

**THE CITY OF NEWCASTLE,  
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT  
AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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**CITY OF NEWCASTLE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Newcastle, Oklahoma

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the of the City of Newcastle, Oklahoma as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's reporting entity, as listed in the table of contents. These financial statements are the responsibility of City of Newcastle, Oklahoma's management. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and 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.

As further discussed in Note 1.B., the City of Newcastle, Oklahoma has prepared its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newcastle, Oklahoma as of June 30, 2012, and the respective changes in financial position modified cash basis and cash flows-modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.B..

In accordance with *Government Auditing Standards*, we have also issued our report dated June 14, 2013 on our consideration of the City of Newcastle, Oklahoma reporting entity'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 the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 48 through 49 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.

Our audit was conducted for the purpose of forming opinions on the modified cash basis financial statements that collectively comprise the City of Newcastle, Oklahoma's financial statements as a whole. The combining non-major governmental and non-major enterprise fund schedules-modified cash basis (pages 51 through 54) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state awards-modified cash basis is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The combining non-major governmental and non-major enterprise fund schedules-modified cash basis and the schedule of expenditures of federal and state awards-modified cash basis 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, on the basis of accounting described in Note 1.B..

*HBC CPAs & Advisors*

Newcastle, Oklahoma  
June 14, 2013

**CITY OF NEWCASTLE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

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The management of the City of Newcastle is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2012. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

### **FINANCIAL HIGHLIGHTS**

- As reported on a modified cash basis, the City's total net assets increased by \$1,093,726, and the assets of the City exceed its liabilities at June 30, 2012, by \$17,127,408 (net assets). Of this amount, \$1,910,067 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$927,437.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$67,843 or 1.3% of General Fund revenues.

### **ABOUT THE CITY**

The City of Newcastle is an incorporated municipality with a population of approximately 4,685 located in McClain County in central Oklahoma. The City is a Council-Manager form of government that provides for three branches of government:

- Legislative – the City Council is a five-member governing body elected by the citizens
- Executive – the Mayor is the Chief Executive Officer and is elected by the citizens
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, cemetery, streets and alley maintenance, parks and recreation, community development and certain utility services including water, wastewater and sanitation.

#### ***The City's Financial Reporting Entity***

This annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

The City's financial reporting entity includes the following separate legal entities.

- **The City of Newcastle** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities

- **The Newcastle Educational Facilities Authority (NEFA)** – public trust to provide financing to and the promotion of educational facilities within the City – blended as a governmental fund – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Public Works Authority (NPWA)** – that operates the water, wastewater, and sanitation services of the City – blended as a proprietary fund – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Economic Development Authority (NEDA)** – public trust providing financing to businesses for the purpose of acquiring facilities for industrial or manufacturing, in or near the City, with the trustees appointed by the City Council – *reported as a discretely presented component unit*

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial statements of the primary government presented herein include all of the activities of the City of Newcastle (the “City”), the Newcastle Education Facilities Authority (the “NEFA”) and the Newcastle Public Works Authority (the “Authority”). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type, in addition to separate presentation for discretely presented component units.

The government-wide financial statements present the complete financial picture of the City from the economic resources measurement focus as applicable to the modified cash basis of accounting. These statements include all assets of the City (including infrastructure) as well as all liabilities (including long-term debt), resulting from modified cash basis transactions. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City’s operations in more detail than the government-wide statements by providing information about the City’s most significant funds.

### Reporting the City as a Whole

#### *The Statement of Net Assets and Statement of Activities*

One of the most important questions to ask about the City’s finances is, “Has the City’s overall financial condition improved, declined or remained steady as a result of the year’s activities?” The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City’s sales tax base, the condition of the City’s roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions with selected modifications.

In the Statement of Net Assets and the Statement of Activities, we divide the City’s primary government into two kinds of activities: *Governmental activities* - Most of the City’s basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City’s water, sewer, and sanitation utilities are reported as business-type activities.

## **Reporting the City's Most Significant Funds - Fund Financial Statements**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds -- *governmental and proprietary* - use different accounting approaches.

*Governmental funds* - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting and current financial resources measurement focus that is different from other funds. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

*Proprietary funds* - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The City's proprietary fund is the Newcastle Public Works Authority that accounts for the operation of the water, sewer, and sanitation activities.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 25-47 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the City of Newcastle, federal and state award schedules and combining financial statements and schedules.

**CITY OF NEWCASTLE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**THE CITY AS A WHOLE**

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$1,093,727.

Following is a summary of net assets reported on a modified cash basis for the City of Newcastle primary government.

**Net Assets (Modified Cash Basis)**  
**June 30, 2012**

**TABLE 1**  
**NET ASSETS (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Current assets	\$ 962	\$ 1,536	-37%	\$ 2,390	\$ 1,693	41%	\$ 3,352	\$ 3,229	4%
Capital assets, net	9,719	9,458	3%	9,683	7,991	21%	19,402	17,449	11%
<b>Total assets</b>	<u>10,681</u>	<u>10,994</u>	-3%	<u>12,073</u>	<u>9,684</u>	25%	<u>22,754</u>	<u>20,678</u>	10%
Current liabilities	34	25	36%	-	-	-	34	25	36%
Non-current liabilities	1,423	812	75%	4,169	3,807	10%	5,592	4,619	21%
<b>Total liabilities</b>	<u>1,457</u>	<u>837</u>	74%	<u>4,169</u>	<u>3,807</u>	10%	<u>5,626</u>	<u>4,644</u>	21%
Net assets									
Invested in capital assets, net of related debt	8,296	8,645	-4%	5,643	4,307	31%	13,939	12,952	8%
Restricted	660	776	-15%	619	619	0%	1,279	1,395	-8%
Unrestricted	268	736	-64%	1,642	951	73%	1,910	1,687	13%
<b>Total net assets</b>	<u>\$ 9,224</u>	<u>\$ 10,157</u>	-9%	<u>\$ 7,904</u>	<u>\$ 5,877</u>	34%	<u>\$ 17,128</u>	<u>\$ 16,034</u>	7%

The current assets for governmental activities decreased \$574,633 or 37% and current assets for business-type activities increased \$698,059 or 41% due to the decrease in transfers from business-type activities to governmental activities. This also caused a decrease in unrestricted net assets of \$467,831 or 64% for governmental activities and an increase in unrestricted net assets of \$691,169 or 73% for business-type activities.

Non-current liabilities for governmental activities increased \$602,860 or 75% due to the transfer of \$791,340 in debt from business-type activities. This also caused a decrease in invested in capital assets, net of related debt for governmental activities of \$349,626 or 4%. Invested in capital assets, net of related debt for business-type activities increased \$1,336,003 or 31% due primarily to the transfer of debt to governmental activities and the increase in construction in progress of \$1,306,865.

The largest portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to \$13,939,143.

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF NEWCASTLE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

A portion of the City's net assets, \$1,278,198, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,910,067, may be used to meet the government's ongoing needs.

**Changes in Net Assets (Modified Cash Basis)**  
**Year Ended June 30, 2012**

**TABLE 2**  
**CHANGES IN NET ASSETS (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
<b>Revenues</b>									
Charges for service	\$ 477	\$ 526	-9%	\$ 2,831	\$ 2,614	8%	\$ 3,308	\$ 3,140	5%
Operating grants and contributions	416	252	65%	-	-	-	416	252	65%
Capital grants and contributions	199	10	1890%	-	-	-	199	10	1890%
Taxes	5,189	4,663	11%	-	-	-	5,189	4,663	11%
Intergovernmental revenue	99	88	13%	-	-	-	99	88	13%
Investment income	24	24	0%	5	10	-50%	29	34	-15%
Miscellaneous	112	81	38%	3	3	0%	115	84	37%
<b>Total revenues</b>	<b>6,516</b>	<b>5,644</b>	<b>15%</b>	<b>2,839</b>	<b>2,627</b>	<b>8%</b>	<b>9,355</b>	<b>8,271</b>	<b>13%</b>
<b>Expenses</b>									
General government	1,291	1,150	12%	-	-	-	1,291	1,150	12%
Public safety	2,965	2,750	8%	-	-	-	2,965	2,750	8%
Streets	1,241	940	32%	-	-	-	1,241	940	32%
Culture, parks and recreation	115	67	72%	-	-	-	115	67	72%
Cemetery	35	23	52%	-	-	-	35	23	52%
Community development	199	-	100%	-	-	-	199	-	100%
Interest on long-term debt	35	24	46%	-	-	-	35	24	46%
Water	-	-	-	1,701	1,555	9%	1,701	1,555	9%
Wastewater	-	-	-	326	294	11%	326	294	11%
Sanitation	-	-	-	354	327	8%	354	327	8%
<b>Total expenses</b>	<b>5,881</b>	<b>4,954</b>	<b>19%</b>	<b>2,381</b>	<b>2,176</b>	<b>9%</b>	<b>8,262</b>	<b>7,130</b>	<b>16%</b>
Excess (deficiency) before transfers	635	690	-8%	458	451	2%	1,093	1,141	-4%
Transfers	(1,569)	270	-681%	1,569	(270)	681%	-	-	-
<b>Change in net assets</b>	<b>(934)</b>	<b>960</b>	<b>-197%</b>	<b>2,027</b>	<b>181</b>	<b>1020%</b>	<b>1,093</b>	<b>1,141</b>	<b>-4%</b>
Beginning net assets	10,157	9,197	10%	5,877	5,696	3%	16,034	14,893	8%
Ending net assets	\$ 9,223	\$ 10,157	-9%	\$ 7,904	\$ 5,877	34%	\$ 17,127	\$ 16,034	7%

**Governmental Activities**

The City's governmental activities had a decrease in net assets of \$933,446. The increase in operating grants and contributions of 65% is primarily due to an increase in disaster assistance reimbursements from the Federal Emergency Management Agency of \$286,616 and an increase in grant revenue from the Environmental Protection Agency of \$97,944. The increase in capital grants and contributions of 1,890% was due to the receipt of a grant from the U.S. Department of Housing and Urban Development for \$199,399. The increase in street expenses of 32% was primarily due to work performed to clean up after a tornado. The increase of 100% in community development is due to the payment of grant funds received. The decrease in net transfers of 681% was due to a decrease in operating transfers from the Newcastle Public Works Authority and the transfer of governmental debt received from the NPWA.

**CITY OF NEWCASTLE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

**Business-type Activities**

The business-type activities had an increase in net assets of \$2,027,172 from prior year. The increase in net transfers is due primarily to a decrease in operating transfers out to the City's general fund of \$787,340 and an increase in transfers in from the City's general fund of \$258,919. The NPWA also transferred \$791,340 in debt to the City for a total change in transfers of \$1,567,347.

**A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$927,437. For the year ended June 30, 2012, the General Fund's total fund balance decreased by \$467,653 to \$267,843 or 5.1% of annual revenues.

**Budgetary Highlights**

For the year ended June 30, 2012, the City of Newcastle reported actual budgetary basis revenues over final estimates by \$179,328 or a 1.7% positive variance. Actual expenditures were under final appropriations by \$308,710 or a 3.1% positive variance.

**CAPITAL ASSETS & DEBT ADMINISTRATION**

**Capital Assets**

At the end of June 30, 2012, the City had approximately \$19.4 million invested in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and infrastructure. This represents a net increase of \$1,867,398 from last year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2012.<sup>1</sup>

	<b>Capital Assets</b>					
	<b>(In Thousands)</b>					
	<b>(Net of accumulated depreciation)</b>					
	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Land	\$ 598	\$ 598	\$ 115	\$ 19	\$ 713	\$ 617
Buildings	2,726	1,468	3,822	3,994	6,548	5,462
Imp. other than buildings	-	-	7	7	7	7
Machinery, furniture and equipment	972	1,011	900	728	1,872	1,739
Infrastructure	5,342	4,957	-	-	5,342	4,957
Utility property	-	-	545	256	545	256
Construction in progress	81	1,424	4,295	2,987	4,376	4,411
<b>Totals</b>	<b>\$ 9,719</b>	<b>\$ 9,458</b>	<b>\$ 9,684</b>	<b>\$ 7,991</b>	<b>\$ 19,403</b>	<b>\$ 17,449</b>

<sup>1</sup> For more detailed information on capital asset activity please refer to pages 33-34, Note 3. Capital Assets and Depreciation

**CITY OF NEWCASTLE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2012**

This year's more significant capital asset additions include the following:

- New Holland tractor - \$88,113
- Street improvements - \$581,455
- OKC Booster Station - \$219,553
- Phase II OKC Pipeline - \$1,403,974
- Water Line improvements - \$356,663

**Debt Administration**

At year-end, the City had \$5,462,288 in long-term debt outstanding, reported on a modified cash basis, which represents a \$966,474 increase from the prior year, resulting from normal debt retirements and the issuance of \$2,026,238 of new notes and leases in 2012.

	Long-Term Debt (In Thousands)						Total Percentage Change
	Governmental Activities		Business-Type Activities		Total		
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	
Notes payable	795	895	3,089	3,683	3,884	4,578	-15.2%
Capital leases	378	528	-	356	378	884	-57.2%
<b>Totals</b>	<u>\$ 1,173</u>	<u>\$ 1,423</u>	<u>\$ 3,089</u>	<u>\$ 4,039</u>	<u>\$ 4,262</u>	<u>\$ 5,462</u>	-22.0%

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The following information outlines significant known factors that will affect subsequent year finances:

- For the upcoming fiscal year ending June 30, 2013, the City's adopted budget is fairly consistent with the 2012 year.
- The City will continue with the new Oklahoma City waterline project with estimated expenses of \$1.7 million. The project is currently being funded with a note from the local bank and a low interest note from OWRB.

**Contacting the City's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at PO Box 179, Newcastle, Oklahoma 73065-0179 or telephone at 405-387-4427.

**CITY OF NEWCASTLE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2012**

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**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE**

**CITY OF NEWCASTLE, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
As of and for the Year Ended June 30, 2012

**Statement of Net Assets (Modified Cash Basis) – June 30, 2012**

	Primary Government			Component Unit Newcastle Economic Development Authority
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 944,504	\$ 2,407,968	\$ 3,352,472	8,818
Internal Balances	17,207	(17,207)	-	-
Capital Assets:				
Land and construction in progress	678,904	4,409,549	5,088,453	-
Other capital assets, net of depreciation	9,039,849	5,273,129	14,312,978	-
<b>Total Assets</b>	<u>10,680,464</u>	<u>12,073,439</u>	<u>22,753,903</u>	<u>8,818</u>
<b>LIABILITIES</b>				
Due to other governments	4,555	-	4,555	-
Due to bondholders	29,480	-	29,480	-
Long-term liabilities:				
Due within one year	249,595	713,767	963,362	-
Due in more than one year	1,173,538	3,455,322	4,628,860	-
<b>Total liabilities</b>	<u>1,457,168</u>	<u>4,169,089</u>	<u>5,626,257</u>	<u>-</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	8,295,620	5,643,523	13,939,143	-
Restricted for:				
Capital projects	652,830	618,603	1,271,433	-
Cemetery	6,765	-	6,765	-
Unrestricted	268,081	1,642,224	1,910,305	8,818
<b>Total net assets</b>	<u>\$ 9,223,296</u>	<u>\$ 7,904,350</u>	<u>\$ 17,127,646</u>	<u>\$ 8,818</u>

See accompanying notes to the basic financial statements.

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**Statement of Activities (Modified Cash Basis)- Year Ended June 30, 2012**

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit Newcastle Economic Development Authority
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	
<b>Primary government</b>							
Governmental Activities							
General Government	\$ 1,289,950	\$ 121,477	\$ -	\$ -	\$ (1,168,473)	\$ -	\$ (1,168,473)
Public Safety	2,985,331	302,368	109,142	-	(2,553,821)	-	(2,553,821)
Streets	1,240,693	-	306,776	-	(933,917)	-	(933,917)
Culture and Recreation	115,174	23,248	-	-	(91,926)	-	(91,926)
Cemetery	35,260	29,550	-	-	(5,710)	-	(5,710)
Community Development	199,399	-	-	199,399	-	-	-
Interest on Long-term debt	34,761	-	-	-	(34,761)	-	(34,761)
<b>Total governmental activities</b>	<b>5,880,568</b>	<b>476,643</b>	<b>415,918</b>	<b>199,399</b>	<b>(4,788,608)</b>	<b>-</b>	<b>(4,788,608)</b>
Business-type activities:							
Water	1,701,383	2,147,289	-	-	-	445,906	445,906
Wastewater	326,277	165,291	-	-	-	(160,986)	(160,986)
Sanitation	353,509	518,538	-	-	-	165,029	165,029
<b>Total business-type activities</b>	<b>2,381,169</b>	<b>2,831,118</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>449,949</b>	<b>449,949</b>
<b>Total primary government</b>	<b>8,261,737</b>	<b>3,307,761</b>	<b>415,918</b>	<b>199,399</b>	<b>(4,788,608)</b>	<b>449,949</b>	<b>(4,338,659)</b>
<b>Component Unit:</b>							
Newcastle Economic Development	-	-	-	-	-	-	-
<b>General revenues:</b>							
Taxes:							
Sales and use taxes					\$ 4,916,757	\$ -	\$ 4,916,757
Franchise taxes and public service taxes					259,951	-	259,951
Hotel/motel taxes					12,707	-	12,707
Intergovernmental revenue not restricted to specific programs					98,757	-	98,757
Investment income					23,886	4,775	28,661
Miscellaneous					112,464	3,326	115,790
Transfers					(1,589,122)	1,589,122	-
<b>Total general revenues and transfers</b>					<b>3,865,450</b>	<b>1,577,223</b>	<b>5,432,623</b>
Change in net assets					(933,208)	2,027,172	1,093,964
Net assets - beginning					10,156,504	5,877,178	16,033,682
Net assets - ending					<b>\$ 9,223,296</b>	<b>\$ 7,904,350</b>	<b>\$ 17,127,646</b>

See accompanying notes to the basic financial statements.

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

**CITY OF NEWCASTLE, OKLAHOMA  
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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Tax Fund</u>	<u>Newcastle Educational Facilities Authority (NEFA)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 284,671	\$ 653,067	\$ -	\$ 6,765	\$ 944,503
Due from other funds	17,207	-	-	-	17,207
Total assets	<u>301,878</u>	<u>653,067</u>	<u>-</u>	<u>6,765</u>	<u>961,710</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Due to bondholders	29,480	-	-	-	29,480
Payable to other governments	4,555	-	-	-	4,555
Total liabilities	<u>34,035</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,035</u>
Fund balances:					
Restricted	-	653,067	-	6,765	659,832
Assigned	200,000	-	-	-	200,000
Unassigned	67,843	-	-	-	67,843
Total fund balances	<u>267,843</u>	<u>653,067</u>	<u>-</u>	<u>6,765</u>	<u>927,675</u>
Total liabilities and fund balances	<u>\$ 301,878</u>	<u>\$ 653,067</u>	<u>\$ -</u>	<u>\$ 6,765</u>	<u>\$ 961,710</u>

See accompanying notes to the basic financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance  
(Modified Cash Basis) – Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Tax Fund</u>	<u>Newcastle Educational Facilities Authority (NEFA)</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>					
Taxes	\$ 3,986,310	\$ 612,884	\$ -	\$ 612,884	\$ 5,212,078
Intergovernmental	714,074	-	-	-	714,074
Charges for services	83,797	-	-	3,656	87,453
Fines and forfeitures	285,336	-	-	-	285,336
Licenses and permits	73,316	-	-	-	73,316
Investment income	19,427	4,449	-	10	23,886
Miscellaneous	120,339	-	-	-	120,339
<b>Total revenues</b>	<b>5,282,599</b>	<b>617,333</b>	<b>-</b>	<b>616,550</b>	<b>6,516,482</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,312,788	-	-	-	1,312,788
Police	1,313,736	160,467	-	-	1,474,203
Fire	1,165,037	-	-	-	1,165,037
Streets	998,284	-	-	-	998,284
Municipal court	65,369	-	-	-	65,369
Cemetery	40,169	-	-	-	40,169
Animal control	59,684	-	-	-	59,684
Parks and recreation	45,090	33,715	-	-	78,805
Planning and engineering	52,317	-	-	-	52,317
Vehicle maintenance	126,379	-	-	-	126,379
Sr. Citizens	-	15,182	-	-	15,182
Capital Outlay	253,790	529,112	-	-	782,902
Debt Service:					
Principal	203,995	-	-	-	203,995
Interest and other charges	34,761	-	-	-	34,761
<b>Total Expenditures</b>	<b>5,671,399</b>	<b>738,476</b>	<b>-</b>	<b>-</b>	<b>6,409,875</b>
Excess (deficiency) of revenues over expenditures	(388,800)	(121,143)	-	616,550	106,607
<b>OTHER FINANCING SOURCES (USES)</b>					
Loan proceeds	87,593	-	-	-	87,593
Transfers in	2,292,894	1,548	-	-	2,294,442
Transfers out	(2,459,340)	-	-	(612,884)	(3,072,224)
<b>Total other financing sources and uses</b>	<b>(78,853)</b>	<b>1,548</b>	<b>-</b>	<b>(612,884)</b>	<b>(690,189)</b>
<b>Net change in fund balances</b>	<b>(467,653)</b>	<b>(119,595)</b>	<b>-</b>	<b>3,666</b>	<b>(583,582)</b>
Fund balances - beginning	735,496	772,662	-	3,099	1,511,257
<b>Fund balances - ending</b>	<b>\$ 267,843</b>	<b>\$ 653,067</b>	<b>\$ -</b>	<b>\$ 6,765</b>	<b>\$ 927,675</b>

See accompanying notes to the basic financial statements.

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**Reconciliation of Governmental Funds and Government-Wide Financial Statements:**

**Fund Balance – Net Assets Reconciliation:**

Total fund balance, governmental funds	\$	927,675
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		
		9,718,753
Some liabilities, (such as Notes Payable and Capital Lease Contract Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.		
		(1,423,132)
		9,223,296
Net Assets of Governmental Activities in the Statement of Net Assets		9,223,296

**Changes in Fund Balances – Changes in Net Assets Reconciliation:**

Net change in fund balances - total governmental funds:	\$	(583,582)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		930,904
Depreciation expense		(669,670)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:		
Capital lease principal payments		177,677
Note payable principal payment		139,629
Proceeds of long-term debt		(136,826)
Debt transferred from business-type activities		(791,340)
Change in net assets of governmental activities	\$	(933,208)

See accompanying notes to the basic financial statements.

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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS**

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**Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2012**

	<b>NPWA Enterprise Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,369,509	\$ 160,050	\$ 1,529,559
Restricted:			
Cash and cash equivalents	129,934	748,475	878,409
Due from other funds	123,033	24,999	148,032
Total current assets	1,622,476	933,524	2,556,000
Non-current assets:			
Capital Assets:			
Land and construction in progress	4,409,549	-	4,409,549
Other capital assets, net of accumulated depreciation	5,273,129	-	5,273,129
Total non-current assets	9,682,678	-	9,682,678
Total assets	11,305,154	933,524	12,238,678
<b>LIABILITIES</b>			
Current Liabilities:			
Due to other funds	-	165,239	165,239
Deposits subject to refund	25,987	-	25,987
Capital lease obligation	94,500	-	94,500
Notes payable	521,540	71,740	593,280
Total current liabilities	642,027	236,979	879,006
Non-current liabilities:			
Deposits subject to refund	103,947	-	103,947
Capital lease obligation	261,979	-	261,979
Notes payable	2,342,795	746,601	3,089,396
Total non-current liabilities	2,708,721	746,601	3,455,322
Total liabilities	3,350,748	983,580	4,334,328
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,461,864	(818,341)	5,643,523
Restricted for capital projects	-	748,475	748,475
Unrestricted	1,492,542	19,810	1,512,352
Total net assets	\$ 7,954,406	\$ (50,056)	\$ 7,904,350

See accompanying notes to the basic financial statements.

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**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012**

	<b>NPWA Enterprise Fund</b>	<b>Other Enterprise Funds</b>	<b>Total</b>
<b>REVENUES</b>			
Water	\$ 1,896,539	\$ -	\$ 1,896,539
Wastewater	126,126	-	126,126
Sanitation	453,538	-	453,538
Fees, taps, and penalties	226,515	128,400	354,915
Total operating revenues	<u>2,702,718</u>	<u>128,400</u>	<u>2,831,118</u>
<b>OPERATING EXPENSES</b>			
Administration	187,429	-	187,429
Water	1,156,952	-	1,156,952
Wastewater	256,449	-	256,449
Sanitation	316,325	-	316,325
Depreciation	330,639	-	330,639
Total Operating Expenses	<u>2,247,794</u>	<u>-</u>	<u>2,247,794</u>
Operating income	454,924	128,400	583,324
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	3,303	1,472	4,775
Miscellaneous revenue	3,326	-	3,326
Interest expense	(133,375)	-	(133,375)
Total non-operating revenue (expenses)	<u>(126,746)</u>	<u>1,472</u>	<u>(125,274)</u>
Income (loss) before contributions and transfers	328,178	129,872	458,050
Transfers in	3,363,614	77,855	3,441,469
Transfers out	<u>(1,759,403)</u>	<u>(112,944)</u>	<u>(1,872,347)</u>
Change in net assets	1,932,389	94,783	2,027,172
Total net assets - beginning	6,022,017	(144,839)	5,877,178
Total net assets - ending	<u>\$ 7,954,406</u>	<u>\$ (50,056)</u>	<u>\$ 7,904,350</u>

See accompanying notes to the basic financial statements.

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**Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>NPWA Enterprise Fund</u>	<u>Other Enterprise Funds</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,702,718	\$ 128,400	\$ 2,831,118
Payments to suppliers	(2,649,795)	-	(2,649,795)
Payments to employees	732,640	-	732,640
Receipts/refunds of customer meter deposits	6,890	-	6,890
Change in due to/from	-	-	-
Miscellaneous receipts	3,326	-	3,326
<b>Net cash provided by operating activities</b>	<u>795,779</u>	<u>128,400</u>	<u>924,179</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers from other funds	2,572,274	77,855	2,650,129
Transfers to other funds	(1,759,403)	(112,944)	(1,872,347)
<b>Net cash provided by (used in) noncapital financing activities</b>	<u>812,871</u>	<u>(35,089)</u>	<u>777,782</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(2,022,257)	-	(2,022,257)
Proceeds from debt	1,776,469	112,944	1,889,413
Principal paid on debt	(664,603)	(77,855)	(742,458)
Interest and fiscal agent fees paid on debt	(133,375)	-	(133,375)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(1,043,766)</u>	<u>35,089</u>	<u>(1,008,677)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	3,303	1,472	4,775
<b>Net cash provided by investing activities</b>	<u>3,303</u>	<u>1,472</u>	<u>4,775</u>
<b>Net increase in cash and cash equivalents</b>	568,187	129,872	698,059
<b>Balances - beginning of year</b>	931,256	778,653	1,709,909
<b>Balances - end of year</b>	<u>\$ 1,499,443</u>	<u>\$ 908,525</u>	<u>\$ 2,407,968</u>
<b>Reconciliation to Statement of Net Assets:</b>			
Cash and cash equivalents	1,369,509	160,050	1,529,559
Restricted cash and cash equivalents - current	129,934	748,475	878,409
<b>Total cash and cash equivalents, end of year</b>	<u>1,499,443</u>	<u>908,525</u>	<u>2,407,968</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income	\$ 454,924	\$ 128,400	\$ 583,324
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	330,639	-	330,639
Miscellaneous revenue	3,326	-	3,326
Change in assets and liabilities:			
Due from other funds	-	-	-
Due to other funds	-	-	-
Deposits subject to refund	6,890	-	6,890
<b>Net cash provided by operating activities</b>	<u>\$ 795,779</u>	<u>\$ 128,400</u>	<u>\$ 924,179</u>
<b>Noncash activities:</b>			
Transfer of debt	\$ 791,340	\$ -	\$ 791,340
	<u>\$ 791,340</u>	<u>\$ -</u>	<u>\$ 791,340</u>

See accompanying notes to the basic financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

## 1. Summary of Significant Accounting Policies

### A. Financial Reporting Entity

The City's financial reporting entity includes the primary government and a discretely-presented component unit as follows:

- **The City of Newcastle** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities, governed by the City Council
- **The Newcastle Public Works Authority (NPWA)** – that operates the water, wastewater, sanitation services of the City governed by the City Council members as trustees– blended as a proprietary fund – *considered part of the primary government presentation for reporting purposes*
- **The Newcastle Economic Development Authority (NEDA)** – provides financing to businesses for the purpose of acquiring facilities and industrial or manufacturing, in or near the City, with the trustees appointed by the City Council – *reported as a discretely presented component unit*

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Council Statement No. 14, "*The Financial Reporting Entity*" that requires the primary government and all component units of which the primary government is financially accountable be included in the financial report.

The component units are Public Trusts established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance City services through issuance of revenue bonds or other non-general obligation debt and to enable the City Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the City has leased certain existing assets at the creation for the Authorities to the Trustees on a long-term basis. The City, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

### B. Basis of Presentation and Accounting

#### *Government-Wide Financial Statements:*

The statement of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- capital assets and the depreciation of those assets, where applicable
- long-term debt

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- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: Inspection fees, licenses and permits
- Public Safety: Animal impound fees, animal licenses, traffic fines and fees, operating grants, and fire run fees
- Streets: Gas excise tax, commercial vehicle tax, operating grants
- Culture and recreation: Assessment fees
- Cemetery: Lot sales and internment
- Community development: Capital grant

For business-type activities, Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

*Governmental Funds:*

The City's governmental funds are comprised of the following:

**Major Funds:**

- General Fund - accounts for all activities not accounted for in other special-purpose funds
- Capital Improvement Restricted Sales Tax Fund – accounts for the restricted sales tax levied for capital improvement purposes

**Non-Major Funds (Reported as Other Governmental Funds):**

- Fire Restricted Sales Tax Fund – accounts for the restricted sales tax levied for fire purposes
- Cemetery Care Fund – accounts for the State statute required 12.5 percent of cemetery revenues for cemetery capital improvements

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The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

*Proprietary Funds:*

The City's proprietary funds are comprised of the following:

*Enterprise Fund:*

**Major Fund:**

- Newcastle Public Works Authority – accounts for the operation of the water, wastewater, and sanitation activities

**Non-Major Funds (Reported as Other Enterprise Funds):**

- NPWA Water Impact Fund – accounts for water connection fees collected for the purpose of water improvements
- NPWA Sewer Impact Fund – accounts for sewer connection fees collected for the purpose of wastewater improvements
- Phase 2 OKC Pipeline Fund – accounts for the funding and construction the OKC pipeline

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Council (FASB) pronouncements and Accounting Principles Council (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

**C. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

#### **D. Capital Assets and Depreciation**

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$2,000 is used to report capital assets. Capital assets are reported at actual or estimated historical cost. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 2003. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2003 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 10-25 years
- Improvements other than buildings 3-20 years
- Machinery, furniture and equipment 3-25 years
- Utility property and improvements 5-75 years
- Infrastructure 10-40 years

#### **E. Long-Term Debt**

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. 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.

#### **F. Compensated Absences**

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 11.

## **G. Fund Balances and Net Assets**

### *Fund Balances:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund to be spent prior to restricted fund balance. In those funds, interest income is used first before other revenues.

### *Net Assets:*

Net assets are 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 improvements of those assets.
- 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 and 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.”

It is the City’s policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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**H. Internal and Interfund Balances and Transfers**

The City's policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

**I. Use of Estimates**

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

**2. Deposits and Investments**

For the year ended June 30, 2012, the City recognized \$34,397 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the City's deposits are in demand and short-term time deposits.

At June 30, 2012, the primary government held the following deposits and investments:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Carrying Value</u>
<b>Deposits:</b>			
Demand deposits			\$ 1,503,888
Time deposit - certificates of deposit			<u>1,856,476</u>
			<u>\$ 3,360,364</u>
<b>Investments:</b>			
NPWA - Federated Gov't Obligations Tax Managed Fund	N/A	AAAm	\$ 926
			<u>926</u>
<b>Total deposits and investments</b>			<u><u>\$ 3,361,290</u></u>
<b>Reconciliation to Statement of Net Assets:</b>			
Cash and cash equivalents			\$ 3,352,472
			<u>\$ 3,352,472</u>
<b>Component Unit:</b>			
Cash and cash equivalents			\$ 8,818
			<u>\$ 8,818</u>
<b>Total deposits and investments</b>			<u><u>\$ 3,361,290</u></u>

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*Custody Credit Risk*

Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012, the City had no funds exposed to custody credit risk.

*Investment Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits investments based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

At June 30, 2012, the City's investments were limited to time deposits and government obligations that were not exposed to interest rate risk.

*Investment Credit Risk*

The City has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the City's public trusts.

As of June 30, 2012, the City had no investments subject to credit risk.

*Concentration of Investment Credit Risk*

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk.

At June 30, 2012, the City had no concentration of credit risk as defined above.

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*Restricted cash and Investments* – The amounts reported as restricted assets on the proprietary fund statement of net assets are comprised of amounts held by the Public Works Authority for utility deposits (refunded upon termination of service or applied to final bill) and water and wastewater connections fees restricted for water and wastewater improvements.

	Current Cash and cash equivalents
Utility deposits	\$ 129,934
Water impact fees	613,173
Sewer impact fees	135,302
Total	\$ 878,409

### 3. Capital Assets and Depreciation

For the year ended June 30, 2012, capital assets balances changed as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<b><i>Governmental activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 597,948	\$ -	\$ -	\$ 597,948
Construction in progress	1,424,009	149,047	1,492,100	80,956
Total capital assets not being depreciated	2,021,957	149,047	1,492,100	678,904
Other capital assets:				
Buildings	1,914,258	1,451,919	-	3,366,177
Infrastructure	6,287,285	581,455	-	6,868,740
Machinery, furniture and equipment	3,520,436	240,582	-	3,761,018
Total other capital assets at historical cost	11,721,979	2,273,956	-	13,995,935
Less accumulated depreciation for:				
Buildings	446,094	194,367	-	640,461
Infrastructure	1,331,166	195,531	-	1,526,697
Machinery, furniture and equipment	2,509,156	279,772	-	2,788,928
Total accumulated depreciation	4,286,416	669,670	-	4,956,086
Other capital assets, net	7,435,563	1,604,286	-	9,039,849
Governmental activities capital assets, net	\$ 9,457,520	\$ 1,753,333	\$ 1,492,100	\$ 9,718,753

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	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<b><i>Business-type activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 19,400	\$ 95,824	\$ -	\$ 115,224
Construction in progress	2,987,460	\$ 1,643,528	\$ 336,663	4,294,325
Total capital assets not being depreciated	<u>3,006,860</u>	<u>1,739,352</u>	<u>336,663</u>	<u>4,409,549</u>
Other capital assets:				
Buildings	6,937,130	-	-	6,937,130
Improvements	8,089	-	-	8,089
Machinery, furniture and equipment	1,332,960	282,905	-	1,615,865
Utility property	333,203	336,663	-	669,866
Total other capital assets at historical cost	<u>8,611,382</u>	<u>619,568</u>	<u>-</u>	<u>9,230,950</u>
Less accumulated depreciation for:				
Buildings	2,944,196	170,735	-	3,114,931
Improvements	1,213	270	-	1,483
Machinery, furniture and equipment	604,510	111,698	-	716,208
Utility Property Improvements	77,265	47,933	-	125,198
Total accumulated depreciation	<u>3,627,184</u>	<u>330,636</u>	<u>-</u>	<u>3,957,821</u>
Other capital assets, net	4,984,198	288,932	-	5,273,129
Business-type activities capital assets, net	<u>\$ 7,991,058</u>	<u>\$ 2,028,284</u>	<u>\$ 336,663</u>	<u>\$ 9,682,678</u>

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

**Governmental Activities:**

General government	\$ 47,805
Public safety	340,576
Highways and streets	260,102
Parks and recreation	21,187
	<u>\$ 669,670</u>

**Business-Type Activities:**

Water	\$ 255,565
Wastewater	59,487
Administration	15,584
	<u>\$ 330,636</u>

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**4. Long-Term Debt and Debt Service Requirements**

For the year ended June 30, 2012, the reporting entity's long-term debt changed as follows:

<u>Type of Debt</u>	<u>Balance July 01, 2011</u>	<u>Additions</u>	<u>Transfers</u>	<u>Deductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>						
Notes payable	\$ 194,186	\$ 49,233	\$ 791,340	\$ 139,629	\$ 895,130	\$ 99,713
Capital lease payable	618,087	87,593	-	177,677	528,003	149,882
Total Governmental Activities	<u>\$ 812,273</u>	<u>\$ 136,826</u>	<u>\$ 791,340</u>	<u>\$ 317,306</u>	<u>\$ 1,423,133</u>	<u>\$ 249,595</u>
<b>Business-Type Activities:</b>						
Notes Payable	\$ 3,388,581	\$ 1,702,263	\$ (791,340)	\$ 616,829	\$ 3,682,675	\$ 593,280
Capital lease payable	294,958	187,151	-	125,629	356,480	94,500
Deposits, subject to refund	123,044	21,750	-	14,860	129,934	25,987
Total Business-Type Activities	<u>3,806,583</u>	<u>1,911,164</u>	<u>(791,340)</u>	<u>757,318</u>	<u>4,169,089</u>	<u>713,767</u>
Total Long-Term Debt	<u>\$ 4,618,856</u>	<u>\$ 2,047,990</u>	<u>\$ -</u>	<u>\$ 1,074,624</u>	<u>\$ 5,592,222</u>	<u>\$ 963,362</u>

*Governmental activities* long-term debt payable from taxes and other general revenues at June 30, 2012 include the following:

*Notes payable:*

\$130,000 note payable to First National Bank, payable in monthly installments of \$1,500, including principal and interest at 4.05%, with one final installment of the remaining balance due July 2011	\$ 32,827
\$178,000 note payable to First National Bank, payable in monthly installments of \$1,458, including principal and interest at 5.5%, with final payment due August 2022	135,042
\$800,000 NPWA line of credit note payable to First National Bank, payable in monthly installments of \$7,677, including principal and interest at 4.40%, final payment due June 2022; repaid with restricted sales tax	727,261
Total Notes Payable	<u>\$ 895,130</u>
Current portion	99,713
Noncurrent portion	795,417
Total Notes Payable	<u>\$ 895,130</u>

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*Capital leases payable:*

\$105,565 capital lease agreement for the purchase of a Komatsu Loader, payable to Sooner State Bank in monthly installments of \$1,162, including principal and interest at 5.57%, with final payment due May 2016.	\$ 47,794
\$69,790 capital lease agreement for the purchase of two 2009 Ford Crown Victoria police cars, payable to First National Bank in monthly installments of \$1,575, including principal and interest at 3.95%, with final payment due April 2013	13,955
\$80,000 capital lease agreement for the purchase of a 2007 Ford Fire Truck, payable to First National Bank in monthly installments of \$1,523, including principal and interest at 5.24%, with final payment due August 2012.	1,481
\$91,881 capital lease agreement for the purchase of a 2009 dump truck, payable to First National Bank in monthly installments of \$1,488, including principal and interest at 5.2%, with final payment due December 2013	24,203
\$33,600 capital lease agreement for the purchase of two 2008 Ford Crown Victoria police cars, payable to First National Bank in monthly installments of \$996, including principal and interest at 4.25%, with final payment due December 2012	4,908
\$49,968 capital lease agreement for the purchase of a skid loader and planer, payable to Verden Bank of Newcastle in monthly installments of \$1,125, including principal and interest at 3.85%, with final payment due October 2012.	3,377
\$23,829 capital lease agreement for the purchase of a 2011 Chevy Pickup, payable to First National Bank of Chickasha in monthly installments of \$698, including principal and interest at 3.50%, with final payment due November 2013.	10,873
\$46,400 capital lease agreement for the purchase of 3 police cars, payable to First National Bank of Chickasha in monthly installments of \$1,360, including principal and interest at 3.50%, with final payment due April 2014.	27,608
\$371,409 capital lease agreement for the purchase of a fire truck, payable to First National Bank of Chickasha in annual installments of \$61,887, including principal and interest at 4.0%, with final payment due October 2017.	324,419
\$35,932 capital lease agreement for purchase of two 2011 Chevrolet pickups, payable to First National Bank in monthly installments of \$1,049, including principal and interest at 3.25%, with final payment due December 2014.	28,204
\$32,400 capital lease agreement for purchase of two 2010 Ford Crown Victoria, payable to First National Bank in monthly installments of \$950, including principal and interest at 3.50%, with final payment due November 2014.	24,593
\$19,261 capital lease agreement for purchase of a 2011 Chevrolet pickup, payable to First National Bank in monthly installments of \$429, including principal and interest at 3.25%, with final payment due December 2015.	16,588
<b>Total Capital Leases Payable</b>	<u><u>\$ 528,003</u></u>

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Current portion	149,882
Noncurrent portion	378,121
Total Capital Leases Payable	\$ 528,003

*Business-type activities* long-term debt payable from net revenues generated by the utility revenue and pledged sales tax include the following:

*Notes payable:*

\$250,000 note payable to First National Bank, payable in monthly installments of \$2,713, including principal and interest at 5.5%, final payment due June 2016. The note is secured by pledge revenues of the NPWA and from one percent (1%) sales tax.	\$ 114,961
\$95,000 note payable to First National Bank, payable in monthly installments of \$1,005, including principal and interest, at 4.95%, final payment due November 2016. The note is secured by pledged revenues from a one percent (1%) sales tax.	46,960
\$250,000 note payable to First National Bank, payable in monthly installments of \$2,646, including principal and interest at 4.95%, final payment due November 2016. This note is secured by pledged revenues from a one percent (1%) sales tax.	123,354
\$5,000,000 note payable to First National Bank, payable in interest-only installments currently until finished drawing on note, principal and interest, at 4.90%, final payment due September 2021.	2,340,364
\$200,000 note payable to First National Bank, payable in monthly installments of \$1,901, including principal and interest at 5.50%, final payment due July 2020. This note is secured by pledged revenues from a one percent (1%) sales tax.	147,790
\$2,463,227 note payable to OWRB, payable in interest only installments currently until finished drawing on note, principal and interest at 2.55%, with final payment due September 2030.	818,340
\$55,924 note payable to Chickasha Bank & Trust, payable in monthly installments of \$1,005, including principal and interest at 3.01%, final payment due February 2017.	51,494
\$45,819 note payable to First National Bank, payable in monthly installments of \$834, including principal and interest at 3.50%, final payment due October 2016. This note is secured by pledged revenues from a one percent (1%) sales tax.	39,411
Total Notes Payable	\$ 3,682,675
Current portion	593,280
Noncurrent portion	3,089,395
Total Notes Payable	\$ 3,682,675

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*Capital leases payable:*

\$88,113 capital lease agreement for purchase of a tractor/mower, payable to Chickasha Bank & Trust in monthly installments of \$1,951, including principal and interest at 3.01%, with final payment due March 2016.	\$	81,076
\$205,000 capital lease agreement for purchase of Okie Disposal Building, payable to First National Bank in monthly installments of \$1,919, including principal and interest at 5.25%, with final payment due July 2017.		100,970
\$43,572 capital lease agreement for purchase of a 2012 Chevrolet Tahoe, payable to Chickasha Bank & Trust in monthly installments of \$964, including principal and interest at 3.25%, with final payment due February 2016.		39,248
\$60,270 capital lease agreement for the purchase of a 2007 International Lime Truck, payable to Legacy Bank in monthly installments of \$871 including principal and interest at 5.68%, with final payment due August 2013.		11,924
\$37,500 capital lease agreement for the purchase of a sewer jetting unit, payable to First National Bank in monthly installments of \$475, including principal and interest at 3.25%, with final payment due August 2016.		31,094
\$101,944 capital lease agreement for the purchase of a backhoe, payable to Warren Power & Machinery Inc. in monthly installments of \$2,290, including principal and interest at 3.75%, with final payment due March 2015.		78,066
\$17,966 capital lease agreement for the purchase of a 2011 Chevrolet pickup, payable to First National Bank, in monthly installments of \$524, including principal and interest at 3.25%, with final payment due December 2014.		14,102
<b>Total Capital Leases Payable</b>	<b>\$</b>	<b>356,480</b>
		<u>94,500</u>
		<u>261,980</u>
<b>Total Capital Leases Payable</b>	<b>\$</b>	<b>356,480</b>

**Customer Deposits:**

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Customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable.

	129,934
Total Refundable Grant Obligation	\$ <u>129,934</u>
Current portion	25,987
Noncurrent portion	<u>103,947</u>
Total Refundable Grant Obligation	\$ <u>129,934</u>

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Long-term debt service requirements to maturity are as follows:

<u>Year Ending June 30,</u>	Governmental Activities			
	Capital		Notes Payable	
	Leases Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2013	149,882	19,353	99,713	36,035
2014	113,419	14,002	76,195	9,500
2015	79,862	10,088	79,775	28,920
2016	68,084	7,068	83,509	25,186
2017	57,206	4,681	87,450	21,246
2018-2022	59,550	2,379	497,984	44,537
2023-2027	-	-	1,947	20
<b>Totals</b>	<b>\$ 528,003</b>	<b>\$ 57,571</b>	<b>\$ 926,573</b>	<b>\$ 165,444</b>
Business Type Activities				
<u>Year Ending June 30,</u>	Capital		Notes Payable	
	Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
	Principal	Interest	Principal	Interest
2013	94,500	11,781	593,280	240,723
2014	93,358	8,467	611,108	224,849
2015	84,328	11,911	635,738	200,238
2016	60,329	2,415	659,699	174,631
2017	23,598	745	614,742	149,179
2018-2022	367	8	2,812,748	387,661
2023-2027	-	-	517,468	107,921
2028-2032	-	-	412,090	25,683
<b>Totals</b>	<b>\$ 356,480</b>	<b>\$ 35,327</b>	<b>\$ 6,856,873</b>	<b>\$ 1,510,885</b>
			<b>Less principal to drawdown (3,174,198)</b>	
			<b>\$ 3,682,675</b>	

**Component Unit – NEDA Conduit Debt:**

In August 2002, the NEDA authorized the issuance of indebtedness not-to-exceed \$625,000 for the Solidtech Animal Health, Inc. Project. The financing was used to acquire, remodel, construct, and equip a facility owned by the NPWA and leased to Solidtech Animal Health Inc. The terms of the note purchase agreement between the NEDA and Chickasha Bank and Trust Company, dated September 1, 2002, includes interest at a 6% rate adjusted every five years to 1.25% above the national prime lending rate. The adjusted rate shall not exceed 9.75% nor drop below 6%. The note is secured by a mortgage on the subject real estate and has been assigned to the trustee bank. This note does not constitute an indebtedness, general or special, or obligation, legal or moral, of the City of Newcastle or the State of Oklahoma, or any subdivision or agency thereof nor a personal obligation of the Trustees of the authority nor a general obligation of the Authority, but is a limited and special obligation of the Authority payable solely from the revenues and receipts derived by the Authority with respect to the Facilities Lease Agreement and the Contract. As a result of the non-commitment determination, the Authority's indebtedness and related receivables from the occupants are not recorded in the financial statements.

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\$625,000 note payable to Chickasha Bank and Trust Company, payable in monthly installments of \$4,570, with final payment due September 2022.

Balance outstanding at June 30, 2012      \$      413,381

**Component Unit – NEDA Conduit Debt:**

In April 2010, the NEDA authorized the issuance of indebtedness of \$3,865,000 and \$155,000 for the purpose of providing funds for the I-1 school district, McClain County, Oklahoma (“Newcastle Public Schools”). The financing was used to construct, equip, repair and remodel school buildings, acquire school furniture, fixtures and equipment and acquiring and improving school sites. The terms of the revenue bonds agreement, dated on or about April 14, 2010, includes interest ranging from 4.224% to 5.895%. The bonds are secured by a lease on the subject property. These bonds do not constitute an indebtedness, general or special, or obligation, legal or moral, of the City of Newcastle or the State of Oklahoma, or any subdivision or agency thereof nor a personal obligation of the Trustees of the Authority nor a general obligation of the Authority, but is limited and special obligation of the Authority payable solely from the revenues and receipts derived by the Authority with respect to the Ground Lease Agreement. As a result of the non-commitment determination, the Authority’s indebtedness and related receivables from the occupants are not recorded in the financial statements.

\$3,865,000 revenue bonds payable to Bancfirst, payable in semi-annual installments of \$17,936, with final payment due September 2022; and

\$155,000 revenue bonds payable to Bancfirst, payable in one payment due September 2014.

Balances outstanding at June 30, 2012      \$3,865,000 and \$155,000

**Pledge of Future Revenues**

**Sales Tax and Utility Net Revenues Pledge** - The City has pledged one cent (or 25%) of future sales tax revenues and revenues of the Authority (bank fees, charges, governmental charges, utility charges, and taxes) to repay the \$250,000 of the Revenue Note 2006 Series, \$250,000 Revenue Note 2006 Series, \$95,000 Revenue Note Series 2006, and \$200,000 Revenue Note 2008 Series. Proceeds from the notes provided financing for capital assets. The notes are payable from pledged sales tax revenues and utility revenues of the NPWA and are payable through 2016, 2016, 2016 and 2020, respectively. The total principal and interest payable for the remainder of the life of these notes is \$503,926. Pledged sales taxes received in the current year were \$2,451,537 and pledged revenues from the Authority were \$2,702,718. Debt service payments of \$129,500 for the current fiscal year were 2.5% of pledged sales taxes, utility revenues and investment income of \$5,154,255.

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**5. Sales Tax Revenue**

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the City, of which 1 cent is voter-restricted for debt service on NPWA debt, ½ cent is voter-restricted for fire improvements, and ½ cent is voter-restricted for capital improvements in accordance with a City ordinance. Three cents of the sales tax is received and recorded in the General Fund, ½ cent is recorded in the Fire Department Tax Fund, and ½ cent is recorded in the Capital Improvement Sales Tax Fund. One cent is transferred from the General Fund to the NPWA for debt service. The unused sales tax is then transferred back to the General Fund.

**6. Property Tax Levy**

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

**7. Internal and Interfund Balances and Transfers**

*Balances:*

Interfund receivables and payables at June 30, 2012 were comprised of the following:

Due From	Due To	Amount	Nature of Balance
Phase 2 OKC Waterline	General	\$ 17,207	Claims paid on behalf of others
Phase 2 OKC Waterline	NPWA	123,033	Claims paid on behalf of others
Sewer Impact Fund	Water Impact Fund	24,999	Fees posted to wrong fund
Total		\$ 165,239	

**Reconciliation to Fund Financial Statements:**

	Due From	Due To	Net Internal Balances
Governmental Funds	\$ 17,207	\$ -	\$ 17,207
Proprietary Funds	148,032	(165,239)	(17,207)
Total	\$ 165,239	\$ (165,239)	\$ -

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*Transfers:*

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
	NPWA	\$ 791,340	One-sided transfer of debt balance
General Fund	NPWA	2,451,537	Sales and use tax transfer
General Fund	NPWA	7,803	Debt activity transfer
NPWA	General Fund	1,680,000	Operating transfer
Phase 2 OKC	NPWA	112,944	Pipeline construction transfer
NPWA	Phase 2 OKC	77,855	Debt activity transfer
NPWA	Capital Improvement Tax Fund	1,548	Capital outlay transfer
Fire Restricted Sales Tax Fund	General Fund	612,884	Sales tax transfer for fire
Total		<u>\$ 5,735,911</u>	

**Reconciliation to Fund Financial Statements:**

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 2,294,442	\$ (3,072,224)	\$ (777,782)
Proprietary Funds	3,441,469	(1,872,347)	1,569,122
	<u>5,735,911</u>	<u>(4,944,571)</u>	<u>791,340</u>
One-sided transfer of long-term debt reclassified as governmental	-	(791,340)	(791,340)
	<u>\$ 5,735,911</u>	<u>\$ (5,735,911)</u>	<u>\$ -</u>

**8. Fund Equity**

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions and Proprietary Fund Statement of Net Assets:

	General Fund	Capital Improvement Tax Fund	Other Governmental Fund	Total
Fund Balance:				
Restricted For:				
Capital projects	\$ -	\$ 652,829	\$ -	\$ 652,829
Cemetery capital	-	-	6,765	6,765
Sub-total Restricted	<u>-</u>	<u>652,829</u>	<u>6,765</u>	<u>659,594</u>
Assigned to:				
Future year's budget	200,000	-	-	200,000
Sub-total Assigned	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Unassigned	67,843	-	-	67,843
Total Fund Balance	<u>\$ 267,843</u>	<u>\$ 652,829</u>	<u>\$ 6,765</u>	<u>\$ 927,437</u>

**Enterprise Funds:**

Restricted for Capital Projects

\$ 618,603

Total Enterprise Fund Restrictions

\$ 618,603

**9. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The City manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. The City's risk is transferred to the risk entity pool except for claim deductible amounts. The risk pool maintains deposits for claims reserves and other purposes for the benefit of the City. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**10. Pension Plan Participation**

The City of Newcastle participates in four pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. City of Newcastle Retirement and Savings Plan (the City Plan) – a defined contribution benefit plan
4. Oklahoma Municipal Retirement System Defined Contribution Plan (OMRF) - an agent multiple-employer defined contribution plan

*OFPRS:*

*Plan Summary Information.* The City of Newcastle, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters. The City has no responsibility or authority for the operation or administration of the pension program nor has it any related liability, except for the current contribution requirements.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

*Funding Policy.* The City is required by state law to contribute 13% of covered payroll per year for each fulltime firefighter. Employees contribute 8% of covered payroll. For volunteer firefighters, the City is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The OFPRS contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2010	\$ 88,926	\$ 88,926
2011	\$ 88,747	\$ 88,747
2012	\$ 94,904	\$ 94,904

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**OPPRS:**

*Plan Summary Information.* The City of Newcastle, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers. The City has no responsibility or authority for the operation or administration of the pension program nor has it any related liability, except for the current contribution requirements.

The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

**OPPRS**

1001 N.W. 63<sup>rd</sup> St., Suite 305  
Oklahoma City, OK 73116-7335

*Funding Policy.* The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The OPPRS contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2010	\$ 83,967	\$ 83,967
2011	\$ 85,652	\$ 85,652
2012	\$ 86,689	\$ 86,689

***The City Plan:***

The City of Newcastle maintains a defined contribution retirement/savings plan (the "City Plan") which covers substantially all employees not covered by other retirement plans. The City Plan is an elective plan with participants vesting in the City's contributions as follows:

Years of Service	Vested Percentage
Less than 1 Year	0%
1 year but less than 2 years	20%
2 years but less than 3 years	40%
3 years but less than 4 years	60%
4 years but less than 5 years	80%
5 years or more	100%

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Plan members are required to contribute a minimum of 3.0%, and up to 100% of compensation, however, federal law limits employee contributions to a maximum amount of \$16,500 for 2012. The City contributes 5.0% of annual covered payroll. The contribution requirements of the City are established and may be amended by the City Council. For fiscal year 2012, the City and NPWA contributed a total of \$69,631 to the plan, while employees contributed an aggregate of \$110,195.

*OMRF Defined Contribution Plan:*

For the year ending June 30, 2008, the City began providing a defined contribution plan and trust known as the City of Newcastle Plan and Trust (the "OMRF Plan") in the form of The Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) available only to the city manager. OMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered the City Council and plan assets are supervised by OMRF. The City Council determines the City's contribution rate each year. City contributions begin vesting immediately. The authority to amend the provisions of the plan rests with the City Council.

Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2010	\$ 6,160	\$ 6,160
2011	\$ 6,288	\$ 6,288
2012	\$ 6,638	\$ 6,638

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Drive, Suite 320, Oklahoma City, Oklahoma, 73105.

*City of Newcastle Deferred Compensation Plan (457)*

The City has provided effective July 1, 2010 a deferred compensation plan known as the City of Newcastle Deferred Compensation Plan (457) (the "Plan"). The Plan is administered by the City and the plan assets are supervised by Nationwide Retirement Solutions. The deferred compensation plan is available to all employees. The City does not contribute to this plan, only participating employees can make contributions. The authority to establish and amend the provisions of the Plan rests with the City Council.

Contribution Information

Fiscal Year	Required Contribution	Amount Contributed
2011	\$ 7,381	\$ 7,381
2012	\$ 69,631	\$ 69,631

## **11. Commitments and Contingencies**

### *Compensated Absences:*

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and compensatory leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2012, is summarized as follows:

- General Fund – accrued compensated absences \$150,411
- NPWA – accrued compensated absences \$82,082

### *Litigation:*

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

### *Federal and State Award Programs:*

The City of Newcastle participates in various federal or state grant/loan programs from year to year. In 2011, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The City has not been notified of any noncompliance with federal or state award requirements.

### *Construction Commitments:*

The NPWA had committed to water system improvements at June 30, 2012. At year end, \$206,116 of the project was outstanding.

**SUPPLEMENTARY INFORMATION**

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**Budgetary Comparison Schedule (Purpose Based) – Year Ended June 30, 2012**

CITY OF NEWCASTLE				
<u>SOURCES OF INCOME AND REVENUE</u>	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET and ACTUAL VARIANCE</u>
Program revenue	\$ 627,930	\$ 1,031,464	\$ 957,997	\$ (73,467)
Restricted general revenue	3,357,382	3,705,446	3,702,196	(3,250)
Unrestricted general revenue	1,487,700	1,645,700	1,762,453	116,753
Debt proceeds	166,000	166,000	175,611	9,611
Contributions	-	-	91,667	91,667
Transfers in	2,205,000	2,205,000	2,243,014	38,014
Net asset carryover	1,511,257	1,511,257	1,511,257	-
<b>TOTALS - ALL SOURCES</b>	<b>\$ 9,355,269</b>	<b>\$ 10,264,867</b>	<b>\$ 10,444,195</b>	<b>\$ 179,328</b>
<b><u>USES OF INCOME AND REVENUE</u></b>				
Streets	\$ 851,257	\$ 1,099,862	\$ 1,057,037	\$ 42,825
Vehicle maintenance	122,095	128,295	127,143	1,152
General government	1,183,402	1,243,452	1,240,233	3,219
Police	1,224,960	1,359,240	1,365,284	(6,044)
Fire	1,092,269	1,164,509	1,160,411	4,098
Planning and engineering	50,750	51,250	52,696	(1,446)
Animal control	39,679	68,490	59,916	8,574
Parks and recreation	43,700	67,450	56,407	11,043
Municipal court	62,211	65,561	65,743	(182)
Sr. Citizens	16,000	16,000	15,182	818
Transportation services	-	32,000	33,333	(1,333)
Community development	-	162,579	199,399	(36,820)
Capital outlay	775,000	1,141,543	861,012	280,531
Debt service	157,892	248,833	246,559	2,274
Other financing sources - transfer out	2,688,000	3,012,569	3,012,568	1
<b>TOTALS - CURRENT YEAR USES</b>	<b>\$ 8,307,215</b>	<b>\$ 9,861,633</b>	<b>\$ 9,552,923</b>	<b>\$ 308,710</b>

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**Reconciliation of Budgetary Comparison Schedule (Purposed Based) to the Governmental Fund  
Financial Statements – Year Ended June 30, 2012**

	Per Statement of Revenues, Expenditures, and Changes in Fund Balance	To Clear Payroll Clearing and Account Payable Accounts	To Clear Capital Imp Fund Transfers	To Adjust CLEET Payable	To Reclassify Debt Payments	To Reclassify Capital Outlay	Unrecorded Debt Proceeds	To Clear Voided Checks	Per Budgetary Comparison Schedule
<b>Resources (Inflows):</b>									
Total Revenues	\$ 6,516,482	\$ -	\$ -	\$ (2,169)	\$ -	\$ -	\$ -	\$ -	\$ 6,514,313
Loan Proceeds	87,593	-	-	-	-	-	88,018	-	175,611
Contributions	-	-	-	-	-	-	-	-	-
Transfers In	2,294,442	-	(51,428)	-	-	-	-	-	2,243,014
Net asset carryover	1,511,257	-	-	-	-	-	-	-	1,511,257
<b>Total Revenues and Other Financing Sources</b>	<b>10,409,774</b>	<b>-</b>	<b>(51,428)</b>	<b>(2,169)</b>	<b>-</b>	<b>-</b>	<b>88,018</b>	<b>-</b>	<b>10,444,195</b>
<b>Charges to Appropriations (Outflows):</b>									
Total Expenditures	5,388,217	8,896	-	-	-	10,003	(95)	25,763	5,432,784
Capital outlay	782,902	-	-	-	-	(10,003)	88,113	-	861,012
Debt service	238,756	-	-	-	7,803	-	-	-	246,559
Transfers Out	3,072,224	-	(51,853)	-	(7,803)	-	-	-	3,012,568
<b>Total Expenditures and Other Financing Uses</b>	<b>9,482,099</b>	<b>8,896</b>	<b>(51,853)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>88,018</b>	<b>25,763</b>	<b>9,552,923</b>
<b>Ending Fund Balance</b>	<b>\$ 927,675</b>	<b>\$ (8,896)</b>	<b>\$ 425</b>	<b>\$ (2,169)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (25,763)</b>	<b>\$ 891,272</b>

**Footnotes to Budgetary Comparison Schedules:**

1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements, and the format is purposed based budgeting. For budgetary comparison purposes, the City considers all encumbrances to lapse at year-end; therefore encumbrances are not considered expenditures for budgetary comparison purposes. However, the City will reappropriate the lapsed encumbrances in the subsequent year budget. The difference of results between the governmental fund financial statements to the purpose based budget is explained in the reconciliation following the budgetary comparison schedule.

2. The legal level of appropriation control is at the purpose level within the City budget. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require City Council approval.

3. In the General Fund, the City had negative variances in the following departments and for the following amount:

General Fund – Police	(6,044)
General Fund – Planning and Engineering	(1,446)
General Fund – Municipal Court	(182)
General Fund – Transportation Services	(1,333)
General Fund – Community Development	(36,820)

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**Combining Balance Sheet – Non-Major Governmental Funds (Modified Cash Basis) – June 30, 2012**

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Newcastle Fire Dept. Tax Fund</u>	<u>Cemetery Care Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 6,765	\$ 6,765
Investments	-	-	-
Total assets	<u>-</u>	<u>6,765</u>	<u>6,765</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
<b>Fund balances:</b>			
Restricted	-	6,765	6,765
Total fund balances (deficits)	<u>-</u>	<u>6,765</u>	<u>6,765</u>
<b>Total liabilities and fund balances</b>	<u>\$ -</u>	<u>\$ 6,765</u>	<u>\$ 6,765</u>

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**Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>Special Revenue Fund</u>	<u>Capital Project Fund</u>	
	<u>Newcastle Fire Dept. Tax Fund</u>	<u>Cemetery Care Fund</u>	<u>Total-Other Governmental Funds</u>
<b>REVENUES</b>			
Taxes	\$ 612,884	\$ -	\$ 612,884
Intergovernmental	-	-	-
Charges for services	-	3,656	3,656
Investment earnings	-	10	10
Miscellaneous	-	-	-
Total revenues	<u>612,884</u>	<u>3,666</u>	<u>616,550</u>
<b>EXPENDITURES</b>			
Total Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	612,884	3,666	616,550
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers out	(612,884)	-	(612,884)
Total other financing sources and uses	<u>(612,884)</u>	<u>-</u>	<u>(612,884)</u>
Net change in fund balances	-	3,666	3,666
Fund balances (deficits) - beginning	-	3,099	3,099
Fund balances (deficits) - ending	<u>\$ -</u>	<u>\$ 6,765</u>	<u>\$ 6,765</u>

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**Combining Statement of Net Assets – Non-Major Enterprise Funds (Modified Cash Basis) – June 30, 2012**

	<u>Sewer Impact Fees</u>	<u>Water Impact Fees</u>	<u>Phase 2 OKC Pipeline</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 160,050	\$ 160,050
Restricted:				
Cash and cash equivalents	135,302	613,173	-	748,475
Due from other funds	-	24,999	-	24,999
Total current assets	<u>135,302</u>	<u>638,172</u>	<u>160,050</u>	<u>933,524</u>
Total assets	<u>135,302</u>	<u>638,172</u>	<u>160,050</u>	<u>933,524</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Due to other funds	24,999	-	140,240	165,239
Notes payable	-	-	71,740	71,740
Total current liabilities	<u>24,999</u>	<u>-</u>	<u>211,980</u>	<u>236,979</u>
Non-current liabilities:				
Notes payable	-	-	746,601	746,601
Total non-current liabilities	<u>-</u>	<u>-</u>	<u>746,601</u>	<u>746,601</u>
Total liabilities	<u>24,999</u>	<u>-</u>	<u>958,581</u>	<u>983,580</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	-	-	(818,341)	(818,341)
Restricted for capital projects	110,303	638,172	-	748,475
Unrestricted	-	-	19,810	19,810
Total net assets	<u>\$ 110,303</u>	<u>\$ 638,172</u>	<u>\$ (798,531)</u>	<u>\$ (50,056)</u>

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**Combining Statement of Revenues, Expenses and Changes in Net Assets – Non-Major Enterprise Funds (Modified Cash Basis) – Year Ended June 30, 2012**

	<u>Sewer Impact Fees</u>	<u>Water Impact Fees</u>	<u>Phase 2 OKC Pipeline</u>	<u>Total</u>
<b>REVENUES</b>				
Charges for services:				
Pledged as security:				
Fees, taps and penalties	\$ 28,000	\$ 100,400	-	\$ 128,400
Total operating revenues	<u>28,000</u>	<u>100,400</u>	<u>-</u>	<u>128,400</u>
<b>OPERATING EXPENSES</b>				
General government	-	-	-	-
Administration	-	-	-	-
Water	-	-	-	-
Wastewater	-	-	-	-
Total Operating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Operating income	28,000	100,400	-	128,400
<b>NON-OPERATING REVENUES (EXPENSES)</b>				
Interest and investment revenue	244	1,228	-	1,472
Total non-operating revenue (expenses)	<u>244</u>	<u>1,228</u>	<u>-</u>	<u>1,472</u>
Income before transfers	28,244	101,628	-	129,872
Transfers in	-	-	77,855	77,855
Transfers out	<u>-</u>	<u>-</u>	<u>(112,944)</u>	<u>(112,944)</u>
Change in net assets	28,244	101,628	(35,089)	94,783
Total net assets - beginning	82,059	536,544	(763,442)	(144,839)
Total net assets - ending	<u>\$ 110,303</u>	<u>\$ 638,172</u>	<u>\$ (798,531)</u>	<u>\$ (50,056)</u>

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**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2012**

Federal/State Grantor/Pass Through Agency Grantor/Program Title	CFDA #	Project or Award Number	Award Amount	Awards Expended
<b>FEDERAL AWARDS:</b>				
U.S. DEPARTMENT OF JUSTICE:				
Passed through District Attorneys Council:				
Bulletproof Vest Partnership Program	16.607	2011BUBX11056945	\$ 4,693	\$ 4,280
			<u>\$ 4,693</u>	<u>\$ 4,280</u>
FEDERAL HIGHWAY ADMINISTRATION:				
Passed through Oklahoma Department of Transportation:				
State and Community Highway Safety	20.600	SE-12-03-05-02	9,000	5,108
National Highway Traffic Safety Administration Discretionary Safety Grants	20.614	CE-12-03-20-02	3,000	1,675
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	K8-11-03-04-01 & SRS-155F	18,000	6,279
Safe Routes to School	20.205	(710)ST	\$ 130,000	\$ 9,152
			<u>\$ 160,000</u>	<u>\$ 22,214</u>
ENVIRONMENTAL PROTECTION AGENCY:				
Passed through Oklahoma Water Resources Board:				
	66.468	N/A	\$ 97,944	\$ 97,944
			<u>\$ 97,944</u>	<u>\$ 97,944</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through Oklahoma Housing Finance Agency:				
HOME Investment Partnership Program	14.239	1331-HOME-10	\$ 260,000	\$ 199,399
			<u>\$ 260,000</u>	<u>\$ 199,399</u>
DEPARTMENT OF HOMELAND SECURITY:				
Passed through Oklahoma Civil Emergency Management:				
Disaster Assistance - emergency protective measures	97.036	PA-1989-00051D	\$ 42,587	\$ 42,587
Disaster Assistance - emergency protective measures	97.036	PA-1989-00029(0)	2,689	2,689
Disaster Assistance - emergency protective measures	97.036	PA-1989-00090(0)	9,520	9,520
Disaster Assistance - emergency protective measures	97.036	PA-1989-00049(0)	18,374	18,374
Disaster Assistance - emergency protective measures	97.036	PA-1989-00050(0)	856	856
Disaster Assistance - emergency protective measures	97.036	PA-1989-00053(0)	165,681	165,681
Disaster Assistance - emergency protective measures	97.036	PA-1989-00011(0) & PA-1989-00012(0)	3,199	3,199
Disaster Assistance - emergency protective measures	97.036	PA-1989	3,117	3,117
Disaster Assistance - emergency protective measures	97.036	PA-1989	1,804	1,804
Disaster Assistance - emergency protective measures	97.036	PA-1989	2,462	2,462
Disaster Assistance - emergency protective measures	97.036	PA-1876-00236	1,567	1,567
Disaster Assistance - emergency protective measures	97.036	PA-2799-00010	950	950
Hazard Mitigation	97.036	FEMA-1883-DR-OK	41,714	25,558
Subtotal CFDA 97.036			<u>294,520</u>	<u>278,364</u>
Hazard Mitigation	97.039	FEMA-1917-DR-OK	34,263	18,159
Total FEMA			<u>\$ 328,783</u>	<u>\$ 296,523</u>
<b>TOTAL FEDERAL AWARDS</b>			<u>\$ 851,420</u>	<u>\$ 620,360</u>
<b>STATE AWARDS:</b>				
STATE OF OKLAHOMA FORESTRY SERVICES:				
Firefighter Grant	N/A	N/A	\$ 4,413	\$ 4,413
<b>TOTAL STATE AWARDS</b>			<u>\$ 4,413</u>	<u>\$ 4,413</u>

See accompanying notes to this schedule.

**INTERNAL CONTROL AND COMPLIANCE SECTION**



**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**

To the City Council  
City of Newcastle, Oklahoma

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newcastle, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the City of Newcastle, Oklahoma's basic financial statements and have issued our report thereon dated June 14, 2013. The City of Newcastle, has prepared its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Newcastle, Oklahoma'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 Newcastle, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Newcastle, Oklahoma's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether City of Newcastle, Oklahoma's modified cash basis 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*HBC CPAs & Advisors*

June 14, 2013



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council  
City of Newcastle, Oklahoma

Compliance

We have audited City of Newcastle, Oklahoma's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Newcastle, Oklahoma's major federal programs for the year ended June 30, 2012. City of Newcastle, Oklahoma's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Newcastle, Oklahoma's management. Our responsibility is to express an opinion on City of Newcastle, Oklahoma's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Newcastle, Oklahoma's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Newcastle, Oklahoma's compliance with those requirements.

In our opinion, City of Newcastle, Oklahoma, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of City of Newcastle, Oklahoma, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Newcastle, Oklahoma's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Newcastle, Oklahoma's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

City of Newcastle, Oklahoma's responses to the finding identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit City of Newcastle, Oklahoma's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, City Council, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*HBC CPAs & Advisors*

June 14, 2013

**CITY OF NEWCASTLE  
Newcastle, Oklahoma**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012**

**SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an unqualified opinion on the modified cash basis financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Newcastle.
2. No significant deficiencies relating 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*".
3. No instances of noncompliance material to the financial statements of the City of Newcastle, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133".
5. The auditor's report on compliance for the major federal award programs for the City of Newcastle expresses an unqualified opinion on all major federal programs.
6. No audit findings, that are required to be reported in accordance with Section 510(a) of OMB Circular A-133, are reported in this Schedule.
7. The programs tested as major programs included:
  - Department of Homeland Security Disaster Grants-Public Assistance – CFDA No. 97.036
  - Environmental Protection Agency (ARRA funds) passed through Oklahoma Water Resource Board – CFDA No. 66.468.
8. The threshold used for distinguishing between Types A and B programs was \$300,000.
9. The City of Newcastle did not qualify as a low-risk auditee.

**FINDINGS - FINANCIAL STATEMENT AUDIT**

1. None

**FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

1. None

**CITY OF NEWCASTLE  
Newcastle, Oklahoma**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2012**

There were no prior year audit findings.