City of

Newcastle, Oklahoma

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

THE CITY OF NEWCASTLE, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

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HBC CPAs & Advisors

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, 2011, 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, 2011, 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 February 9, 2012 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.

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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 enterprise fund schedules-modified cash basis 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 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
February 9, 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, 2011. 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 $1,141,099, and the assets of the City exceed its liabilities at June 30, 2011, by $16,033,681 (net assets). Of this amount, $1,686,551 (unrestricted net assets) is available to meet the government's ongoing needs.

- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of $1,511,257.

- At the end of fiscal year 2011, unreserved fund balance on a modified cash basis for the General Fund was $735,496 or 16.7% of General Fund revenues.

ABOUT THE CITY

The City of Newcastle is an incorporated municipality with a population of approximately 7,685 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 25-46 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.

THE CITY AS A WHOLE

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased $1,141,099.

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, 2011

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	$ 1,536	$ 2,158	-29%	$ 1,693	$ 1,222	39%	$ 3,229	$ 3,380	-4%
Capital assets, net	9,458	7,580	25%	7,991	6,464	24%	17,449	14,044	24%
Total assets	10,994	9,738	13%	9,684	7,686	26%	20,678	17,424	19%
Current liabilities	25	36	-31%	-	130	-100%	25	166	-85%
Non-current liabilities	812	505	61%	3,807	1,860	105%	4,619	2,365	95%
Total liabilities	837	541	55%	3,807	1,990	91%	4,644	2,531	83%
Net assets									
Invested in capital assets, net of related debt	8,645	7,075	22%	4,307	4,200	3%	12,952	11,275	15%
Restricted	776	1,041	-25%	619	438	41%	1,395	1,479	-6%
Unrestricted	736	1,081	-32%	951	1,058	-10%	1,687	2,139	-21%
Total net assets	$ 10,157	$ 9,197	10%	$ 5,877	$ 5,696	3%	$ 16,034	$ 14,893	8%

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 $12,952,766.

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.

A portion of the City's net assets, $1,394,364, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $1,686,551, may be used to meet the government's ongoing needs.

Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2011

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Charges for service	$ 526	$ 478	10%	$ 2,614	$ 2,178	20%	$ 3,140	$ 2,656	18%
Operating grants and contributions	252	165	53%	-	-	-	252	165	53%
Capital grants and contributions	10	-	100%	-	591	-100%	10	591	-98%
Taxes	4,663	4,590	2%	-	-	-	4,663	4,590	2%
Intergovernmental revenue	88	85	4%	-	-	-	88	85	4%
Investment income	24	29	-17%	10	13	-23%	34	42	-19%
Miscellaneous	81	154	-47%	3	3	0%	84	157	-46%
Total revenues	5,644	5,501	3%	2,627	2,785	-6%	8,271	8,286	0%
Expenses									
General government	1,150	1,060	8%	-	-	-	1,150	1,060	8%
Public safety	2,750	2,513	9%	-	-	-	2,750	2,513	9%
Streets	940	970	-3%	-	-	-	940	970	-3%
Culture, parks and recreation	67	76	-12%	-	-	-	67	76	-12%
Cemetery	23	7	100%	-	-	-	23	7	0%
Interest on long-term debt	24	31	-23%	-	-	-	24	31	-23%
Water	-	-	-	1,555	1,435	8%	1,555	1,435	8%
Wastewater	-	-	-	294	315	-7%	294	315	-7%
Sanitation	-	-	-	327	348	-6%	327	348	-6%
Total expenses	4,954	4,657	6%	2,176	2,098	4%	7,130	6,755	6%
Excess (deficiency) before transfers	690	844	-18%	451	687	-34%	1,141	1,531	-25%
Transfers	270	(483)	-156%	(270)	483	-156%	-	-	-
Change in net assets	960	361	166%	181	1,170	-85%	1,141	1,531	-25%
Beginning net assets	9,197	8,836	4%	5,696	4,526	26%	14,893	13,362	11%
Ending net assets	$ 10,157	$ 9,197	10%	$ 5,877	$ 5,696	3%	$ 16,034	$ 14,893	8%

Governmental Activities

The City's governmental activities had an increase in net assets of $959,695. The increase in operating grants and contributions of 53% is primarily due to Federal Highway Administration grant in the amount of $130,000. The miscellaneous income decrease of 47% is due primarily to prior year gain on sale of capital assets.

Business-type Activities

The business-type activities had an increase in net assets of $181,404 increase from prior year. The increase in charges for service is due primarily to water revenue exceeding budget estimates by $379,751. The decrease in capital grants and contributions of 100% is due to a grant in the prior year from the ARRA program in the amount of $590,938.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of $1,511,257. For the year ended June 30, 2011, the General Fund's total fund balance decreased by $108,916 to $735,496 or 16.7% of annual revenues.

Budgetary Highlights

For the year ended June 30, 2011, the City of Newcastle reported actual budgetary basis revenues under final estimates by $347,523 or a 3% negative variance. Actual expenditures were under final appropriations by $615,709 or a 6.1% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the City had approximately $17.4 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 $3,404,345 from last year.

Below are details regarding the change in the City's capital assets for the year ended June 30, 2011.[1]

Capital Assets
(In Thousands)
(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 598	$ 540	$ 19	$ 19	$ 617	$ 559
Buildings	1,468	1,518	3,994	4,164	5,462	5,682
Imp. other than buildings	-	-	7	7	7	7
Machinery, furniture and equipment	1,011	733	728	721	1,739	1,454
Infrastructure	4,957	4,753	-	-	4,957	4,753
Utility property	-	-	256	270	256	270
Construction in progress	1,424	37	2,987	1,283	4,411	1,320
Totals	$ 9,458	$ 7,581	$ 7,991	$ 6,464	$ 17,449	$ 14,045

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

- Caterpillar Backhoe - $101,944
- Street improvements - $360,481
- Rescue Pumper - $371,409
- Police Department building - $1,372,338
- Phase II OKC Pipeline - $1,394,430
- Water Line improvements - $281,807

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

Debt Administration

At year-end, the City had $4,495,811 in long-term debt outstanding, reported on a modified cash basis, which represents a $2,130,221 increase from the prior year, resulting from normal debt retirements and the issuance of $2,845,116 of new notes and leases in 2011.

Long-Term Debt
(In Thousands)

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2011	2010	2011	2010	2011	2010	2010-2011
Notes payable	194	219	3,389	1,561	3,583	1,780	101.3%
Capital leases	618	286	295	299	913	585	56.1%
Totals	$ 812	$ 505	$ 3,684	$ 1,860	$ 4,496	$ 2,365	90.1%

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, 2011, the City's adopted budget is fairly consistent with the 2010 year.
- The City will continue with the new Oklahoma City waterline project with estimated expenses of $4.6 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.

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE

Statement of Net Assets (Modified Cash Basis)– June 30, 2011

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Newcastle Economic Development Authority
ASSETS				
Cash and cash equivalents	$ 1,519,137	$ 1,709,909	$ 3,229,046	8,242
Internal Balances	17,207	(17,207)	-	-
Capital Assets:				
Land and construction in progress	2,021,957	3,006,860	5,028,817	-
Other capital assets, net of depreciation	7,435,562	4,984,199	12,419,761	-
Total Assets	10,993,863	9,683,761	20,677,624	8,242
LIABILITIES				
Due to other governments	3,439	-	3,439	-
Due to bondholders	21,648	-	21,648	-
Long-term liabilities:				
Due within one year	183,216	635,784	819,000	-
Due in more than one year	629,057	3,170,799	3,799,856	-
Total liabilities	837,360	3,806,583	4,643,943	-
NET ASSETS				
Invested in capital assets, net of related debt	8,645,246	4,307,520	12,952,766	-
Restricted for:				
Enabling legislation	772,662	618,603	1,391,265	-
Statutory requirements	3,099	-	3,099	-
Unrestricted	735,496	951,055	1,686,551	8,242
Total net assets	$ 10,156,503	$ 5,877,178	$ 16,033,681	$ 8,242

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

		Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Newcastle Economic Development Authority
Primary government								
Governmental Activities								
General Government	$ 1,149,951	$ 118,585	$ -	$ -	$ (1,031,366)	$ -	$ (1,031,366)	$ -
Public Safety	2,749,771	359,716	115,137	9,800	(2,265,118)	-	(2,265,118)	-
Streets	941,385	-	136,493	-	(804,892)	-	(804,892)	-
Culture and Recreation	67,140	22,983	-	-	(44,157)	-	(44,157)	-
Cemetery	22,657	24,750	-	-	2,093	-	2,093	-
Interest on Long-term debt	23,578	-	-	-	(23,578)	-	(23,578)	-
Total governmental activities	4,954,482	526,034	251,630	9,800	(4,167,018)	-	(4,167,018)	-
Business-type activities:								
Water	1,554,215	2,004,327	-	-	-	450,112	450,112	-
Wastewater	293,824	138,293	-	-	-	(155,531)	(155,531)	-
Sanitation	326,832	471,183	-	-	-	144,351	144,351	-
Total business-type activities	2,174,871	2,613,803	-	-	-	438,932	438,932	-
Total primary government	7,129,353	3,139,837	251,630	9,800	(4,167,018)	438,932	(3,728,086)	-
Component Unit:								
Newcastle Economic Development	2,000	-	-	-	-	-	-	(2,000)
General revenues:								
Taxes:								
Sales and use taxes					$ 4,382,750	$ -	$ 4,382,750	$ -
Franchise taxes and public service taxes					268,540	-	268,540	-
Hotel/motel taxes					11,388	-	11,388	-
Intergovernmental revenue not restricted to specific programs					88,207	-	88,207	-
Investment income					24,493	9,904	34,397	67
Miscellaneous					81,083	2,820	83,903	584
Transfers					270,252	(270,252)	-	-
Total general revenues and transfers					5,126,713	(257,528)	4,869,185	(1,349)
Change in net assets					959,695	181,404	1,141,099	(1,349)
Net assets - beginning					9,196,808	5,695,774	14,892,582	9,591
Net assets - ending					$ 10,156,503	$ 5,877,178	$ 16,033,681	$ 8,242

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	General Fund	Capital Improvement Tax Fund	Newcastle Educational Facilities Authority (NEFA)	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	$ 743,376	$ 772,662	$ -	$ 3,099	$ 1,519,137
Due from other funds	17,207	-	-	-	17,207
Total assets	760,583	772,662	-	3,099	1,536,344
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to bondholders	21,648	-	-	-	21,648
Payable to other governments	3,439	-	-	-	3,439
Total liabilities	25,087	-	-	-	25,087
Fund balances:					
Restricted	-	772,662	-	3,099	775,761
Unassigned	735,496	-	-	-	735,496
Total fund balances	735,496	772,662	-	3,099	1,511,257
Total liabilities and fund balances	$ 760,583	$ 772,662	$ -	$ 3,099	$ 1,536,344

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2011

	General Fund	Capital Improvement Tax Fund	Newcastle Educational Facilities Authority (NEFA)	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	$ 3,606,340	$ 547,838	$ -	$ 547,838	$ 4,702,016
Intergovernmental	249,637	-	-	-	249,637
Charges for services	95,223	-	-	3,094	98,317
Fines and forfeitures	325,882	-	-	-	325,882
Licenses and permits	61,373	-	-	-	61,373
Investment income	15,382	9,106	-	5	24,493
Miscellaneous	51,467	-	30,740	-	82,207
Total revenues	4,405,304	556,944	30,740	550,937	5,543,925
EXPENDITURES					
Current:					
General government	969,061	-	-	-	969,061
Police	1,388,168	-	-	-	1,388,168
Fire	1,070,830	-	-	-	1,070,830
Streets	728,250	-	-	-	728,250
Municipal court	60,393	-	-	-	60,393
Cemetery	36,135	-	-	-	36,135
Animal control	38,042	-	-	-	38,042
Parks and receation	30,905	2,000	-	-	32,905
Planning and engineering	49,311	-	-	-	49,311
Vehicle maintenance	107,810	-	-	-	107,810
Sr. Citizens	-	15,307	-	-	15,307
Capital Outlay	1,971,296	339,688	-	-	2,310,984
Debt Service:					
Principal	135,379	-	-	-	135,379
Interest and other charges	23,578	-	-	-	23,578
Total Expenditures	6,609,158	356,995	-	-	6,966,153
Excess (deficiency) of revenues over expenditures	(2,203,854)	199,949	30,740	550,937	(1,422,228)
OTHER FINANCING SOURCES (USES)					
Loan proceeds	441,638	-	-	-	441,638
Contributions	100,000	-	-	-	100,000
Transfers in	3,745,918	-	-	-	3,745,918
Transfers out	(2,192,618)	(704,470)	(30,740)	(547,838)	(3,475,666)
Total other financing sources and uses	2,094,938	(704,470)	(30,740)	(547,838)	811,890
Net change in fund balances	(108,916)	(504,521)	-	3,099	(610,338)
Fund balances - beginning	844,412	1,277,183	-	-	2,121,595
Fund balances - ending	$ 735,496	$ 772,662	$ -	$ 3,099	$ 1,511,257

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	$	1,511,257
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.		9,457,519
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds 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.		(812,273)
Net Assets of Governmental Activities in the Statement of Net Assets		10,156,503

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	$	(610,338)
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		2,355,013
Depreciation expense		(478,134)
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		109,995
Note payable principal payment		24,796
Proceeds of long-term debt		(441,638)
Change in net assets of governmental activities	$	959,694

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	NPWA Enterprise Fund	Other Enterprise Funds	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 808,212	$ 160,050	$ 968,262
Restricted:			
Cash and cash equivalents	123,044	618,603	741,647
Due from other funds	123,033	24,999	148,032
Total current assets	1,054,289	803,652	1,857,941
Non-current assets:			
Capital Assets:			
Land and construction in progress	3,006,860	-	3,006,860
Other capital assets, net of accumulated depreciation	4,984,199	-	4,984,199
Total non-current assets	7,991,059	-	7,991,059
Total assets	9,045,348	803,652	9,849,000
LIABILITIES			
Current Liabilities:			
Due to other funds	-	165,239	165,239
Deposits subject to refund	24,609	-	24,609
Capital lease obligation	106,483	-	106,483
Notes payable	426,838	77,854	504,692
Total current liabilities	557,930	243,093	801,023
Non-current liabilities:			
Deposits subject to refund	98,435	-	98,435
Capital lease obligation	188,475	-	188,475
Notes payable	2,178,491	705,398	2,883,889
Total non-current liabilities	2,465,401	705,398	3,170,799
Total liabilities	3,023,331	948,491	3,971,822
NET ASSETS			
Invested in capital assets, net of related debt	5,090,772	(783,252)	4,307,520
Restricted for capital projects	-	618,603	618,603
Unrestricted	931,245	19,810	951,055
Total net assets	$ 6,022,017	$ (144,839)	$ 5,877,178

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	NPWA Enterprise Fund	Other Enterprise Funds	Total
REVENUES			
Water	$ 1,763,722	$ -	$ 1,763,722
Wastewater	96,443	-	96,443
Sanitation	411,183	-	411,183
Fees, taps, and penalties	244,705	97,750	342,455
Total operating revenues	2,516,053	97,750	2,613,803
OPERATING EXPENSES			
Administration	185,728	-	185,728
Water	1,095,425	-	1,095,425
Wastewater	223,672	1,182	224,854
Sanitation	290,860	-	290,860
Depreciation	302,705	-	302,705
Total Operating Expenses	2,098,390	1,182	2,099,572
Operating income	417,663	96,568	514,231
NON-OPERATING REVENUES (EXPENSES)			
Investment income	7,128	2,776	9,904
Miscellaneous revenue	2,820	-	2,820
Interest expense	(75,299)	-	(75,299)
Total non-operating revenue (expenses)	(65,351)	2,776	(62,575)
Income (loss) before contributions and transfers	352,312	99,344	451,656
Transfers in	2,507,500	38,927	2,546,427
Transfers out	(2,506,267)	(310,412)	(2,816,679)
Change in net assets	353,545	(172,141)	181,404
Total net assets - beginning	5,668,472	27,302	5,695,774
Total net assets - ending	$ 6,022,017	$ (144,839)	$ 5,877,178

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	NPWA Enterprise Fund	Other Enterprise Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	$ 2,516,053	$ 97,750	$ 2,613,803
Payments to suppliers	(1,117,057)	(1,182)	(1,118,239)
Payments to employees	(678,628)	-	(678,628)
Receipts/refunds of customer meter deposits	(6,793)	-	(6,793)
Change in due to/from	(65,996)	65,996	-
Miscellaneous receipts	2,820	-	2,820
Net cash provided by operating activities	650,399	162,564	812,963
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	2,507,500	38,927	2,546,427
Transfers to other funds	(2,506,267)	(310,412)	(2,816,679)
Net cash provided by (used in) noncapital financing activities	1,233	(271,485)	(270,252)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchases of capital assets	(1,830,174)	-	(1,830,174)
Proceeds from debt	2,075,087	328,392	2,403,479
Principal paid on debt	(541,173)	(38,927)	(580,100)
Interest and fiscal agent fees paid on debt	(75,299)	-	(75,299)
Net cash provided by (used in) capital and related financing activities	(371,559)	289,465	(82,094)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	7,128	2,776	9,904
Net cash provided by investing activities	7,128	2,776	9,904
Net increase in cash and cash equivalents	287,201	183,320	470,521
Balances - beginning of year	644,055	595,333	1,239,388
Balances - end of year	$ 931,256	$ 778,653	$ 1,709,909
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents	808,212	160,050	968,262
Restricted cash and cash equivalents - current	123,044	618,603	741,647
Total cash and cash equivalents, end of year	931,256	778,653	1,709,909
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 417,663	$ 96,568	$ 514,231
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	302,705	-	302,705
Miscellaneous revenue	2,820	-	2,820
Change in assets and liabilities:			
Due from other funds	(65,996)	(24,999)	(90,995)
Due to other funds	-	90,995	90,995
Deposits subject to refund	(6,793)	-	(6,793)
Net cash provided by operating activities	$ 650,399	$ 162,564	$ 812,963

See accompanying notes to the basic financial statements.

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 units 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
- 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: Capital grants, inspection fees, licenses and permits
- Animal control: Animal impound fees, and animal licenses
- Police: Traffic fines and fees,
- Fire: Operating grants, fire run fees,
- Streets: Gas excise tax, commercial vehicle tax, operating grants
- Parks and recreation: Capital grants, assessment fees
- Planning and engineering: Planning fees

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

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 fund is 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 these 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. Since the City early implemented GASB Statement 54, 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 while the TPWA highest level of decision-making authority is made by resolution.
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.

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, 2011, 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, 2011, the primary government held the following deposits and investments:

Type	Maturities	Credit Rating	Carrying Value
Deposits:			
Demand deposits			$ 2,894,836
Time deposit - certificates of deposit			341,027
			$ 3,235,863
Investments:			
NPWA - Federated Gov't Obligations Tax Managed Fund	N/A	AAAm	$ 1,425
			1,425
Total deposits and investments			$ 3,237,288
Reconciliation to Statement of Net Assets:			
Cash and cash equivalents			$ 3,229,046
			$ 3,229,046
Component Unit:			
Cash and cash equivalents			$ 8,242
			$ 8,242
Total deposits and investments			$ 3,237,288

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, 2011, the City had $130,841 that was 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 it exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

At June 30, 2011, 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, 2011, 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, 2011, the City had no concentration of credit risk as defined above.

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	$ 123,044
Water impact fees	511,545
Sewer impact fees	107,058
Total	$ 741,647

3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 540,129	$ 57,819	$ -	$ 597,948
Construction in progress	36,633	1,408,280	20,904	1,424,009
Total capital assets not being depreciated	576,762	1,466,099	20,904	2,021,957
Other capital assets:				
Buildings	1,914,258	-	-	1,914,258
Infrastructure	5,926,804	360,481	-	6,287,285
Machinery, furniture and equipment	3,007,481	549,337	36,383	3,520,435
Total other capital assets at historical cost	10,848,543	909,818	36,383	11,721,978
Less accumulated depreciation for:				
Buildings	396,463	49,631	-	446,094
Infrastructure	1,173,934	157,232	-	1,331,166
Machinery, furniture and equipment	2,274,268	271,271	36,383	2,509,156
Total accumulated depreciation	3,844,665	478,134	36,383	4,286,416
Other capital assets, net	7,003,878	431,684	-	7,435,562
Governmental activities capital assets, net	$ 7,580,640	$ 1,897,783	$ 20,904	$ 9,457,519

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 19,400	$ -	$ -	$ 19,400
Construction in progress	1,282,618	$ 1,704,842	$ -	2,987,460
Total capital assets not being depreciated	1,302,018	1,704,842	-	3,006,860
Other capital assets:				
Buildings	6,937,130	-	-	6,937,130
Improvements	8,089	-	-	8,089
Machinery, furniture and equipment	1,207,633	125,329	-	1,332,962
Utility property	333,203	-	-	333,203
Total other capital assets at historical cost	8,486,054	125,329	-	8,611,384
Less accumulated depreciation for:				
Buildings	2,773,461	170,735	-	2,944,196
Improvements	944	270	-	1,214
Machinery, furniture and equipment	487,076	117,434	-	604,510
Utility Property Improvements	62,998	14,267	-	77,265
Total accumulated depreciation	3,324,479	302,706	-	3,627,185
Other capital assets, net	5,161,575	(177,377)	-	4,984,199
Business-type activities capital assets, net	$ 6,463,594	$ 1,527,465	$ -	$ 7,991,059

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:		Business-Type Activities:	
General government	$ 42,763	Water	$ 229,193
Public safety	194,084	Wastewater	60,533
Highways and streets	220,322	Administration	12,980
Parks and recreation	20,965		$ 302,706
	$ 478,134		

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

Type of Debt	Balance July 01, 2010	Additions	Deductions	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Notes payable	$ 218,982	$ -	$ 24,796	$ 194,186	$ 24,627
Capital lease payable	286,444	441,638	109,995	618,087	158,589
Total Governmental Activities	$ 505,426	$ 441,638	$ 134,791	$ 812,273	$ 183,216
Business-Type Activities:					
Notes Payable	$ 1,560,900	$ 2,301,534	$ 473,853	$ 3,388,581	$ 504,692
Capital lease payable	299,264	101,944	106,250	294,958	106,483
Deposits, subject to refund	129,837	1,237	8,030	123,044	24,609
Total Business-Type Activities	1,990,001	2,404,715	588,133	3,806,583	635,784
Total Long-Term Debt	$ 2,495,427	$ 2,846,353	$ 722,926	$ 4,618,856	$ 819,000

Reconciliation to Statement of Net Assets:	
Governmental Activities:	
Due within one year	$ 183,216
Due in more than one year	629,057
Total Governmental Activities Long-term liabilities	$ 812,273
Business-Type Activities:	
Due within one year	$ 635,784
Due in more than one year	3,170,799
Total Business-Type Activities Long-term liabilities	$ 3,806,583

Governmental activities long-term debt payable from taxes and other general revenues at June 30, 2011 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	$ 49,232
$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	144,954
Total Notes Payable	$ 194,186
Current portion	24,627
Noncurrent portion	169,559
Total Notes Payable	$ 194,186

Capital leases payable:

$37,984 capital lease agreement for purchase of a 2009 Chevy Tahoe, payable to First National Bank in monthly installments of $1,123, including principal and interest at 3.95%, with final payment due September 2011.	$	2,245
$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.		58,660
$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		31,921
$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.		19,220
$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		40,364
$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		16,383
$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.		16,474
$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.		18,727
$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.		42,686
$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.		371,408
Total Capital Leases Payable	$	618,087
Current portion		158,589
Noncurrent portion		459,498
Total Capital Leases Payable	$	618,087

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

Notes payable:

$2,656,633 note payable to First National Bank, payable in monthly installments of $31,200, including principal and interest at 4.35%, with final payment due September 2011. The note is secured by pledged revenues from a one percent (1%) sales tax earmarked exclusively for water improvements and obligations of NPWA.	$	30,204
$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.		140,542
$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.		56,485
$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.		149,413
$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.		1,275,402
$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.		161,944
$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.		783,252
$800,000 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.		791,340
Total Notes Payable	$	3,388,581
Current portion		504,692
Noncurrent portion		2,883,889
Total Notes Payable	$	3,388,581

Capital leases payable:

$194,980 capital lease agreement for purchase of a bulldozer/excavator, payable to Sooner State Bank in monthly installments of $4,408, including principal and interest at 4.00%, with final payment due July 2012.	$	51,940
$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.	$	118,292
$44,880 capital lease agreement for purchase of a New Holland Tractor and a Rhino Mower, payable to First National Bank in monthly installments of $721, including principal and interest at 4.85%, with final payment due September 2011.	$	1,339
$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.	$	20,614
$10,900 capital lease agreement for the purchase of a 2006 Ford F250 Pickup, payable to First National Bank in monthly installments of $475, including principal and interest at 4.25%, with final payment due January 2012.	$	2,801
$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.		99,972
Total Capital Leases Payable	$	294,958
Current portion		106,483
Noncurrent portion		188,475
Total Capital Leases Payable	$	294,958

Customer Deposits:

Customer deposits reported as a liability within the Statement of Net Assets are comprised of utility customer deposits payable.		123,044
Total Refundable Grant Obligation	$	123,044
Current portion		24,609
Noncurrent portion		98,435
Total Refundable Grant Obligation	$	123,044

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

	Governmental Activities			
Year Ending June 30,	Capital Leases Payable		Notes Payable	
	Principal	Interest	Principal	Interest
2012	158,589	23,919	24,627	9,369
2013	126,035	17,573	44,579	7,340
2014	85,482	12,945	10,851	6,644
2015	65,990	9,842	11,463	6,032
2016	65,279	7,042	12,095	5,400
2017-2021	116,712	7,061	71,585	15,891
2022-2026	-	-	18,986	686
Totals	$ 618,087	$ 78,382	$ 194,186	$ 51,362

	Business Type Activities			
Year Ending June 30,	Capital Lease Obligations		Notes Payable	
	Principal	Interest	Principal	Interest
2012	106,483	11,577	461,719	386,123
2013	53,707	7,635	609,071	305,182
2014	46,311	5,288	638,311	253,057
2015	40,361	10,146	668,881	245,505
2016	25,256	1,917	699,070	213,896
2017-2021	22,840	743	3,604,535	610,637
2022-2026	-	-	623,176	78,995
2027-2031	-	-	380,594	24,806
Totals	$ 294,958	$ 37,306	$ 7,685,357	$ 2,118,201
	Less principal to drawdown		(4,296,776)	
			$ 3,388,581	

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, or 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.

$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, 2011	$	442,468

Component Unit – NEFA Conduit Debt:

In April 2010, the NEFA 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, or 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, 2011	$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, $2,656,633 Revenue Note 2003 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, 2011, 2016, 2016 and 2020, respectively. The total principal and interest payable for the remainder of the life of these notes is $636,484. Pledged sales taxes received in the current year were $2,192,618 and pledged revenues from the Authority were $2,516,053. Debt service payments of $473,582 for the current fiscal year were 10.0% of pledged sales taxes, utility revenues and investment income of $4,708,671.

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 and a half cents of the sales tax is received and recorded in the General 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, 2011 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)	$ -

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

Transfer From	Transfer To	Amount	Purpose of Transfer
General Fund	NPWA	$ 2,192,618	Sales and use tax transfer
NPWA	General Fund	2,467,340	Operating transfer
Phase 2 OKC	NPWA	281,806	Pipline contruction transfer
Sewer Impact	NPWA	28,606	Capital outlay transfer
NPWA	Phase 2 OKC	38,927	Debt activity transfer
Capital Improvement Tax Fund	General Fund	700,000	Capital outlay transfer
Capital Improvement Tax Fund	NPWA	4,470	Interest expense transfer
NEFA	General Fund	30,740	Education facility revenue transfer
Fire Restricted Sales Tax Fund	General Fund	547,838	Sales tax transfer for fire
Total		$ 6,292,345	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	$ 3,745,918	$ (3,475,666)	$ 270,252
Proprietary Funds	2,546,427	(2,816,679)	(270,252)
	$ 6,292,345	$ (6,292,345)	-

8. Fund Equity

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

	General Fund	Capital Improvement Tax Fund	Other Governmental Fund	Total
Fund Balance:				
Restricted For:				
Capital Improvements	$ -	$ 772,662	$ -	$ 772,662
Cemetery capital	-	-	3,099	3,099
Sub-total Restricted	-	772,662	3,099	775,761
Unassigned	735,496	-	-	735,496
Total Fund Balance	$ 735,496	$ 772,662	$ 3,099	$ 1,511,257

Enterprise Funds:	
Restricted for Capital Projects	$ 618,603
Total Enterprise Fund Restrictions	$ 618,603

Restricted Net Assets – Governmental Activities:

The following table shows the net asset restricted for other purposes as shown in the Statement of Net Assets:

Fund	Restricted By	Amount
Capital Improvement Tax Fund	Enabling legislation	$ 772,662
Cemetery	Statutory requirements	$ 3,099

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
2009	$ 88,420	$ 88,420
2010	$ 88,926	$ 88,926
2011	$ 88,747	$ 88,747

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. 63rd 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
2009	$ 84,744	$ 84,744
2010	$ 83,967	$ 83,967
2011	$ 85,652	$ 85,652

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%

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 2011. 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 2011, the City and NPWA contributed a total of $60,004 to the plan, while employees contributed an aggregate of $98,575.

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
2009	$ 6,160	$ 6,160
2010	$ 6,160	$ 6,160
2011	$ 6,288	$ 6,288

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 Tuttle 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

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, 2010, is summarized as follows:

- General Fund – accrued compensated absences $514,752
- NPWA – accrued compensated absences $173,827

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 City had committed to the construction of the police department building project at June 30, 2011. At year end, $34,138 of the project was outstanding.

The City had also committed to the construction and installation of storm sirens project at June 30, 2011. At year end $38,366 of the project was outstanding.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule (Purpose Based) – Year Ended June 30, 2011

CITY OF NEWCASTLE

SOURCES OF INCOME AND REVENUE	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	BUDGET and ACTUAL VARIANCE
Program revenue	$ 703,085	$ 830,370	$ 649,379	$ (180,991)
Restricted general revenue	3,400,282	3,415,282	3,325,836	(89,446)
Unrestricted general revenue	1,512,942	1,512,942	1,567,249	54,307
Debt proceeds	879,800	979,800	857,569	(122,231)
Contributions	-	-	100,000	100,000
Transfers in	2,937,000	2,937,000	2,927,838	(9,162)
Net asset carryover	2,121,595	2,121,595	2,121,595	-
TOTALS - ALL SOURCES	$ 11,554,704	$ 11,796,989	$ 11,549,466	$ (247,523)
USES OF INCOME AND REVENUE				
Streets	$ 792,967	$ 806,117	$ 728,250	$ 77,867
Vehicle maintenance	113,309	117,151	107,810	9,341
General government	1,032,475	1,106,387	1,011,905	94,482
Police	1,347,088	1,413,171	1,394,878	18,293
Fire	1,065,513	1,053,463	1,070,830	(17,367)
Planning and engineering	49,973	49,937	49,311	626
Animal control	39,328	37,178	38,042	(864)
Parks and recreation	48,700	59,700	32,905	26,795
Municipal court	60,467	61,705	60,393	1,312
Sr. Citizens	16,000	16,000	15,307	693
Capital outlay	2,309,700	2,409,700	1,939,575	470,125
Debt service	150,289	150,289	158,957	(8,668)
Other financing sources - transfer out	3,388,000	3,388,000	3,444,926	(56,926)
TOTALS - CURRENT YEAR USES	$ 10,413,809	$ 10,668,798	$ 10,053,089	$ 615,709
Net Change in Fund Balance	$ 1,140,895	$ 1,128,191	$ 1,496,377	$ 368,186

Reconciliation of Budgetary Comparison Schedule (Purposed Based) to the Governmental Fund Financial Statements – Year Ended June 30, 2011

	Per Statement of Revenues, Expenditures, and Changes in Fund Balance	To Clear Payroll Clearing Account	To Clear NEFA Transfers	To Adjust CLEET Payable	Unrecorded Debt Proceeds	Per Budgetary Comparison Schedule
Resources (Inflows):						
Total Revenues	$ 5,543,925	$ -	$ -	$ (1,461)	$ -	$5,542,464
Loan Proceeds	441,638	-	-	-	415,931	857,569
Contributions	100,000	-	-	-	-	100,000
Transfers In	3,745,918	-	(30,740)	-	(787,340)	2,927,838
Net asset carryover	2,121,595	-	-	-	-	2,121,595
Total Revenues and Other Financing Sources	11,953,076	-	(30,740)	(1,461)	(371,409)	11,549,466
Charges to Appropriations (Outflows):						
Total Expenditures	4,496,212	13,419	-	-	-	4,509,631
Capital outlay	2,310,984	-	-	-	(371,409)	1,939,575
Debt service	158,957	-	-	-	-	158,957
Transfers Out	3,475,666	-	(30,740)	-	-	3,444,926
Total Expenditures and Other Financing Uses	10,441,819	13,419	(30,740)	-	(371,409)	10,053,089
Ending Fund Balance	$ 1,511,257	$ (13,419)	$ -	$ (1,461)	$ -	$1,496,377

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 re-appropriate thee 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 – Fire	(17,367)
General Fund – Animal Control	(864)
General Fund – Debt Service	(8,668)
General Fund – Transfers Out	(56,926)

SUPPLEMENTARY INFORMATION

Combining Balance Sheet – Non-Major Governmental Funds (Modified Cash Basis) – June 30, 2011

	Special Revenue Fund	Capital Project Fund	
	Newcastle Fire Dept. Tax Fund	Cemetery Care Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ -	$ 3,099	$ 3,099
Investments	-	-	-
Total assets	-	3,099	3,099
LIABILITIES AND FUND BALANCES			
Liabilities:			
Total liabilities	-	-	-
Fund balances:			
Restricted	-	3,099	3,099
Total fund balances (deficits)	-	3,099	3,099
Total liabilities and fund balances	$ -	$ 3,099	$ 3,099

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Non-Major Governmental Funds (Modified Cash Basis) – Year Ended June 30, 2011

	Special Revenue Fund	Capital Project Fund	
	Newcastle Fire Dept. Tax Fund	Cemetery Care Fund	Total-Other Governmental Funds
REVENUES			
Taxes	$ 547,838	$ -	$ 547,838
Intergovernmental	-	-	-
Charges for services	-	3,094	3,094
Investment earnings	-	5	5
Miscellaneous	-	-	-
Total revenues	547,838	3,099	550,937
EXPENDITURES			
Total Expenditures	-	-	-
Excess (deficiency) of revenues over expenditures	547,838	3,099	550,937
OTHER FINANCING SOURCES (USES)			
Transfers out	(547,838)	-	(547,838)
Total other financing sources and uses	(547,838)	-	(547,838)
Net change in fund balances	-	3,099	3,099
Fund balances (deficits) - beginning	-	-	-
Fund balances (deficits) - ending	$ -	$ 3,099	$ 3,099

Combining Balance Sheet – Non-Major Enterprise Funds (Modified Cash Basis) – June 30, 2011

	Sewer Impact Fees	Water Impact Fees	Phase 2 OKC Pipeline	Total
ASSETS				
Current assets:				
Cash and cash equivalents	$ -	$ -	$ 160,050	$ 160,050
Restricted:				
Cash and cash equivalents	107,058	511,545	-	618,603
Due from other funds	-	24,999	-	24,999
Total current assets	107,058	536,544	160,050	803,652
Total assets	107,058	536,544	160,050	803,652
LIABILITIES				
Current Liabilities:				
Due to other funds	24,999	-	140,240	165,239
Notes payable	-	-	77,854	77,854
Total current liabilities	24,999	-	218,094	243,093
Non-current liabilities:				
Notes payable	-	-	705,398	705,398
Total non-current liabilities	-	-	705,398	705,398
Total liabilities	24,999	-	923,492	948,491
NET ASSETS				
Invested in capital assets, net of related debt	-	-	(783,252)	(783,252)
Restricted for capital projects	82,059	536,544	-	618,603
Unrestricted	-	-	19,810	19,810
Total net assets	$ 82,059	$ 536,544	$ (763,442)	$ (144,839)

Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-Major Enterprise Funds (Modified Cash Basis) – Year Ended June 30, 2011

	Sewer Impact Fees	Water Impact Fees	Phase 2 OKC Pipeline	Total
REVENUES				
Charges for services:				
Pledged as security:				
Fees, taps and penalties	$ 29,900	$ 67,850	-	$ 97,750
Total operating revenues	29,900	67,850	-	97,750
OPERATING EXPENSES				
Wastewater	1,182	-	-	1,182
Total Operating Expenses	1,182	-	-	1,182
Operating income	28,718	67,850	-	96,568
NON-OPERATING REVENUES (EXPENSES)				
Interest and investment revenue	333	2,443	-	2,776
Total non-operating revenue (expenses)	333	2,443	-	2,776
Income before transfers	29,051	70,293	-	99,344
Transfers in	-	-	38,927	38,927
Transfers out	(28,606)	-	(281,806)	(310,412)
Change in net assets	445	70,293	(242,879)	(172,141)
Total net assets - beginning	81,614	466,251	(520,563)	27,302
Total net assets - ending	$ 82,059	$ 536,544	$ (763,442)	$ (144,839)

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2011

Federal/State Grantor/Pass Through Agency Grantor/Program Title	CFDA #	Project or Award Number	Award Amount	Awards Expended
FEDERAL AWARDS:				
U.S. DEPARTMENT OF JUSTICE:				
Passed through Oklahoma Department of Public Safety:				
Alcohol-Federal-National Highway Safety	20.600	K8-11-03-04-01	$ 10,739	$ 10,739
Passed through District Attorneys Council:				
09 Recovery Act Justice Assistance Grant	16.804	JR09-078	$ 9,800	$ 9,800
			$ 20,539	$ 20,539
FEDERAL HIGHWAY ADMINISTRATION:				
Passed through Oklahoma Department of Transportation:				
Safe Routes to School	20.205	SRS-155F (709)ST & SRS-155F (710)ST	$ 130,000	$ 9,907
FEDERAL EMERGENCY MANAGEMENT:				
Passed through Oklahoma Civil Emergency Management:				
Hazard Mitigation	97.039	N/A	$ 41,714	$ 12,779
TOTAL FEDERAL AWARDS			$ 192,253	$ 43,225
STATE AWARDS:				
STATE OF OKLAHOMA FORESTRY SERVICES:				
Firefighter Grant	N/A	N/A	$ 5,100	$ 5,100
TOTAL STATE AWARDS			$ 5,100	$ 5,100

INTERNAL CONTROL AND COMPLIANCE SECTION

HBC CPAs & Advisors

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, 2011, which collectively comprise the City of Newcastle, Oklahoma's basic financial statements and have issued our report thereon dated February 9, 2012. 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

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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

February 9, 2012

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