results of that replication.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Methods and Assumptions Used in Calculation of the Actuarially Determined Net OPEB Liability (Continued)

The fully-insured premiums KRS pays for the CERS Plan are blended rates based on the combined experience of active and retired members. Because the average cost of providing health care benefits to retirees under age 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. The liability associated with this implicit subsidy is included in the calculation of the total OPEB liability.

The discount rates used to measure the total OPEB liability as of June 30, 2017 for the CERS Non-Hazardous group is based on the expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.56%, as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of June 30, 2017. Future contributions are projected in accordance with the Board's current funding policy, which includes the requirement that each participating employer in the system contribute the actuarially determined contribution rate, which is determined using a closed funding period (26 years as of June 30, 2017) and the actuarial assumptions and methods adopted by the Board. Current assets, future contributions, and investment earnings are projected to be sufficient to pay the projected benefit payments from the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the system's actuarial determined contributions, and it is GRS' understanding that any cost associated with the implicit subsidy will not be paid out of the system's trust. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan

At June 30, 2017, the City reported a liability of \$100,939 for its proportionate share of the Net OPEB liability.

As indicated above, the allocation of the total 18.68% employer contribution required on each employees creditable compensation was 13.95% pension and 4.73% (OPEB) Health Insurance Fund. The City's total payroll for the fiscal year ended June 30, 2018 was \$134,517. Contributions to the CERS Health Insurance Plan was based on \$125,217 (eligible gross wages). Total employer contributions to the Health Insurance Fund for the year ended June 30, 2018 were \$5,923.

All contributions were made as required.

The City's contribution for the County Employee's Retirement System's (Insurance Plan) for the year ended June 30, 2017 was 0.005021 percent of the System's total contribution requirements for all employers.

The implicit employer subsidy for the non-Medicare eligible retirees for the year ended June 30, 2017 was \$633.

For the year ended June 30, 2018, the City recognized OPEB expense of \$11,433. At June 30, 2018 the City reported deferred outflows of resources and deferred inflows of resources related to CERS OPEB from the following sources:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to the County Employee Retirement System Insurance Plan (Continued)

	June 30, 2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 280
Change in Assumptions	21,964	-
Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	-	234
Net Difference Between Projected and Actual Investment Earnings on OPEB Plan Investments	-	4,770
District Contributions Made Subsequent to the OPEB Liability Measurement Date	6,003	-
Total	\$ 27,967	\$ 5,284

\$6,003 reported as deferred outflows of resources related to OPEB arising from City contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2019. Amounts reported as deferred inflows and outflows of resources due to the net difference between projected and actual investment earnings on OPEB plan investments will be netted and amortized over five years and recognized in OPEB 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 OPEB expense over the expected remaining service lives of all employees. Total amortization to be recognized in OPEB expense is presented below as follows:

Year Ended June 30, 2018:	Increase (Decrease) to OPEB Expense
2019	\$ 2,870
2020	2,870
2021	2,870
2022	2,870
2023	4,063
Thereafter	1,137
	\$ 16,680

Payable to the OPEB Health Insurance Plan

At June 30, 2018, the City reported a payable of \$732 for the outstanding amount of contributions required for the year then ended. This amount represents the employee withholding end employer match for the last month of the year then ended.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.A. COUNTY EMPLOYEES' RETIREMENT SYSTEM – NON-HAZARDOUS EMPLOYEES PENSION PLAN AND POST-EMPLOYMENT HEALTHCARE BENEFIT (INSURANCE) PLAN (Continued)

Sensitivity of the City's Proportionate Share of the Net Other Post Employment Benefit (OPEB) Liability to Changes in the Discount Rate and Healthcare Trend Rate

The following table presents the net other post employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017, calculated using the single discount rates of 5.84% for the year ended June 30, 2017 as well as what CERS' net OPEB liability would be if it were calculated using a single discount rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2017</u>	1% Decrease <u>[4.84%]</u>	Current Discount <u>[5.84%]</u>	1% Increase <u>[6.84%]</u>
Net OPEB Liability	\$ 2,558,048,813	\$ 2,010,342,054	\$ 1,554,563,974
City's Proportionate Share	128,440	100,939	78,055

The following table presents the net other post employment benefit liability of CERS [as reported in its publicly available financial statements for the year ended June 30, 2017, calculated using the healthcare cost trend rate for the year ended June 30, 2017 as well as what CERS' net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the approved rate:

<u>As of June 30, 2017</u>	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB Liability	\$ 1,542,035,808	\$ 2,010,342,054	\$ 2,619,112,629
City's Proportionate Share	77,426	100,939	131,506

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 is in the process of a water main replacement (South Main Street – Ky. 421) and a Phase 1 Sewer System Rehabilitation Project totaling \$890,000. The 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, 2018

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, 2018, is presented as follows:

CONDENSED STATEMENT OF NET POSITION

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Assets:			
Due From Other Funds	\$ 10,700	\$ 10,700	\$ 21,400
Other Current Assets	191,292	116,882	308,174
Other Noncurrent Assets	235,782	217,618	453,400
Capital Assets (Net)	1,084,903	1,657,154	2,742,057
Total Assets	<u>\$ 1,522,677</u>	<u>\$ 2,002,354</u>	<u>\$ 3,525,031</u>
Deferred Outflows of Resources:			
Other Debits	\$ 37,561	\$ 37,561	\$ 75,122
Liabilities:			
Other Current Liabilities	\$ 57,059	\$ 79,882	\$ 136,941
Noncurrent Liabilities	553,262	606,493	1,159,755
Total Liabilities	<u>\$ 610,321</u>	<u>\$ 686,375</u>	<u>\$ 1,296,696</u>
Deferred Inflows of Resources:			
Other Credits	\$ 12,057	\$ 12,057	\$ 24,114
Net Position:			
Net Investment in Capital Assets	\$ 633,189	\$ 1,104,017	\$ 1,737,206
Restricted	214,555	217,618	432,173
Unrestricted	90,116	19,848	109,964
Total Net Position	<u>\$ 937,860</u>	<u>\$ 1,341,483</u>	<u>\$ 2,279,343</u>

CONDENSED STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Operating Revenues	\$ 247,699	\$ 249,588	\$ 497,287
Depreciation Expense	(35,701)	(68,871)	(104,572)
Other Operating Expenses	(202,983)	(172,741)	(375,724)
Operating Income (Loss)	<u>\$ 9,015</u>	<u>\$ 7,976</u>	<u>\$ 16,991</u>
Nonoperating Revenues (Expenses):			
Investment Income	\$ 436	\$ 248	\$ 684
Interest Expense	(14,805)	(15,228)	(30,033)
Capital Contributions	125,314	187,972	313,286
Change in Net Position	<u>\$ 119,960</u>	<u>\$ 180,968</u>	<u>\$ 300,928</u>
Beginning Net Position (As Previously Stated)	\$ 839,727	\$ 1,182,342	\$ 2,022,069
Restatement - GASB 75	(21,827)	(21,827)	(43,654)
Beginning Net Position (As Restated)	<u>\$ 817,900</u>	<u>\$ 1,160,515</u>	<u>\$ 1,978,415</u>
Ending Net Position	<u>\$ 937,860</u>	<u>\$ 1,341,483</u>	<u>\$ 2,279,343</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Net Cash Provided (Used) by:			
Operating Activities	\$ 53,297	\$ 84,468	\$ 137,765
Capital and Related Financing Activities	(14,049)	(46,015)	(60,064)
Investing Activities	436	248	684
Net Increase (Decrease)	<u>\$ 39,684</u>	<u>\$ 38,701</u>	<u>\$ 78,385</u>
Beginning Cash and Cash Equivalents	300,766	237,476	538,242
Ending Cash and Cash Equivalents	<u>\$ 340,450</u>	<u>\$ 276,177</u>	<u>\$ 616,627</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2018

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS

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. Under these statements, the City is required to report in its accrual based financial statement(s), the net other postemployment benefit liability associated with its' employees' benefits as a liability. It is also required to report a deferred outflow of resources for its benefit contributions made subsequent to the measurement date of the beginning net OPEB liability. These balances reflect the government's obligation to pay deferred benefits earned by its employees when the benefit [plan's] liability exceeds the value of the benefit plan's assets.

Retroactive application by restating financial statements for all periods presented is required. The effect of the reinstatement is as follows for the year ended June 30, 2017.

Statement of Net Position:

	Governmental Activities	Business-type Activities
Total Net Position as Originally Presented June 30, 2017	\$ 611,172	\$ 2,022,069
Less Net OPEB Liability	(29,102)	(43,654)
Total Net Position as Restated, June 30, 2017	<u>\$ 582,070</u>	<u>\$ 1,978,415</u>

**The components of Net Position at June 30, 2017
after restatement are as follows:**

	Governmental Activities	Business-type Activities
Net Investment in Capital Assets	\$ 468,347	\$ 1,498,359
Restricted for Debt Service	11,090	375,823
Restricted for Other Purposes	55,486	-
Unrestricted	47,147	104,233
Total Net Position	<u>\$ 582,070</u>	<u>\$ 1,978,415</u>

**CITY OF NEW CASTLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Property Taxes	\$ 70,000	\$ 72,600	\$ 76,253	\$ 3,653
Franchise Taxes	46,000	46,000	50,006	4,006
Insurance Taxes	122,000	130,000	144,159	14,159
Charges for Services	78,700	78,700	80,877	2,177
Occupational Licenses	2,000	-	-	-
Interest Revenue	60	60	128	68
Fire Department	38,950	38,950	37,936	(1,014)
Miscellaneous Revenues	2,500	2,100	2,346	246
Proceeds from Outside Sources:				
State Fire Aid	11,000	11,000	11,000	-
KY Public Safety Program	5,000	5,000	4,414	(586)
Total Revenues	\$ 376,210	\$ 384,410	\$ 407,119	\$ 22,709
<u>EXPENDITURES</u>				
Current				
General Government	\$ 177,931	\$ 172,278	\$ 149,384	\$ 22,894
Public Safety				
Police Department	35,800	44,727	40,851	3,876
Fire Department	66,950	66,950	57,667	9,283
Public Services	78,700	78,700	79,220	(520)
Highways & Streets	55,800	56,100	62,946	(6,846)
Capital Outlay	4,000	4,000	4,000	-
Debt Service				
Principal	10,000	10,000	10,000	-
Interest and Other Charges	2,831	2,831	2,925	(94)
Total Expenditures	\$ 432,012	\$ 435,586	\$ 406,993	\$ 28,593
Net Change in Fund Balance	\$ (55,802)	\$ (51,176)	\$ 126	\$ 51,302
Fund Balances - July 1	154,023	202,107	184,837	(17,270)
Fund Balances - June 30	<u>\$ 98,221</u>	<u>\$ 150,931</u>	<u>\$ 184,963</u>	<u>\$ 34,032</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

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 twice 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, 2018

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
City's proportion of the net pension liability (asset) %	0.005021%	0.005180%	0.005093%	0.005733%
City proportionate share of the net pension liability (asset)	\$ 293,895	\$ 255,021	\$ 218,994	\$ 186,000
City's covered - employee payroll	\$ 122,260	\$ 123,558	\$ 118,836	\$ 139,290
City proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	240.38%	206.40%	184.28%	133.53%
Pension plans (CERS) fiduciary net position as a percentage of the total pension liability	53.3%	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 investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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).

**CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF CITY CONTRIBUTIONS (PENSION)
COUNTY EMPLOYEES RETIREMENT SYSTEM
Year(s) Ending June 30**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually (Employer) Required Contribution	\$ 17,055	\$ 15,346	\$ 15,152
Contributions in Relation to the Contractually Required Contributions	<u>\$ (17,055)</u>	<u>\$ (15,346)</u>	<u>\$ (15,152)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered - Employee Payroll	\$ 122,260	\$ 123,558	\$ 118,836
Contributions as a Percentage of Covered - Employee Payroll	13.95%	12.42%	12.75%

The City's contributions above include only the contributions to the County Employees Retirement System's Pension Fund. GASB 68 requires the City to present the above information for the CERS Pension Fund for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
COUNTY EMPLOYEES RETIREMENT SYSTEM
June 30, 2018

	2017
City's proportion of the net OPEB liability (asset) %	0.005021%
City proportionate share of the net OPEB liability (asset)	\$ 293,895
City's covered - employee payroll	\$ 122,260
City proportionate share of the net OPEB liability (asset) as a percentage of its covered - employee payroll	240.38%
Plan fiduciary net position as a percentage of the total OPEB liability.	52.40%

*Calculation are based on reports of the Kentucky Retirement Systems', County Employees Retirement Systems' Schedule of Employer Allocations and OPEB Amounts by Employer for the fiscal years ended June 30, 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 investment return, price inflation and payroll growth assumptions were adopted by the Board of Trustees in May and July, 2017 for use with the June 30, 2017 valuation.

- The assumed investment rate of return was decreased from 7.50% to 6.25%.
- The assumed rate of inflation was reduced from 3.25% to 2.30%.
- Payroll growth assumption was reduced from 4.0% to 2.0%.
- 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).

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF THE CITY'S CONTRIBUTIONS (OPEB)
COUNTY EMPLOYEES RETIREMENT SYSTEM
Year(s) Ending June 30

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually (Employer) Required Contributions	\$ 5,783	\$ 5,733	\$ 5,846
Contributions in Relation to the Contractually Required Contributions	(5,783)	(5,733)	(5,846)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Covered-Employee Payroll	\$122,260	\$ 123,558	\$ 118,836
Contributions as a Percentage of Covered-Employee Payroll	4.73%	4.64%	4.92%

The City's contributions above include only the contributions to the County Employees Retirement System's Insurance Fund. GASB 75 requires the City to present the above information for the CERS Insurance Fund for 10 years. The information will be expanded annually until a full 10-year trend is compiled.

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF NET POSITION
ALL PROPRIETARY FUND TYPES
June 30, 2018, and 2017

	June 30, 2018		Totals
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	
ASSETS			
Current Assets:			
Cash, including time deposits	\$ 159,668	\$ 84,059	\$ 243,727
Interest Receivable	44	13	57
Accounts Receivable - (Net)	31,580	32,810	64,390
Due from Other Funds	10,700	10,700	21,400
Total Current Assets	<u>\$ 201,992</u>	<u>\$ 127,582</u>	<u>\$ 329,574</u>
Noncurrent Assets:			
Restricted Assets			
Cash, including time deposits	\$ 235,782	\$ 217,618	\$ 453,400
Capital Assets (Net)	1,084,903	1,657,154	2,742,057
Total Noncurrent Assets	<u>\$ 1,320,685</u>	<u>\$ 1,874,772</u>	<u>\$ 3,195,457</u>
Total Assets	<u>\$ 1,522,677</u>	<u>\$ 2,002,354</u>	<u>\$ 3,525,031</u>
DEFERRED OUTFLOWS OF RESOURCES			
Attributable to Employee Pension Plan	\$ 29,171	\$ 29,171	\$ 58,342
Attributable to Employee Benefit Plan	8,390	8,390	16,780
Total Deferred Outflows of Resources	<u>\$ 37,561</u>	<u>\$ 37,561</u>	<u>\$ 75,122</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 8,225	\$ 2,173	\$ 10,398
Retainage Payable	20,340	33,307	53,647
Accrued Compensated Absences	2,395	2,395	4,790
Accrued Taxes / Employee Withholding	799	205	1,004
Note Payable	8,800	13,200	22,000
Accrued Interest	-	102	102
Current Liabilities Payable from Restricted Assets:			
Revenue Bonds Payable	16,500	28,500	45,000
Total Current Liabilities	<u>\$ 57,059</u>	<u>\$ 79,882</u>	<u>\$ 136,941</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ 289,000	\$ 302,519	\$ 591,519
Note Payable	117,074	175,611	292,685
Accrued Compensated Absences	9,912	9,912	19,824
Net Pension Liability	88,169	88,169	176,338
Net OPEB Liability	30,282	30,282	60,564
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	18,825	-	18,825
Total Noncurrent Liabilities	<u>\$ 553,262</u>	<u>\$ 606,493</u>	<u>\$ 1,159,755</u>
Total Liabilities	<u>\$ 610,321</u>	<u>\$ 686,375</u>	<u>\$ 1,296,696</u>
DEFERRED INFLOWS OF RESOURCES			
Attributable to Employee Pension Plan	\$ 10,472	\$ 10,472	\$ 20,944
Attributable to Employee Benefit Plan	1,585	1,585	3,170
Total Deferred Inflows of Resources	<u>\$ 12,057</u>	<u>\$ 12,057</u>	<u>\$ 24,114</u>
NET POSITION			
Net Investment in Capital Assets	\$ 633,189	\$ 1,104,017	\$ 1,737,206
Restricted for:			
Debt Service	214,555	217,618	432,173
Unrestricted	90,116	19,848	109,964
Total Net Position	<u>\$ 937,860</u>	<u>\$ 1,341,483</u>	<u>\$ 2,279,343</u>

6/30/2017 (As Restated)

Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
\$ 149,311	\$ 72,754	\$ 222,065
44	13	57
32,102	30,623	62,725
11,400	11,400	22,800
<u>\$ 192,857</u>	<u>\$ 114,790</u>	<u>\$ 307,647</u>
\$ 206,455	\$ 190,222	\$ 396,677
865,332	1,312,346	2,177,678
<u>\$ 1,071,787</u>	<u>\$ 1,502,568</u>	<u>\$ 2,574,355</u>
<u>\$ 1,264,644</u>	<u>\$ 1,617,358</u>	<u>\$ 2,882,002</u>
\$ 19,123	\$ 19,123	\$ 38,246
-	-	-
<u>\$ 19,123</u>	<u>\$ 19,123</u>	<u>\$ 38,246</u>
\$ 10,775	\$ 2,624	\$ 13,399
-	-	-
2,264	2,264	4,528
855	211	1,066
-	-	-
-	-	-
15,500	27,300	42,800
<u>\$ 29,394</u>	<u>\$ 32,399</u>	<u>\$ 61,793</u>
\$ 305,500	\$ 331,019	\$ 636,519
-	-	-
11,288	11,288	22,576
76,506	76,506	153,012
21,827	21,827	43,654
18,425	-	18,425
<u>\$ 433,546</u>	<u>\$ 440,640</u>	<u>\$ 874,186</u>
<u>\$ 462,940</u>	<u>\$ 473,039</u>	<u>\$ 935,979</u>
\$ 2,927	\$ 2,927	\$ 5,854
-	-	-
<u>\$ 2,927</u>	<u>\$ 2,927</u>	<u>\$ 5,854</u>
\$ 544,332	\$ 954,027	\$ 1,498,359
185,601	190,222	375,823
87,967	16,266	104,233
<u>\$ 817,900</u>	<u>\$ 1,160,515</u>	<u>\$ 1,978,415</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, 2018 and 2017

	Year Ended June 30, 2018			Year Ended June 30, 2017		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals (Memorandum Only)	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals (Memorandum Only)
<u>OPERATING REVENUES</u>						
Water Sales	\$ 240,883	\$ -	\$ 240,883	\$ 242,539	\$ -	\$ 242,539
Sewer Services	-	249,282	249,282	-	245,150	245,150
Miscellaneous	6,816	306	7,122	6,025	1,025	7,050
Total Operating Revenues	<u>\$ 247,699</u>	<u>\$ 249,588</u>	<u>\$ 497,287</u>	<u>\$ 248,564</u>	<u>\$ 246,175</u>	<u>\$ 494,739</u>
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 40,050	\$ 39,813	\$ 79,863	\$ 40,129	\$ 40,304	\$ 80,433
Water and Sewer Supplies	8,354	20,600	28,954	5,850	21,101	26,951
Utilities	930	13,782	14,712	812	13,525	14,337
Payroll Taxes	2,933	2,913	5,846	2,941	2,953	5,894
Retirement Benefits	14,961	14,927	29,888	8,624	8,649	17,273
OPEB Benefits	3,584	3,572	7,156	2,875	2,883	5,758
Vehicle Expenses	2,915	3,090	6,005	3,658	3,658	7,316
Postage and Office Supplies	1,939	2,554	4,493	1,915	2,100	4,015
Insurance	32,176	32,176	64,352	29,724	29,724	59,448
General & Admin. Expenses	10,835	10,780	21,615	10,513	10,933	21,446
Depreciation	35,701	68,871	104,572	35,522	70,221	105,743
Miscellaneous	-	325	325	-	70	70
Water Purchases	80,338	-	80,338	76,870	-	76,870
Repairs and Maintenance	3,968	28,209	32,177	1,725	17,241	18,966
Total Operating Expenses	<u>\$ 238,684</u>	<u>\$ 241,612</u>	<u>\$ 480,296</u>	<u>\$ 221,158</u>	<u>\$ 223,362</u>	<u>\$ 444,520</u>
Operating Income (Loss)	<u>\$ 9,015</u>	<u>\$ 7,976</u>	<u>\$ 16,991</u>	<u>\$ 27,406</u>	<u>\$ 22,813</u>	<u>\$ 50,219</u>
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Revenue	\$ 436	\$ 248	\$ 684	\$ 421	\$ 231	\$ 652
Interest Expense	(14,805)	(15,228)	(30,033)	(15,530)	(16,481)	(32,011)
Total Non-Operating Revenues (Expenses):	<u>\$ (14,369)</u>	<u>\$ (14,980)</u>	<u>\$ (29,349)</u>	<u>\$ (15,109)</u>	<u>\$ (16,250)</u>	<u>\$ (31,359)</u>
Income (Loss) Before Contributions	\$ (5,354)	\$ (7,004)	\$ (12,358)	\$ 12,297	\$ 6,563	\$ 18,860
Capital Contributions	125,314	187,972	313,286	-	-	-
Change in Net Position	<u>\$ 119,960</u>	<u>\$ 180,968</u>	<u>\$ 300,928</u>	<u>\$ 12,297</u>	<u>\$ 6,563</u>	<u>\$ 18,860</u>
Net Position - July 1 (As Previously Stated)	\$ -	\$ -	\$ -	\$ 827,430	\$ 1,175,779	\$ 2,003,209
Restatement - GASB Statement 75	-	-	-	(21,827)	(21,827)	(43,654)
Net Position - July 1 (As Restated)	<u>\$ 817,900</u>	<u>\$ 1,160,515</u>	<u>\$ 1,978,415</u>	<u>\$ 805,603</u>	<u>\$ 1,153,952</u>	<u>\$ 1,959,555</u>
Net Position - June 30	<u>\$ 937,860</u>	<u>\$ 1,341,483</u>	<u>\$ 2,279,343</u>	<u>\$ 817,900</u>	<u>\$ 1,160,515</u>	<u>\$ 1,978,415</u>

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Years Ended June 30, 2018, and 2017

	<u>Year Ended June 30, 2018</u>			<u>Year Ended June 30, 2017</u>		
	<u>Water Utilities</u>	<u>Sewer Utilities</u>	<u>Totals</u>	<u>Water Utilities</u>	<u>Sewer Utilities</u>	<u>Totals</u>
	<u>Enterprise Fund</u>	<u>Enterprise Fund</u>		<u>Enterprise Fund</u>	<u>Enterprise Fund</u>	
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>						
Receipts from Customers	\$ 248,221	\$ 247,401	\$ 495,622	\$ 249,401	\$ 243,594	\$ 492,995
Payments to Suppliers	(153,950)	(121,875)	(275,825)	(143,023)	(114,183)	(257,206)
Payments to Employees	(41,374)	(41,058)	(82,432)	(39,803)	(39,978)	(79,781)
Receipts of Customer Meter Deposits	5,325	-	5,325	5,150	-	5,150
Refunds of Customer Meter Deposits	(4,925)	-	(4,925)	(4,950)	-	(4,950)
Net Cash Provided (Used) by Operating Activities	<u>\$ 53,297</u>	<u>\$ 84,468</u>	<u>\$ 137,765</u>	<u>\$ 66,775</u>	<u>\$ 89,433</u>	<u>\$ 156,208</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</u>						
Purchases of Capital Assets	\$ (234,932)	\$ (380,270)	\$ (615,202)	\$ (28,960)	\$ (14,545)	\$ (43,505)
Principal Paid on Capital Debt	(15,500)	(27,300)	(42,800)	(15,000)	(26,200)	(41,200)
Interest Paid on Capital Debt	(14,805)	(15,228)	(30,033)	(15,530)	(16,481)	(32,011)
Note Proceeds	125,874	188,811	314,685	-	-	-
Capital Contributions	125,314	187,972	313,286	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (14,049)</u>	<u>\$ (46,015)</u>	<u>\$ (60,064)</u>	<u>\$ (59,490)</u>	<u>\$ (57,226)</u>	<u>\$ (116,716)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>						
Interest Received	\$ 436	\$ 248	\$ 684	\$ 421	\$ 234	\$ 655
Net Cash Provided (Used) by Investing Activities	<u>\$ 436</u>	<u>\$ 248</u>	<u>\$ 684</u>	<u>\$ 421</u>	<u>\$ 234</u>	<u>\$ 655</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 39,684</u>	<u>\$ 38,701</u>	<u>\$ 78,385</u>	<u>\$ 7,706</u>	<u>\$ 32,441</u>	<u>\$ 40,147</u>
Balances - July 1	<u>300,766</u>	<u>237,476</u>	<u>538,242</u>	<u>293,060</u>	<u>205,035</u>	<u>498,095</u>
Balances - June 30	<u><u>\$ 340,450</u></u>	<u><u>\$ 276,177</u></u>	<u><u>\$ 616,627</u></u>	<u><u>\$ 300,766</u></u>	<u><u>\$ 237,476</u></u>	<u><u>\$ 538,242</u></u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</u>						
Operating Income (Loss)	\$ 9,015	\$ 7,976	\$ 16,991	\$ 27,406	\$ 22,813	\$ 50,219
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	35,701	68,871	104,572	35,522	70,221	105,743
Pension Expense	9,160	9,160	18,320	3,831	3,831	7,662
OPEB Expense	1,650	1,650	3,300	-	-	-
Change in Assets and Liabilities:						
Receivables, Net	522	(2,187)	(1,665)	837	(2,581)	(1,744)
Accounts Payable	(2,550)	(451)	(3,001)	(298)	(6,100)	(6,398)
Due from Other Funds	700	700	1,400	(1,100)	900	(200)
Customer Meter Deposits Payable	400	-	400	200	-	200
Accrued Compensated Absences	(1,245)	(1,245)	(2,490)	326	326	652
Accrued Taxes/Employee Withholding	(56)	(6)	(62)	51	23	74
Net Cash Provided by Operating Activities	<u>\$ 53,297</u>	<u>\$ 84,468</u>	<u>\$ 137,765</u>	<u>\$ 66,775</u>	<u>\$ 89,433</u>	<u>\$ 156,208</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2018, the Waterworks Enterprise Fund had \$20,340 outstanding obligations and the Sewer Utilities Enterprise Fund had \$33,307 outstanding obligations for the acquisition/construction of plant assets. At June 30, 2017 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, 2018
BUDGET AND ACTUAL
ALL PROPRIETARY FUND TYPES

	<u>Water Utilities</u>			<u>Sewer Utilities</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
<u>OPERATING REVENUES</u>						
Water Sales	\$ 260,900	\$ 240,883	\$ (20,017)	\$ -	\$ -	\$ -
Sewer Services	-	-	-	250,000	249,282	(718)
Miscellaneous	3,000	6,816	3,816	3,700	306	(3,394)
Total Operating Revenues	<u>\$ 263,900</u>	<u>\$ 247,699</u>	<u>\$ (16,201)</u>	<u>\$ 253,700</u>	<u>\$ 249,588</u>	<u>\$ (4,112)</u>
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 41,500	\$ 40,050	\$ 1,450	\$ 41,500	\$ 39,813	\$ 1,687
Water and Sewer Supplies	8,500	8,354	146	25,000	20,600	4,400
Utilities	1,000	930	70	17,200	13,782	3,418
Payroll Taxes	5,500	2,933	2,567	5,500	2,913	2,587
Retirement Benefits	5,500	14,961	(9,461)	5,500	14,927	(9,427)
OPEB Benefits	-	3,584	(3,584)	-	3,572	(3,572)
Vehicle Expenses	3,500	2,915	585	3,500	3,090	410
Postage and Office Supplies	2,000	1,939	61	2,400	2,554	(154)
Insurance	32,000	32,176	(176)	32,000	32,176	(176)
General & Admin. Expenses	12,650	10,835	1,815	13,750	10,780	2,970
Depreciation	26,180	35,701	(9,521)	48,820	68,871	(20,051)
Miscellaneous	-	-	-	100	325	(225)
Water Purchases	90,000	80,338	9,662	-	-	-
Repairs and Maintenance	4,200	3,968	232	34,900	28,209	6,691
Total Operating Expenses	<u>\$ 232,530</u>	<u>\$ 238,684</u>	<u>\$ (6,154)</u>	<u>\$ 230,170</u>	<u>\$ 241,612</u>	<u>\$ (11,442)</u>
Operating Income (Loss)	<u>\$ 31,370</u>	<u>\$ 9,015</u>	<u>\$ (22,355)</u>	<u>\$ 23,530</u>	<u>\$ 7,976</u>	<u>\$ (15,554)</u>
<u>NON-OPERATING REVENUES (EXPENSES):</u>						
Interest Revenue	\$ 400	\$ 436	\$ 36	\$ 200	\$ 248	\$ 48
Interest Expense	(14,805)	(14,805)	-	(15,231)	(15,228)	3
Total Non-Operating Revenues (Expenses):	<u>\$ (14,405)</u>	<u>\$ (14,369)</u>	<u>\$ 36</u>	<u>\$ (15,031)</u>	<u>\$ (14,980)</u>	<u>\$ 51</u>
Income (Loss) Before Contributions	\$ 16,965	\$ (5,354)	\$ (22,319)	\$ 8,499	\$ (7,004)	\$ (15,503)
Capital Contributions	216,443	125,314	(91,129)	222,500	187,972	(34,528)
Change in Net Position	<u>\$ 233,408</u>	<u>\$ 119,960</u>	<u>\$ (113,448)</u>	<u>\$ 230,999</u>	<u>\$ 180,968</u>	<u>\$ (50,031)</u>
Net Position - July 1 (As Previously Stated)	\$ 313,191	\$ 839,727	\$ 526,536	\$ 281,921	\$ 1,182,342	\$ 900,421
Restatement - GASB Statement 75	-	(21,827)	(21,827)	-	(21,827)	(21,827)
Net Position - July 1 (As Restated)	<u>\$ 313,191</u>	<u>\$ 817,900</u>	<u>\$ 504,709</u>	<u>\$ 281,921</u>	<u>\$ 1,160,515</u>	<u>\$ 878,594</u>
Net Position - June 30	<u>\$ 546,599</u>	<u>\$ 937,860</u>	<u>\$ 391,261</u>	<u>\$ 512,920</u>	<u>\$ 1,341,483</u>	<u>\$ 828,563</u>

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, 2018, 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 September 21, 2018.

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 as Items 2018-001 and 2018-002 that we consider to be material weaknesses.

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 is 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 results 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

September 21, 2018

**CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2018**

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 2018-001 and 2018-002 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

2018-001 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, 2017 as item 2017-001.

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.

2018-002 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, 2017 as item 2017-002.

**CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
For the Year Ended June 30, 2018**

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

2018-002 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