

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

Year Ended June 30, 2012

CITY OF NEW CASTLE, KENTUCKY
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June 30, 2012

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Castle, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of New Castle, Kentucky's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of New Castle, Kentucky, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 31, 2012, on our consideration of the City of New Castle, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 39 and 40 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

August 31, 2012

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET ASSETS
June 30, 2012

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Current Assets:			
Cash, including time deposits	\$ 323,849	\$ 193,097	\$ 516,946
Interest Receivable	-	227	227
Accounts Receivable (Net)	31,816	54,155	85,971
Due from Other Governments	2,131	-	2,131
Due from Other Funds	(49,300)	49,300	-
Prepaid Expenses	4,349	-	4,349
Total Current Assets	\$ 312,845	\$ 296,779	\$ 609,624
Noncurrent Assets:			
Restricted Assets			
Cash	\$ 1,592	\$ 272,997	\$ 274,589
Capital Assets (Net)	440,735	2,507,999	2,948,734
Total Noncurrent Assets	\$ 442,327	\$ 2,780,996	\$ 3,223,323
Total Assets	\$ 755,172	\$ 3,077,775	\$ 3,832,947
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	\$ 14,109	\$ 11,568	\$ 25,677
Accrued Compensated Absences	8,209	24,122	32,331
Accrued Taxes/Employee Withholding	6,002	857	6,859
Current Liabilities Payable from Restricted Assets:			
Current Portion - Long-term Debt	-	34,100	34,100
Total Current Liabilities	\$ 28,320	\$ 70,647	\$ 98,967
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ -	\$ 832,119	\$ 832,119
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	-	14,125	14,125
Total Noncurrent Liabilities	\$ -	\$ 846,244	\$ 846,244
Total Liabilities	\$ 28,320	\$ 916,891	\$ 945,211
<u>NET ASSETS</u>			
Invested in Capital Assets, Net of Related Debt	\$ 440,735	\$ 1,641,780	\$ 2,082,515
Restricted for:			
Debt Service	-	255,922	255,922
Other Purposes	69,799	-	69,799
Unrestricted	216,318	263,182	479,500
Total Net Assets	\$ 726,852	\$ 2,160,884	\$ 2,887,736

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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

		Program Revenues		
		Charges For	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions / Programs				
Governmental Activities:				
General Government	\$ 120,154	\$ 19,594	\$ -	\$ -
Public Safety				
Police Department	22,000	-	-	-
Fire Department	62,024	36,895	8,250	-
Public Services	69,474	70,652	-	-
Highways & Streets	56,047	-	21,656	-
Total Governmental Activities	\$ 329,699	\$ 127,141	\$ 29,906	\$ -
Business-type Activities				
Water	\$ 219,555	\$ 207,523	\$ -	\$ -
Sewer	242,689	219,932	-	-
Total Business-type Activities	\$ 462,244	\$ 427,455	\$ -	\$ -
Total Government	\$ 791,943	\$ 554,596	\$ 29,906	\$ -
General Revenues:				
Taxes:				
Property Taxes				
Franchise Taxes				
Insurance Taxes				
Unrestricted Investment Income				
Miscellaneous				
Total General Revenues				
Change in Net Assets				
Net Assets - July 1				
Net Assets - June 30				

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

Governmental Activities	Business-type Activities	Total
\$ (100,560)	\$ -	\$ (100,560)
(22,000)	-	(22,000)
(16,879)	-	(16,879)
1,178	-	1,178
(34,391)	-	(34,391)
<u>\$ (172,652)</u>	<u>\$ -</u>	<u>\$ (172,652)</u>
\$ -	\$ (12,032)	\$ (12,032)
-	(22,757)	(22,757)
<u>\$ -</u>	<u>\$ (34,789)</u>	<u>\$ (34,789)</u>
<u>\$ (172,652)</u>	<u>\$ (34,789)</u>	<u>\$ (207,441)</u>
\$ 66,371	\$ -	\$ 66,371
38,036	-	38,036
127,024	-	127,024
513	2,076	2,589
2,141	9,703	11,844
<u>\$ 234,085</u>	<u>\$ 11,779</u>	<u>\$ 245,864</u>
\$ 61,433	\$ (23,010)	\$ 38,423
665,419	2,183,894	2,849,313
<u>\$ 726,852</u>	<u>\$ 2,160,884</u>	<u>\$ 2,887,736</u>

CITY OF NEW CASTLE, KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

ASSETS	General Fund	Other Governmental Funds	Total Governmental Funds
Cash, including time deposits	\$ 256,021	\$ 67,828	\$ 323,849
Cash, restricted	1,592	-	1,592
Accounts Receivable: (net of allowance for uncollectibles)			
Insurance Licenses	21,572	-	21,572
Property Taxes	776	-	776
Garbage	6,265	-	6,265
Franchise Fees	3,203	-	3,203
Due from Other Governments	160	1,971	2,131
Prepaid Expenses	4,349	-	4,349
Total Assets	\$ 293,938	\$ 69,799	\$ 363,737
LIABILITIES			
Accounts Payable	\$ 14,109	\$ -	\$ 14,109
Due to Other Funds	49,300	-	49,300
Accrued Compensated Absences	370	-	370
Accrued Taxes / Employee Withholding	6,002	-	6,002
Total Liabilities	\$ 69,781	\$ -	\$ 69,781
FUND BALANCES			
Nonspendable	\$ 4,349	\$ -	\$ 4,349
Restricted for:			
Special Revenue Funds	-	69,799	69,799
Assigned to:			
Downtown Revitalization	1,592	-	1,592
Unassigned	218,216	-	218,216
Total Fund Balances	\$ 224,157	\$ 69,799	\$ 293,956
 Total Liabilities and Fund Balances	 \$ 293,938	 \$ 69,799	 \$ 363,737

CITY OF NEW CASTLE, KENTUCKY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012

Total Governmental Fund Balances	\$ 293,956
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$782,097	440,735
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Long term liabilities are not due and payable in the current period and therefore not reported in the funds:

Accrued compensated absences	<u>(7,839)</u>
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Net Assets of Governmental Activities	<u><u>\$ 726,852</u></u>
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CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>REVENUES</u>			
Property Taxes	\$ 66,371	\$ -	\$ 66,371
Franchise Taxes	38,036	-	38,036
Insurance Taxes	127,024	-	127,024
Charges for Services	70,652	-	70,652
Occupational Licenses	2,690	-	2,690
Interest Revenue	287	226	513
Donations	2,004	-	2,004
Rental Revenue	14,900	-	14,900
Fire Department	36,895	-	36,895
Miscellaneous Revenues	2,141	-	2,141
Proceeds from Outside Sources:			
State Fire Aid	8,250	-	8,250
Municipal Road Aid	-	21,656	21,656
	<hr/>	<hr/>	<hr/>
Total Revenues	\$ 369,250	\$ 21,882	\$ 391,132
<u>EXPENDITURES</u>			
Current			
General Government	\$ 112,485	\$ -	\$ 112,485
Public Safety			
Police Department	22,000	-	22,000
Fire Department	37,860	-	37,860
Public Services	69,474	-	69,474
Highways and Streets	24,826	19,970	44,796
Capital Outlay	23,500	-	23,500
Debt Service			
Principal	18,729	-	18,729
Interest	979	-	979
	<hr/>	<hr/>	<hr/>
Total Expenditures	\$ 309,853	\$ 19,970	\$ 329,823
Excess of Revenues Over (Under) Expenditures	\$ 59,397	\$ 1,912	\$ 61,309
Fund Balances - July 1	<hr/> 164,760	<hr/> 67,887	<hr/> 232,647
Fund Balances - June 30	<hr/> <hr/> \$ 224,157	<hr/> <hr/> \$ 69,799	<hr/> <hr/> \$ 293,956

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, 2012

Net Changes in Fund Balances - Total Governmental Funds \$ 61,309

*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 23,500

Depreciation Expense (41,842)

Some expenses reported in the Statement of Activities,
such as compensated absences, do not require the use
of current financial resources and therefore are not
reported as expenditures in governmental funds. (695)

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. 432

Repayment of note principal is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
Statement of Net Assets. 18,729

Change in Net Assets of Governmental Activities \$ 61,433

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

**Water/Sewer
Utilities
Enterprise Fund**

ASSETS

Current Assets:

Cash, including time deposits	\$ 193,097
Interest Receivable	227
Accounts Receivable (Net)	54,155
Due from Other Funds	49,300

Total Current Assets	\$ 296,779
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Noncurrent Assets:

Restricted Assets	
Cash, including time deposits	\$ 272,997
Capital Assets (Net)	2,507,999

Total Noncurrent Assets	\$ 2,780,996
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Total Assets	\$ 3,077,775
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LIABILITIES

Current Liabilities:

Accounts Payable	\$ 11,568
Accrued Compensated Absences	24,122
Accrued Taxes / Employee Withholding	857
Current Liabilities Payable from Restricted Assets:	
Revenue Bonds Payable	34,100

Total Current Liabilities	\$ 70,647
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Noncurrent Liabilities:

Revenue Bonds Payable	\$ 832,119
Noncurrent Liabilities Payable from Restricted Assets:	
Customer Deposits Payable	14,125

Total Noncurrent Liabilities	\$ 846,244
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Total Liabilities	\$ 916,891
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	\$ 1,641,780
Restricted for:	
Debt Service	255,922
Unrestricted	263,182
Total Net Assets	\$ 2,160,884

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	<u>Water/Sewer Utilities Enterprise Fund</u>
OPERATING REVENUES	
Water Sales	\$ 207,523
Sewer Services	219,932
Miscellaneous	<u>9,703</u>
Total Operating Revenues	<u>\$ 437,158</u>
OPERATING EXPENSES	
Salaries and Wages	\$ 85,562
Water and Sewer Supplies	15,995
Utilities	13,108
Rent	12,000
Payroll Taxes	6,540
Retirement Benefits	16,549
Vehicle Expenses	6,824
Postage and Office Supplies	4,040
Insurance	52,053
General & Admin. Expenses	24,052
Depreciation	98,012
Miscellaneous	1,686
Water Purchases	58,488
Repairs and Maintenance	<u>26,835</u>
Total Operating Expenses	<u>\$ 421,744</u>
Operating Income (Loss)	<u>\$ 15,414</u>
NON-OPERATING REVENUES (EXPENSES)	
Interest Revenue	\$ 2,076
Interest Expense	<u>(40,500)</u>
Total Non-Operating Revenues (Expenses):	<u>\$ (38,424)</u>
Net Income (Loss)	\$ (23,010)
Net Assets - July 1	<u>2,183,894</u>
Net Assets - June 30	<u><u>\$ 2,160,884</u></u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

	Water/Sewer Utilities Enterprise Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>	
Receipts from Customers	\$ 435,880
Payments to Suppliers	(235,514)
Payments to Employees	(81,372)
Receipts of Customer Meter Deposits	6,075
Refunds of Customer Meter Deposits	(5,450)
Net Cash Provided (Used) by Operating Activities	<u>\$ 119,619</u>

**CASH FLOWS FROM CAPITAL AND
RELATED FINANCING ACTIVITIES**

Purchase of Capital Assets	\$ (15,750)
Principal Paid on Capital Debt	(31,400)
Interest Paid on Capital Debt	(40,500)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (87,650)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest Received	
Net Cash Provided (Used) by Investing Activities	<u>\$ 2,146</u>

Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 34,115</u>
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Balances - July 1	<u>321,479</u>
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Balances - June 30	<u><u>\$ 355,594</u></u>
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	Balances Per June 30, 2012 Statement of Net Assets	Balances Per June 30, 2012 Statement of Cash Flows
Cash-Unrestricted	\$ 82,597	\$ 82,597
Time Deposits-Unrestricted	110,500	-
Cash-Restricted	272,997	272,997
Total	<u><u>\$ 466,094</u></u>	<u><u>\$ 355,594</u></u>

CITY OF NEW CASTLE, KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2012

**Water/Sewer
Utilities
Enterprise Fund**

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

Operating Income (Loss)	\$ 15,414
Adjustments to Reconcile Operating Income to Net Cash	
Provided (Used) by Operating Activities:	
Depreciation Expense	98,012
Change in Assets and Liabilities:	
Receivables, Net	(1,278)
Accounts Payable	(451)
Due From Other Funds	3,103
Customer Meter Deposits	625
Accrued Compensated Absences	4,190
Accrued Taxes/Employee Withholding	4
Net Cash Provided by Operating Activities	<u>\$ 119,619</u>

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2012, the Water/Sewer Utilities Enterprise Fund had no outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS

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- H. Fund Equity**

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CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1.A. FINANCIAL REPORTING ENTITY

The City's financial reporting entity comprises the following:

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

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

Blended Component Units

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

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

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

1.B. BASIS OF PRESENTATION

Government-wide Financial Statements:

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.B. BASIS OF PRESENTATION (Continued)

Government-wide Financial Statements: (Continued)

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

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

Fund Financial Statements:

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

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

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Basis of Accounting

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

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

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

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

1.D. ASSETS, LIABILITIES, AND EQUITY

Cash and Investments

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Receivables and Payables

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

Receivables

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

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

Inventories

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

Fixed Assets

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

Government-wide Statements

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

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Fixed Assets (Continued)

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

Fund Financial Statements

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

Restricted Assets

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

Long-term Debt

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

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

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

Compensated Absences

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

Equity Classifications

Government-wide Statements

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Equity Classifications (Continued)

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

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

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

Proprietary fund equity is classified the same as in the government-wide statements.

1.E. REVENUES, EXPENDITURES, AND EXPENSES

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Property Tax

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

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

Insurance License Tax

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

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

Operating Revenues and Expenses

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

Expenditures/Expenses

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

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

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

Proprietary Fund-By Operating and Nonoperating

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

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Interfund Transfers

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

2.A. FUND ACCOUNTING REQUIREMENTS

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

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

2.B. DEPOSITS AND INVESTMENTS, LAWS AND REGULATIONS

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

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

2.C. REVENUE RESTRICTIONS

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

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Municipal Road Aid	Street & Alley Purposes
Water and Sewer Revenue	Debt Service and Utility Operations
State Fire Aid	Fire Equipment Expenditures

For the year ended June 30, 2012, the City complied, in all material respects, with these revenue restrictions.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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, 2012

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

2.D. DEBT RESTRICTIONS AND COVENANTS (Continued)

- (ii) Beginning in July 1986, a sum equal to one-twelfth (1/12) of the principal of all Bonds maturing on the next succeeding July 1.

Utilities Revenue Bond & Interest Sinking Account of 2002

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

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

Utilities Revenue Bond & Interest Sinking Account of 2006

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

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

Utilities Revenue Bond & Interest Sinking Account of 2009

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

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

Transfers were made as required during the year.

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

NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. CASH AND INVESTMENTS

City of New Castle's policies regarding deposits and investments are discussed in Note 2B. The table presented below is designed to disclose the level of custody credit risk assumed by the City based upon how its deposits were insured or secured with collateral at June 30, 2012. The categories of credit risk are defined as follows:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.A. CASH AND INVESTMENTS (Continued)

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

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

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

Type of Deposits	Total Bank Balance	Custody Credit Risk Category			Total Carrying Value
		1	2	3	
Demand Deposits	\$ 732,746	\$ 441,693	\$ 291,053	\$ -	\$ 680,615
Time Deposits	110,500	-	110,500	-	110,500
Total Deposits	<u>\$ 843,246</u>	<u>\$ 441,693</u>	<u>\$ 401,553</u>	<u>\$ -</u>	<u>\$ 791,115</u>

Reconciliation to Statement of Net Assets:

Unrestricted Cash, Including Time Deposits	\$ 516,946
Restricted Cash	274,589
	<u>\$ 791,535</u>
Carrying Value (Above)	\$ 791,115
Plus Cash on Hand	420
	<u>\$ 791,535</u>

3.B. RESTRICTED ASSETS

Restricted cash consists of the following:

	Governmental Activities	Business-type Activities	Total
Downtown Revitalization	\$ 1,592	\$ -	\$ 1,592
Bond and Interest Sinking Account of 1983	-	32,886	32,886
Bond and Interest Sinking Account of 1985	-	54,757	54,757
Bond and Interest Sinking Account of 2002	-	15,242	15,242
Bond and Interest Sinking Account of 2006	-	26,968	26,968
Bond and Interest Sinking Account of 2009	-	10,191	10,191
Short Lived Assets Account	-	15,256	15,256
Depreciation Fund	-	100,623	100,623
Customer Deposits	-	17,074	17,074
	<u>\$ 1,592</u>	<u>\$ 272,997</u>	<u>\$ 274,589</u>

3.C. ACCOUNTS RECEIVABLE

Accounts receivable of the business-type activities consist of utilities receivable. Accounts receivable of the governmental activities consist of franchise tax (10%), insurance licenses (68%), property tax (2%), business licenses and other (20%) receivables. Receivables detail at June 30, 2012, is as follows:

	Governmental Activities	Business-type Activities	Total
Accounts receivable	\$ 38,359	\$ 59,059	\$ 97,418
Allowance for doubtful accounts	(6,543)	(4,904)	(11,447)
Net accounts receivable	<u>\$ 31,816</u>	<u>\$ 54,155</u>	<u>\$ 85,971</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.D. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2012, was as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
Governmental Activities:				
Land	\$ 40,500	\$ -	\$ -	\$ 40,500
Buildings & Improvements	330,905	-	-	330,905
Machinery & Equipment	606,171	-	-	606,171
Infrastructure	221,756	23,500	-	245,256
Totals at Historical Cost	\$ 1,199,332	\$ 23,500	\$ -	\$ 1,222,832
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 49,543	\$ 7,965	\$ -	\$ 57,508
Machinery & Equipment	510,234	25,646	-	535,880
Infrastructure	180,478	8,231	-	188,709
Total Accumulated Depreciation	\$ 740,255	\$ 41,842	\$ -	\$ 782,097
 Governmental Activities - Capital Assets, Net	<u>\$ 459,077</u>	<u>\$ (18,342)</u>	<u>\$ -</u>	<u>\$ 440,735</u>

Depreciation Expense was charged to governmental activities as follows:

General Government	\$ 6,974
Public Safety	
Fire Department	23,617
Highways & Streets	3,901
Infrastructure	7,350
Total Depreciation Expense	<u>\$ 41,842</u>

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
Business-type Activities:				
Land & Right of Ways	\$ 33,150	\$ -	\$ -	\$ 33,150
Buildings & Improvements	69,716	-	-	69,716
Distribution System	3,759,527	15,750	-	3,775,277
Machinery & Equipment	229,314	-	-	229,314
Totals at Historical Cost	\$ 4,091,707	\$ 15,750	\$ -	\$ 4,107,457
 Less: Accumulated Depreciation				
Buildings & Improvements	\$ 51,257	\$ 1,180	\$ -	\$ 52,437
Distribution System	1,306,273	82,454	-	1,388,727
Machinery & Equipment	143,916	14,378	-	158,294
Total Accumulated Depreciaton	\$ 1,501,446	\$ 98,012	\$ -	\$ 1,599,458
 Business-type capital assets, net	<u>\$ 2,590,261</u>	<u>\$ (82,262)</u>	<u>\$ -</u>	<u>\$ 2,507,999</u>

Depreciation Expense was charged to the business activities as follows:

Water	\$ 33,463
Sewer	64,549
Total Depreciation Expense	<u>\$ 98,012</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.E. LONG-TERM DEBT

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

Governmental-type Activities:

As of June 30, 2012, the governmental long-term debt of the financial reporting entity consisted of the following:

None

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.

	\$ 116,000
Current Portion	\$ 8,000
Noncurrent Portion	108,000
Total Bonds Payable	\$ 116,000

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

	\$ 255,719
Current Portion	\$ 18,000
Noncurrent Portion	237,719
Total Bonds Payable	\$ 255,719

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.

	\$ 272,500
Current Portion	\$ 4,500
Noncurrent Portion	268,000
Total Bonds Payable	\$ 272,500

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.

	\$ 136,200
Current Portion	\$ 2,100
Noncurrent Portion	134,100
Total Bonds Payable	\$ 136,200

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.E. LONG-TERM DEBT (Continued)

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

	\$ 85,800
Current Portion	\$ 1,500
Noncurrent Portion	84,300
Total Bonds Payable	\$ 85,800

Changes in Long-term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2012:

<u>Type of Debt</u>	<u>Balance July 1, 2011</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance June 30, 2012</u>	<u>Current Portion</u>
Governmental Activities					
Note Payable	\$ 18,729	\$ -	\$ 18,729	\$ -	\$ -
Business-type Activities					
Bonds Payable	\$ 897,619	\$ -	\$ 31,400	\$ 866,219	\$ 34,100
Total Debt	\$ 916,348	\$ -	\$ 50,129	\$ 866,219	\$ 34,100

Governmental Activities

Note Payable

The City paid off a five year note payable with United Citizens Bank for fire equipment during the fiscal year ending June 30, 2012.

Business Activities

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

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

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$230,000	\$116,000	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.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2012, 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>
				\$ 116,000
2013	\$ 8,000	\$ 5,800	\$ 13,800	108,000
2014	8,000	5,400	13,400	100,000
2015	9,000	5,000	14,000	91,000
2016	9,000	4,550	13,550	82,000
2017	10,000	4,100	14,100	72,000
2018-22	56,000	12,650	68,650	16,000
2023	16,000	800	16,800	-
	<u>\$ 116,000</u>	<u>\$ 38,300</u>	<u>\$ 154,300</u>	<u>\$ -</u>

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

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

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$568,000	\$255,719	5%

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

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

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2012, 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>
				\$ 255,719
2013	\$ 18,000	\$ 12,786	\$ 30,786	237,719
2014	19,000	11,886	30,886	218,719
2015	20,000	10,936	30,936	198,719
2016	21,000	9,936	30,936	177,719
2017	22,000	8,886	30,886	155,719
2018-22	126,000	26,930	152,930	29,719
2023-24	29,719	1,522	31,241	-
	<u>\$ 255,719</u>	<u>\$ 82,882</u>	<u>\$ 338,601</u>	<u>\$ -</u>

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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	\$272,500	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, 2012, 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>
				\$ 272,500
2013	\$ 4,500	\$ 12,263	\$ 16,763	268,000
2014	4,500	12,060	16,560	263,500
2015	4,500	11,858	16,358	259,000
2016	5,000	11,655	16,655	254,000
2017	5,000	11,430	16,430	249,000
2018-22	29,500	53,483	82,983	219,500
2023-27	37,500	46,149	83,649	182,000
2028-32	47,500	37,201	84,701	134,500
2033-37	60,000	25,089	85,089	74,500
2038-42	74,500	10,329	84,829	-
	<u>\$ 272,500</u>	<u>\$ 231,517</u>	<u>\$ 504,017</u>	<u>\$ -</u>

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

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

<u>Original Amount</u>	<u>Outstanding Balance</u>	<u>Interest Rate</u>
\$147,000	\$136,200	4.25%

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

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, 2012, 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
				\$
2013	\$ 2,100	\$ 5,789	\$ 7,889	136,200
2014	2,200	5,700	7,900	134,100
2015	2,300	5,606	7,906	131,900
2016	2,400	5,508	7,908	129,600
2017	2,500	5,406	7,906	127,200
2018-22	14,000	25,354	39,354	124,700
2023-27	17,200	22,118	39,318	110,700
2028-32	21,200	18,141	39,341	93,500
2033-37	26,100	13,241	39,341	72,300
2038-42	32,200	7,198	39,398	46,200
2043-44	14,000	880	14,880	14,000
	<u>\$ 136,200</u>	<u>\$ 114,941</u>	<u>\$ 251,141</u>	<u>\$ -</u>

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

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

Original Amount	Outstanding Balance	Interest Rate
\$90,000	\$85,800	2.75%

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

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

Assuming no issues are called prior to scheduled maturity, the minimum obligations of the funds at June 30, 2012, for debt service (principal and interest) are as follows:

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.E. LONG-TERM DEBT (Continued)

Business Activities (Continued)

Fiscal Year	Bond Due	Interest Due	Total Retirement for Year	Bond Outstanding At End of Year
				\$ 85,800
2013	\$ 1,500	\$ 2,360	\$ 3,860	84,300
2014	1,500	2,319	3,819	82,800
2015	1,600	2,277	3,877	81,200
2016	1,600	2,233	3,833	79,600
2017	1,700	2,189	3,889	77,900
2018-22	9,100	10,227	19,327	68,800
2023-27	10,400	8,903	19,303	58,400
2028-32	11,800	7,403	19,203	46,600
2033-37	13,600	5,684	19,284	33,000
2038-42	15,500	3,714	19,214	17,500
2043-47	17,500	1,446	18,946	-
	<u>\$ 85,800</u>	<u>\$ 48,755</u>	<u>\$ 134,555</u>	<u>\$ -</u>

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

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest for long-term debt as of June 30, 2012, are as follows:

Fiscal Year	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ -	\$ -	\$ 34,100	\$ 38,998
2014	-	-	35,200	37,365
2015	-	-	37,400	35,677
2016	-	-	39,000	33,882
2017	-	-	41,200	32,011
2018-22	-	-	234,600	128,644
2023-27	-	-	110,819	79,492
2028-32	-	-	80,500	62,745
2033-37	-	-	99,700	44,014
2038-42	-	-	122,200	21,241
2043-47	-	-	31,500	2,326
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 866,219</u>	<u>\$ 516,395</u>

3.F. INTEREST EXPENSE

Interest expense for the governmental funds for the year ended June 30, 2012 was \$979. Interest expense for the enterprise fund for the year ended June 30, 2012, was \$40,500. No interest has been capitalized.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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

3.G. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2012, consisted of the following individual fund receivables and payables:

Receivable Fund	Payable Fund	Amount	Purpose
Enterprise Fund	General Fund	\$ 49,300	Advances for operating expenditures
Total		<u>\$ 49,300</u>	

3.H. FUND EQUITY

Restricted Net Assets

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

Governmental Activities (other purposes)

Activity	Restricted by	
Municipal Road Aid	State Law	\$ 69,799
		<u>\$ 69,799</u>

Business-type Activities

Enterprise Fund:

Restricted for Debt Service:

1983 Water Utilities Revenue Bonds-Cash	\$ 74,992
1985 Sewer Utilities Revenue Bonds-Cash	90,374
2002 Water Utilities Revenue Bonds-Cash	31,001
2006 Sewer Utilities Revenue Bonds-Cash	32,749
2009 Sewer Utilities Revenue Bonds-Cash	26,806
Total Restricted For Debt Service	<u>\$ 255,922</u>

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

The City has reported the following nonspendable amount of the general fund's fund balance at June 30, 2012, to indicate the lack of liquidity associated with the following assets:

General Fund:

Prepaid Insurance	<u>\$ 4,349</u>
-------------------	-----------------

The City has reported the following restricted portion of the other governmental fund's fund balance at June 30, 2012, to indicate the amounts restricted as to use by statute:

Other Governmental Funds

Municipal Road Aid	<u>\$ 69,799</u>
--------------------	------------------

The City has reported \$1,592 of the General Fund as assigned at June 30, 2012, indicating amounts intended for use in downtown revitalization.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES

4.A. PENSION PLAN

Entry into the Commonwealth of Kentucky's County Employees' Retirement System (CERS) was authorized by the City Commission as of July 1, 1988. The most recent financial report on CERS is included in the Kentucky Retirement System's annual report, June 30, 2011. Copies of this report will be distributed to each participating employer in the Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System. Copies will also be available to Legislative personnel and state libraries. Information regarding total payroll for employees covered by the system for the year ended June 30, 2012, is not available.

Non-Hazardous Employees Pension Plan

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

Contributions - For the year ended June 30, 2011, plan members were required to contribute 5% of their annual creditable compensation. Participating employers were required to contribute at an actuarially determined rate. Per Kentucky Revised Statute Section 61.565 (3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last preceding the July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% of each employee's creditable compensation. The actuarially determined rate set by the Board for the year ended June 30, 2011 was 16.93%. Administrative costs of the Kentucky Retirement System are financed through employer contributions and investment earnings.

In accordance with House Bill 1, signed by the Governor on June 27, 2008, plan members who began participating on, or after, September 1, 2008, were required to contribute a total of 6% of their annual creditable compensation. Five percent of the contribution was deposited to the member's account while the 1% was deposited to an account created under 26 USC Section 401(h) in the Pension Fund (see Kentucky Administrative Regulation 105 KAR 1:420E). Interest is paid each June 30 on members' accounts at a rate of 2.5%. If a member terminates employment and applies to take a refund, the member is entitled to a full refund of contributions and interest; however, the 1% contribution to the 401(h) account is non-refundable and is forfeited. For plan members who began participating prior to September 1, 2008, their contributions remain at 5% of their annual creditable compensation.

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES (Continued)

4.A. PENSION PLAN (Continued)

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

	Annual Required Contributions	Actual Contributions	Retiree Drug Subsidy Contributions	Percentage Contributed
June 30, 2011	432,414,052	435,404,150	-	100.7%
June 30, 2010	453,055,709	373,682,939	9,156,991	84.5%
June 30, 2009	425,830,683	303,046,162	7,623,628	73.0%

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

The City's General Fund total payroll for the fiscal year ended June 30, 2012, was \$33,483. Contributions were based on \$31,383 (eligible gross wages). The total pension expense for the year ended June 30, 2012, was \$6,018 and \$1,569 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's Proprietary Fund total payroll for the fiscal year ended June 30, 2012, was \$86,702. Contributions were based on \$82,502 (eligible gross wages). The total pension expense for the fiscal year ended June 30, 2012, was \$15,643 and \$4,126 for the employer and employees, respectively. All contributions were made as required during this fiscal year. There have been no changes in the plan since inception.

The City's contribution for the year ended June 30, 2011, (general fund and proprietary fund combined) was .004 percent of the System's total contribution requirements for all employers.

4.B. RISK MANAGEMENT

Insurance and Related Activities

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

4.C. COMMITMENTS & CONTINGENCIES

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

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

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, 2012, is presented as follows:

CONDENSED STATEMENT OF NET ASSETS

	Water	Sewer	Total
Assets:			
Due From Other Funds	\$ 18,000	\$ 31,300	\$ 49,300
Other Current Assets	112,556	134,923	247,479
Other Noncurrent Assets	123,068	149,929	272,997
Capital Assets (Net)	995,344	1,512,655	2,507,999
Total Assets	\$ 1,248,968	\$ 1,828,807	\$ 3,077,775
Liabilities:			
Other Current Liabilities	\$ 33,539	\$ 37,108	\$ 70,647
Noncurrent Liabilities	390,125	456,119	846,244
Total Liabilities	\$ 423,664	\$ 493,227	\$ 916,891
Net Assets:			
Invested in Capital Assets, Net of Related Debt	\$ 606,844	\$ 1,034,936	\$ 1,641,780
Restricted	105,993	149,929	255,922
Unrestricted	112,467	150,715	263,182
Total Net Assets	\$ 825,304	\$ 1,335,580	\$ 2,160,884

CONDENSED STATEMENT REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

	Water	Sewer	Total
Operating Revenues	\$ 215,176	\$ 221,982	\$ 437,158
Depreciation Expense	(33,463)	(64,549)	(98,012)
Other Operating Expenses	(167,499)	(156,233)	(323,732)
Operating Income (Loss)	\$ 14,214	\$ 1,200	\$ 15,414
Nonoperating Revenues (Expenses):			
Investment Income	\$ 1,030	\$ 1,046	\$ 2,076
Interest Expense	(18,593)	(21,907)	(40,500)
Change in Net Assets	\$ (3,349)	\$ (19,661)	\$ (23,010)
Beginning Net Assets	828,653	1,355,241	2,183,894
Ending Net Assets	\$ 825,304	\$ 1,335,580	\$ 2,160,884

CONDENSED STATEMENT OF CASH FLOWS

	Water	Sewer	Total
Net Cash Provided (Used) by:			
Operating Activities	\$ 50,288	\$ 69,331	\$ 119,619
Capital and Related Financing Activities	(37,468)	(50,182)	(87,650)
Investing Activities	1,063	1,083	2,146
Net Increase (Decrease)	\$ 13,883	\$ 20,232	\$ 34,115
Beginning Cash and Cash Equivalents	140,361	181,118	321,479
Ending Cash and Cash Equivalents	\$ 154,244	\$ 201,350	\$ 355,594

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
June 30, 2012

NOTE 4. OTHER NOTES (Continued)

4.D. MISCELLANEOUS (Continued)

Income Tax Status

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

Economic Dependence

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

CITY OF NEW CASTLE, KENTUCKY
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES				
Property Taxes	\$ 57,000	\$ 63,000	\$ 66,371	\$ 3,371
Franchise Taxes	38,000	38,000	38,036	36
Insurance Taxes	104,000	124,000	127,024	3,024
Charges for Services	69,500	69,500	70,652	1,152
Occupational Licenses	2,500	2,700	2,690	(10)
Interest Revenue	500	300	287	(13)
Donations	2,800	2,800	2,004	(796)
Rental Revenue	12,500	14,000	14,900	900
Fire Department	35,050	40,096	36,895	(3,201)
Miscellaneous Revenues	3,200	2,200	2,141	(59)
Proceeds from Outside Sources:				
State Fire Aid	8,250	8,250	8,250	-
Total Revenues	\$ 333,300	\$ 364,846	\$ 369,250	\$ 4,404
EXPENDITURES				
Current				
General Government	\$ 137,378	\$ 133,438	\$ 112,485	\$ 20,953
Public Safety				
Police Department	22,000	22,000	22,000	-
Fire Department	60,300	75,134	37,860	37,274
Public Services	69,500	69,500	69,474	26
Highways & Streets	36,174	28,204	24,826	3,378
Capital Outlay	11,340	12,606	23,500	(10,894)
Debt Service				
Principal	-	-	18,729	(18,729)
Interest	-	-	979	(979)
Total Expenditures	\$ 336,692	\$ 340,882	\$ 309,853	\$ 31,029
Excess of Revenues Over (Under) Expenditures	\$ (3,392)	\$ 23,964	\$ 59,397	\$ 35,433
Fund Balances - July 1	175,544	181,355	164,760	(16,595)
Fund Balances - June 30	\$ 172,152	\$ 205,319	\$ 224,157	\$ 18,838

CITY OF NEW CASTLE, KENTUCKY
NOTES TO BUDGETARY COMPARISON SCHEDULE
June 30, 2012

Budgetary Accounting

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

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

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CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF NET ASSETS
ALL PROPRIETARY FUND TYPES
June 30, 2012, and 2011

ASSETS	June 30, 2012		Totals
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	
Current Assets:			
Cash, including time deposits	\$ 86,176	\$ 106,921	\$ 193,097
Interest Receivable	125	102	227
Accounts Receivable - (Net)	26,255	27,900	54,155
Due from Other Funds	18,000	31,300	49,300
Total Current Assets	\$ 130,556	\$ 166,223	\$ 296,779
Noncurrent Assets:			
Restricted Assets			
Cash, including time deposits	\$ 123,068	\$ 149,929	\$ 272,997
Capital Assets (Net)	995,344	1,512,655	2,507,999
Total Noncurrent Assets	\$ 1,118,412	\$ 1,662,584	\$ 2,780,996
Total Assets	\$ 1,248,968	\$ 1,828,807	\$ 3,077,775
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 8,286	\$ 3,282	\$ 11,568
Accrued Compensated Absences	12,061	12,061	24,122
Accrued Taxes / Employee Withholding	692	165	857
Current Liabilities Payable from Restricted Assets:			
Revenue Bonds Payable	12,500	21,600	34,100
Total Current Liabilities	\$ 33,539	\$ 37,108	\$ 70,647
Noncurrent Liabilities:			
Revenue Bonds Payable	\$ 376,000	\$ 456,119	\$ 832,119
Noncurrent Liabilities Payable from Restricted Assets:			
Customer Deposits Payable	14,125	-	14,125
Total Noncurrent Liabilities	\$ 390,125	\$ 456,119	\$ 846,244
Total Liabilities	\$ 423,664	\$ 493,227	\$ 916,891
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 606,844	\$ 1,034,936	\$ 1,641,780
Restricted for:			
Debt Service	105,993	149,929	255,922
Unrestricted	112,467	150,715	263,182
Total Net Assets	\$ 825,304	\$ 1,335,580	\$ 2,160,884

June 30, 2011		
Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
\$ 83,077	\$ 105,886	\$ 188,963
158	139	297
26,642	26,235	52,877
17,720	34,683	52,403
<u>\$ 127,597</u>	<u>\$ 166,943</u>	<u>\$ 294,540</u>
\$ 112,284	\$ 130,732	\$ 243,016
1,020,932	1,569,329	2,590,261
<u>\$ 1,133,216</u>	<u>\$ 1,700,061</u>	<u>\$ 2,833,277</u>
\$ 1,260,813	\$ 1,867,004	\$ 3,127,817
\$ 8,521	\$ 3,498	\$ 12,019
9,966	9,966	19,932
673	180	853
<u>11,000</u>	<u>20,400</u>	<u>31,400</u>
\$ 30,160	\$ 34,044	\$ 64,204
\$ 388,500	\$ 477,719	\$ 866,219
13,500	-	13,500
<u>\$ 402,000</u>	<u>\$ 477,719</u>	<u>\$ 879,719</u>
\$ 432,160	\$ 511,763	\$ 943,923
\$ 621,432	\$ 1,071,210	\$ 1,692,642
96,246	130,732	226,978
110,975	153,299	264,274
<u>\$ 828,653</u>	<u>\$ 1,355,241</u>	<u>\$ 2,183,894</u>

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
ALL PROPRIETARY FUND TYPES
For the Fiscal Years Ended June 30, 2012 and 2011

	Year Ended June 30, 2012			Year Ended June 30, 2011		
	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	\$ 207,523	\$ -	\$ 207,523	\$ 206,509	\$ -	\$ 206,509
Sewer Services	-	219,932	219,932	-	209,683	209,683
Miscellaneous	7,653	2,050	9,703	5,153	1,145	6,298
Total Operating Revenues	\$ 215,176	\$ 221,982	\$ 437,158	\$ 211,662	\$ 210,828	\$ 422,490
<u>OPERATING EXPENSES</u>						
Salaries and Wages	\$ 42,784	\$ 42,778	\$ 85,562	\$ 39,570	\$ 39,431	\$ 79,001
Water and Sewer Supplies	3,037	12,958	15,995	3,558	12,524	16,082
Utilities	708	12,400	13,108	708	12,481	13,189
Rent	6,000	6,000	12,000	6,000	6,000	12,000
Payroll Taxes	3,270	3,270	6,540	3,036	3,026	6,062
Retirement Benefits	8,275	8,274	16,549	6,751	6,728	13,479
Vehicle Expenses	3,410	3,414	6,824	2,964	3,004	5,968
Postage and Office Supplies	2,107	1,933	4,040	2,425	2,328	4,753
Insurance	24,936	27,117	52,053	23,360	27,172	50,532
General & Admin. Expenses	12,235	11,817	24,052	11,783	11,518	23,301
Depreciation	33,463	64,549	98,012	33,036	65,389	98,425
Miscellaneous	622	1,064	1,686	387	273	660
Water Purchases	58,488	-	58,488	60,190	-	60,190
Repairs and Maintenance	1,627	25,208	26,835	2,936	22,955	25,891
Total Operating Expenses	\$ 200,962	\$ 220,782	\$ 421,744	\$ 196,704	\$ 212,829	\$ 409,533
Operating Income (Loss)	\$ 14,214	\$ 1,200	\$ 15,414	\$ 14,958	\$ (2,001)	\$ 12,957
<u>NON-OPERATING REVENUES (EXPENSES)</u>						
Interest Revenue	\$ 1,030	\$ 1,046	\$ 2,076	\$ 1,299	\$ 1,520	\$ 2,819
Interest Expense	(18,593)	(21,907)	(40,600)	(19,123)	(22,827)	(41,950)
Total Non-Operating Revenues (Expenses):	\$ (17,563)	\$ (20,861)	\$ (38,424)	\$ (17,824)	\$ (21,307)	\$ (39,131)
Net Income (Loss) Before Capital Contributions	\$ (3,349)	\$ (19,661)	\$ (23,010)	\$ (2,866)	\$ (23,308)	\$ (26,174)
Capital Contributions	-	-	-	-	41,049	41,049
Net Income (Loss)	\$ (3,349)	\$ (19,661)	\$ (23,010)	\$ (2,866)	\$ 17,741	\$ 14,875
Net Assets - July 1	828,653	1,355,241	2,183,894	831,519	1,337,500	2,169,019
Net Assets - June 30	\$ 825,304	\$ 1,335,580	\$ 2,160,884	\$ 828,653	\$ 1,355,241	\$ 2,183,894

CITY OF NEW CASTLE, KENTUCKY
COMPARATIVE COMBINING STATEMENTS OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
For the Years Ended June 30, 2012, and 2011

	Year Ended June 30, 2012			Year Ended June 30, 2011		
	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals	Water Utilities Enterprise Fund	Sewer Utilities Enterprise Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	\$ 215,563	\$ 220,317	\$ 435,880	\$ 212,242	\$ 212,987	\$ 425,229
Payments to Suppliers	(125,211)	(110,303)	(235,514)	(123,932)	(111,092)	(235,024)
Payments to Employees	(40,689)	(40,683)	(81,372)	(37,971)	(37,832)	(75,803)
Receipts of Customer Meter Deposits	6,075	-	6,075	5,375	-	5,375
Refunds of Customer Meter Deposits	(5,450)	-	(5,450)	(5,200)	-	(5,200)
Net Cash Provided (Used) by Operating Activities	\$ 50,288	\$ 69,331	\$ 119,619	\$ 50,514	\$ 64,063	\$ 114,577
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Kentucky Infrastructure Authority Grant Proceeds	\$ -	\$ -	\$ -	\$ -	\$ 41,049	\$ 41,049
Purchases of Capital Assets	(7,875)	(7,875)	(15,750)	(11,193)	(55,016)	(66,209)
Principal Paid on Capital Debt	(11,000)	(20,400)	(31,400)	(11,000)	(19,300)	(30,300)
Interest Paid on Capital Debt	(18,593)	(21,907)	(40,500)	(19,123)	(22,827)	(41,950)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (37,468)	\$ (50,182)	\$ (87,650)	\$ (41,316)	\$ (56,094)	\$ (97,410)
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest Received	\$ 1,063	\$ 1,083	\$ 2,146	\$ 1,299	\$ 1,548	\$ 2,847
Net Cash Provided (Used) by Investing Activities	\$ 1,063	\$ 1,083	\$ 2,146	\$ 1,299	\$ 1,548	\$ 2,847
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 13,883	\$ 20,232	\$ 34,115	\$ 10,497	\$ 9,517	\$ 20,014
Balances - July 1	140,361	181,118	321,479	129,864	171,601	301,465
Balances - June 30	\$ 154,244	\$ 201,350	\$ 355,594	\$ 140,361	\$ 181,118	\$ 321,479
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES						
Operating Income (Loss)	\$ 14,214	\$ 1,200	\$ 15,414	\$ 14,958	\$ (2,001)	\$ 12,957
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	33,463	64,549	98,012	33,036	65,389	98,425
Change in Assets and Liabilities:						
Receivables, Net	387	(1,665)	(1,278)	580	2,159	2,739
Accounts Payable	(235)	(216)	(451)	704	(82)	622
Due from Other Funds	(280)	3,383	3,103	(505)	(2,983)	(3,488)
Customer Meter Deposits Payable	625	-	625	175	-	175
Accrued Compensated Absences	2,095	2,095	4,190	1,599	1,599	3,198
Accrued Taxes/Employee Withholding	19	(15)	4	(33)	(18)	(51)
Net Cash Provided by Operating Activities	\$ 50,288	\$ 69,331	\$ 119,619	\$ 50,514	\$ 64,063	\$ 114,577

SCHEDULE OF NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

At June 30, 2012, the Waterworks Enterprise Fund had no outstanding obligations and the Sewer Utilities Enterprise Fund had no outstanding obligations for the acquisition/construction of plant assets. At June 30, 2011, the Waterworks Enterprise Fund had no outstanding obligations and the Sewer Utilities Enterprise Fund had no outstanding obligations for the acquisition/construction of plant assets.

CITY OF NEW CASTLE, KENTUCKY
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 For the Fiscal Year Ended June 30, 2012
 BUDGET AND ACTUAL
 ALL PROPRIETARY FUND TYPES

	Water Utilities			Sewer Utilities		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
OPERATING REVENUES						
Water Sales	\$ 217,700	\$ 207,523	\$ (10,177)	\$ -	\$ -	\$ -
Sewer Services	-	-	-	224,000	219,932	(4,068)
Miscellaneous	7,400	7,653	253	3,825	2,050	(1,775)
Total Operating Revenues	\$ 225,100	\$ 215,176	\$ (9,924)	\$ 227,825	\$ 221,982	\$ (5,843)
OPERATING EXPENSES						
Salaries and Wages	\$ 40,888	\$ 42,784	\$ (1,896)	\$ 40,888	\$ 42,778	\$ (1,890)
Water and Sewer Supplies	12,125	3,037	9,088	12,125	12,958	(833)
Utilities	800	708	92	12,200	12,400	(200)
Rent	6,000	6,000	-	6,000	6,000	-
Payroll Taxes	3,100	3,270	(170)	3,100	3,270	(170)
Retirement Benefits	7,782	8,275	(493)	7,782	8,274	(492)
Vehicle Expenses	3,600	3,410	190	3,600	3,414	186
Postage and Office Supplies	2,000	2,107	(107)	2,000	1,933	67
Insurance	27,680	24,936	2,744	27,680	27,117	563
General & Admin. Expenses	17,700	12,235	5,465	17,300	11,817	5,483
Depreciation	26,190	33,463	(7,273)	48,820	64,549	(15,729)
Miscellaneous	500	622	(122)	1,200	1,064	136
Water Purchases	60,300	58,488	1,812	-	-	-
Repairs and Maintenance	2,500	1,627	873	20,500	25,208	(4,708)
Total Operating Expenses	\$ 211,165	\$ 200,962	\$ 10,203	\$ 203,195	\$ 220,782	\$ (17,587)
Operating Income (Loss)	\$ 13,935	\$ 14,214	\$ 279	\$ 24,630	\$ 1,200	\$ (23,430)
NON-OPERATING REVENUES (EXPENSES):						
Interest Revenue	\$ 1,000	\$ 1,030	\$ 30	\$ 1,000	\$ 1,046	\$ 46
Interest Expense	(19,123)	(18,593)	530	(21,728)	(21,907)	(179)
Total Non-Operating Revenues (Expenses):	\$ (18,123)	\$ (17,563)	\$ 560	\$ (20,728)	\$ (20,861)	\$ (133)
Net Income (Loss)	\$ (4,188)	\$ (3,349)	\$ 839	\$ 3,902	\$ (19,661)	\$ (23,563)
Net Assets - July 1	215,648	828,653	613,005	267,316	1,355,241	1,087,925
Net Assets- June 30	\$ 211,460	\$ 825,304	\$ 613,844	\$ 271,218	\$ 1,335,580	\$ 1,064,362

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

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of New Castle, Kentucky, as of and for the year ended June 30, 2012, which collectively comprise City of New Castle, Kentucky's basic financial statements and have issued our report thereon dated August 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of City of New Castle, Kentucky is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered City of New Castle, Kentucky's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of New Castle, Kentucky's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of New Castle, Kentucky's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies, or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Items 12-1 and 12-2).

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of New Castle, Kentucky's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and responses as Item 12-3.

We noted certain other matters that we reported to management of City of New Castle, Kentucky, in a separate letter dated August 31, 2012.

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

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

August 31, 2012

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2012

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of City of New Castle, Kentucky.
2. Two deficiencies in internal control related to the audit of the financial statements are reported in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Items 12-1 and 12-2 were reported as material weaknesses.
3. One instance of noncompliance material to the financial statements of City of New Castle, Kentucky, which would be required to be reported in accordance with Government Auditing Standards, was disclosed during the audit as Item 12-3.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

GOVERNMENT AUDITING STANDARDS

DEFICIENCIES IN INTERNAL CONTROL

12-1 SIZE OF ENTITY

CONDITION:

Due to the size of administrative staff, internal control is limited. This condition was also cited as a material weakness in the Schedule of Findings and Responses for the year ended June 30, 2011 as item 11-1.

CRITERIA:

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

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

RESPONSE:

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

12-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES

CONDITION:

City financial statements, including the required disclosures, are prepared as part of the annual audit. This condition was cited as a material weakness in the Schedule of Findings and Responses for the year ended June 30, 2011 as item 11-2.

CRITERIA:

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

CITY OF NEW CASTLE, KENTUCKY
SCHEDULE OF FINDINGS AND RESPONSES (Continued)
For the Year Ended June 30, 2012

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued)

DEFICIENCIES IN INTERNAL CONTROL (Continued)

12-2 FAILURE TO PREPARE A COMPLETE SET OF FINANCIAL STATEMENTS INCLUDING REQUIRED NOTE DISCLOSURES (Continued)

CAUSE:

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

EFFECT:

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

RECOMMENDATION:

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

RESPONSE:

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

COMPLIANCE AND OTHER MATTERS

12-3 VIOLATION OF KRS 424.260

CONDITION:

The City of New Castle did not advertise for bid on certain materials, supplies, equipment, or services.

CRITERIA:

KRS 424.260 requires cities to implement procedures to ascertain that any qualified purchase greater than \$20,000 is properly bid.

CAUSE:

Procedures were not followed regarding Kentucky Revised Statutes.

EFFECT:

Goods and services may not be purchased at the most competitive price.

RECOMMENDATION:

Review purchases for any bid requirements.

RESPONSE:

We concur with the recommendation.

RAISOR, ZAPP & WOODS, P.S.C.

Certified Public Accountants

513 HIGHLAND AVENUE
P.O. BOX 354
CARROLLTON, KENTUCKY 41008
(502) 732-6655 FAX (502) 732-6161

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

In planning and performing our audit of the financial statements of the City of New Castle, Kentucky as of and for the year ended June 30, 2012, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

We previously reported on the City's internal control in our report dated August 31, 2012. A separate report contains our report on deficiencies in the City's internal control. This letter does not affect our report dated August 31, 2012, on the financial statements of the City of New Castle, Kentucky.

We observed certain areas where procedural modifications or revisions might provide better internal control. This letter summarizes our comments and suggestions regarding those matters.

We have cited the size of the administrative staff as a material weakness. As a small entity, the city has one employee who is responsible for billing, collecting, posting and balancing all transactions. With one individual responsible for all of these functions, the possibility of material error in the records increases.

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

- The minimum disbursement amount requiring dual signatures may need to be increased to ease recordkeeping procedures. If the minimum is increased, the Commissioners should review the bank statement in their entirety monthly.
- Payments made from statements should have individual invoices or receipts attached to verify the proper amount to be paid.

The City still has some checking accounts at present not established as interest bearing. Although rates are historically low, certain checking accounts should receive nominal interest income in the future.

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

Raisor, Zapp & Woods, PSC

RAISOR, ZAPP & WOODS, PSC
Certified Public Accountants

August 31, 2012