

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

ANNUAL FINANCIAL REPORT

2010

CITY OF NEW CASTLE

HENRY COUNTY, INDIANA



FILED
08/02/2011

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Janice L. Lavarney	01-01-08 to 12-31-11
Mayor	James Small	01-01-08 to 12-31-11
President of the Board of Public Works and Safety	James Small	01-01-08 to 12-31-11
President of the Common Council	Sandra York	01-01-10 to 12-31-11
Utility Office Manager	Cary Plummer	01-01-10 to 12-31-11



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF NEW CASTLE, HENRY COUNTY, INDIANA

We have audited the accompanying financial statements of the City of New Castle (City), for the year ended December 31, 2010. The financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 discussed in Note 1, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The effects on the financial statement of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. The basis of accounting noted above is a different basis than that used in the prior year.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2010, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated June 8, 2011, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the City's financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not required parts of the financial statements. The Combining Schedule(s) of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Capital Assets, and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the financial statements and, accordingly, we express no opinion on them.

The City's response to the Audit Result(s) and Comment(s) identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

June 8, 2011



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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 OFFICIALS OF THE CITY OF NEW CASTLE, HENRY COUNTY, INDIANA

We have audited the financial statements of the City of New Castle (City), for the year ended December 31, 2010, and have issued our report thereon dated June 8, 2011. 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 the City'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 the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 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.

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
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City's response to the findings identified in our audit is described in the accompanying section of the report entitled Official Response. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City's management, Common Council, 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 8, 2011

FINANCIAL STATEMENT(S)

CITY OF NEW CASTLE
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2010

	Cash and Investments 01-01-10	Receipts	Disbursements	Cash and Investments 12-31-10
General	\$ 714,065	\$ 15,967,680	\$ 14,549,898	\$ 2,131,847
Motor Vehicle Highway	47,920	468,802	463,682	53,040
Local Road And Street	233,992	272,793	169,248	337,537
Transportation	20,779	424,001	385,139	59,641
Community Development Block Grant	-	4,500	4,500	-
Police Continuing Education	46,261	21,938	22,621	45,578
Clerk's Record Perpetuation	1,992	1,264	-	3,256
Riverboat	1,763	-	1,763	-
Nsp Cdbg Downtown	-	1,576,262	1,576,262	-
Fireman Fund Award	-	5,600	-	5,600
Park Rejuvenation/Shelter	170	-	170	-
First Aid Donation	1,267	353	388	1,232
Mayor Donation	30	-	-	30
Fire Donation	1,017	440	269	1,188
Fire Shop/W Fireman	1,505	10,909	11,800	614
City Center N/R	4,675	12,075	12,690	4,060
Cdbg Planning Grant - Downtown	-	32,720	32,720	-
Cdbg Homeowner Grant	-	70,923	70,923	-
Garner Street Bond & Interest	-	75,208	75,208	-
Northfield Bond & Interest	-	22,427	22,427	-
Rainy Day Fund	293,386	144,679	-	438,065
Law Enforcement - Non-Reverting	10,451	-	2,093	8,358
Police Canine Donation	485	-	-	485
Levy Excess	-	19,291	-	19,291
Operation Pullover	562	5,561	5,900	223
Township Fire N/R	183,139	248,474	171,529	260,084
Park Non-Reverting	18,721	112,317	83,303	47,735
1St Aid Recovery Non-Reverting	53,608	198,694	175,995	76,307
Fire Dept Assisance	705	5	-	710
Police Assistance	32,183	7,030	10,528	28,685
Cemetery Non-Reverting	24,596	-	-	24,596
Street & Road Fund Non-Reverting	7,974	-	-	7,974
Park Pool Bond	52,253	-	44,896	7,357
Park Bond & Interest	127,930	103,297	160,352	70,875
Garner - Eastside Debt Reserve	-	86,000	-	86,000
Northfield Debt Escrow	48,720	366	-	49,086
Cumulative Capital Development	268,058	327,863	380,226	215,695
Cumulative Capital Improvement	88,199	79,205	91,894	75,510
Garner / Eastside Bond & Interest	395,895	-	303,782	92,113
Northfield Tif	63,076	99,424	27,727	134,773
Sidewalk/Crr N/R	100	1,575	71	1,604
Aquatic Center - Baker Pool	14,159	18,333	16,482	16,010
Downtown Non-Reverting	13,866	-	13,750	116
Se - /Downtown (Tif) Non-Reverting	139,865	641,318	637,652	143,531
Demolition	3,967	6,954	2,412	8,509
Aviation Non- Reverting	41,690	-	5,771	35,919
Flex Health Saving Account	10,148	13,639	13,551	10,236
Cemetery Options	5,105	9,003	4,400	9,708
Police Pension	235,189	714,409	750,447	199,151
Fire Pension	318,634	496,487	519,993	295,128
Perpetual Maintenance Cemetery	206,540	102,011	110,630	197,921
Mausoleum Non-Reverting	4,535	-	-	4,535
Payroll	75,446	9,824,213	9,629,582	270,077
Health Insurance Cumulative	10,932	4,246,186	4,217,749	39,369
Retiree's Insurance	4,673	68,104	72,550	227
Special Utilities - Utilities	38	669,942	669,905	75
Water Operating	68,169	2,274,880	2,286,456	56,593
Water Bond And Interest	1	234,882	234,883	-
Water Meter Deposit	58,632	28,850	30,582	56,900
Water Construction	38,774	-	19,260	19,514
Water Debt Service	85,500	-	-	85,500
Sewage Operating	751,779	4,487,666	5,148,555	90,890
Sewage Bond & Interest	52,022	958,584	796,125	214,481
Sewage Construction	545,453	15,501	560,954	-
Sanitation	-	347,929	229,555	118,374
Sewage Debt Service	691,584	-	-	691,584
Sewage Storm Water	255,285	2,155,622	2,082,054	328,853
Water Hydrant (Fire Fees)	-	34,378	471	33,907
Totals	<u>\$ 6,377,463</u>	<u>\$ 47,750,567</u>	<u>\$ 46,911,773</u>	<u>\$ 7,216,257</u>

The notes to the financial statement(s) are an integral part of this statement.

CITY OF NEW CASTLE
NOTES TO FINANCIAL STATEMENT(S)

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, electric, gas, storm water, trash, aviation, and urban redevelopment and housing.

The accompanying financial statement(s) present(s) the financial information for the City (primary government), and does not include financial information for any of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial information of the City (primary government).

B. Basis of Accounting

The financial statements are reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statements. The aggregate receipts may include, but are not limited to, the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the

CITY OF NEW CASTLE
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state, local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statements. The aggregate disbursements may include, but are not limited to, the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

CITY OF NEW CASTLE
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates

CITY OF NEW CASTLE
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. Risk Management

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statements. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement and replacement items purchased.

Note 6. Pension Plan(s)

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

CITY OF NEW CASTLE
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

CITY OF NEW CASTLE
NOTES TO FINANCIAL STATEMENT(S)
(Continued)

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Public Employees' Retirement Fund as provided under Indiana Code 5-10.3-11.

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of PERF.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City of New Castle's Annual Report(s) can be found on the Indiana Transparency Portal website: www.in.gov/itp/annual_reports/.

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010

	General	Motor Vehicle Highway	Local Road And Street	Transportation	Community Development Block Grant	Police Continuing Education	Clerk's Record Perpetuation
Cash and investments - beginning	\$ 714,065	\$ 47,920	\$ 233,992	\$ 20,779	\$ -	\$ 46,261	\$ 1,992
Receipts:							
Taxes	5,886,136	8,772	-	30,702	-	-	-
Licenses and permits	211,494	-	-	-	-	-	-
Intergovernmental	3,177,479	458,357	272,793	314,372	-	-	-
Charges for services	1,658,243	-	-	18,393	-	19,260	-
Fines and forfeits	60,026	-	-	-	-	1,933	-
Utility fees	-	-	-	-	-	-	-
Other receipts	4,974,302	1,673	-	60,534	4,500	745	1,264
Total receipts	<u>15,967,680</u>	<u>468,802</u>	<u>272,793</u>	<u>424,001</u>	<u>4,500</u>	<u>21,938</u>	<u>1,264</u>
Disbursements:							
Personal services	7,648,636	313,298	-	256,677	-	-	-
Supplies	353,546	29,511	60,450	41,475	-	-	-
Other services and charges	6,539,674	120,873	-	36,987	4,500	22,621	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	8,042	-	108,798	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	50,000	-	-	-
Total disbursements	<u>14,549,898</u>	<u>463,682</u>	<u>169,248</u>	<u>385,139</u>	<u>4,500</u>	<u>22,621</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>1,417,782</u>	<u>5,120</u>	<u>103,545</u>	<u>38,862</u>	<u>-</u>	<u>(683)</u>	<u>1,264</u>
Cash and investments - ending	<u>\$ 2,131,847</u>	<u>\$ 53,040</u>	<u>\$ 337,537</u>	<u>\$ 59,641</u>	<u>\$ -</u>	<u>\$ 45,578</u>	<u>\$ 3,256</u>

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Riverboat	CDBG - NSP Downtown	Fireman Fund Award	Park Rejuvenation/Shelter	First Aid Donation	Mayor Donation	Fire Donation
Cash and investments - beginning	\$ 1,763	\$ -	\$ -	\$ 170	\$ 1,267	\$ 30	\$ 1,017
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	1,576,262	5,600	-	353	-	440
Total receipts	-	1,576,262	5,600	-	353	-	440
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	170	388	-	269
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	1,763	1,576,262	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	1,763	1,576,262	-	170	388	-	269
Excess (deficiency) of receipts over disbursements	(1,763)	-	5,600	(170)	(35)	-	171
Cash and investments - ending	\$ -	\$ -	\$ 5,600	\$ -	\$ 1,232	\$ 30	\$ 1,188

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Fire Shop/W Fireman	City Center N/R	CDBG Planning Grant Downtown	CDBG Homeowner Grant	Northfield Bond & Interest	Garner Street Bond & Interest	Northfield Bond & Interest
Cash and investments - beginning	\$ 1,505	\$ 4,675	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	22,427
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	10,909	12,075	32,720	70,923	-	75,208	-
Total receipts	10,909	12,075	32,720	70,923	-	75,208	22,427
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	11,800	12,690	32,720	70,923	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	75,208	22,427
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	11,800	12,690	32,720	70,923	-	75,208	22,427
Excess (deficiency) of receipts over disbursements	(891)	(615)	-	-	-	-	-
Cash and investments - ending	\$ 614	\$ 4,060	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Rainy Day	Law Enforcement Police Non-Reverting	Police Canine Donation	Levy Excess	Operation Pullover	Township Fire N/R	Park Non-Reverting
Cash and investments - beginning	\$ 293,386	\$ 10,451	\$ 485	\$ -	\$ 562	\$ 183,139	\$ 18,721
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	5,561	248,474	112,317
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	144,679	-	-	19,291	-	-	-
Total receipts	144,679	-	-	19,291	5,561	248,474	112,317
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	2,093	-	-	5,900	171,529	83,303
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	-	2,093	-	-	5,900	171,529	83,303
Excess (deficiency) of receipts over disbursements	144,679	(2,093)	-	19,291	(339)	76,945	29,014
Cash and investments - ending	\$ 438,065	\$ 8,358	\$ 485	\$ 19,291	\$ 223	\$ 260,084	\$ 47,735

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	First Aid Recovery Non-Reverting	Fire Department Assisance	Police Assistance	Cemetery Non-Reverting	Street & Road Fund Non-Reverting	Park Pool Bond	Park Bond & Interest
Cash and investments - beginning	\$ 53,608	\$ 705	\$ 32,183	\$ 24,596	\$ 7,974	\$ 52,253	\$ 127,930
Receipts:							
Taxes	-	-	-	-	-	-	94,129
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	8,765
Charges for services	198,694	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	5	7,030	-	-	-	403
Total receipts	<u>198,694</u>	<u>5</u>	<u>7,030</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>103,297</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	175,995	-	10,528	-	-	44,896	160,352
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	<u>175,995</u>	<u>-</u>	<u>10,528</u>	<u>-</u>	<u>-</u>	<u>44,896</u>	<u>160,352</u>
Excess (deficiency) of receipts over disbursements	<u>22,699</u>	<u>5</u>	<u>(3,498)</u>	<u>-</u>	<u>-</u>	<u>(44,896)</u>	<u>(57,055)</u>
Cash and investments - ending	<u>\$ 76,307</u>	<u>\$ 710</u>	<u>\$ 28,685</u>	<u>\$ 24,596</u>	<u>\$ 7,974</u>	<u>\$ 7,357</u>	<u>\$ 70,875</u>

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Garner - Eastside Debt Reserve	Northfield Debt Escrow	Cumulative Capital Development	Cumulative Capital Improvement	Garner/ Eastside Bond & Interest	Northfield Tif	Sidewalk/Crr N/R
Cash and investments - beginning	\$ -	\$ 48,720	\$ 268,058	\$ 88,199	\$ 395,895	\$ 63,076	\$ 100
Receipts:							
Taxes	86,000	-	162,281	-	-	99,424	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	15,110	52,059	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	366	150,472	27,146	-	-	1,575
Total receipts	<u>86,000</u>	<u>366</u>	<u>327,863</u>	<u>79,205</u>	<u>-</u>	<u>99,424</u>	<u>1,575</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	71
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	151,114	72,625	303,782	27,727	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	229,112	19,269	-	-	-
Total disbursements	<u>-</u>	<u>-</u>	<u>380,226</u>	<u>91,894</u>	<u>303,782</u>	<u>27,727</u>	<u>71</u>
Excess (deficiency) of receipts over disbursements	<u>86,000</u>	<u>366</u>	<u>(52,363)</u>	<u>(12,689)</u>	<u>(303,782)</u>	<u>71,697</u>	<u>1,504</u>
Cash and investments - ending	<u>\$ 86,000</u>	<u>\$ 49,086</u>	<u>\$ 215,695</u>	<u>\$ 75,510</u>	<u>\$ 92,113</u>	<u>\$ 134,773</u>	<u>\$ 1,604</u>

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Aquatic Center - Baker Pool	Downtown Non-Reverting	Se - /Downtown (Tif) Non-Reverting	Demolition	Aviation Non- Reverting	Flex Health Saving Account	Cemetery Options
Cash and investments - beginning	\$ 14,159	\$ 13,866	\$ 139,865	\$ 3,967	\$ 41,690	\$ 10,148	\$ 5,105
Receipts:							
Taxes	-	-	641,318	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	6,954	-	13,639	9,003
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	18,333	-	-	-	-	-	-
Total receipts	18,333	-	641,318	6,954	-	13,639	9,003
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	16,482	-	637,652	2,412	5,771	-	4,400
Debt service - principal and interest	-	13,750	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	13,551	-
Total disbursements	16,482	13,750	637,652	2,412	5,771	13,551	4,400
Excess (deficiency) of receipts over disbursements	1,851	(13,750)	3,666	4,542	(5,771)	88	4,603
Cash and investments - ending	\$ 16,010	\$ 116	\$ 143,531	\$ 8,509	\$ 35,919	\$ 10,236	\$ 9,708

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Police Pension	Fire Pension	Perpetual Maintenance Cemetery	Mausoleum Non-Reverting	Payroll	Health Insurance Cumulative	Retiree's Insurance
Cash and investments - beginning	\$ 235,189	\$ 318,634	\$ 206,540	\$ 4,535	\$ 75,446	\$ 10,932	\$ 4,673
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	714,409	496,487	102,011	-	9,824,213	4,246,186	68,104
Total receipts	<u>714,409</u>	<u>496,487</u>	<u>102,011</u>	<u>-</u>	<u>9,824,213</u>	<u>4,246,186</u>	<u>68,104</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	750,447	519,993	110,630	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	9,629,582	4,217,749	72,550
Total disbursements	<u>750,447</u>	<u>519,993</u>	<u>110,630</u>	<u>-</u>	<u>9,629,582</u>	<u>4,217,749</u>	<u>72,550</u>
Excess (deficiency) of receipts over disbursements	<u>(36,038)</u>	<u>(23,506)</u>	<u>(8,619)</u>	<u>-</u>	<u>194,631</u>	<u>28,437</u>	<u>(4,446)</u>
Cash and investments - ending	<u>\$ 199,151</u>	<u>\$ 295,128</u>	<u>\$ 197,921</u>	<u>\$ 4,535</u>	<u>\$ 270,077</u>	<u>\$ 39,369</u>	<u>\$ 227</u>

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Special Utilities -	Water Operating	Water Bond And Interest	Water Meter Deposit	Water Construction	Water Debt Service	Sewage Operating
	Utilities	Operating	Interest	Deposit	Construction	Service	Operating
Cash and investments - beginning	\$ 38	\$ 68,169	\$ 1	\$ 58,632	\$ 38,774	\$ 85,500	\$ 751,779
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	4,436,746
Other receipts	669,942	2,274,880	234,882	28,850	-	-	50,920
Total receipts	669,942	2,274,880	234,882	28,850	-	-	4,487,666
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	5,148,555
Other disbursements	669,905	2,286,456	234,883	30,582	19,260	-	-
Total disbursements	669,905	2,286,456	234,883	30,582	19,260	-	5,148,555
Excess (deficiency) of receipts over disbursements	37	(11,576)	(1)	(1,732)	(19,260)	-	(660,889)
Cash and investments - ending	\$ 75	\$ 56,593	\$ -	\$ 56,900	\$ 19,514	\$ 85,500	\$ 90,890

CITY OF NEW CASTLE
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2010
 (Continued)

	Sewage Bond & Interest	Sewage Construction	Sanitaiton	Sewage Debt Service	Sewage Storm Water	Water Hydrant (Fire Fees)	Totals
Cash and investments - beginning	\$ 52,022	\$ 545,453	\$ -	\$ 691,584	\$ 255,285	\$ -	\$ 6,377,463
Receipts:							
Taxes	-	-	-	-	-	-	7,031,189
Licenses and permits	-	-	-	-	-	-	211,494
Intergovernmental	-	-	-	-	-	-	4,298,935
Charges for services	-	-	-	-	-	-	2,290,538
Fines and forfeits	-	-	-	-	-	-	61,959
Utility fees	-	-	-	-	655,622	34,378	5,126,746
Other receipts	958,584	15,501	347,929	-	1,500,000	-	28,729,706
Total receipts	958,584	15,501	347,929	-	2,155,622	34,378	47,750,567
Disbursements:							
Personal services	-	-	-	-	-	-	8,218,611
Supplies	-	-	-	-	-	-	484,982
Other services and charges	-	-	-	-	-	-	9,556,069
Debt service - principal and interest	796,125	-	-	-	-	-	809,875
Capital outlay	-	-	229,555	-	382,054	-	2,959,357
Utility operating expenses	-	-	-	-	-	471	5,149,026
Other disbursements	-	560,954	-	-	1,700,000	-	19,733,853
Total disbursements	796,125	560,954	229,555	-	2,082,054	471	46,911,773
Excess (deficiency) of receipts over disbursements	162,459	(545,453)	118,374	-	73,568	33,907	838,794
Cash and investments - ending	\$ 214,481	\$ -	\$ 118,374	\$ 691,584	\$ 328,853	\$ 33,907	\$ 7,216,257

CITY OF NEW CASTLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF CAPITAL ASSETS
 For The Year Ended December 31, 2010

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets	
Land	\$ 190,000
Infrastructure	3,862,586
Buildings	3,068,707
Improvements other than buildings	719,367
Machinery and equipment	4,720,478
Construction in progress	<u>1,621,158</u>
 Total governmental activities, capital assets not being depreciated	 <u>\$ 14,182,296</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets	
Land	\$ 325,082
Construction in progress	504,398
Buildings	978,366
Improvements other than buildings	10,583,721
Machinery and equipment	<u>1,808,294</u>
 Total Water Utility capital assets	 <u>14,199,861</u>
Wastewater Utility:	
Capital assets	
Land	\$ 39,513
Construction in progress	4,563,754
Buildings	16,922,473
Improvements other than buildings	25,625,645
Machinery and equipment	4,232,614
Construction in progress	<u>1,861,954</u>
 Total Wastewater Utility capital assets	 <u>53,245,953</u>
 Total business-type activities capital assets	 <u>\$ 67,445,814</u>

CITY OF NEW CASTLE
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT
 December 31, 2010

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
(2) LaBrie Automizer Trucks and Toters	\$ 919,872	\$ 180,571
(2) 2010 Braun Chief XL Type III Ambulances	326,488	117,857
(1) LaBrie Trash Truck	296,159	50,508
Bonds payable:		
General obligation bonds:		
Park District Bonds 2006	1,655,000	172,963
Garner/Eastside Bonds 2009	830,000	112,533
Revenue bonds:		
NC Redevelopment TIF Bonds 2009	<u>475,000</u>	<u>47,672</u>
Total governmental activities debt	<u>\$ 4,502,519</u>	<u>\$ 682,104</u>
Business-type activities:		
Water Utility:		
Revenue bonds:		
Waterworks Revenue Bonds 2006	<u>\$ 550,000</u>	<u>\$ 236,106</u>
Total Water Utility	<u>550,000</u>	<u>236,106</u>
Wastewater Utility:		
Capital leases:		
2007 Isuzu Chassis w/Tymco Sweeper	42,862	22,240
Swarze A-4000 Sweeper	18,798	19,679
Revenue bonds:		
Sewage Works Revenue Bonds 2006	1,740,000	155,334
Sewage Works Revenue Bonds SRF 2000	<u>4,885,000</u>	<u>526,665</u>
Total Wastewater Utility	<u>6,686,660</u>	<u>723,918</u>
Total business-type activities debt	<u>\$ 7,236,660</u>	<u>\$ 960,024</u>

CITY OF NEW CASTLE
AUDIT RESULT(S) AND COMMENT(S)

OPERATING FUNDS USED FOR CITY EXPENSES

Funds were disbursed from the Wastewater Operating Fund for general government expenditures. The City paid for snow removal, street patching, leaf removal from city streets, support services for vehicle maintenance and fuel out of wastewater operating funds. When the former street department was moved to the wastewater plant during 2010 there were no cost centers established to allow for the billing of General Fund expenses.

As a result of the commingling of these funds, the cash balance of the Wastewater Operating Fund has deteriorated. The cash balance of the Wastewater Operating Fund declined by 380 percent during the period beginning January 1, 2010 to April 30, 2011. The cash balances at December 31, 2009, December 31, 2010, and April 30, 2011, were \$751,779, \$90,890, and \$26,148, respectively.

Sources and uses of funds should be limited to those authorized by the enabling statute, ordinance, resolution, or grant agreement. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 8-1.5-3-11(d) states in part: ". . . transfers may not be made from any utility funds to the general fund except from the cash reserve fund."

Payments or transfers which are not authorized by statute, ordinance or resolution must be reimbursed or transferred to the appropriate fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were incorrect. The reconciled bank balance does not agree with the cash balances of the funds. The outstanding check list prepared by the City included a figure labeled "adjustments" totaling \$21,284 that could not be explained. The payroll outstanding check list included numerous outstanding checks made out to current employees for substantial amounts that had been reissued by the city and never removed from the outstanding check list.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF NEW CASTLE
AUDIT RESULT(S) AND COMMENT(S)
(Continued)

ANNUAL REPORT

The 2010 Annual Report and the financial records (ledgers) presented for audit were incomplete and not reflective of the activity and balances of the City Court.

In addition, the Annual Report and records contained the following errors:

1. There were several instances of receipts and disbursements posted to the wrong funds.
2. Four funds reflected transactions that did not agree with the ledgers.
3. The report reflected the purchase of investments for \$521,662 when, in fact, no purchases of investments were made.
4. There were numerous instances of receipts being misclassified.
5. The cash and investments total on Part 5 does not agree with the cash and investment total of fund balances on Part 1, total cash and investments.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PAYROLL DEDUCTIONS/COMPENSATION AND BENEFITS

Seven City employees received compensation which was not included in the payroll system or on the salary ordinance or resolution. These payments were made without payroll deductions for taxes.

The City entered into a 218 Agreement with Social Security in 1952. According to IRC section 3121 (d) (4), workers covered under a 218 Agreement are employees for purposes of FICA. The agreement is not revocable.

All compensation and benefits paid to officials and employees must be included in the labor contract, salary ordinance, resolution or salary schedule adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Political subdivisions are required to comply with all grant agreements, rules, regulations, bulletins, directives, letters, letter rulings, and filing requirements concerning reports and other procedural matters of federal and state agencies, including opinions of the Attorney General of the State of Indiana, and court decisions. Governmental units should file accurate reports required by federal and state agencies. Noncompliance may require corrective action. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF NEW CASTLE
AUDIT RESULT(S) AND COMMENT(S)
(Continued)

COMPENSATION AND BENEFITS

On August 30, 2010, the Board of Works approved a program for employees of the City to sell accumulated sick and vacation days. This program allows an employee to sell up to 30 days of their accumulated sick or vacation days while actively employed. This benefit was not approved by the governing body nor was it in the approved salary ordinance.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the governing body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF NEW CASTLE, HENRY COUNTY, INDIANA

Compliance

We have audited the compliance of the City of New Castle (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2010. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2010-1 and 2010-2.

Internal Control Over Compliance

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

The City's response to the findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the City's management, Common Council, 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. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

June 8, 2011

CITY OF NEW CASTLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2010

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Housing and Community Development Authority			
Community Development Block Grants/ State's Program	14.228		
Neighborhood Stabilization Program		NSP1-009-010	\$ 1,576,262
Home Owner Occupied Rehabilitation Program		DR10R-009-006	70,923
Pass-Through Indiana Office of Community and Rural Affairs			
Planning Grant Program		PL-09-025	32,720
Disaster Recovery		DR1A-09-073	27,005
Community Focus Fund		CF-02-208	<u>285,940</u>
Total for federal grantor agency and program			<u>1,992,850</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation			
Formula Grants for Other Than Urbanized Areas	20.509		
		Proj 18027100	44,423
		Proj 18025100	<u>165,812</u>
ARRA - Formula Grants for Other Than Urbanized Areas		A249-09-321053	<u>124,512</u>
Total for program			<u>334,747</u>
State and Community Highway Safety	20.600		
		OP-10-02-01-11	<u>5,900</u>
Total for federal grantor agency			<u>340,647</u>
<u>U.S. DEPARTMENT OF ENERGY</u>			
Pass-Through Indiana Office of Energy Management			
ARRA - State Energy Program	81.041	DE-EE-000725	<u>32,122</u>
Total for federal grantor agency			<u>32,122</u>
Total federal awards expended			<u>\$ 2,365,619</u>

The accompanying note(s) are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF NEW CASTLE
NOTE(S) TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of New Castle (City) and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statements. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF NEW CASTLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement(s):

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiency identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	no
Significant deficiency identified?	no
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/ State's Program
20.509	Formula Grants for Other Than Urbanized Areas

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

CITY OF NEW CASTLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Financial Statement Findings

FINDING 2010-1 - PROCUREMENT

Federal Agency: U.S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants/State's Program
CFDA Number: 14.228
Federal Award Number: NSP1-009-010
Pass-through Entity: Indiana Housing & Community Development Authority

The procurement procedures the City used to obtain professional services did not provide full and open competition as required. The City failed to publicize or advertise a contract to Star Development in the amount of \$209,700. The contract consisted of \$180,000 for grant administration, \$21,000 for program delivery, \$7,000 for environmental review and \$1,700 for lead testing. It appears that the City followed Procurement by Small Purchase Procedures by soliciting three quotes from persons who perform similar services. The small purchase procedures are limited to a threshold of \$100,000 per U.S.C. 403 (11). Also, the City did not follow its own policy of advertising for grant administration services as evidenced by other much lesser contracts for the same services being advertised.

In accordance with, 24CFR 85.36(d)(3)(i), "Requests for proposals will be publicized and identify all evaluation factors and their relative importance." Furthermore, 24CFR 85.36(c)(1) states in part: "All procurement transactions will be conducted in a manner providing full and open competition consistent with the standards of § 85.36".

By not following required procurement procedures that allow for full and open competition the City could be asked by the Federal Grantor agency to repay the funds. The City should follow laws and regulations applicable to federal grants because not doing so could also cause penalties, sanctions, or other disciplinary actions for violations of such standards by the grantee's and subgrantee's officers, employees, or agents, or by contractors or their agents.

We recommended the City follow the procurement requirements as required of local units of governments.

FINDING 2010-2, CASH MANAGEMENT

Federal Agency: U. S. Department of Housing and Urban Development
Federal Program: Community Development Block Grants /State's Program
CFDA Number: 14.228
Federal Award Number: NSP1-009-010
Pass-through Entity: Indiana Housing and Community Development Authority

The City submitted drawdown requests for the Neighborhood Stabilization Program to the Indiana Housing & Community Development Authority. However, the grant agreement states on page 2 section 4 (i) "All payments shall be made in arrears in conformance with State Fiscal policies and procedures and by electric funds transfer to the financial institution designated by the Recipient in writing unless a specific waiver has been obtained from the Controller of IHCD." No such waiver was presented for audit. The total of the advance payments received was \$1,037,894 or 38 percent of the total award of \$2,732,925.

CITY OF NEW CASTLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Submitting cash advance requests when the grant agreement clearly states that "All payments shall be made in arrears" indicates noncompliance with the cash management requirement as set forth by the grant agreement. Additionally, failure to follow the terms of the grant agreement may cause future funding to be reduced by the pass-through agency.

We recommended that the City Officials develop and implement procedures and controls to ensure that the payment requests are submitted according to the grant requirements and agreements.

CITY OF NEW CASTLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

City of New Castle, Indiana

**Jeana L. Davis, Director
Economic Development**

RESPONSE TO FINDINGS FOR EXIT MEETING

Date: June 7, 2011

Section III – Financial Statement Finding

Finding Control Number: 2010-1, PROCUREMENT

The City of New Castle used the IHEDA Competitive Negotiation Process outlined in the NSP1 Grant Manual to procure Star Development.

Chapter 11 – Procurement Procedures of the IHEDA NSP1 Grant Manual states, “Professional services over \$25,000, such as engineering or consulting services, must be procured by the competitive negotiation method if the competitive sealed method is not used.”

The Competitive Negotiation Procedure in the NSP1 Grant Manual states this is the *recommended* method for all procurement of professional services. It also states, “The procurer prepares a formal Request for Proposal (RFP) and requests proposals from at least two (2) or more qualified firms or individuals.”

The City of New Castle publicized the RFP by posting it on the front and back doors at City Hall, as well as mailing it to three (3) qualified Grant Writing Firms.

Attached:

- NSP1 Grant Manual – Chapter 11, Procurement Procedures
- List of Certified Grant Administrators RFP's mailed to, and corresponding copies of certified mail receipts
- Copy of Request for Proposals posting from doors, dated 2/9/09
- Board of Works meeting minutes dated 3/9/09 referring to the proposal with Star Development that would go into effect if the City was awarded the NSP1 Grant
- Board of Works meeting minutes dated 6/29/09 accepting the contract with Star Development
- Copy of Contract with Star Development dated 6/29/09
- E-mail from Peter Hunt of IHEDA confirming that if New Castle used the Competitive Negotiation Procedure, they are in compliance with IHEDA requirements for NSP, *and* stating there is no requirement to advertise, but to publicize and that the manual does not give guidance to suggest how that is carried out.

City of New Castle, Indiana

**Jeana L. Davis, Director
Economic Development**

Pg. 2

The City of New Castle will be careful to follow not only grant guidelines, but investigate all associated local and state rules to make sure we are in compliance with all three in any future grant or other similar projects. The City of New Castle will also gain final written verification from counsel regarding the method used and keep documentation in the City's files. The City of New Castle will also be certain to give original bids, requests for quotes/proposals to the Clerk Treasurer's office to file.

Contact Person: Jeana L. Davis, Director of Public Works, Economic and Community Development

Telephone: (765) 529-7605; E-mail: jeana-davis@cityofnewcastle.net



City of New Castle, Indiana

**Jeana L. Davis, Director
Economic Development**

RESPONSE TO FINDINGS FOR EXIT MEETING

Date: June 7, 2011

Section III – Financial Statement Finding

Finding Control Number: 2010-2, CASH MANAGEMENT

The City acknowledges that the initial draw down request for the NSP1 Grant flowed from IHCD to the City and then to Star as the Vendor, as is an established process for another grant Star Development processes for the City. An e-mail from Carmen Lethig of IHCD, dated 6/17/09 stated “yes” in response to the question from Joyce McCarty of Star Development regarding this question: “Can funds flow from IHCD to City to Star to Vendors? This is typically how we hand(le) funds for CDBG HRI.” Again, that question was asked by Joyce McCarty, President of Star Development, the Grant Administrator for New Castle’s NSP1 Grant, and Carmen Lethig of IHCD stated “yes.”

Then, after having submitted 9 claims this way, Star Development notified the City of New Castle that after having discussion with IHCD in October of 2010, all claims had to be on a reimbursement basis. Immediate action was taken by the City and Star Development to correct this issue. Joyce McCarty, of Star Development, contacted Peter Hunt of IHCD via e-mail to gain approval of the proposed new method where Peter Hunt stated the new method “sounded fine”

After having verified with Peter Hunt the proposed method was acceptable, the City contacted Ron Radford about preparing an Intra-Governmental Payment agreement with the New Castle Redevelopment Commission. Jeana Davis contacted Ron Radford via telephone, and Ron agreed this would be an acceptable method. The City then approached the New Castle Redevelopment Commission about using the Downtown TIF Account to draw up to \$200,000 from until reimbursed. This method was used because the Clerk Treasurer’s Office did not feel we could run in the red at that time. However, later, Karen Weaver, of the SBOA, informed the Clerk Treasurer’s Office that running in the red was acceptable, and that the agreement between the City and the New Castle Redevelopment Commission was not necessary. The agreement caused more shifting of money from one account to the other than was necessary. As Karen Weaver pointed out, and rightfully so, the NSP1 Grant monies needed to flow in and out of one established account.

City of New Castle, Indiana

**Jeana L. Davis, Director
Economic Development**

Pg. 2

Following the Intra-Governmental Payment and Reimbursement Joint Resolution/Agreement between the City of New Castle and the New Castle Redevelopment Commission all claims were submitted as required by the grant guidelines. Additionally, Karen Weaver helped this process improve when she informed the City of New Castle the account can actually run in the red, and that the NSP1 Grant should be set up in a single account.

The City of New Castle will pay closer attention to all grant guidelines and get written responses on grantee letterhead to any agreed alterations to any future grant.

Contact Person: Jeana L. Davis, Director of Public Works, Economic and Community Development

Telephone: (765) 529-7605; E-mail: jeana-davis@cityofnewcastle.net



CITY OF NEW CASTLE
EXIT CONFERENCE

The contents of this report were discussed on June 8, 2011, with Sandra York, President of the Common Council; Janice L. Lavarway, Clerk-Treasurer; James Small, Mayor; and Christy York, Deputy Clerk-Treasurer. The official response has been made a part of this report and may be found on pages 45 and 46.

City of New Castle

Janice L. Lavarney, City Clerk - Treasurer

227 No. Main St.

New Castle, Indiana 47362

(765) 521-6803

June 15, 2011

State Board of Accounts
302 Washington, St., Room E418
Indianapolis, Indiana 46204-2765

In response to the City of New Castle audit findings for 2010 the following documentation and/or corrective actions have been taken:

1. OPERATING FUNDS USED FOR CITY EXPENSES

- A. The use of employees from Wastewater for snow removal was a temporary necessity due to employee reduction and departmental reorganization. Once a line was established for the new department, the wages were reimbursed from General Fund Public Works.
- B. Street Patching was a job moved to the Wastewater Department due to a reduction of the Street Department. There is now a billing system established to bill the appropriate department for wages when the Maxx Patcher is used outside of Wastewater.
- C. The same billing system is now being used for fuel, maintenance and repair.
- D. After investigation, the cash balance decline was due to two projects being authorized, completed and paid for out of Wastewater Operating. A Wastewater Grant was awarded to the City and receipted and disbursed through the Construction Fund. For accounting purposes for the year 2010, no other construction was filtered through this fund - it was filtered through Operating. Past practice would have been to transfer the needed funds for the projects through the Construction Fund and then disbursed. This resulted in the decline in the cash balance.

2. BANK ACCOUNT RECONCILIATIONS

- A. Outstanding balances were tracked back to their originality, investigated, documented and corrected in the current year.
- B. All expired checks were properly voided and either reissued or returned to the proper fund.

3. ANNUAL REPORT

- A. Funds have now been properly coded, named and identified based on the DGLF codes.

4. PAYROLL DEDUCTIONS/COMPENSATION AND BENEFITS

- A. The contracts of Contract Employees who were not in compliance with the 218 Agreement or the IRS definition of "Independent Contractor" have been reviewed and either no longer work for the City or have been placed on Payroll per the City of New Castle Salary Ordinance. Three out of the seven mentioned were within the definition of IRS rules.
- B. Compensation and Benefits in regards to selling sick/vacation days have been a Board of Work's action since 2003. With the presentation of this audit's findings the City Administration has consulted with the City Attorney and members of Council and will establish an amendment to the Salary Ordinances through Council.

Thank you for your time in this matter and the opportunity to respond. We appreciate the help that you have provided us through your findings and corrective recommendations.

If you have any questions or need more information please feel free to contact me.

Sincerely,



Janice L. Lavarney
Clerk-Treasurer
City of New Castle



Jim Small
Mayor
City of New Castle