

**CITY OF NEWPORT,
TENNESSEE**

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

and

INDEPENDENT AUDITOR'S REPORT

CITY OF NEWPORT, TENNESSEE

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

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CITY OF NEWPORT, TENNESSEE

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2012

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INTRODUCTORY SECTION



CITY OF NEWPORT

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PHONE: (423) 623-1063 • FAX: 423-623-7098

MAYOR

CONNIE BALL

VICE MAYOR

BILL COSTNER

ALDERMEN:

John M. Bugg

Freddie Gregg

Kathy Holt

Kenny Morgan

CITY ATTORNEY

TERRY E. HURST

POLICE DEPARTMENT

MAURICE SHULTS, CHIEF

FIRE DEPARTMENT

RANDY RAGAN, CHIEF

PARKS & RECREATION

TIM DOCKERY

STREET SUPERINTENDENT

BEN HICKS

May 31, 2013

Board of Mayor and Aldermen
City of Newport, Tennessee

Dear Honorable Mayor and Board of Aldermen:

We are submitting the annual financial report for the fiscal year ended June 30, 2012. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with the City's management. We believe the data, as presented, is accurate in all material aspects, is presented in a manner designed to fairly set forth the financial position and results of operation of the City as measured by the financial activity of its various funds, and includes all disclosures necessary to enable the reader to gain maximum understanding of the City's financial activities.

Brown Jake & McDaniel, PC, a firm of licensed certified public accountants, have audited the City's basic financial statements. The goal of the independent audit was to provide reasonable assurance that the basic financial statements of the City for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining on a test basis, evidence supporting the amounts and disclosures in the basic financial statement; assessing the accounting principals used and significant estimates made by management; and evaluating the overall basic financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City's basic financial statements for the year ended June 30, 2012, are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP). The independent auditor's report is presented as the first component of the financial section of this report.

Generally Accepted Accounting Principles (GAAP) requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found as the second component of the financial section of this report.

The annual financial report is presented in three sections: 1) the introductory section, which contains the transmittal letter and a listing of principal officials; 2) the financial section, which consists of the independent auditor's report, management's discussion and analysis, the basic financial statements, the fund financial statements and other supplementary information; and 3) the internal control and compliance section, which contains reporting issued by the auditor.

This report includes all funds required of the City. The City provides a full range of services including Police and Fire Protection, Highways and Streets, Sanitation and Solid Waste, Recreational Activities, Schools, Utilities and General Administrative Services.

Management of the City is responsible for establishing and maintaining an internal control structure designed to insure that the assets of the government are protected from loss, theft, or misuse and to insure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: 1) The cost of the control should not exceed the benefits likely to be derived; and 2) The valuation of costs and benefits requires estimates and judgments by management.

The City is responsible for insuring that an adequate internal control structure is in place to insure compliance with applicable laws and regulations related to the operations of the City. This internal control structure is subject to periodic evaluation by management.

In addition, the City maintains budgetary controls. The objective of these budgetary controls is to insure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Mayor and Aldermen. Activities of the General Fund, Special Revenue Funds and Capital Projects Fund are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level.

The State requires an annual audit of our basic financial statements by an independent certified public accountant. Accordingly, this year's audit was completed by Brown Jake & McDaniel, PC. In addition to meeting the State requirements, the audit was also designed to meet Federal audit requirements.

Respectfully submitted,

CITY OF NEWPORT

James Finchum
Interim City Administrator

CITY OF NEWPORT, TENNESSEE
List of Principal Officials
June 30, 2012

Board of Mayor and Aldermen

Connie Ball, Mayor
Bill Costner, Vice-Mayor
John Bugg, Alderman
Freddie Gregg, Alderman
Kathy Holt, Alderman
Kenny Morgan, Alderman

City Officials

James Finchum, Interim City Administrator
Julia Carrell, City Finance Director
Terry Hurst, City Attorney
Vida Bell, City Judge

Board of Education

Malcolm Powers, Chairman
Jan Brooks Sneed, Vice Chairman
Kimberly Hux, Board Member
Charlotte Mims, Board Member
Michael Overholt, Board Member

Steve Thompson, Director of Schools

Newport Utilities Board

Dan Lindsey, Chairman
Charles Benson, Jr., Board Member
Johnny Bugg, Board Member
Bill Costner, Board Member
William Lewis, Board Member
Kenneth Morgan, Board Member
William Whitson, Board Member

Glenn Ray, General Manager
Jim Robertson, Electric Manager
Leonard "Topper" Allen, Water Manager
Carrol Proffitt, Wastewater Manager

FINANCIAL SECTION

BROWN JAKE & McDANIEL, PC

CERTIFIED PUBLIC ACCOUNTANTS
 2607 KINGSTON PIKE, SUITE 110
 KNOXVILLE, TENNESSEE 37919-3336
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JOE L. BROWN, CPA, CGFM, CGMA
 FRANK D. McDANIEL, CPA, CGFM, CGMA
 TERRY L. MOATS, CPA, CGFM, CGMA
 JAMES E. BOOHER, CPA, CGMA

MEMBERS
 AMERICAN INSTITUTE OF
 CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

Board of Mayor and Aldermen
 City of Newport, Tennessee

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2013 on our consideration of the City of Newport, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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. In accordance with OMB Circular A-133, we have also issued our report dated May 31, 2013 on our consideration of the City of Newport, Tennessee's internal control over major programs and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 20 and the required supplementary information on pages 81 through 83 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 an opinion on the financial statements of the City of Newport, Tennessee taken as a whole. The introductory section and other supplementary information within the financial section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal and state awards is presented for the 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 also not a required part of the basic financial statements of the City of Newport, Tennessee. The other supplementary information and the schedule of expenditures of federal and state awards have 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. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Bram Lake & McDaniel, PC

Knoxville, Tennessee
May 31, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of the City of Newport, Tennessee is providing a narrative overview and analysis of the City's financial performance for the fiscal year ended June 30, 2012.

The City of Newport was incorporated in 1903 under the provisions of the State of Tennessee and has continued to operate under a Board of Mayor and Aldermen form of government through June 30, 2005. However, on the 22nd day of June 2005, Governor Phil Bredesen signed Private Chapter No. 76, Senate Bill No. 2397, Private Acts 2005, into law, placing in effect a transition from the Board of Mayor and Aldermen form of government to a City Administrator with Board of Mayor and Aldermen form of government. Under the new form of government, the Board of Mayor and Aldermen appoint a City Administrator to run the day to day activities of the city, with powers for all personnel actions for all city departments except the police and fire departments which come under the civil service provisions of the city charter. All personnel actions for the civil service departments are governed by the respective civil service boards with the Board of Mayor and Aldermen making final personnel decisions for those departments. Under the provisions of the new charter, H. Bradley Moffitt was selected as the first City Administrator for the City of Newport effective 1 February 2006; subsequently in 2008, the City hired Scott Collins for this position. Under the city charter, two other city departments have their own boards and run semi-independent from regular city government operations. They are The Newport Utility Board, consisting of water, sewer and electrical services, governed by an independent Newport Utilities Board appointed by the Board of Mayor and Aldermen and Newport Grammar School, a K through eighth grade school system, governed by an elected five member Newport Board of Education.

The City has the usual powers of municipalities, including taxation, licenses, permitting, entering into contracts, and issuing bonds. Among the services offered to its citizens are public safety (police and fire departments), animal control, street lighting and public works. The Public Works Department includes local highways and streets as well as sanitation and recycling activities. Other services include a department of parks and recreation that oversees a large community center facility and park facilities and educational services through the local library and the Newport Grammar School public school system. The City approves all budgets and partial funding is provided for school operations. A major capital project of the City was entered into for the school through a 6 million dollar bond financial obligation several years ago. The City's general fund services this debt.

The government-wide financial statements include the City of Newport (the primary government), and Newport public school system (Newport Grammar School) and the Newport Utilities Board.

FINANCIAL HIGHLIGHTS

- Key financial highlights for 2012 are as follows:
- Continued improvements to City Hall.
- Continued improvements to other City facilities
- Continued development of river walk and park system
- Improvements to Solid Waster Transfer Station

- Addition of significant public safety, public works equipment and recreation equipment and improvements.
- Continued our review of property tax records to assure all properties within the City of Newport are appropriately included in current and future assessments. Also, continued to review sales tax situs reports to ensure all businesses within the City limits are appropriately assigned to the City's location for proper sales tax remittance.

Governmental-Type Activities

The net assets of the City increased by \$160,981 from 2011.

General revenues accounted for \$9,272,385 or 59 percent of total revenue. Program specific revenues in the form of charges for services and operating grants and contributions accounted for \$6,423,076 or 41 percent of total revenues of \$15,695,461.

Among major funds, the General Fund had \$10,404,227 in revenues, bond proceeds, transfers and capital lease proceeds and \$10,655,645 in expenses and transfers. The fund balance for the General Fund decreased by \$251,418. The General Purpose School Fund had \$6,561,832 in revenues, loan proceeds and transfers and \$6,504,643 in expenses and transfers. The General Purpose School Fund's fund balance increased \$57,189 from 2011.

Business-Type Activities

The Newport Utilities (the Utilities) net utility plant increased by \$5,516,140 or 6.4 percent.

The Utilities' net assets increased by \$3.3 million or 3.4 percent.

During the year, the Utilities' operating revenues decreased by 5.3 percent.

During the year, the Utilities' total expenses decreased by 3.9 percent.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the City as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The ***Statement of Net Assets*** and ***Statement of Activities*** provide information about the activities of the City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other Non-major funds presented in one column. In the case of the City, the General Fund and the General Purpose School Fund are by far the most significant funds. The City's business-type activities consist of utility distribution services for electricity and water and wastewater treatment provided by the Newport Utilities.

The other required financial statement is the ***Statement of Cash Flows***. The primary purpose of this statement is to provide information about the City's business-type activities, cash receipts and

cash payments during the reporting period. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities; and provides answers to such questions as “where did cash come from?”, “what was cash used for?” and “what was the change in cash balance during the reporting period?”

REPORTING THE CITY AS A WHOLE

While this document contains the funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, “how did we do financially during 2012?” The **Statement of Net Assets** and the **Statement of Activities** answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. This basis of accounting takes into account all of the current year’s revenues and expenses regardless of when cash is received or paid.

These two statements report the City’s net assets and changes in those assets. This change in net assets is important because it tells the reader that, for the City as a whole, the financial position of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, and some not. Non-financial factors include the City’s tax base, facility condition, required educational programs and other factors.

In the **Statement of Net Assets** and the **Statement of Activities**, the City reports governmental activities and business-type activities. Governmental activities are the activities where most of the City’s programs and services are reported, including, but not limited to, general services, public safety, highways and streets, recreation, and education. The City of Newport has one business-type activity, the Newport Utilities. The Newport Utilities provides electric and water, and wastewater services to the City and adjacent areas of Cocke County.

REPORTING THE CITY’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

Fund financial reports provide detailed information about the City’s major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City’s most significant funds. The City’s major governmental funds are the General Fund and the General Purpose School Fund (Newport Grammar School).

Governmental Funds

All of the City’s activities 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 in future periods. These funds are reported using the modified accrual method of accounting, which measures cash and all other financial assets that can be readily converted to cash. 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 whether there are more or fewer financial resources that can be spent in the near future to finance City general services and educational programs. The relationship (or differences) between governmental activities (reported in the **Statement of Net Assets** and the **Statement of Activities**) and governmental funds is reconciled in the financial statements.

THE CITY AS A WHOLE

The **Statement of Net Assets** provides the perspective of the City as a whole. Table 1 provides a summary of the City of Newport's net assets for 2012, along with comparative information for 2011.

Table 1
STATEMENT OF NET ASSETS
As of June 30

	Governmental Activities		Business-Type Activities		Total All Components	
	2012	2011	2012	2011	2012	2011
Assets:						
Current and other assets	\$ 6,214,286	\$ 6,705,651	\$ 29,282,491	\$ 31,974,741	\$ 35,496,777	\$ 38,680,392
Capital assets	<u>17,780,501</u>	<u>16,450,331</u>	<u>91,816,768</u>	<u>86,300,628</u>	<u>109,597,269</u>	<u>102,750,959</u>
Total assets	<u>\$ 23,994,787</u>	<u>\$ 23,155,982</u>	<u>\$ 121,099,259</u>	<u>\$ 118,275,369</u>	<u>\$ 145,094,046</u>	<u>\$ 141,431,351</u>
Liabilities:						
Long-term liabilities	\$ 6,382,977	\$ 5,467,042	\$ 10,338,957	\$ 10,260,693	\$ 16,721,934	\$ 15,727,735
Other liabilities	<u>4,085,252</u>	<u>4,323,363</u>	<u>10,755,587</u>	<u>11,338,037</u>	<u>14,840,839</u>	<u>15,661,400</u>
Total liabilities	<u>\$ 10,468,229</u>	<u>\$ 9,790,405</u>	<u>\$ 21,094,544</u>	<u>\$ 21,598,730</u>	<u>\$ 31,562,773</u>	<u>\$ 31,389,135</u>
Net Assets:						
Invested in capital assets, net of related debt	\$ 11,084,827	\$ 10,781,455	\$ 81,103,606	\$ 74,819,624	\$ 92,188,433	\$ 85,601,079
Restricted	1,490,696	1,482,158	2,222,411	5,416,446	3,713,107	6,898,604
Unrestricted	<u>951,035</u>	<u>1,101,964</u>	<u>16,678,698</u>	<u>16,440,569</u>	<u>17,629,733</u>	<u>17,542,533</u>
Total net assets	<u>\$ 13,526,558</u>	<u>\$ 13,365,577</u>	<u>\$ 100,004,715</u>	<u>\$ 96,676,639</u>	<u>\$ 113,531,273</u>	<u>\$ 110,042,216</u>

Graph I, on the following page, shows Total Net Assets of all components of City funds (Newport Utility Board, Newport Schools, and funds administered by the City Administration).

City of Newport Statement of Net Assets 2012

\$113,531,273

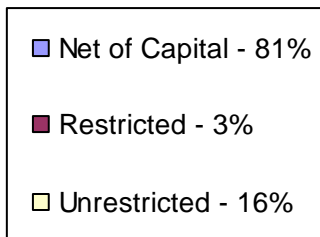
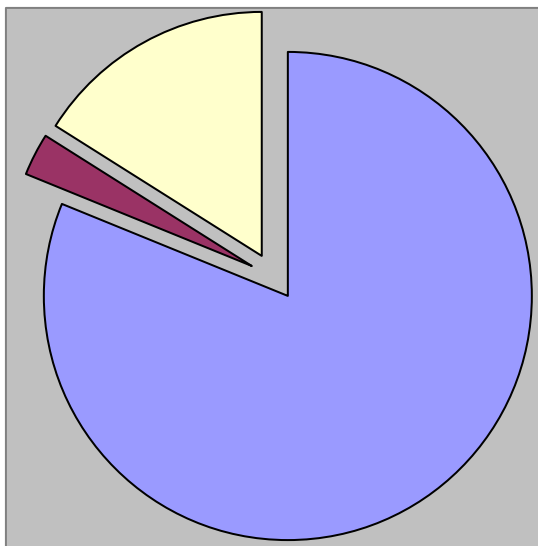
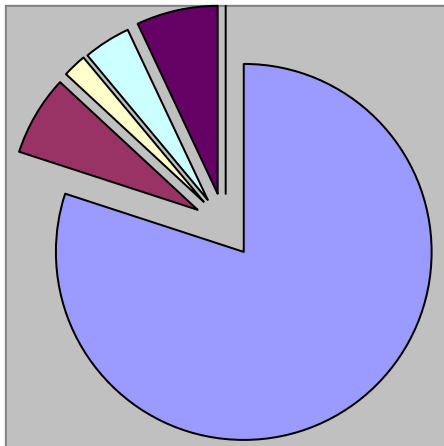


Table 2 provides a summary of the City of Newport's changes in net assets for 2012, along with comparative information for 2011.

Table 2
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

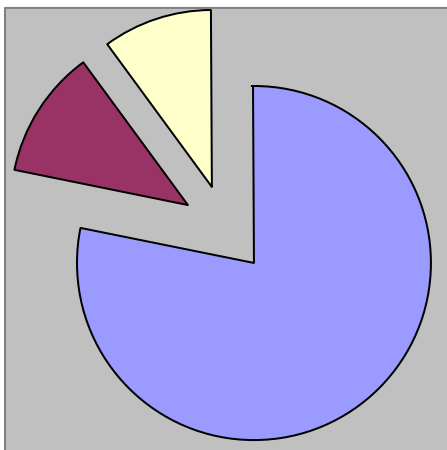
	Governmental-Type Activities		Business-Type Activities	
	2012	2011	2012	2011
Revenue:				
Program revenue:				
Charges for services	\$ 695,902	\$ 665,022	\$ 59,049,072	\$ 62,368,631
Operating grants and contributions	5,115,868	5,548,403	-	-
Capital grants and contributions	611,306	454,015	505,159	2,287,933
General revenue:				
Taxes:				
Sales taxes	4,032,300	3,885,848	-	-
Property taxes	3,062,482	3,004,473	-	-
In lieu of tax	131,555	135,794	-	-
Wholesale beer tax	504,600	476,615	-	-
Business tax	213,364	212,260	-	-
Cable franchise tax	81,579	80,115	-	-
Other state shared revenues	101,271	94,486	-	-
Interest earned	6,755	8,398	345,682	349,958
Insurance recoveries	169,650	288,136	-	-
Transfers - in-lieu of tax - enterprise funds	804,686	775,324	(804,686)	(775,324)
Miscellaneous	163,199	116,025	4,264	32,315
Gain (loss) on sale of fixed assets	944	(8,601)	-	-
Total revenue	15,695,461	15,736,313	59,099,491	64,263,513
Program expenses:				
General government	844,741	705,865	-	-
Public safety	3,671,677	3,497,853	-	-
Public works	1,957,394	1,805,140	-	-
Animal control	369,514	398,095	-	-
Sanitation	-	-	-	-
Culture and recreation	1,032,327	1,000,393	-	-
Economic and community development	402,803	591,057	-	-
Education	7,188,011	7,347,584	-	-
Utilities	-	-	55,771,415	58,028,858
Interest and fiscal charges	68,013	67,798	-	-
Total program expenses	15,534,480	15,413,785	55,771,415	58,028,858
Change in net assets	160,981	322,528	3,328,076	6,234,655
Net assets, beginning	13,365,577	13,043,049	96,676,639	90,441,984
Net assets, ending	\$ 13,526,558	\$ 13,365,577	\$ 100,004,715	\$ 96,676,639

Component Total Revenue Sources 2012



- Charges for Services - 80%
- Operating Grants - 7%
- Capital Grants - 2%
- Property Taxes - 4%
- Other Taxes - 7%
- Miscellaneous - 0%

Total Expenditures 2012



- Utilities - 78%
- Government - General - 12%
- Government - Education - 10%

Governmental-Type Activities

	<u>Governmental-Type Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Sales taxes	26%	25%
Property taxes	20%	19%
Transfers in-lieu of tax	5%	5%
Wholesale beer tax	3%	3%
Other	<u>46%</u>	<u>48%</u>
	<u>100%</u>	<u>100%</u>
Expenses:		
Education	46%	48%
Public safety	24%	23%
Other	<u>30%</u>	<u>29%</u>
	<u>100%</u>	<u>100%</u>

Business-Type Activities

	<u>Business-Type Activities</u>	
	<u>2012</u>	<u>2011</u>
Revenues:		
Charges for utility services	99%	97%
Other	<u>1%</u>	<u>3%</u>
	<u>100%</u>	<u>100%</u>

Expenses related to providing utility service to customers comprise 100 percent of the City's business-type activity expenses. Providing electric distribution services represents the largest portion of the business activities provided by the City.

The **Statement of Activities** shows the cost of program services and the charges for services and grants offsetting those services. Table 3 shows the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State Entitlements.

Table 3

	<u>Total Cost of Services 2012</u>	<u>Net Cost of Services 2012</u>	<u>Total Cost of Services 2011</u>	<u>Net Cost of Services 2011</u>
General government	\$ 844,741	\$ 731,660	\$ 705,865	\$ 676,812
Public safety	3,671,677	3,521,994	3,497,853	3,389,071
Public works	1,957,394	1,603,837	1,805,140	1,524,262
Animal control	369,514	188,666	398,095	287,448
Culture and recreation	1,032,327	710,424	1,000,393	838,338
Economic and community development	402,803	231,964	591,057	210,275
Education	7,188,011	2,054,846	7,347,584	1,752,341
Interest and fiscal charges	<u>68,013</u>	<u>68,013</u>	<u>67,798</u>	<u>67,798</u>
	<u>\$ 15,534,480</u>	<u>\$ 9,111,404</u>	<u>\$ 15,413,785</u>	<u>\$ 8,746,345</u>

General government includes activities of the judicial, legislative and executive branches of the City, as well as financial administration, legal, industrial development, municipal building operations and maintenance, and any other activity not specifically included in a separate program.

Public safety includes activities of the police, fire and codes enforcement.

Public works includes activities of highways and streets related to operation and maintenance of roads, streets, sidewalks, alleys and all other related activities.

Animal control includes activities related to the operation and maintenance of the animal shelter.

Sanitation includes all the activities of solid waste collection and removal for the City.

Culture and recreation includes all the activities of the parks and community center.

Economic and community development is reserved for special grant activities funded by the City. The City also pays the salary of the administrative assistant for this department.

Education includes all activity of the Newport City Board of Education.

Interest and fiscal charges is the activity associated with the payment of the School System's debt and other City capital improvements.

CHANGES IN NET ASSETS – BUSINESS-TYPE ACTIVITIES

Changes in the Newport Utilities' net assets can be determined by reviewing the following condensed Statement of Revenues, Expenses, and Changes in Net Assets for the years 2012 and 2011.

Table 4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Business-Type Activities		
	<u>2012</u>	<u>2011</u>
Revenues:		
Operating revenues	\$ 59,049,072	\$ 62,368,631
Non-operating revenues	<u>349,946</u>	<u>382,273</u>
Total revenues	<u>59,399,018</u>	<u>62,750,904</u>
Expenses:		
Purchased energy	40,014,825	42,528,414
Operating expenses	6,079,400	6,023,760
Customer accounts expense	1,754,619	1,691,050
Administrative and general expense	1,940,302	1,985,828
Maintenance expense	940,585	838,648
Depreciation expense	4,145,464	4,003,578
Interest and debt discount expense	449,106	514,120
Intergovernmental in lieu of tax	233,619	225,094
Injuries and damages	<u>213,495</u>	<u>218,366</u>
Total expenses	<u>55,771,415</u>	<u>58,028,858</u>
Income before transfers and capital contributions	3,627,603	4,722,046
Transfers to local government	(804,686)	(775,324)
Capital contributions	<u>505,159</u>	<u>2,287,933</u>
Change in net assets	3,328,076	6,234,655
Beginning net assets	<u>96,676,639</u>	<u>90,441,984</u>
Ending net assets	<u>\$ 100,004,715</u>	<u>\$ 96,676,639</u>

The Electric Department showed a \$1,791,038 decrease in change in net assets primarily due to lower sales. Electric department sales decreased 7.8%. The Water and Sewer Department showed a \$1,115,541 decrease in change in net assets due to increased expenses during the year when compared to 2011.

THE CITY'S FUNDS

Information about the City's major funds is detailed in the Required Supplementary Information Section of the financial statements. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues, transfers and loan proceeds of \$17,722,824 and expenditures of \$17,949,260 for the fiscal year 2012.

As the City completed the current year, all governmental funds had a fund balance of \$2,678,688, a decrease of \$226,436 from 2011.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget is prepared according to Tennessee law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The City over expended its general fund budget due to grant revenues and related expenses and salaries and benefits in the sanitation department. These items were approved by City council, but no budget amendments were adopted by the governing body.

GENERAL PURPOSE SCHOOL FUND BUDGETARY HIGHLIGHTS

The School System's budget is prepared according to Tennessee law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Purpose School Fund.

The School System amended its budget at the end of the 2012 fiscal year. The most significant items amended were building repairs due to tornado damage and capital expenditures related to HVAC improvements with energy efficient loan funds. Overall budgeted expenditures increased by \$1,132,966, a 20 percent increase.

The final budgeted estimate for revenue was \$4,929,398. The original budgeted estimate was \$4,925,526.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – Governmental-Type Activities

At the end of fiscal year 2012, the City had \$17,780,501 net of accumulated depreciation invested in land, buildings and improvements, machinery and equipment, and vehicles. Table 5 shows fiscal year 2012 and 2011 balances.

Table 5
CAPITAL ASSETS (NET OF DEPRECIATION) AT JUNE 30

Governmental-Type Activities		
	<u>2012</u>	<u>2011</u>
Land	\$ 45,500	\$ 45,500
Construction work in progress	520,998	506,160
Buildings and improvements	10,557,528	9,389,634
Furniture and equipment	819,534	633,322
Streets and other infrastructure assets	<u>5,836,941</u>	<u>5,875,715</u>
	<u>\$ 17,780,501</u>	<u>\$ 16,450,331</u>

Overall capital assets increased by \$1,330,170 for fiscal year 2012; and, depreciation expense for this year amounted to \$530,942. Additions for 2012 included various improvements to Newport Grammar School facilities and equipment purchases for school use, continued improvements to City Hall, the river walk and park project and various equipment purchases for City departments.

Capital Assets – Business-Type Activities

At the end of fiscal year 2012, the Utilities had \$91.8 million invested in a broad range of utility capital assets, including its electric distribution, water treatment plant, office buildings, and warehouses. This amount represents a net increase of \$5.5 million or 6.4 percent.

Table 6
CAPITAL ASSETS (NET OF DEPRECIATION) AT JUNE 30
(Dollars in Thousands)

Business-Type Activities		
	<u>2012</u>	<u>2011</u>
Net Utility Plant:		
Electric	\$ 49,027	\$ 45,334
Water	28,619	27,458
Sewer	<u>14,171</u>	<u>13,508</u>
	<u>\$ 91,817</u>	<u>\$ 86,300</u>
<hr/>		
Major additions include:		
	<u>2012</u>	<u>2011</u>
Electric:		
Distribution plant	\$ 2,417,780	\$ 2,366,708
Transmission system	446,558	83,849
Office furniture and equipment	7,075	27,327
Transportation	54,102	276,890
Structures and equipment	76,481	9,639
Water and Sewer:		
Source of supply	\$ -	\$ -
Treatment	226,297	314,453
Transmission/distribution	3,863,868	1,367,188
General	287,683	171,683
Collection system	719,850	502,576
Pumping	116,496	203,400

The Utilities' fiscal year 2013 capital budget plans for investing another \$8.02 million in capital projects, including the following:

Electric transmission system	\$ 415,000
Electric distribution plant	3,625,000
Electric office furniture and equipment	14,750
Electric transportation equipment	441,000
Electric structures and equipment	600,304
Water and sewer pumping plant	347,500
Water and sewer treatment plant	881,000
Water and sewer transmission and distribution	1,405,000
Water and sewer general plant	295,000
	<u>\$ 8,024,554</u>

The Utilities plans on using existing cash and a \$2.6 million loan to fund the capital budget for the upcoming year, assuming no disasters or emergencies occur. The Utilities does not expect to issue any revenue bonds.

Debt Administration – Governmental-Type Activities

The City has a credit rating of Baa, with no change to the credit rating in the past fiscal year. In addition, the City routinely purchases bond insurance on all bond issues. This brings the bond rating for the individual bonds to Aaa.

At June 30, 2012, the City had long-term debt totaling \$6,635,674, with \$549,654 due within one year. Annual interest rates on debt issues range from 0.00 percent to 4.25 percent. The City does not expect to issue any new debt in the upcoming fiscal year.

Debt Administration - Business-Type Activities

At June 30, 2012, the Utilities' Electric Department had outstanding insured revenue bonds in the amount of \$4.1 million. Debt service schedules amortize through 2018. Interest rate is 2.00 percent on the bonds. All outstanding bonds are insured and rated Aaa. The next principal payment totals \$645,000.

The amount of outstanding long-term debt in the Water and Sewer Department at June 30, 2012 was \$6.6 million. Debt service schedules go to 2049. This debt consists of revenue bonds, Rural Development Loans, and State Revolving Fund Loans. The interest rates are fixed. The annual interest rates range from 2.00 percent to 4.375 percent on these bonds and loans. The principal payments due in the next twelve months total \$521,459.

CURRENT FINANCIAL ISSUES AND CONCERNS

Governmental-Type Activities

Local economic factors present a stable outlook for the City of Newport in 2012 and 2013. The City continues to be a vital part of community development through industry, retailing, and real estate. The City continued the planning process of annexation of the U.S. Highway 25/70 corridor, and it is anticipated that this will continue throughout 2013. A liquor-by-the-drink referendum was passed by the citizens of Newport in November 2004. This is attracting new restaurants to locate within the Newport corporate limits. Ruby Tuesday's opened their new restaurant in 2005 and

Holiday Inn, Sagebrush, and Fox & Hounds Restaurant expanded their facilities after acquiring on-premise liquor license permits the following year. Continued retail growth has occurred along the City's two Interstate 40 exchanges. In retailing, the City joined with Cocke County and extended TIF (Tax Increment Financing) to enable Lowe's to build a large retail establishment. Due to Lowe's locating a facility which opened in January 2006, a shopping center with a numerous new and retail establishments has located in the area with an access to the present Wal-Mart Supercenter. Expansion of this entire area continues with new commercial ventures. Also, the City enabled Newport Utilities to extend water lines to Del Rio for future real estate development. The downtown Mohawk Mill was demolished for the Greenways development along the Pigeon River in the prior years. The City received an EPA grant for preliminary engineering and quality assurance plan for the revitalizing the Brown-Field site. S&ME, INC, a firm from Louisville, Tennessee was retained to do the engineering study, which was completed during the year. Work has begun on this project. The City, in conjunction with the county, proceeded to participate with TDOT for future road development of Highways 321 and 411 as well as development of Highway 25 to Saint Tide Hollow Road, which will be the Newport Bypass. This project has been approved for funding for right-of-ways beginning in 2008. The City expects to receive an increase in state shared revenues in the coming year. Since the City participated in reassessment of all properties in 2004-2005, there is no expected change in property tax revenues for 2012-2013, except for the positive impact generated by the City's review of properties within the City and assuring they are properly included in the City's annual tax assessment by the County Assessor's Office.

Schools

Due to the current instability of the economy and proposed changes on the state level, economic factors may not be as favorable as in the past for the Newport City School System. This concern remains in the forefront of the minds of the administration and the Board of Education. Currently the state's budget provides level funding for education. Projected shortfalls in the state budget could result in budget cuts for some programs. Locally, sales tax and property taxes are expected to remain at the same level with little or no growth to be expected. Student enrollment is expected to remain the same; however, we have shown a decline in the number of students that pay tuition resulting in a slight loss of revenue. Again, we feel this is due to the economy.

These scenarios require the School System to plan carefully and prudently to provide resources to meet student needs over the next several years.

On the positive side, the award of federal stimulus money such as First to the Top will allow us to continue activities that are vital to the education of the students in the Newport City School System. In addition to the aforementioned federal funds, the administration and the Board of Education are looking at the total program in the Newport City School System in ways to lower the number of part-time and full-time staff and yet keep the excellence in education that has come to be expected by the stakeholders of the School System.

Other steps that are in the planning stage to ensure that expenditures stay within the revenues is a limit on staff travel and a limit on non-essential spending for the coming school year.

The only major project that the Newport City School System will be participating in during the coming fiscal year will be a continuation of the energy saving program to update the heat, air and lighting systems at Newport Grammar School.

Business-Type Activities

Newport Utilities has an all requirements wholesale contract with the Tennessee Valley Authority (TVA). There are 155 municipal and cooperative distributors of TVA power. TVA had a wholesale rate restructuring beginning April 1, 2011. Consequently, Newport Utilities had a retail rate restructuring beginning April 1, 2011. This restructuring was cost based and was revenue neutral to Newport Utilities but it affected our customers differently based on their customer usage. Some customers had positive impacts and some had negative impacts. TVA continues to add a Fuel Cost Adjustment (FCA) to the wholesale bill. The FCA is calculated as the difference in the TVA baseline FY2012 budgeted fuel costs and actual fuel costs. The FCA is adjusted monthly. Consequently, Newport Utilities adjusts retail rates monthly to reflect the FCA.

There were no significant variations from fiscal year 2012 budgeted operational expenditures and fiscal year 2012 actual operational expenditures. Fiscal year 2013 budget, approved in June 2012, contains no significant operational increases or decreases from fiscal year 2012. There are no major variations anticipated in either the makeup or requirements of the NU customer base.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, investors and creditors with a general overview of the City of Newport's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, contact:

For all matters related to general City operations or finances:

James Finchum,
Interim City Administrator
City of Newport
P.O. Box 370
Newport, TN 37822

For all matters related to Newport Utility Board operations or finances:

Glenn Ray,
General Manager
Newport Utilities
P.O. Box 519
Newport, TN 37822

For all matters related to Newport Grammar School operations or finances:

Steve Thompson,
Director
Newport Grammar School
301 College Street
Newport, TN 37821

CITY OF NEWPORT, TENNESSEE

Statement of Net Assets

June 30, 2012

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 1,964,966	\$ 11,455,694	\$ 13,420,660
Certificates of deposit	-	3,917,812	3,917,812
Receivables:			
Property taxes	450,442	-	450,442
Unbilled property taxes	2,717,299	-	2,717,299
Customers (net of allowance for doubtful accounts of \$ - 0 -)	-	2,280,526	2,280,526
Unbilled revenue	-	2,975,592	2,975,592
Rent	-	282,284	282,284
Grants	5,398	-	5,398
Other	48,186	106,474	154,660
Due from governmental units	1,009,776	-	1,009,776
Inventories	18,219	1,170,900	1,189,119
Total current assets	6,214,286	22,189,282	28,403,568
Restricted assets:			
Cash and cash equivalents	-	4,792,423	4,792,423
Total restricted assets	-	4,792,423	4,792,423
Capital assets:			
Land and other asset not being depreciated	566,498	12,733,854	13,300,352
Depreciable capital assets	24,989,548	146,560,437	171,549,985
	25,556,046	159,294,291	184,850,337
Less: Accumulated depreciation	7,775,545	67,477,523	75,253,068
Total capital assets	17,780,501	91,816,768	109,597,269
Other assets:			
Unamortized debt expense	-	117,030	117,030
Customer heat pump loans, less allowance for doubtful accounts of \$10,341	-	2,183,756	2,183,756
Total other assets	-	2,300,786	2,300,786
Total assets	\$ 23,994,787	\$ 121,099,259	\$ 145,094,046

(Continued)

CITY OF NEWPORT, TENNESSEE

Statement of Net Assets
(Continued)

June 30, 2012

	Governmental Activities	Business-Type Activities	Total
<u>LIABILITIES AND NET ASSETS</u>			
Current liabilities (payable from current assets):			
Current maturities of long-term debt	\$ 549,654	\$ -	\$ 549,654
Accounts payable	72,111	6,619,918	6,692,029
Accrued expenses - employee benefits	160,487	1,109,881	1,270,368
Accrued expenses - other	127,897	126,521	254,418
Deferred compensation payable	68,451	-	68,451
Deferred revenue - property taxes	362,838	-	362,838
Deferred revenue - unbilled property taxes	2,717,299	-	2,717,299
Deferred revenue - grants	22,213	-	22,213
Customer deposits	-	1,693,460	1,693,460
Current liabilities (payable from restricted assets):			
Current maturities of long-term debt	-	1,166,459	1,166,459
Accrued expenses	-	39,348	39,348
Deferred revenue	4,302	-	4,302
Total current liabilities	4,085,252	10,755,587	14,840,839
Other liabilities:			
Advances from Tennessee Valley Authority			
Residential Energy Services Program	-	720,226	720,226
Postretirement benefits	-	72,028	72,028
Long-term compensated absences	296,957	-	296,957
Long-term liabilities, less current maturities	6,086,020	9,546,703	15,632,723
Total other liabilities	6,382,977	10,338,957	16,721,934
Total liabilities	10,468,229	21,094,544	31,562,773
Net assets:			
Invested in capital assets, net of related debt	11,084,827	81,103,606	92,188,433
Restricted for debt service	-	2,222,411	2,222,411
Restricted for education	1,433,843	-	1,433,843
Restricted for drug enforcement	56,853	-	56,853
Unrestricted	951,035	16,678,698	17,629,733
Total net assets	13,526,558	100,004,715	113,531,273
Total liabilities and net assets	\$ 23,994,787	\$ 121,099,259	\$ 145,094,046

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Statement of Activities

For the Fiscal Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities:							
General government	\$ 844,741	\$ 19,761	\$ 4,000	\$ 89,320	\$ (731,660)	\$ -	\$ (731,660)
Public safety	3,671,677	107,586	33,450	8,647	(3,521,994)	-	(3,521,994)
Public works	1,957,394	69,257	194,300	90,000	(1,603,837)	-	(1,603,837)
Animal control	369,514	119,289	61,559	-	(188,666)	-	(188,666)
Culture and recreation	1,032,327	86,211	-	235,692	(710,424)	-	(710,424)
Economic and community development	402,803	-	-	170,839	(231,964)	-	(231,964)
Education	7,188,011	293,798	4,822,559	16,808	(2,054,846)	-	(2,054,846)
Interest and fiscal charges	68,013	-	-	-	(68,013)	-	(68,013)
Total governmental activities	15,534,480	695,902	5,115,868	611,306	(9,111,404)	-	(9,111,404)
Business-type activities:							
Newport Water and Sewer System	7,728,477	9,170,387	-	505,159	-	1,947,069	1,947,069
Newport Electric System	48,042,938	49,878,685	-	-	-	1,835,747	1,835,747
Total business-type activities	55,771,415	59,049,072	-	505,159	-	3,782,816	3,782,816
Total primary government	\$ 71,305,895	\$ 59,744,974	\$ 5,115,868	\$ 1,116,465	(9,111,404)	3,782,816	(5,328,588)
General revenues:							
Taxes:							
Sales taxes - state					471,115	-	471,115
Sales taxes - local					3,561,185	-	3,561,185
Property taxes					3,062,482	-	3,062,482
In-lieu of tax - TVA					80,385	-	80,385
In-lieu of tax - other					51,170	-	51,170
Wholesale beer tax					504,600	-	504,600
Business tax					213,364	-	213,364
Cable franchise tax					81,579	-	81,579
Other state shared revenues					101,271	-	101,271
Interest earned					6,755	345,682	352,437
Transfers - in-lieu of tax - enterprise funds					804,686	(804,686)	-
Insurance recoveries					169,650	-	169,650
Gain (loss) on disposal of fixed assets					944	-	944
Miscellaneous					163,199	4,264	167,463
Total general revenues					9,272,385	(454,740)	8,817,645
Change in net assets					160,981	3,328,076	3,489,057
Net assets - beginning					13,365,577	96,676,639	110,042,216
Net assets - ending					\$ 13,526,558	\$ 100,004,715	\$ 113,531,273

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Balance Sheet - Governmental Funds

June 30, 2012

(With Comparative Totals for June 30, 2011)

	General	General	Nonmajor	Total Governmental Funds	
	Fund	Purpose School Fund	Governmental Funds	2012	2011
<u>ASSETS</u>					
Cash and cash equivalents	\$ 495,440	\$ 1,241,926	\$ 227,600	\$ 1,964,966	\$ 2,307,835
Receivables:					
Property taxes	450,442	-	-	450,442	367,131
Property taxes - unbilled	2,717,299	-	-	2,717,299	2,579,080
Other	137,734	-	-	137,734	335,043
Due from governmental units	725,218	259,923	105,219	1,090,360	1,035,680
Due from other funds	-	115	23,952	24,067	22,969
Prepaid expenses	-	-	-	-	62,112
Inventories	-	-	18,219	18,219	18,770
Total assets	\$ 4,526,133	\$ 1,501,964	\$ 374,990	\$ 6,403,087	\$ 6,728,620
<u>LIABILITIES AND FUND EQUITIES</u>					
Liabilities:					
Accounts payable	\$ 147,876	\$ 86,860	\$ 2,109	\$ 236,845	\$ 514,273
Accrued expenses	127,897	160,487	-	288,384	216,643
Deferred compensation payable	68,451	-	-	68,451	60,479
Deferred property taxes	362,838	-	-	362,838	355,421
Deferred property taxes - unbilled	2,717,299	-	-	2,717,299	2,579,080
Due to other funds	23,952	-	115	24,067	22,969
Deferred revenue	22,213	-	4,302	26,515	74,631
Total liabilities	3,470,526	247,347	6,526	3,724,399	3,823,496
Fund equities:					
Fund balance:					
Nonspendable:					
Prepaid expenses	-	-	-	-	62,112
Inventories	-	-	18,219	18,219	18,770
Restricted:					
General purpose school fund	-	19	-	19	1,022,750
Cafeteria fund	-	-	101,597	101,597	150,102
Drug fund	-	-	56,853	56,853	40,547
Federal grants	-	-	-	-	8,597
Assigned:					
General purpose school fund	-	36,858	-	36,858	174,678
Parks and recreation	49,060	-	-	49,060	50,999
Federal projects	-	-	99,924	99,924	100,000
Capital projects	-	-	91,871	91,871	91,346
Unassigned	1,006,547	1,217,740	-	2,224,287	1,185,223
Total fund equities	1,055,607	1,254,617	368,464	2,678,688	2,905,124
Total liabilities and fund equities	\$ 4,526,133	\$ 1,501,964	\$ 374,990	\$ 6,403,087	\$ 6,728,620

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets

June 30, 2012

Total fund equities--governmental funds		\$ 2,678,688
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$25,556,046, and the accumulated depreciation is \$7,775,545.		17,780,501
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	\$ (5,287,339)	
Loans payable	(1,348,335)	
Compensated absences	(296,957)	(6,932,631)
Total net assets--governmental activities from statement of net assets		\$ 13,526,558

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Fiscal Year Ended June 30, 2012
 (With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	General	General	Other	Total Governmental Funds	
	Fund	Purpose School Fund	Governmental Funds	2012	2011
Revenues:					
Local taxes	\$ 6,486,672	\$ 560,457	\$ -	\$ 7,047,129	\$ 6,773,805
Licenses and permits	19,644	-	-	19,644	24,145
Intergovernmental revenue	1,524,589	4,140,306	1,224,794	6,889,689	7,161,214
Charges for services	246,056	-	113,931	359,987	339,971
Fines, forfeits and costs	67,054	-	18,781	85,835	66,087
Investment earnings	393	5,628	734	6,755	8,398
Insurance recoveries	97,699	71,951	-	169,650	288,136
Other revenues	117,434	186,187	9,525	313,146	309,473
Total revenues	8,559,541	4,964,529	1,367,765	14,891,835	14,971,229
Expenditures:					
General government	812,244	-	-	812,244	672,307
Public safety	3,599,562	-	7,325	3,606,887	3,405,093
Public works	2,471,333	-	-	2,471,333	2,004,491
Animal control	368,034	-	-	368,034	396,787
Culture and recreation	1,299,681	-	-	1,299,681	1,031,600
Economic development	249,394	-	-	249,394	212,349
Community development	153,539	-	-	153,539	395,969
Debt service	1,090,858	-	-	1,090,858	411,541
Education	-	6,504,643	1,392,647	7,897,290	7,935,282
Total expenditures	10,044,645	6,504,643	1,399,972	17,949,260	16,465,419
Revenues over (under) expenditures	(1,485,104)	(1,540,114)	(32,207)	(3,057,425)	(1,494,190)
Other financing sources (uses):					
Interfund transfers - in	-	611,000	-	611,000	611,000
Interfund transfers - out	(611,000)	-	-	(611,000)	(611,000)
Transfers from enterprise fund - in lieu of tax	804,686	-	-	804,686	775,324
Proceeds from tax anticipation loan	600,000	-	-	600,000	-
Proceeds from capital outlay notes	440,000	-	-	440,000	340,000
Loan proceeds	-	986,303	-	986,303	413,697
Total other financing sources (uses)	1,233,686	1,597,303	-	2,830,989	1,529,021
Revenues and other financing sources over (under) expenditures and other financing uses	(251,418)	57,189	(32,207)	(226,436)	34,831
Fund balance, beginning, as previously stated	1,307,025	1,197,428	400,671	2,905,124	2,728,888
Prior period adjustment	-	-	-	-	141,405
Fund balance, beginning, as restated	1,307,025	1,197,428	400,671	2,905,124	2,870,293
Fund balance, ending	\$ 1,055,607	\$ 1,254,617	\$ 368,464	\$ 2,678,688	\$ 2,905,124

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended June 30, 2012

Total net change in fund balances--governmental funds	\$ (226,436)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount by which capital outlays (\$1,862,168) exceeds depreciation expense (\$530,942).	1,331,226
Proceeds from the disposal of fixed assets is revenue in the governmental funds, but the net book value of the asset sold is removed from the capital assets account in the statement of net assets and offset against the sales proceeds resulting in a "gain or loss on disposal of fixed assets" in the statement of activities.	
Net book value of capital assets sold to others	(1,056)
Proceeds from the issuance of debt is revenue in the governmental funds, but the proceeds increase long-term liabilities in the statement of net assets.	(2,026,303)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,089,505
In the statement of activities, certain operating expenses--compensated absences (sick pay and vacation)--are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, vacation and sick leave earned exceeded the amounts used.	(5,955)
Changes in net assets of governmental activities	<u>\$ 160,981</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Statement of Net Assets - Proprietary Funds

June 30, 2012

<u>ASSETS</u>	<u>Electric Department</u>	<u>Water and Sewer Department</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 6,970,621	\$ 4,485,073	\$ 11,455,694
Certificates of deposit	3,917,812	-	3,917,812
Receivables:			
Customer service accounts, less allowance for doubtful accounts of \$ - 0 -	1,993,804	286,722	2,280,526
Unbilled revenue	2,366,370	609,222	2,975,592
Due from other departments	97,817	62,939	160,756
Rent	282,284	-	282,284
Other	82,407	24,067	106,474
Materials and supplies inventory	892,068	278,832	1,170,900
Total current assets	16,603,183	5,746,855	22,350,038
Restricted assets:			
Cash - sinking fund and debt service	1,000,439	1,221,972	2,222,411
Cash - renewal and replacement	-	2,497,984	2,497,984
Cash - OPEB account	32,494	39,534	72,028
Total segregated assets	1,032,933	3,759,490	4,792,423
Capital assets:			
Depreciable capital assets	83,980,201	75,314,090	159,294,291
Less: accumulated depreciation	34,953,294	32,524,229	67,477,523
Total capital assets	49,026,907	42,789,861	91,816,768
Other assets:			
Unamortized debt expense	85,332	31,698	117,030
Customer heat pump loans, less allowance for doubtful accounts of \$10,341	2,183,756	-	2,183,756
Total other assets	2,269,088	31,698	2,300,786
Total assets	\$ 68,932,111	\$ 52,327,904	121,260,015

(Continued)

CITY OF NEWPORT, TENNESSEE

Statement of Net Assets - Proprietary Funds
(Continued)

June 30, 2012

	Electric Department	Water and Sewer Department	Total
<u>LIABILITIES AND NET ASSETS</u>			
Liabilities:			
Current liabilities (payable from current assets):			
Accounts payable	\$ 6,591,241	\$ 28,677	\$ 6,619,918
Accrued expenses:			
Employee benefits	698,642	411,239	1,109,881
Other	98,049	28,472	126,521
Due to other departments	62,939	97,817	160,756
Customer deposits, including \$2,342 of accrued interest	1,629,777	63,683	1,693,460
 Total current liabilities (payable from current assets)	 9,080,648	 629,888	 9,710,536
Current liabilities (payable from segregated assets):			
Current maturities of long-term debt	645,000	521,459	1,166,459
Accrued interest on long-term debt	39,348	-	39,348
 Total current liabilities (payable from segregated assets)	 684,348	 521,459	 1,205,807
 Total current liabilities	 9,764,996	 1,151,347	 10,916,343
Other liabilities:			
Long-term debt, less current maturities	3,470,622	6,076,081	9,546,703
Postretirement benefits	32,494	39,534	72,028
Advances from Tennessee Valley Authority Residential Energy Services Program	720,226	-	720,226
 Total other liabilities	 4,223,342	 6,115,615	 10,338,957
 Total liabilities	 13,988,338	 7,266,962	 21,255,300
Net assets:			
Invested in capital assets, net of related debt	44,911,285	36,192,321	81,103,606
Restricted	1,000,439	1,221,972	2,222,411
Unrestricted	9,032,049	7,646,649	16,678,698
 Total net assets	 54,943,773	 45,060,942	 100,004,715
 Total liabilities and net assets	 \$ 68,932,111	 \$ 52,327,904	 \$ 121,260,015

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	Electric Department	Water and Sewer Department	Total
Operating revenues:			
Electric sales:			
Residential sales	\$ 23,634,021	\$ -	\$ 23,634,021
Commercial and industrial sales - small	4,429,929	-	4,429,929
Commercial and industrial sales - large	19,403,038	-	19,403,038
Street and outdoor lighting	957,299	-	957,299
Water and sewer revenues	-	9,170,387	9,170,387
Other operating revenues	1,454,398	-	1,454,398
Total operating revenues	<u>49,878,685</u>	<u>9,170,387</u>	<u>59,049,072</u>
Operating expenses:			
Operation:			
Purchased power	40,014,825	-	40,014,825
Distribution expense	2,972,825	-	2,972,825
Customer accounts expense	1,288,559	466,060	1,754,619
Administrative and general expense	1,066,762	873,540	1,940,302
Depreciation	2,204,291	1,941,173	4,145,464
System operations	-	3,106,575	3,106,575
System maintenance	-	940,585	940,585
Injuries and damages	-	213,495	213,495
Total operating expenses	<u>47,547,262</u>	<u>7,541,428</u>	<u>55,088,690</u>
Operating margin	<u>2,331,423</u>	<u>1,628,959</u>	<u>3,960,382</u>
Non-operating revenues (expenses):			
Interest income	240,898	104,784	345,682
Miscellaneous income (expense)	(15,788)	20,052	4,264
Interest expense	(242,785)	(181,505)	(424,290)
Amortization of debt expense	(19,272)	(5,544)	(24,816)
Intergovernmental - in lieu of tax	(233,619)	-	(233,619)
Total non-operating revenues (expenses)	<u>(270,566)</u>	<u>(62,213)</u>	<u>(332,779)</u>
Income before transfers and capital contributions	2,060,857	1,566,746	3,627,603
Transfers to primary government - in lieu of tax	(804,686)	-	(804,686)
Capital contributions from customers	-	159,554	159,554
Capital contributions from county	-	60,000	60,000
Capital contributions from federal grants	-	285,605	285,605
Change in net assets	1,256,171	2,071,905	3,328,076
Net assets, beginning	<u>53,687,602</u>	<u>42,989,037</u>	<u>96,676,639</u>
Net assets, ending	<u>\$ 54,943,773</u>	<u>\$ 45,060,942</u>	<u>\$ 100,004,715</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Statement of Cash Flows - Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	Electric Department	Water and Sewer Department	Total
Cash flows from operating activities:			
Cash received from customers	\$ 50,261,676	\$ 9,067,460	\$ 59,329,136
Cash payments to suppliers for goods and services	(41,515,148)	(3,589,067)	(45,104,215)
Cash payments to employees for services	(3,476,127)	(1,830,844)	(5,306,971)
Net cash provided by operating activities	<u>5,270,401</u>	<u>3,647,549</u>	<u>8,917,950</u>
Cash flows from noncapital financing activities:			
Cash payments for in lieu of taxes	(1,038,305)	-	(1,038,305)
Net cash used by noncapital financing activities	<u>(1,038,305)</u>	<u>-</u>	<u>(1,038,305)</u>
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	(6,079,107)	(3,848,799)	(9,927,906)
Issuance of new long-term debt	4,150,000	2,754,508	6,904,508
Reoffering premium received from issuance of bonds	58,460	11,426	69,886
Bond issuance costs paid	(93,628)	(16,041)	(109,669)
Repayments of principal on long-term debt	(5,845,000)	(1,810,324)	(7,655,324)
Interest paid on debt	(295,488)	(181,504)	(476,992)
Receipt of federal grants	-	597,170	597,170
Contributions from county	-	60,000	60,000
Customer contributions	-	159,554	159,554
Net cash used by capital and related financing activities	<u>(8,104,763)</u>	<u>(2,274,010)</u>	<u>(10,378,773)</u>
Cash flows from investing activities:			
Interest on investments	240,898	104,784	345,682
Proceeds from maturities of investments	2,008,860	-	2,008,860
Purchase of investments	(2,034,604)	-	(2,034,604)
Increase in customer heat pump loans, net	287,791	-	287,791
Advances from (repayments to) other departments	12,924	(12,924)	-
Cash set aside for other post employment benefits	4,886	9,537	14,423
Net cash provided by investing activities	<u>520,755</u>	<u>101,397</u>	<u>622,152</u>
Net increase (decrease) in cash and cash equivalents	(3,351,912)	1,474,936	(1,876,976)
Cash and cash equivalents, beginning	<u>10,355,027</u>	<u>6,769,627</u>	<u>17,124,654</u>
Cash and cash equivalents, ending	<u>\$ 7,003,115</u>	<u>\$ 8,244,563</u>	<u>\$ 15,247,678</u>
Reconciliation of operating margin to net cash provided by operating activities:			
Operating margin	\$ 2,331,423	\$ 1,628,959	\$ 3,960,382
Adjustments to reconcile operating margin to net cash provided by operating activities:			
Depreciation	2,386,686	2,025,080	4,411,766
Miscellaneous income (expense)	(15,788)	20,052	4,264
(Increase) decrease in assets:			
Accounts receivable	316,875	(89,735)	227,140
Unbilled revenues	9,359	(33,175)	(23,816)
Materials and supplies inventory	4,058	7,352	11,410
Prepaid expenses	-	222,242	222,242
Increase (decrease) in liabilities:			
Accounts payable	225,946	(103,269)	122,677
Accrued liabilities	(60,703)	(29,888)	(90,591)
Customer deposits	72,545	(69)	72,476
Net cash provided by operating activities	<u>\$ 5,270,401</u>	<u>\$ 3,647,549</u>	<u>\$ 8,917,950</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Revenues:				
Local taxes:				
Property taxes and related fees	\$2,590,000	\$2,590,000	\$2,656,654	\$2,566,679
Tax equivalents	31,000	31,000	29,747	30,843
Local sales tax	3,000,000	3,000,000	3,000,728	2,849,585
Wholesale beer tax	485,000	485,000	504,600	476,615
Business tax	275,000	275,000	213,364	212,260
Franchise tax	80,000	80,000	81,579	80,115
 Total local taxes	 <u>6,461,000</u>	 <u>6,461,000</u>	 <u>6,486,672</u>	 <u>6,216,097</u>
Licenses and permits:				
Beer licenses	6,500	6,500	6,281	6,270
General and special privileges	15,000	15,000	8,813	11,475
Liquor license	5,000	5,000	4,550	6,400
 Total licenses and permits	 <u>26,500</u>	 <u>26,500</u>	 <u>19,644</u>	 <u>24,145</u>
Intergovernmental revenues:				
ARRA - federal grants	-	-	-	7,535
ARRA - USDA Rural Development	90,000	90,000	50,000	19,850
ARRA - EECBG	100,000	100,000	80,150	4,908
ARRA - Bureau of Justice Assistance	12,000	12,000	8,647	-
HERA - Neighborhood Stabilization	-	-	22,787	-
USDA Rural Development - non - ARRA portion	253,060	253,060	40,000	-
Federal grants - TDOT Riverwalk	134,547	134,547	155,542	62,790
Federal Emergency Management Agency - Federal	-	-	89,320	-
Community development grant - HOME Program	-	-	148,052	360,932
Other grants	-	-	4,000	-
State - Law enforcement salary supplement	15,600	15,600	14,400	15,600
State - Fire salary supplement	16,200	16,200	16,200	16,200
State highway maintenance contract	50,000	50,000	50,569	50,569
State sales tax	450,000	450,000	471,115	478,555
State income tax	50,000	50,000	30,418	23,925
State beer tax	3,500	3,500	3,409	3,778
State alcoholic beverage tax	21,500	21,500	9,510	21,233
State gas and motor fuel tax	200,000	200,000	180,046	196,032
State gasoline inspection fee	25,000	25,000	14,254	15,436
State highway and streets - other	14,000	14,000	-	-
Other state revenue	3,000	3,000	447	467
Gross receipts - TVA	76,000	76,000	80,385	81,645
Corporate excise tax	40,000	40,000	55,338	43,235
 Total intergovernmental revenues	 <u>1,554,407</u>	 <u>1,554,407</u>	 <u>1,524,589</u>	 <u>1,402,690</u>
Charges for services:				
Recycling income	16,000	16,000	18,688	18,841
Animal shelter fees	-	-	119,289	92,143
Parks and recreation charges	25,000	25,000	20,401	15,702
Community center charges	17,500	17,500	65,810	88,563
School resource officer	18,000	18,000	21,751	-
Other charges for services	-	-	117	-
 Total charges for services	 <u>76,500</u>	 <u>76,500</u>	 <u>246,056</u>	 <u>215,249</u>

(Continued)

CITY OF NEWPORT, TENNESSEE

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Revenues (continued):				
Fines, forfeits and penalties:				
Court fines and costs	\$ 32,000	\$ 32,000	\$ 43,864	\$ 37,187
Drug related revenues	7,000	7,000	-	-
County court fines and costs	22,500	22,500	19,907	14,588
Accident report charges	3,000	3,000	3,283	3,135
Total fines, forfeits and penalties	64,500	64,500	67,054	54,910
Other revenues:				
Interest earned	45,000	45,000	393	1,197
Rent	12,000	12,000	-	6,705
County donation - animal control	40,000	40,000	40,000	45,000
Insurance recoveries	125,000	125,000	97,699	-
Contributions and donations - animal control	-	40,000	21,559	25,678
Other	84,219	84,219	55,875	39,993
Total other revenues	306,219	346,219	215,526	118,573
Total revenues	8,489,126	8,529,126	8,559,541	8,031,664
Expenditures:				
General government:				
General:				
Personal services	183,585	183,585	174,465	183,164
Contractual services	135,602	135,602	151,442	133,730
Fixed charges	1,400	1,400	2,694	8,052
Supplies	20,000	20,000	19,965	21,156
Other	16,250	16,250	17,072	19,076
Capital outlay	20,297	20,297	25,169	4,872
Total general	377,134	377,134	390,807	370,050
Mayor and city judge:				
Personal services	40,762	40,762	36,242	33,493
Contractual services	168,892	160,617	135,912	85,026
Supplies	700	700	613	3,516
Fixed charges	17,050	17,050	13,447	12,197
Other	7,000	7,000	9,634	9,813
Total mayor and city judge	234,404	226,129	195,848	144,045
City hall and other public buildings:				
Contractual services	10,000	10,000	8,791	6,046
Capital outlay	5,000	5,000	-	1,752
Total city hall and other public buildings	15,000	15,000	8,791	7,798

(Continued)

CITY OF NEWPORT, TENNESSEE

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
General government (continued):				
Other general government:				
Personal services	\$ 42,747	\$ 42,747	\$ 28,752	\$ 4,929
Contractual services	73,810	73,810	35,330	84,993
Donations	50,185	50,185	145,228	56,648
Other	4,705	4,705	7,488	3,844
Total other general government	171,447	171,447	216,798	150,414
Total general government	797,985	789,710	812,244	672,307
Public safety:				
Police department:				
Personal services	1,364,391	1,364,391	1,473,900	1,401,417
Contractual services	349,279	349,279	307,500	319,717
Supplies	91,500	91,500	111,096	99,386
Fixed charges	1,000	1,000	1,272	381
Other	5,500	5,500	4,209	4,378
Capital outlay	49,111	49,111	1,434	7,462
Total police department	1,860,781	1,860,781	1,899,411	1,832,741
Fire department:				
Personal services	1,213,575	1,221,575	1,356,260	1,216,799
Contractual services	299,002	299,002	239,999	234,076
Supplies	34,500	34,500	24,726	34,785
Fixed charges	1,600	1,600	539	848
Capital outlay	-	-	935	1,005
Total fire department	1,548,677	1,556,677	1,622,459	1,487,513
Codes enforcement:				
Personal services	51,341	51,341	55,780	54,261
Contractual services	18,008	18,008	18,055	18,604
Supplies	2,775	2,775	375	2,873
Fixed charges	350	350	122	349
Other	2,225	2,225	349	399
Total codes enforcement	74,699	74,699	74,681	76,486
Safety inspector:				
Personal services	3,600	3,600	69	-
Contractual services	5,268	5,268	2,942	3,679
Supplies	125	125	-	-
Total safety inspector	8,993	8,993	3,011	3,679
Total public safety	3,493,150	3,501,150	3,599,562	3,400,419

(Continued)

CITY OF NEWPORT, TENNESSEE

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Public works:				
Highways and streets:				
Personal services	\$ 657,291	\$ 657,291	\$ 509,397	\$ 490,071
Contractual services	167,840	167,840	164,249	142,992
Supplies	100,500	100,500	123,121	130,475
Materials	1,500	1,500	1,931	527
Fixed charges	3,100	3,100	3,907	2,918
Other	106,500	106,500	166,869	113,296
Capital outlay	137,079	137,079	119,942	120,631
Total highways and streets	1,173,810	1,173,810	1,089,416	1,000,910
State street aid:				
Contractual services	345,000	345,000	325,085	343,177
Total state street aid	345,000	345,000	325,085	343,177
Sanitation:				
Personal services	3,120	3,120	238,835	223,870
Contractual services	9,875	9,875	47,310	43,751
Supplies	11,500	11,500	1,178	518
Fixed charges	100	100	-	-
Capital outlay	187,750	399,110	568,743	212,219
Total sanitation	212,345	423,705	856,066	480,358
Recycling:				
Personal services	238,780	238,780	160,609	131,407
Contractual services	31,214	31,214	28,093	31,029
Supplies	10,600	10,600	7,242	15,225
Other	250	250	-	-
Capital outlay	7,500	7,500	4,822	2,385
Total recycling	288,344	288,344	200,766	180,046
Total public works	2,019,499	2,230,859	2,471,333	2,004,491
Animal control:				
Animal shelter:				
Personal services	60,422	100,422	203,716	236,768
Contractual services	30,516	30,516	77,847	105,980
Supplies	45,000	45,000	84,370	52,687
Other	-	-	1,932	1,352
Capital outlay	-	-	169	-
Total animal shelter	135,938	175,938	368,034	396,787
Total animal control	135,938	175,938	368,034	396,787

(Continued)

CITY OF NEWPORT, TENNESSEE

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Culture and recreation:				
Senior citizens building:				
Contractual services	\$ 103,275	\$ 18,375	\$ 6,111	\$ 19,472
Capital outlay	-	100,536	100,536	-
Total senior citizens building	103,275	118,911	106,647	19,472
Recreation department:				
Personal services	485,435	485,435	578,071	523,763
Contractual services	231,072	231,072	230,614	234,378
Supplies	43,000	43,000	45,202	61,234
Fixed costs	1,800	1,800	3,013	2,156
Capital outlay	132,500	422,725	279,884	134,347
Total recreation department	893,807	1,184,032	1,136,784	955,878
Library:				
Stokely Memorial Library - donation	56,250	56,250	56,250	56,250
Total library	56,250	56,250	56,250	56,250
Total culture and recreation	1,053,332	1,359,193	1,299,681	1,031,600
Economic development:				
Newport/Cocke Co. Economic Development:				
Personal and contractual services	52,159	52,159	53,995	52,400
Neighborhood Stabilization	-	-	40,662	-
Appropriation to economic development	30,841	30,841	20,000	22,000
Contribution to economic development - TIF loan	130,000	130,000	134,737	137,949
Total economic development	213,000	213,000	249,394	212,349
Community development:				
Contractual services	3,150	6,875	153,539	395,969
Total community development	3,150	6,875	153,539	395,969
Debt service:				
Capital outlay note - 2008	52,000	52,000	51,000	49,000
Capital outlay note - 2010	74,798	74,798	62,000	-
Capital outlay notes - TML bond fund	44,000	44,000	44,000	42,000
Capital outlay notes - TML bond fund - NGS	216,000	216,000	216,000	205,000
TN HVAC principal	15,001	15,001	15,000	15,000
Tax anticipation notes - 2011 - principal	-	-	600,000	-
Capital lease payment - principal	-	-	34,840	37,070
Interest - Capital outlay note - 2008	5,000	5,000	4,366	8,755
Interest - Capital outlay note - 2010	5,003	5,003	10,208	5,003

(Continued)

CITY OF NEWPORT, TENNESSEE

General Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	<u>2012 Original Budget</u>	<u>2012 Final Budget</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
Expenditures (continued):				
Debt service (continued):				
Interest - Capital outlay note - TML bond fund	\$ 26,950	\$ 26,950	\$ 4,661	\$ 6,501
Interest - Capital outlay note - TML NGS	211,450	211,450	34,530	38,175
Interest - tax anticipation notes - 2011	-	-	6,076	-
Capital lease payment - interest	-	-	2,229	-
Bank service charges	<u>4,000</u>	<u>4,000</u>	<u>5,948</u>	<u>5,037</u>
Total debt service	<u>654,202</u>	<u>654,202</u>	<u>1,090,858</u>	<u>411,541</u>
Total expenditures	<u>8,370,256</u>	<u>8,930,927</u>	<u>10,044,645</u>	<u>8,525,463</u>
Revenues over (under) expenditures	<u>118,870</u>	<u>(401,801)</u>	<u>(1,485,104)</u>	<u>(493,799)</u>
Other financing sources (uses):				
Transfers out - Schools	(621,000)	(621,000)	(611,000)	(611,000)
Proceeds from tax anticipation loan	-	-	600,000	-
Proceeds from capital outlay notes	-	-	440,000	340,000
Transfers from enterprise funds - in lieu of tax	<u>760,000</u>	<u>760,000</u>	<u>804,686</u>	<u>775,324</u>
Total other financing sources (uses)	<u>139,000</u>	<u>139,000</u>	<u>1,233,686</u>	<u>504,324</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>257,870</u>	<u>(262,801)</u>	<u>(251,418)</u>	<u>10,525</u>
Fund balance, beginning, as previously stated	1,307,025	1,307,025	1,307,025	1,155,095
Prior period adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>141,405</u>
Fund balance, beginning, as restated	<u>1,307,025</u>	<u>1,307,025</u>	<u>1,307,025</u>	<u>1,296,500</u>
Fund balance, ending	<u>\$ 1,564,895</u>	<u>\$ 1,044,224</u>	<u>\$ 1,055,607</u>	<u>\$ 1,307,025</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Revenues:				
Local taxes:				
Local sales tax	\$ 545,000	\$ 545,000	\$ 560,457	\$ 557,708
Total local taxes	<u>545,000</u>	<u>545,000</u>	<u>560,457</u>	<u>557,708</u>
Intergovernmental revenue:				
Cocke County:				
Property taxes	431,200	431,200	402,515	434,340
Interest and penalty	4,000	4,000	3,313	3,454
In lieu of tax	17,000	17,000	21,423	23,306
Bank excise tax	3,500	3,500	2,149	1,848
Other local revenues	<u>2,150</u>	<u>2,150</u>	<u>96,333</u>	<u>10,945</u>
Total Cocke County	<u>457,850</u>	<u>457,850</u>	<u>525,733</u>	<u>473,893</u>
State of Tennessee:				
Basic education program	3,250,000	3,250,000	3,250,000	2,924,327
ARRA - Basic education program	-	-	-	333,455
Early childhood education	198,000	198,172	194,810	198,078
Other state education funds	74,176	77,876	1,158	414
ARRA - Coordinated school health	-	-	70,000	70,000
ARRA - Internet connectivity	-	-	2,585	2,259
ARRA - Statewide student mgt sys	-	-	1,928	1,918
Career ladder program	80,000	80,000	62,179	99,705
Other state grants	71,000	71,000	28,321	14,058
ARRA - Safe schools grant	-	-	3,592	4,057
ARRA - First to the top	-	-	-	4,507
ARRA - SNAP	-	-	-	6,873
Total State of Tennessee	<u>3,673,176</u>	<u>3,677,048</u>	<u>3,614,573</u>	<u>3,659,651</u>
Total intergovernmental revenue	<u>4,131,026</u>	<u>4,134,898</u>	<u>4,140,306</u>	<u>4,133,544</u>
Miscellaneous revenue:				
Tuition	80,500	80,500	70,968	72,951
Tuition - Daycare	140,000	140,000	108,899	108,509
Interest earned	24,000	24,000	5,628	6,310
Insurance recoveries	-	-	71,951	288,136
Miscellaneous refunds	<u>5,000</u>	<u>5,000</u>	<u>6,320</u>	<u>6,207</u>
Total miscellaneous revenue	<u>249,500</u>	<u>249,500</u>	<u>263,766</u>	<u>482,113</u>
Total revenues	<u>4,925,526</u>	<u>4,929,398</u>	<u>4,964,529</u>	<u>5,173,365</u>
Expenditures:				
Instruction:				
Regular instruction program:				
Teachers	2,053,990	2,095,690	2,131,761	1,894,232
Career ladder program	30,000	30,000	34,250	35,000
Extended contracts	24,000	24,000	15,115	18,420
Homebound teachers	4,000	4,000	960	-
Educational assistants	115,000	115,000	70,126	96,263
Other salaries and wages	15,000	15,000	15,111	11,817

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Instruction (continued):				
Regular instruction program (continued):				
Substitute teachers	\$ 38,000	\$ 38,000	\$ 32,205	\$ 32,673
Social security	145,360	145,360	138,902	125,609
State retirement	212,822	212,822	196,123	181,572
Life insurance	1,175	1,175	945	1,073
Medical insurance	330,000	330,000	335,994	326,904
Medicare	33,152	33,152	32,552	29,494
Contracts with other school systems	-	8,000	8,000	-
Maintenance / repair - equipment	2,500	2,500	3,447	681
Other contracted services	30,000	30,000	26,229	40,161
Instructional supplies / materials	45,000	45,000	32,469	48,245
Textbooks	80,000	80,000	69,436	80,695
Other supplies and materials	7,000	7,000	4,459	4,344
Other charges	500	500	380	337
Instruction equipment	50,000	50,000	55,194	26,589
Other equipment	-	-	-	56
Total regular instruction program	<u>3,217,499</u>	<u>3,267,199</u>	<u>3,203,658</u>	<u>2,954,165</u>
Alternative instruction program:				
Teachers	19,655	19,655	12,717	26,022
Medicare	285	285	184	377
Total alternative instruction program	<u>19,940</u>	<u>19,940</u>	<u>12,901</u>	<u>26,399</u>
Special education program:				
Teachers	137,685	137,685	135,295	131,158
Career ladder program	2,000	2,000	2,000	2,000
Homebound teachers	4,000	4,000	634	464
Educational assistants	69,055	69,055	67,690	62,168
Speech pathologist	49,963	49,963	50,980	49,158
Substitute teachers	3,300	3,300	4,025	2,885
Social security	16,368	16,368	15,685	14,969
State retirement	27,458	27,458	25,114	23,989
Life insurance	180	180	194	186
Medical insurance	50,000	50,000	43,019	42,956
Medicare	3,828	3,828	3,674	3,511
Contracts with other agencies	30,000	30,000	30,251	38,022
Other contracted services	2,500	2,500	-	-
Instructional supplies / materials	1,500	1,500	196	-
Supplies and materials	1,250	1,250	2,126	1,047
Special education equipment	2,000	2,000	919	2,385
Total special education program	<u>401,087</u>	<u>401,087</u>	<u>381,802</u>	<u>374,898</u>
Student body program:				
Other salaries and wages	46,965	46,965	50,980	49,415
Social security	2,912	2,912	3,161	3,064
State retirement	4,462	4,462	4,614	4,472
Life insurance	22	22	22	22
Medical insurance	7,091	7,091	6,612	4,446

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Instruction (continued):				
Student body program (continued):				
Medicare	\$ 681	\$ 681	\$ 739	\$ 716
Travel	4,500	3,400	1,394	3,380
Instructional supplies	-	-	-	434
Other supplies and materials	-	-	-	847
Other charges	3,367	3,367	781	1,767
Other equipment	-	1,100	1,698	1,437
Total student body program	<u>70,000</u>	<u>70,000</u>	<u>70,001</u>	<u>70,000</u>
Total instruction	<u>3,708,526</u>	<u>3,758,226</u>	<u>3,668,362</u>	<u>3,425,462</u>
Support services:				
Attendance:				
Travel	500	500	-	96
Other supplies / materials	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,307</u>
Total attendance	<u>1,500</u>	<u>1,500</u>	<u>-</u>	<u>1,403</u>
Health services:				
Medical personnel	36,220	40,348	36,745	35,540
Other salaries and wages	1,000	1,000	420	340
Social security	2,308	2,308	2,297	2,225
State retirement	3,441	3,441	3,325	3,216
Life insurance	22	22	22	22
Medical insurance	5,747	5,747	4,310	5,134
Medicare	540	540	539	520
Maintenance and repair - equipment	400	400	274	396
Travel	300	300	563	565
Other contracted services	-	250	250	-
Drugs / medical supplies	1,000	1,000	453	509
Other supplies and materials	500	500	247	497
In-service and staff development	250	250	130	170
Other charges	150	150	-	125
Health equipment	<u>-</u>	<u>622</u>	<u>622</u>	<u>506</u>
Total health services	<u>51,878</u>	<u>56,878</u>	<u>50,197</u>	<u>49,765</u>
Other student support:				
Career ladder program	2,500	2,500	2,500	2,417
Guidance personnel	76,590	76,590	77,479	75,461
Other salaries and wages	2,415	2,415	1,275	965
Social security	4,870	4,870	3,310	3,229
State retirement	7,110	7,110	4,886	4,716
Life insurance	21	21	14	20
Medical insurance	6,106	6,106	4,220	5,196
Medicare	1,140	1,140	1,169	1,134
Evaluation and testing	10,000	10,000	11,439	9,909
Maintenance and repair services - equip	1,000	1,000	-	-
Travel	200	200	-	356
Other contracted services	12,600	26,200	30,926	26,912
Other supplies / materials	4,000	4,000	826	638
Training and conferences	200	200	-	598

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Support services (continued):				
Other student support (continued):				
Other charges	\$ 500	\$ 500	\$ 2,684	\$ 237
Equipment	3,385	3,385	3,612	600
Total other student support	<u>132,637</u>	<u>146,237</u>	<u>144,340</u>	<u>132,388</u>
Regular instruction program:				
Supervisor / Director	50,382	50,382	50,386	43,217
Career ladder program	4,000	4,000	4,000	4,000
Extended contracts	-	-	-	2,400
Librarians	55,220	55,220	56,050	55,220
Instructional computer personnel	27,053	27,053	27,594	27,206
Educational assistants	14,444	14,444	14,444	14,444
Other salaries and wages	28,479	28,479	26,995	26,082
Non-certified substitute teachers	-	-	-	100
Social security	12,000	12,000	10,833	10,372
State retirement	17,200	17,200	17,819	17,091
Life insurance	87	87	78	65
Medical insurance	26,555	26,555	19,004	23,165
Medicare	2,840	2,840	2,534	2,427
Maintenance and repair services	-	-	-	78
Travel	700	700	112	1,928
Library books / media	9,000	9,000	3,120	8,239
Periodicals	1,200	1,200	1,037	1,209
Other supplies / materials	4,000	4,000	252	15,653
Training and conferences	4,000	4,000	-	5,254
Other charges	500	500	-	60
Other equipment	3,000	3,000	2,409	868
Total regular instruction program	<u>260,660</u>	<u>260,660</u>	<u>236,667</u>	<u>259,078</u>
Special education program:				
Supervisor/director	20,000	20,000	19,398	20,000
Social security	1,240	1,240	1,181	1,240
State retirement	1,900	1,900	1,756	1,900
Employer Medicare	290	290	276	290
Travel	2,275	2,275	2,134	2,762
Other contracted services	1,000	1,000	-	-
Training and conferences	2,000	2,000	537	5,197
Other charges	500	500	330	370
Total special education program	<u>29,205</u>	<u>29,205</u>	<u>25,612</u>	<u>31,759</u>
Board of education services:				
Board member fees	15,000	15,000	15,600	15,100
Social security	875	875	967	936
Medical insurance	29,000	29,000	18,730	27,126
Unemployment compensation	500	500	78	57
Medicare	205	205	226	219
Audit services	5,000	5,000	7,048	7,498
Dues and memberships	6,000	6,000	3,852	5,700
Travel	5,000	5,000	3,330	5,000
Other contracted services	1,000	1,000	2,580	1,262

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Support services (continued):				
Board of education services (continued):				
Liability insurance	\$ 1,500	\$ 1,500	\$ 863	\$ -
Trustee's commission	13,500	13,500	14,530	13,798
Worker's compensation insurance	25,000	25,000	22,262	18,663
In-service training	2,500	2,500	2,820	2,238
Other charges	500	500	1,367	1,611
Total board of education services	<u>105,580</u>	<u>105,580</u>	<u>94,253</u>	<u>99,208</u>
Office of the superintendent:				
Administrative officer	73,000	73,000	72,005	72,592
Career ladder program	-	1,000	1,000	1,000
Secretary	18,700	18,700	18,870	18,870
Clerical personnel	12,534	14,335	13,127	12,871
Other salaries and wages	500	500	350	465
Social security	6,432	6,432	6,528	6,521
State retirement	10,514	10,514	10,549	10,568
Life insurance	65	65	65	65
Medical insurance	13,110	13,110	8,440	10,392
Medicare	1,505	1,505	1,527	1,525
Communication	5,000	4,000	9,623	6,782
Dues and memberships	1,200	1,200	1,103	2,093
Repair and maintenance - equipment	1,000	1,000	-	-
Postal charges	2,500	2,500	2,188	2,317
Travel	3,000	3,000	1,599	1,953
Office supplies	500	500	220	391
Other supplies and materials	-	199	199	-
In-service and staff development	500	500	360	2,074
Other charges	600	600	513	455
Administrative equipment	-	-	-	821
Total office of the superintendent	<u>150,660</u>	<u>152,660</u>	<u>148,266</u>	<u>151,755</u>
Office of the principal:				
Principals	67,015	67,015	68,087	67,171
Career ladder program	4,000	4,000	4,000	4,000
Assistant principals	32,188	32,188	32,953	29,791
Secretary(s)	13,910	13,910	13,910	16,915
Clerical personnel	1,500	1,500	575	675
Other salaries and wages	15,000	22,000	15,620	16,501
Social security	6,600	6,600	7,684	7,678
State retirement	10,998	10,998	11,287	11,383
Life insurance	65	65	54	50
Medical insurance	13,522	13,522	10,685	11,181
Medicare	1,535	1,535	1,951	1,950
Travel	-	-	-	3,477
Office supplies	-	-	-	39
In-service training	-	-	-	2,528
Administration equipment	-	-	-	542
Total office of the principal	<u>166,333</u>	<u>173,333</u>	<u>166,806</u>	<u>173,881</u>

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Support services (continued):				
Fiscal services:				
Accountants / bookkeepers	\$ 62,000	\$ 62,000	\$ 62,200	\$ 61,000
Social security	3,782	3,782	3,835	3,761
State retirement	7,808	7,808	7,962	7,808
Life insurance	44	44	52	43
Medical insurance	12,717	12,717	9,202	9,194
Medicare	885	885	897	880
Data processing services	1,000	1,000	-	-
Travel	500	500	86	545
Other contracted services	7,000	7,000	6,467	6,986
Data processing supplies	1,000	1,000	393	1,325
Office supplies	500	500	124	404
Other supplies and materials	500	500	726	559
In-service and staff development	500	500	25	160
Other charges	500	500	-	159
Administration equipment	250	250	-	1,606
	<u>98,986</u>	<u>98,986</u>	<u>91,969</u>	<u>94,430</u>
Total fiscal services				
Operation of plant:				
Custodial personnel	122,000	122,000	126,394	127,591
Social security	7,720	7,720	7,791	7,865
State retirement	9,876	9,876	11,715	11,639
Life insurance	87	87	78	87
Medical insurance	22,590	22,590	17,240	20,536
Medicare	1,769	1,769	1,822	1,839
Repair and maintenance - equipment	3,000	3,000	2,264	2,168
Other contracted services	25,000	25,000	15,224	37,556
Custodial supplies	20,000	20,000	11,944	26,333
Electricity	190,000	190,000	172,150	229,899
Natural gas	24,000	14,000	8,425	11,461
Water and sewer	12,500	12,500	10,594	11,018
Other supplies and material	-	-	-	89
Building and content insurance	25,000	25,000	61,025	-
Other charges	-	-	-	110
Plant operation equipment	2,500	2,500	4,543	3,008
	<u>466,042</u>	<u>456,042</u>	<u>451,209</u>	<u>491,199</u>
Total operation of plant				
Maintenance of plant:				
Other salaries and wages	750	750	-	-
Maintenance / repair service - buildings	35,000	35,000	10,521	41,865
Maintenance / repair service - equipment	25,000	25,000	31,744	37,570
Travel	-	13	13	-
Other contracted services	7,000	7,000	900	7,400
General construction materials	3,000	3,000	3,821	5,733
Other supplies / materials	-	-	-	3,585
Other charges	-	-	-	610
Maintenance equipment	1,000	1,000	-	267
	<u>71,750</u>	<u>71,763</u>	<u>46,999</u>	<u>97,030</u>
Total maintenance of plant				
Total support services				
	<u>1,535,231</u>	<u>1,552,844</u>	<u>1,456,318</u>	<u>1,581,896</u>

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Operation of non-instructional services:				
Community services:				
Daycare:				
Supervisor / Director	\$ 36,400	\$ 36,400	\$ 33,300	\$ 32,850
Clerical personnel	3,000	3,000	-	-
Educational assistants	69,000	69,000	59,701	60,897
Social security	6,728	6,728	5,721	5,779
State retirement	5,500	5,500	9,670	9,578
Life insurance	87	87	65	65
Medical insurance	12,000	12,000	8,620	10,413
Unemployment compensation	-	246	246	1,148
Medicare	1,572	1,572	1,338	1,351
Other contracted services	1,313	1,313	1,522	1,854
Food supplies	1,500	1,500	-	881
Instructional supplies	1,200	1,200	-	-
Other supplies / materials	1,200	1,200	-	544
Other charges	500	254	-	-
Total daycare	<u>140,000</u>	<u>140,000</u>	<u>120,183</u>	<u>125,360</u>
Early childhood education:				
Teachers	95,997	95,997	96,615	92,265
Educational assistants	28,209	28,209	24,404	26,228
Other salaries and wages	300	300	-	275
Substitute teachers	1,200	1,200	1,750	950
Social security	7,794	7,794	6,694	6,431
State retirement	12,096	12,096	11,515	11,642
Life insurance	-	69	86	86
Medical insurance	27,003	27,003	24,822	29,661
Medicare	1,936	1,936	1,565	1,505
Travel	1,000	1,000	1,204	-
Other contracted services	500	500	1,855	750
Food supplies	2,000	2,000	1,881	2,015
Instructional supplies	9,635	9,635	6,016	2,907
Other supplies / materials	1,500	1,500	1,840	2,664
In-service and staff development	1,500	1,500	594	-
Other charges	1,500	1,431	1,931	1,050
Other equipment	5,830	6,002	12,037	19,747
Total early childhood education	<u>198,000</u>	<u>198,172</u>	<u>194,809</u>	<u>198,176</u>
Total community services	<u>338,000</u>	<u>338,172</u>	<u>314,992</u>	<u>323,536</u>
Total operation of non-instructional services	<u>338,000</u>	<u>338,172</u>	<u>314,992</u>	<u>323,536</u>
Other capital outlay:				
Engineering services	-	38,278	-	60,733
Other contracted services	-	1,055,539	934,961	664,902
Other capital outlay	4,000	4,000	63,346	96,222
Total other capital outlay	<u>4,000</u>	<u>1,097,817</u>	<u>998,307</u>	<u>821,857</u>

(Continued)

CITY OF NEWPORT, TENNESSEE

General Purpose School Fund
Statement of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual
(Continued)

For the Fiscal Year Ended June 30, 2012
(With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	2012 Original Budget	2012 Final Budget	2012 Actual	2011 Actual
Expenditures (continued):				
Other debt service:				
Other debt service	<u>\$ 95,000</u>	<u>\$ 66,664</u>	<u>\$ 66,664</u>	<u>\$ -</u>
Total expenditures	<u>5,680,757</u>	<u>6,813,723</u>	<u>6,504,643</u>	<u>6,152,751</u>
Revenues over (under) expenditures	<u>(755,231)</u>	<u>(1,884,325)</u>	<u>(1,540,114)</u>	<u>(979,386)</u>
Other financing sources:				
Transfers from City of Newport	611,000	611,000	611,000	611,000
Loan proceeds	<u>-</u>	<u>1,003,111</u>	<u>986,303</u>	<u>413,697</u>
Total other financing sources	<u>611,000</u>	<u>1,614,111</u>	<u>1,597,303</u>	<u>1,024,697</u>
Revenues and other financing sources over (under) expenditures	<u>(144,231)</u>	<u>(270,214)</u>	<u>57,189</u>	<u>45,311</u>
Fund balance, beginning	<u>1,197,428</u>	<u>1,197,428</u>	<u>1,197,428</u>	<u>1,152,117</u>
Fund balance, ending	<u>\$1,053,197</u>	<u>\$ 927,214</u>	<u>\$ 1,254,617</u>	<u>\$1,197,428</u>

See accompanying notes to basic financial statements.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements

June 30, 2012

(1) Summary of Significant Accounting Policies(a) General Statement

The accounting and reporting policies of the City of Newport, Tennessee (the City) relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America that are applicable to state and local governments. Accounting principles generally accepted in the United States of America for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). As allowed in section P80 by GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the City has elected not to apply to its proprietary activities Financial Accounting Standards Board Statements and Interpretations issued after November 30, 1989. The more significant accounting policies of the City are described below.

(b) Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within a City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Newport, Tennessee has no component units.

(c) Basis of Presentation

The City follows the provisions of Governmental Accounting Standards Board Statement No. 34, "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments." Statement No. 34 established standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(c) Basis of Presentation (Continued)

It requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. The classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

The City follows the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement requires that capital contributions to the City be presented as a change in net assets.

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

1. Government-Wide Financial Statements:

The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(c) Basis of Presentation (Continued)1. **Government-Wide Financial Statements (Continued):**

year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and business-type activities.

Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the City. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the City.

2. **Fund Financial Statements:**

The City segregates transactions related to certain functions or activities in separated funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds:

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund is the operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(c) Basis of Presentation (Continued)2. **Fund Financial Statements (Continued):****Governmental Funds (Continued):**

General Purpose School Fund - The General Purpose School Fund is the general operating fund of the Newport City School System. It is used to account for all School financial resources except those required to be accounted for in another fund.

Proprietary Funds:

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are the determination of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has the following major proprietary funds:

Electric Department - The Electric Department is part of the Newport Utilities Board and is used to account for the provision of electric utility services to the residents of the City and surrounding areas.

Water and Sewer Department - The Water and Sewer Department is part of the Newport Utilities Board and is used to account for the provision of water and sewer utility services to the residents of the City and surrounding areas.

(d) Measurement Focus1. **Government-Wide Financial Statements:**

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and liabilities associated with the operation of the City are included on the statement of net assets.

2. **Fund Financial Statements:**

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(d) Measurement Focus (Continued)2. **Fund Financial Statements (Continued):**

governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

(e) Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

1. **Revenues - Exchange and Nonexchange Transactions:**

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

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include grants, entitlements and donations. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(e) Basis of Accounting (Continued)1. **Revenues - Exchange and Nonexchange Transactions (Continued):**

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year end: property taxes, franchise taxes, special assessments, licenses, charges for services, interest income and intergovernmental revenue.

Operating and Non-Operating Revenues:

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services.

Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

2. **Deferred Revenue:**

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

3. **Expenses/Expenditures:**

On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of costs, such as depreciation and amortization, are not recognized in governmental funds.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(f) Fund Balances

GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" states that the objective is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

Non-spendable, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

Restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, donors, grantors, or through enabling legislation,

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board (the City's highest level of decision making authority). The Mayor and Board of Aldermen is the highest level of decision making authority for the City that can, by adoption of a resolution or ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution or ordinance remains in place until a similar action is taken (adoption of another resolution or ordinance) to remove or revise the limitation.

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The Mayor and Board of Aldermen may assign fund balance when appropriating fund balance to cover a gap between estimated revenue and appropriations. Unlike commitments, assignments generally only exist temporarily and additional action does not have to be taken to remove or revise the assignment.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

If the City has an expenditure that is incurred for purposes of multiple account classification, the City's policy is to apply the expenditures in the following order: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(f) Fund Balances (Continued)

First, non-spendable fund balances are determined. Then restricted fund balances for specific purposes are determined (not including non-spendable amounts). Then any remaining fund balance amounts for the non-general funds are classified.

It is possible for the non-general funds to have negative unassigned fund balance when non-spendable amounts plus the restricted fund balances for specific purposes amounts exceed the positive fund balance for the non-general fund.

(g) Restricted and Unrestricted Resources

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed. When expenditures are incurred with unrestricted resources, the City uses the Government Accounting Standard Board's policy. Committed amounts are used first, followed by assigned amounts, and then unassigned amounts.

(h) Budgetary Procedures and Budgetary Accounting

Prior to the beginning of the fiscal year, the Board of Mayor and Aldermen prepares and approves an operating budget for all governmental funds and holds public hearings. All supplemental appropriations must also be approved by the Board of Mayor and Aldermen. Actual expenditures and operating transfers out may not legally exceed "budget" appropriations at the individual fund level. Budgetary control, however, is maintained at the department level. During the year ended June 30, 2012, the City did overexpend their legally adopted fund budget in the General Fund and did not adopt a budget for the Drug Fund. Appropriations lapse at the close of the fiscal year to the extent that they have not been transferred or encumbered.

The City prepares its budget on a basis of accounting that differs from accounting principles generally accepted in the United States of America (GAAP). The major difference between the budgetary basis of accounting and GAAP is that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP). At June 30, 2012, there were no encumbrances.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(i) Cash Equivalents

For purposes of these financial statements, the City considers all highly liquid investments (including restricted assets) having original maturity dates of three months or less when purchased to be cash equivalents.

(j) Property Taxes Receivable

The City's property taxes, levied on or about October 1, become delinquent on March 1. Property taxes attach as an enforceable lien on property on January 1. The county tax assessor provides the property assessment but the City bills and collects its own taxes. Property tax revenues are recognized when levied to the extent that they result in current receivables, within 60 days of the end of the year. Property taxes recognized as a receivable before the period of revenue recognition are reported as deferred revenue.

At June 30, 2012, the City's 2012 property taxes of \$2,717,299 were not scheduled to be billed until October 2012. Consequently, separate accounts for unbilled property taxes and deferred revenue - unbilled property taxes totaling \$2,717,299 are recorded.

(k) Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and Other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in governmental funds. Open encumbrances at year-end are reported as reservations of fund balances. Encumbrances do not constitute expenditures or liabilities.

(l) Inventories

Inventories are valued at the lower of cost (weighted average method) or market.

(m) Commodities

The Newport City Schools receive commodities for school cafeterias from the U.S. Department of Agriculture. The value of the commodities received is reported as revenue, and the value of such commodities used is reported as cost of food in the accompanying financial statements.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(n) Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Interfund notes receivable/payable" and are offset by a fund balance reserve account.

(o) Capital Assets

General capital assets result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. All capital assets are capitalized at cost or estimated historical cost and updated for additions and retirements during the year. Donated capital assets are recorded at their estimated fair market values as of the date received. Net interest costs during construction periods are capitalized for assets acquired by the issuance of long-term debt. Major additions and improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are charged to operations.

Governmental Activity

Governmental activities maintain a capitalization threshold of five thousand dollars.

All reported capital assets except for land and land improvements are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	40 years
Equipment and furniture	5 - 10 years
Vehicles	4 - 10 years
Streets and other infrastructure	70 - 100 years

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(o) Capital Assets (Continued)Business Activity

All reported capital assets except for land and land improvements are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Structures and improvements	10 - 50 years
Machinery and equipment	5 - 20 years

(p) Capitalization of Interest

The City capitalizes net interest costs and interest earned as part of the cost of constructing various fixed assets when material. There was no capitalized interest for the year ended June 30, 2012.

(q) Intangible Assets

Unamortized debt expense is amortized over the life of the related bond issue using the straight-line method.

(r) Compensated Absences

Compensated absences are reported in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences." Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive compensation are attributable to services already rendered and it is probable that the City will compensate the employee for the benefits through paid time off or some other means.

All vacation leave is accrued when incurred in the government-wide statements. A liability for vacation pay is reported in governmental funds only if amounts have matured; for example, as a result of employee resignations and retirements.

Governmental Activity

The City - Employees of the City are granted vacation and sick leave in varying amounts based on their length of employment. Upon termination or retirement, the employees will receive any vacation credit earned as of the last day of employment.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(r) Compensated Absences (Continued)Governmental Activity (Continued)

School System - The Schools record a liability for accumulated unused vacation time when earned for all employees. Employees of the School System are granted varying amounts of vacation and sick leave based on their contracts. Available vacation that is not used by June 30 of each year cannot be carried into succeeding years. Unused sick leave may be carried into future years, but does not vest to the employees. The entire compensated absences liability is reported on the government-wide statements.

For governmental funds, the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not recorded.

Business-Type Activity

Newport Utilities Board - Employees of the Utilities Board accumulate sick leave based on the number of years of continuous service up to an accumulated maximum of sixty working days. Annually, sick leave days exceeding forty-eight days are paid by the System to its employees. At retirement, the employees will be paid their regular straight-time pay for all sick leave days accumulated up to sixty workdays. Accrued sick leave at June 30, 2012 totaled \$459,362 for the Electric System and approximately \$269,343 for the Water and Sewer System.

Employees of the Utilities Board accumulate vacation, ranging from 12 to 20 days per year, based on their years of service. They may not accumulate more than 26 days. Accumulated vacation is paid upon retirement. In the event of termination, employees forfeit all unused vacation. Accrued vacation at June 30, 2012 totaled \$173,655 for the Electric System and \$107,851 for the Water and Sewer System.

(s) Restricted Assets

Assets are reported as restricted when limitations on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

(t) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(u) Federal Energy Regulatory Commission Policies

The Newport Utilities Board follows accounting policies for public electric utilities as prescribed by the Federal Energy Regulatory Commission, which do not materially differ from accounting principles generally accepted in the United States of America.

(v) Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2012, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

(w) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Government applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted assets are available.

(x) Pension Plans

Employees of the City, School System, and Utility are covered under various retirement plans as follows:

City - The City employees are members of the Political Subdivision Pension Plan (PSPP), and agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). All employees are required to contribute 5% of earnable compensation. The City is required to contribute at an actuarially determined rate.

School System - The School System contributes to the State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). Most teachers are required by state statute to contribute 5% of their salary to the plan. The School System contribution rate is actuarially determined.

Utility - The Utility sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code which covers substantially all employees. Employer contributions to the plan are based on 11.50% of participant's compensation. Each participant is required to contribute 3%. Contribution levels are established by Newport Utilities Board.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(1) Summary of Significant Accounting Policies (Continued)(y) Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2012.

(z) Totals

The total column on the combined fund financial statements is only presented to facilitate financial analysis. Data in this column does not present financial position, results of operations, or changes in cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(aa) Postemployment Benefits

The City, Schools, and Utilities follow the provisions of Governmental Accounting Standards Board Statement No. 43, "Financial Reporting by Employers for Postemployment Benefit Plans other than Pensions" and Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other than Pensions." These statements amend the standards for accounting and reporting postemployment benefits other than pensions. Note 7 which follows outlines the detail of other postemployment benefits provided by the City, Schools, and Utilities and related costs.

(2) Cash and Cash Equivalents

At June 30, 2012, all of the City's deposits with financial institutions were insured by federal depository insurance or were collateralized by investments held by the City's agent in the City's name.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(3) Capital Assets

Governmental capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Governmental Activities</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2012</u>
Capital assets, not being depreciated:				
Land	\$ 45,500	\$ -	\$ -	\$ 45,500
Construction work in progress	506,160	692,298	677,460	520,998
Total capital assets, not being depreciated	<u>551,660</u>	<u>692,298</u>	<u>677,460</u>	<u>566,498</u>
Capital assets, being depreciated:				
Buildings and improvements	13,293,860	1,490,716	-	14,784,576
Equipment and furniture	2,168,484	356,614	6,334	2,518,764
Streets and other infrastructure assets	7,686,208	-	-	7,686,208
Total capital assets, being depreciated	<u>23,148,552</u>	<u>1,847,330</u>	<u>6,334</u>	<u>24,989,548</u>
Less: accumulated depreciation for:				
Buildings and improvements	3,904,226	322,822	-	4,227,048
Equipment and furniture	1,535,162	169,346	5,278	1,699,230
Streets and other infrastructure assets	1,810,493	38,774	-	1,849,267
Total accumulated depreciation	<u>7,249,881</u>	<u>530,942</u>	<u>5,278</u>	<u>7,775,545</u>
Capital assets, being depreciated, net	<u>15,898,671</u>			<u>17,214,003</u>
Governmental activities capital assets, net	<u>\$ 16,450,331</u>			<u>\$ 17,780,501</u>

Depreciation was charged to governmental functions in the government-wide Statement of Activities as follows:

General government	\$ 32,842
Public safety	66,261
Public works	131,734
Animal control	1,160
Culture and recreation	91,842
Education	207,103
	<u>\$ 530,942</u>

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(3) Capital Assets (Continued)

Business-type capital asset activity for the fiscal year ended June 30, 2012 was as follows:

<u>Business-Type Activities</u>	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	\$ 1,531,533	\$ 12,294	\$ -	\$ 1,543,827
Construction work in progress	<u>9,436,411</u>	<u>1,753,616</u>	<u>-</u>	<u>11,190,027</u>
Total capital assets, not being depreciated	<u>10,967,944</u>	<u>1,765,910</u>	<u>-</u>	<u>12,733,854</u>
Capital assets, being depreciated:				
Structures, improvements and transmission	132,234,325	7,808,249	402,953	139,639,621
Equipment, furniture and vehicles	<u>6,660,782</u>	<u>395,647</u>	<u>135,613</u>	<u>6,920,816</u>
Total capital assets, being depreciated	<u>138,895,107</u>	<u>8,203,896</u>	<u>538,566</u>	<u>146,560,437</u>
Less: accumulated depreciation for:				
Structures, improvements and transmission	59,184,830	4,012,742	384,653	62,812,919
Equipment, furniture and vehicles	<u>4,377,593</u>	<u>399,024</u>	<u>112,013</u>	<u>4,664,604</u>
Total accumulated depreciation	<u>63,562,423</u>	<u>4,411,766</u>	<u>496,666</u>	<u>67,477,523</u>
Capital assets, being depreciated, net	<u>75,332,684</u>			<u>79,082,914</u>
Business-type activities capital assets, net	<u>\$ 86,300,628</u>			<u>\$ 91,816,768</u>

Depreciation was charged to business-type functions in the government-wide Statement of Activities as follows:

Electric	\$ 2,386,686
Water and sewer	<u>2,025,080</u>
	<u>\$ 4,411,766</u>

(4) Tennessee Valley Authority Residential Energy Efficiency Program

The Newport Utilities Board is participating in TVA's Residential Energy Efficiency Program, which provides interest bearing loans to the Electric System's residential customers for heat pump and insulation costs. During 2004, the Electric System began financing these loans rather than using an outside bank for financing.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities

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

	Balance June 20, 2011	Additions	Retirements	Balance June 30, 2012	Due Within One Year
Loan: Tennessee Municipal Bond Fund, Series 1997	\$ 4,229,000	\$ -	\$ 216,000	\$ 4,013,000	\$ 227,000
Loan: Tennessee Municipal Bond Fund, Series 2004	494,339	-	44,000	450,339	45,000
General Obligation Capital Outlay Note, Series 2008	157,000	-	51,000	106,000	52,000
General Obligation Capital Outlay Note, Series 2010	340,000	-	62,000	278,000	66,000
Local Government Efficiency Loan	14,571	-	7,286	7,285	7,285
Local Government Efficiency Loan	15,429	-	7,715	7,714	7,714
General Obligation Capital Outlay Note USDA Rural Development	-	195,000	-	195,000	1,965
General Obligation Capital Outlay Note TML Bond Fund	-	245,000	-	245,000	2,698
Energy Efficient Schools Initiative Loan	413,697	586,303	66,664	933,336	99,996
Energy Efficient Schools Initiative Loan	-	400,000	-	400,000	39,996
Tax Anticipation Loan		600,000	600,000	-	-
Capital Lease with Ford Motor Credit Co.	34,840	-	34,840	-	-
Compensated absences - City	166,464	185,047	186,939	164,572	-
Compensated absences - Schools	124,538	198,760	190,913	132,385	-
	<u>\$ 5,989,878</u>	<u>\$ 2,410,110</u>	<u>\$ 1,467,357</u>	<u>\$ 6,932,631</u>	<u>\$ 549,654</u>

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)

Bonds, loans, and capital lease obligations at June 30, 2012 consist of the following:

Bonds

\$6,000,000 Loan Agreement with Tennessee Municipal Bond Fund, Series 1997, interest due monthly at a variable rate (interest rate at June 30, 2012 was 0.47%), principal due annually on May 25 ranging from \$227,000 to \$407,000 through 2025. \$4,013,000

\$1,000,000 Loan Agreement with Tennessee Municipal Bond Fund, Series 2004, interest due monthly at a variable rate (interest rate at June 30, 2012 was 0.49%), principal due annually on May 25 ranging from \$45,000 to \$68,000 through 2024. 450,339

\$250,000 General Obligation Capital Outlay Note, Series 2008, interest due semi-annually at 3.32% beginning on April 1, 2009, principal due annually on October 1 ranging from \$52,000 to \$54,000 through 2013. 106,000

\$340,000 General Obligation Capital Outlay Note, Series 2010, interest due semi-annually at 3.23% beginning March 1, 2011, principal due annually on September 1 ranging from \$66,000 to \$73,000 through 2015. 278,000

\$195,000 General Obligation Capital Outlay Note, Series 2011, interest at 4.25%. Principal and interest payments of \$10,252 due annually beginning December 21, 2012. 195,000

\$245,000 General Obligation Capital Outlay Note, Series 2011, interest at 4.25%. Principal and interest payments of \$13,110 due annually beginning September 27, 2012. 245,000

Total bonds \$5,287,339

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)Loans

Local Government Efficiency Loan dated September 15, 2005 for \$51,000. Zero interest bearing loan with seven equal payments of \$7,286 due annually beginning September 15, 2006 through September 15, 2012.	\$ 7,285
Local Government Efficiency Loan dated June 1, 2006 for \$54,000. Zero interest bearing loan with seven equal payments of \$7,714 due annually beginning June 1, 2007 through June 1, 2013.	7,714
Zero percent Energy Efficient Schools Initiative Loan, dated December 14, 2010, due in monthly installments of \$8,333 beginning in 2012 and ending in 2021.	933,336
Zero percent Energy Efficient Schools Initiative Loan, dated September 1, 2011, due in monthly installments of \$3,333 beginning in 2013 and ending in 2022.	<u>400,000</u>
Total loans	<u>\$1,348,335</u>

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)

The following is a summary of changes in long-term liabilities for the year ended June 30, 2012 in business-type activities:

	<u>July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2012</u>	<u>Due Within One Year</u>
Electric System Refunding and Improvement Bonds, Series 2002, at rates varying from 4.25% to 4.90%, due in varying amounts from \$300,000 to \$955,000. These bonds were issued to refund Electric System Revenue Bonds, Series 1995.	\$ 5,845,000	\$ -	\$ 5,845,000	\$ -	\$ -
Electric System Revenue Refunding Bonds, Series 2011, at an interest rate of 2.00%, due in varying amounts from \$645,000 in 2013 to \$730,000 in 2018. These bonds were issued to refund Electric System Refunding and Improvement Bonds, Series 2002.	-	4,150,000	-	4,150,000	645,000
Water and Sewer Revenue Tax Bond, Series 2007, dated November 28, 2006, due in monthly installments of \$1,353 through 2044 plus interest at 4.375%.	284,243	-	3,878	280,365	4,051
Water and Sewer Revenue Tax Bond, Series 2006, dated June 28, 2006, due in monthly installments of \$4,455 through 2044, including interest at 4.125%.	961,814	-	14,049	947,765	14,639
Water & Sewer System Revenue and Tax Bonds, Series 2000, dated January 12, 2000, at rates varying from 4.50% to 5.25%, refunded in full during the year.	1,450,000	-	1,450,000	-	-
State of Tennessee Sewer Treatment Loan Program, dated July 10, 1996, due in monthly installments of \$22,154 through 2017, including interest at 3.25%.	1,539,346	-	230,713	1,308,633	236,430
Water & Sewer Revenue and Tax Bond, Series 1999, dated December 21, 1999, due in monthly installments of \$383 through 2037 plus interest at 3.25%.	81,256	-	1,984	79,272	2,050
State of Tennessee Revolving Loan Program, dated July 26, 2006, due in monthly installments of \$4,455 through 2044, including interest at 4.125%.	437,628	-	20,232	417,396	20,676

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)

Water and Sewer Revenue and Tax Bond, Series 2011, dated June 23, 2011, due in monthly installments of \$1,218 through 2049 plus interest at 2.625%	\$ 351,000	\$ -	\$ 5,468	\$ 345,532	\$ 5,613
Water and Sewer Revenue and Tax Bond, Series 2011, dated November 17, 2010, due in annual installments at a variable interest rate. Interest rate at June 3, 2012 was 0.18%.	571,385	1,429,508	84,000	1,916,893	88,000
General Obligation Refunding Bonds, Series 2011, dated December 15, 2011, due in annual installments at interest rates ranging from 2.00% to 2.50%	-	1,325,000	-	1,325,000	150,000
Total	11,521,672	6,904,508	7,655,324	10,770,856	1,166,459
Less current maturities	(1,220,311)			(1,166,459)	
Less unamortized reacquisition costs	(35,770)			(121,624)	
Less unamortized original issue discount	(4,898)			-	
Plus unamortized reoffering premium	-			63,930	
Long-term debt excluding current installments and unamortized costs and discounts	\$ 10,260,693			\$ 9,546,703	

Debt service requirements of long-term debt are as follows:

	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 549,654	\$ 256,193	\$ 1,166,459	\$ 234,754	\$ 1,716,113	\$ 490,947
2014	551,852	239,179	1,217,775	192,622	1,769,627	431,801
2015	514,059	221,389	1,240,299	168,231	1,754,358	389,620
2016	530,274	204,669	1,273,013	143,442	1,803,287	348,111
2017	472,498	188,416	1,305,936	118,033	1,778,434	306,449
2018-2022	2,548,625	689,071	2,228,623	354,531	4,777,248	1,043,602
2023-2027	1,399,478	210,532	1,132,919	259,339	2,532,397	469,871
2028-2032	47,378	69,432	883,337	195,777	930,715	265,209
2033-2037	58,340	58,472	305,412	139,131	363,752	197,603
2038 and thereafter	239,177	81,494	573,190	90,424	812,367	171,918
Draws not taken	(275,661)	-	(556,107)	-	(831,768)	-
	\$ 6,635,674	\$ 2,218,847	\$ 10,770,856	\$ 1,896,284	\$ 17,406,530	\$ 4,115,131

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)

During December 2011, the Electric System issued \$4,150,000 in Electric System Revenue Refunding Bonds, Series 2011, with an interest rate of 2.00%, along with \$1,695,000 from current debt service reserves to currently refund \$5,845,000 of outstanding Series 2002 bonds with an average interest rate of 4.24%. The bonds mature annually on March 1 through the year 2018. Interest is payable semiannually on September 1 and March 1. The bonds are the obligation of the Electric System and are secured by the revenues of the Electric System. The net proceeds of \$4,114,958 (including a reoffering premium of \$58,480 and after payment of \$93,502 in underwriting fees, insurance, and other issuance costs/discounts) plus an additional \$1,868,118 of Series 2002 Sinking Fund monies were used to establish an escrow account totaling \$5,983,076 for the payment and advance refunding of the bonds discussed above. The trustee of the escrow account repaid the bonds, including accrued interest of \$138,076 on March 1, 2012. As a result, the 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Electric System's long-term debt.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$96,180. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through the year 2018 using the straight-line method. The Electric System completed the advance refunding to reduce its total debt service payments over the next six years by \$1,552,790 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$457,861.

The bonds constitute valid and legal binding obligations of the City of Newport, Tennessee and are payable solely from and secured by a pledge of the net revenues to be derived from the operation of the Electric System.

During December 2011, the Water and Sewer System issued \$1,325,000 in General Obligation Refunding Bonds, Series 2011, with interest rate ranging from 2.00% to 2.50%, along with \$125,000 from current debt service reserves to currently refund \$1,450,000 of outstanding Series 2002 bonds with an average interest rate of 5.25%. The bonds mature annually beginning on January 1, 2013 through the year 2020. Interest is payable semiannually on July 1 and January 1. The bonds are the obligation of the City of Newport and are secured by the full faith and credit of the City. The net proceeds of \$1,320,385 (including a reoffering premium of \$11,426 and after payment of \$16,041 in underwriting fees, insurance, and other issuance costs/discounts) plus an additional \$168,030 of Series 2002 Sinking Fund monies were used to establish an escrow account totaling \$1,488,415 for the payment and advance refunding of the bonds discussed above. The trustee of the escrow account repaid the bonds, including accrued interest of \$38,415 in January 2012. As a result, the 2002 Series bonds are considered to be defeased and the liability for those bonds has been removed from the Water and Sewer System's long-term debt. There are no defeased bonds outstanding at June 30, 2012.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(5) Long-Term Liabilities (Continued)

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$36,443. This difference, reported in the accompanying financial statements as a reduction from bonds payable, is being charged to operations through the year 2020 using the straight-line method. The Water and Sewer System completed the advance refunding to reduce its total debt service payments over the next nine years by \$192,876 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$177,093.

The bonds constitute valid and legal binding obligations of the City of Newport, Tennessee and are payable solely from the net revenues to be derived from the operation of the Water and Sewer System.

(6) Retirement Plans

The City of Newport, Newport City Schools System, and Newport Utilities Board have defined retirement plans. Employees of the Newport City Schools System who do not qualify for participation in the State Employees, Teachers and Higher Education Employees Pension Plan participate in the Political Subdivision Pension Plan (PSPP) with other City employees. Information concerning these retirement plans is as follows:

City of Newport, TennesseePlan Description

Employees of the City are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. The City has authorized Mandatory Retirement for its Public Safety Officers. Public Safety Officers can retire at age 55 with five years of service or at any age with 25 years of service and receive a supplemental bridge payment between the mandatory retirement age and 62. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(6) Retirement Plans (Continued)City of Newport, Tennessee (Continued)Plan Description (Continued)

Political subdivisions such as City of Newport participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/tcrs/PS.

Funding Policy

The City requires employees to contribute 5.0 percent of earnable compensation.

The City is required to contribute at an actuarially determined rate; the rate for the fiscal year ended June 30, 2012 was 14.50% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ended June 30, 2012, the City's annual pension cost of \$616,558 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 7 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(6) Retirement Plans (Continued)

City of Newport, Tennessee (Continued)

Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	\$616,558	100.00%	\$0
6/30/11	\$346,526	100.00%	\$0
6/30/10	\$601,353	100.00%	\$0

Funded Status and Funding Progress

As of July 1, 2011, the most recent actuarial valuation date, the plan was 83.43% funded. The actuarial accrued liability for benefits was \$18.71 million, and the actuarial value of assets was \$15.61 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.10 million. The covered payroll was \$4.12 million and the ratio of the UAAL to the covered payroll was 75.25 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

(Dollar amounts in thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Payroll (AAL) (b-a)/(c)</u>
July 1, 2011	\$ 15,611	\$ 18,712	\$ 3,101	83.43%	\$ 4,121	75.25%
July 1, 2009	\$ 13,491	\$ 14,160	\$ 669	95.27%	\$ 3,615	18.51%
July 1, 2007	\$ 13,741	\$ 14,547	\$ 806	94.46%	\$ 3,847	20.95%

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(6) Retirement Plans (Continued)**School System**Plan Description

The School System contributes to the State Employees, Teachers and Higher Education Employees Pension Plan (SETHEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the *Tennessee Code Annotated* (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The maximum annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.tn.gov/treasury/tcrs/schools.

Funding Policy

Most teachers are required by state statute to contribute 5.0 percent of their salary to the plan. The employer contribution rate for the School System is established at an actuarially determined rate. The employer rate for the fiscal year ended June 30, 2012 was 9.05 percent of annual covered payroll. The employer contribution requirement for the School System is established and may be amended by the TCRS Board of Trustees. The School System's contributions to TCRS for the years ended June 30, 2012, 2011 and 2010 were \$294,050, \$303,799 and \$207,042, respectively, equal to the required contributions for each year.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(6) Retirement Plans (Continued)**Utility**

Newport Utilities Board sponsors a defined contribution pension plan under Section 401(k) of the Internal Revenue Code, which covers substantially all employees. Employer contributions to the plan are based on 11.50% of each participant's compensation. In addition to the Board's contribution to the plan, each participant is required to contribute 3.00%. Contribution levels are established by Newport Utilities Board. Each employee of Newport Utilities Board is eligible to become a participant in the plan after completing six months of service and attaining age twenty-one. Employees are always vested in their contribution accounts. Employees become vested in the employer contribution accounts based on years of credited employment. Employees with seven or more years of credited employment become fully vested in their employer contribution accounts.

Information on this plan for both the Electric and Water and Sewer Departments is summarized as follows at June 30, 2012:

Total payroll	\$5,199,736
Covered payroll	4,352,062
Required employer contributions (11.50% of covered payroll)	500,486
Actual employer contributions, net of forfeitures (11.50% of covered payroll)	500,486
Employee contributions (12.37% of covered payroll)	538,310

(7) Postemployment Benefits

From an accrual accounting perspective, the cost of postemployment healthcare benefits, like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in the future year when it will be paid. In adopting the requirements of GASB Statement No. 45 on July 1, 2008, the City recognizes the cost of postemployment benefits in the year when the employee services are received, reports the accumulated liability from prior years, and provides information useful in attaining potential demands on the City's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years which commenced with the June 30, 2009 liability. The City offers benefits under two separate arrangements within the City and Newport Utilities. The following is a summary of each of these plans.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(7) Postemployment Benefits (Continued)City of Newport**Plan Description**

A brief description of the Retiree Medical Insurance Plan for City employees is as follows:

Type of Coverage

- a. Plan Type** Medical insurance through Blue Cross Blue Shield of Tennessee
- b. Eligibility** Public Safety: age 60 with 10 years of service.
Others: age 62 with 10 years of service
Date of retirement must be after 7/2006 to receive benefits.
- c. Benefit/Cost Sharing** The City pays 100% of the medical premium until retiree is Medicare eligible.
- d. Spouse Benefit** Spouse must pay 100% of the medical premium.
- e. Surviving Spouse Benefit** None
- f. Annual Premiums:** Effective July 1, 2012

	<u>Plan</u>	<u>Single</u>	<u>2-Person</u>	<u>Family</u>
Option 1	Blue Cross Blue Shield	\$ 4,689.36	\$ 9,388.08	\$ 13,650.72
Option 2	Blue Cross Blue Shield	\$ 4,521.60	\$ 9,052.32	\$ 13,162.32
Option 3	Blue Cross Blue Shield	\$ 3,903.72	\$ 7,815.36	\$ 11,363.76

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(7) Postemployment Benefits (Continued)City of Newport (Continued)**GASB 45 Disclosure Requirements - Estimated****A. Annual OPEB Cost and Net Pension Obligation**

	06/30/12	06/30/13	06/30/14
1. Annual Required Contribution (ARC)	\$ 49,740	\$ 51,365	\$ 53,017
2. Interest on Net OPEB Obligation	344	760	1,073
3. Adjustment to ARC	(405)	(923)	(1,302)
4. Annual OPEB Cost (Expense)	49,679	51,202	52,788
5. Contribution made (assumed middle of year)*	(39,265)	(43,389)	(43,082)
6. Increase in Net OPEB Obligation	10,414	7,813	9,706
7. Net OPEB Obligation - Beginning of Year	8,597	19,011	26,824
8. Net OPEB Obligation - End of Year	<u>\$ 19,011</u>	<u>\$ 26,824</u>	<u>\$ 36,530</u>

*Contribution made was assumed equal to Expected Benefit Payments

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2012 are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Payroll
6/30/2012	\$ 49,679	79.00%	\$ 19,011	\$ 198,041	25.1%
6/30/2013	\$ 51,202	84.70%	\$ 26,824	\$ 205,963	24.9%
6/30/2014	\$ 52,788	81.60%	\$ 36,530	\$ 211,112	25.0%

B. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll (AAL) (b-a)/(c)
7/1/2008	\$ -	\$ 609,736	\$ 609,736	0.0%	N/A	N/A
7/1/2011	\$ -	\$ 484,873	\$ 484,873	0.0%	\$ 198,041	244.80%

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(7) Postemployment Benefits (Continued)City of Newport (Continued)**C. Methods and Assumptions**

- Funding Interest Rate	4.00%
- 2011 Medical Trend Rate	9.00%
- Ultimate Medical Trend Rate	5.00%
- Year Ultimate Medical Trend Rate Reached	2015
- Actuarial Cost Method	Entry Age Normal
- The remaining amortization period at 6/30/12	25.36
- Annual Payroll Increase	2.50%

Newport Utilities**Plan Description**

A brief description of the Retiree Medical Insurance Plan for both the Electric and Water and Sewer Departments is as follows:

Type of Coverage**a. Plan Type**

Medical insurance through Blue Cross Blue Shield of Tennessee

b. Eligibility

If employees' age plus number of years of full-time active service totals 80 points, they are eligible for early retirement. Medical insurance is paid from retirement to age 65.

c. Benefit/Cost Sharing

The employer pays the following percentages of the premium based on years between the date the retiree retires and the date they turn 65:

Years Before Age 65	NU's Percent of Premium Contribution	Years Before Age 65	NU's Percent of Premium Contribution
3	80%	12	20%
4	60%	13	18%
5	48%	14	17%
6	40%	15	16%
7	34%	16	15%
8	30%	17	14%
9	27%	18	13%
10	24%	19	13%
11	22%	20	12%

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(7) Postemployment Benefits (Continued)Newport Utilities (Continued)Plan Description (Continued)Type of Coverage (Continued)

<i>d. Spouse Benefit</i>	Yes, while retiree is eligible
<i>e. Surviving Spouse Benefit</i>	None
<i>f. Annual Premiums</i>	<u>2012 Medical</u>
	Individual: \$ 3,658
	Family: \$10,565

GASB 45 DISCLOSURE REQUIREMENTS - ESTIMATED**A. Annual OPEB Cost and Net OPEB Obligation**

	07/01/08- 06/30/09	07/01/09- 06/30/10	07/01/10- 06/30/11	07/01/11- 06/30/12
1. Annual Required Contribution (ARC)	\$ 41,803	\$ 43,746	\$ 45,471	\$ 40,932
2. Interest on Net OPEB Obligation	-	808	1,318	2,044
3. Adjustment to ARC	-	(848)	(1,382)	(2,374)
4. Annual OPEB Cost (Expense)	41,803	43,706	45,407	40,602
5. Contribution made (assumed middle of year)*	21,614	30,948	27,276	42,638
6. Increase in Net OPEB Obligation	20,189	12,758	18,131	(2,036)
7. Net OPEB Obligation - Beginning of Year	-	20,189	32,947	51,078
8. Net OPEB Obligation - End of Year	\$ 20,189	\$ 32,947	\$ 51,078	\$ 49,042

*Contribution made was assumed equal to Expected Benefit Payments

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(7) Postemployment Benefits (Continued)Newport Utilities (Continued)**GASB 45 DISCLOSURE REQUIREMENTS - ESTIMATED (Continued)****A. Annual OPEB Cost and Net OPEB Obligation (Continued)**

Newport Utilities Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for the fiscal year are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	OPEB Cost % of Payroll
6/30/2012	\$ 40,602	105.00%	\$ 49,042	\$ 4,352,062	0.9%
6/30/2011	\$ 45,407	60.10%	\$ 51,078	\$ 4,852,874	0.9%
6/30/2010	\$ 43,706	70.80%	\$ 32,947	\$ 4,734,511	0.9%
6/30/2009	\$ 43,707	51.70%	\$ 20,189	\$ 4,619,035	0.9%

B. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Payroll (AAL) (b-a)/(c)
6/30/2011	\$ 32,494	\$ 505,054	\$ 472,560	6.4%	\$ 4,352,062	10.9%
6/30/2008	\$ 17,683	\$ 545,978	\$ 528,295	3.2%	\$ 4,619,037	11.4%

C. Methods and Assumptions

- Funding Interest Rate	4.00%
- 2008 Medical/Drug Trend Rate	9.00%
- Ultimate Medical/Drug Trend Rate	5.00%
- Year Ultimate Medical/Drug Trend Rate Reached	2012
- Actuarial Cost Method	Entry Age Normal
- The Remaining Amortization Period at December 31, 2011	26 Years

Expenses

Assumed to be paid outside of the trust.

Asset Valuation Method

The Plan is funded on a pay-as-you-go basis.

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(8) Lease Commitments

Certain short-term arrangements provide for the Electric System's joint utilization of other local utilities' distribution facilities in its systems. Other similar agreements provide for the joint use of the Electric System's distribution facilities by other utilities and certain customers. Rental revenues from the above-mentioned arrangements amounted to \$799,851 in 2012. Rental expense applicable to such agreements amounted to \$68,656 in 2012.

(9) Joint Utilization of Facilities

The Electric System shares its office facilities with Newport Water and Sewer System. Related joint expense reimbursement, including rental income of \$16,641 in 2012, amounted to approximately \$40,000 for the year ended June 30, 2012. These amounts are based on the most recent cost study effective July 1, 2001.

(10) Litigation

Various claims and lawsuits are pending against the City, both governmental and business-type activities; management intends to vigorously defend these complaints. The outcome of these complaints cannot be determined at this time.

(11) Risk Management

The City, including both governmental and business-type activities, is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City purchases commercial insurance for all of these risks of loss. Settled claims have not yet exceeded this commercial coverage in any of the past three fiscal years.

(12) Interfund Receivables and Payables

Individual fund interfund receivable and payable balances at June 30, 2012 are as follows:

	Due To:		
	Drug Fund	Schools Federal Projects	Total
<u>Due From:</u>			
General Fund	\$ 23,952	\$ -	\$ 23,952
General Purpose School Fund	-	115	115
Total	<u>\$ 23,952</u>	<u>\$ 115</u>	<u>\$ 24,067</u>

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(12) Interfund Receivables and Payables (Continued)

The General Purpose School Fund pays most payroll liabilities and certain other expenses and the Federal Projects Fund reimburses. Drug fines from Sessions and Circuit court are received in the General Fund and the appropriate amounts are then remitted to the Drug Fund.

(13) Power Contract

The Electric System has a power contract with the Tennessee Valley Authority whereby the Electric System purchases substantially all of its electric power from the Tennessee Valley Authority and is subject to certain restrictions and conditions as provided in the contract.

(14) Concentration of Credit Risk

Newport Utilities Board provides electric, water and sewer utility services to the City of Newport, Cocke County, and portions of Jefferson and Sevier Counties. The Utility grants credit to its customers, substantially all of who are local businesses and residents. A significant portion of the Electric System's operations are attributable to a relatively small number of large commercial customers. A significant portion of the Water and Sewer System's operations are attributable to a relatively small number of industrial plants in Cocke County. The largest industrial customer represented approximately 20% of water sales and approximately 60% of sewer sales for the year ended June 30, 2012.

(15) Operating Transfers

During the year, the City transferred funds to the General Purpose School Fund to cover current year excess education expenditures. The purpose of the transfer from the General Purpose School fund to the Federal Projects fund is to provide cash for current grant activity while awaiting reimbursement from the grantor. These transfers are shown as follows:

	<u>Transfers To:</u>
	<u>General Purpose School Fund</u>
<u>Transfers From:</u>	
General Fund	\$ 611,000
Total	<u>\$ 611,000</u>

CITY OF NEWPORT, TENNESSEE

Notes to Basic Financial Statements
(Continued)(16) Tax Incremental Financing

Pursuant to Title 7, Chapter 53 of Tennessee Code Annotated, the City of Newport, Cocke County, and the Industrial Development Board of Cocke County have entered into a Tax Increment Financing plan to fund infrastructure related to a development on Highway 321. This plan calls for the Industrial Development Board to issue debt not to exceed \$2,000,000 to fund the project. The City of Newport and Cocke County agree to allocate and pay to the Industrial Development Board the increment of real and personal property taxes generated by the development over the base year amount in 2004. The Industrial Development Board is to use those incremental tax payments to retire the debt. The term of the agreement is the lesser of the time of the outstanding debt or 12 years. During the year ended June 30, 2012, the City paid \$134,737 toward this debt.

(17) Prior Period Adjustments

General Fund - Compensated absences were overstated by \$141,405 at June 30, 2011. This over-accrual was charged to unassigned fund balance in the prior year.

(18) Subsequent Event

On July 10, 2012, the Mayor and Board of Aldermen approved Resolution #2012-07, authorizing the issuance, sale, and payment of General Fund Tax Anticipation Notes in the amount of \$600,000.

On September 11, 2012, the Mayor and Board of Aldermen approved Ordinance #2012-05 levying a hotel/motel tax of 2 percent of gross occupancy receipts charged by hotels inside the city limits.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF NEWPORT, TENNESSEE

Schedule of Funding Progress - City

June 30, 2012

As of July 1, 2011, the most recent actuarial valuation date, the plan was 83.43 percent funded. The actuarial accrued liability for benefits was \$18.71 million, and the actuarial value of assets was \$15.61 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.10 million. The covered payroll (annual payroll of active employees covered by the plan) \$4.12 million, and the ratio of the UAAL to the covered payroll was 75.25 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

RETIREMENT PLAN -

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 01, 2011	\$15,611	\$18,712	\$3,101	83.43%	\$4,121	75.25%
July 01, 2009	\$13,491	\$14,160	\$669	95.27%	\$3,615	18.51%
July 01, 2007	\$13,741	\$14,547	\$806	94.46%	\$3,847	20.95%

OTHER POST-EMPLOYMENT BENEFIT PLAN (OPEB) -

(Actual dollar amounts)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
July 01, 2008 *	\$0	\$609,736	\$609,736	0.00%	N/A	N/A

*This reflects the latest information available as of the date of this report.

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Funding Progress - Newport City Schools

June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR NEWPORT CITY SCHOOL'S OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a)/c)
June 30, 2008	\$0	\$782,000	\$782,000	0.00%	\$2,934,000	26.65%
June 30, 2009	\$0	\$822,000	\$822,000	0.00%	\$3,224,953	25.50%
June 30, 2010	\$0	\$656,000	\$656,000	0.00%	\$4,360,301	15.00%
June 30, 2011	\$0	\$517,000	\$517,000	0.00%	\$4,272,357	12.10%

(Additional years will be reported as data becomes available)

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Funding Progress - Newport Utilities

June 30, 2012

SCHEDULE OF FUNDING PROGRESS FOR NEWPORT ELECTRIC SYSTEM'S OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) ((b-a)/c)
6/30/2011	\$32,494	\$505,054	\$472,560	6.4%	\$4,352,062	10.9%
6/30/2008	\$17,683	\$545,978	\$528,295	3.2%	\$4,619,037	11.4%

SCHEDULE OF FUNDING PROGRESS FOR NEWPORT WATER AND SEWER SYSTEM'S OTHER POSTEMPLOYMENT BENEFITS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) ((b-a)/c)
6/30/2011	\$32,494	\$505,054	\$472,560	6.4%	\$4,352,062	10.9%
6/30/2008	\$17,683	\$545,978	\$528,295	3.2%	\$4,619,037	11.4%

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

CITY OF NEWPORT, TENNESSEE

Schedule of Expenditures of Federal and State Awards

For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number	Contract Number	Beginning (Receivable) Unexpended	Receipts and Loans Received	Expenditures and Loans Paid	Adjustments	Ending (Receivable) Unexpended
Federal Awards:							
ARRA - USDA Rural Development Administration Community Facilities Grant Agreement	10.780	N/A	\$ -	\$ 50,000	\$ 50,000	\$ -	\$ -
USDA Rural Development Administration Community Facilities Grant Agreement	10.766	N/A	-	21,000	21,000	-	-
USDA Rural Development Administration Economic Impact Initiative Grant	10.766	N/A	-	19,000	19,000	-	-
ARRA - State of Tennessee Department of Economic and Community Development EECBG Grant - Tanner Building	81.128	GG-1133213	(13,850)	94,000	80,150	-	-
State of Tennessee Department of Transportation Safe Routes to School Project	20.205	SRTS-9114 (4)	(14,500)	-	-	-	(14,500)
Tennessee Department of Transportation Greenway Trail - Riverwalk	20.205	STP-EN-9114	(57,790)	192,338	155,542	-	(20,994)
HERA - Neighborhood Stabilization Grant Program Tennessee Housing Development Agency	14.228	NSP1-09-028	-	22,787	22,787	-	-
ARRA - United States Department of Justice Bureau of Justice Assistance - BJA - FY 2010 Recovery Act Edward Byrne Memorial Justice Assistance Grant Program.	16.804	2010-SB-B9-0030	8,647	-	8,647	-	-
State of Tennessee Housing Development Agency Home Investment Partnership Program - 2009	14.239	HM-09-32	-	148,052	148,052	-	-
State of Tennessee Department of Economic and Community Development - 2011 CDBG Water Line Extension	14.228	GG1238215	-	-	42,050	-	(42,050)
Federal Emergency Management Agency Pass through from Tennessee Emergency Management Agency - Storm Damage - 75% Federal	97.036	FEMA-1974-DR-TN	-	272,585	353,920	-	(81,335)
U.S. Department of Agriculture: Child Nutrition Cluster:							
School Breakfast Program	10.553	ED0000HD11AAX11 ED0000HD11AAX12	-	36,159	39,810	-	(3,651)
National School Lunch Program	10.555	ED0000HC11AAX11 ED0000HC11AAX12	-	157,387	173,478	-	(16,091)
Total Child Nutrition Cluster			-	193,546	213,288	-	(19,742)

(Continued)

CITY OF NEWPORT, TENNESSEE
 Schedule of Expenditures of Federal and State Awards
 (Continued)

For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number	Contract Number	Beginning (Receivable) Unexpended	Receipts and Loans Received	Expenditures and Loans Paid	Adjustments	Ending (Receivable) Unexpended
Federal Awards (Continued):							
U.S. Department of Education: Pass-Through Programs From: Tennessee Department of Education:							
Title I	84.010	ED00000CB11ABX11 ED00000CB12ABX12	\$ 7,567	\$ 507,063	\$ 543,212	\$ -	\$ (28,582)
ARRA - Title I	84.389	EDARRA0CE9ABX09	477	28,917	29,394	-	-
Title II - Part A Training	84.367	ED00000CD10ABX10 ED00000CD11ABX11 ED00000CD12ABX12	(1,600)	55,171	51,949	-	1,622
Title II - Part D Technology	84.281	ED00000CY11ABX11	(543)	1,039	1,139	-	(643)
ARRA - Title II - Part D Technology	84.367	EDARRACL10ABX10 EDARRACL10ADX10	-	415	415	-	-
Title VI	84.358	ED00000CZ910AAX10	(5,059)	17,935	17,420	-	(4,544)
Idea - B	84.027	ED0000LL12ABX12 ED0000LL11ABX11	31,705	111,024	148,078	-	(5,349)
ARRA - Idea - B	84.391	EDARRA0LX9ABX09	(20,062)	62,124	42,579	-	(517)
Idea - B - Preschool	84.392	ED0000LM11ABX11	-	3,430	5,310	-	(1,880)
ARRA - Idea - B - Preschool	84.392	EDARRA0LR09ABX09	-	47	-	-	47
ARRA - First to the Top	84.395	EDRTTTLEAFUND11	11,734	87,533	143,229	-	(43,962)
ARRA - Education Jobs	84.410	ED00JOBSMONEY11	-	2,553	2,553	-	-
ARRA - Safe Schools - SFSF	84.397	EDARRASFGSASC11	(4,057)	4,100	-	-	43
ARRA - Coordinated School Health Expansion - SFSF	84.397	EDARRASFGCSHG11	(26,945)	26,945	-	-	-
ARRA - CEO Supplement SY 10 Extended Contract - SFSF	84.397	EDARRASFGPROF11	(1,167)	1,167	-	-	-
ARRA - SSMS	84.397	EDARRASFGSSMS11	-	1,928	1,928	-	-
ARRA - Career Ladder Supplements Extended	84.397	EDARRASFGEXT11	(24,297)	24,297	-	-	-
Total U.S. Department of Education			(32,247)	935,688	987,206	-	(83,765)

(Continued)

CITY OF NEWPORT, TENNESSEE

Schedule of Expenditures of Federal and State Awards
(Continued)

For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number	Contract Number	Beginning (Receivable) Unexpended	Receipts and Loans Received	Expenditures and Loans Paid	Adjustments	Ending (Receivable) Unexpended
Federal Awards (Continued):							
U.S. Department of Housing and Urban Development: Pass Through from TN Department of Economic and Community Development Pass Through from Cocke County CDBG Grant - Point Pleasant	14.228	GG-10-32495-00	\$ (116,013)	\$ 116,013	\$ -	\$ -	\$ -
Appalachian Regional Commission Pass Through from TVA: Pass Through from Cocke County Parrottsville Water Line	23.002	TN-16655	(96,730)	162,107	65,377	-	-
Pass Through from USDA Rural Development Edwina/Bridgeport Areas Water Line Extensions	23.001	N/A	(98,822)	319,050	220,228	-	-
Total Federal Awards			<u>(421,305)</u>	<u>2,546,165</u>	<u>2,387,246</u>	<u>-</u>	<u>(262,387)</u>
State Awards:							
Tennessee Department of Education: Early Childhood Education	N/A	2011/2012	(75,670)	183,587	194,810	-	(86,893)
Tennessee Department of Education: CEO Supplement	N/A	N/A	-	-	1,167	-	(1,167)
Tennessee Department of Education: Safe Schools	N/A	N/A	-	3,593	3,593	-	-
Tennessee Department of Education: Coordinated School Health	N/A	N/A	-	40,168	70,000	-	(29,832)
Tennessee Department of Education: Career Ladder Supplements	N/A	N/A	-	36,313	36,313	-	-
Tennessee Department of Education: Energy Efficient Schools Initiative	N/A	N/A	-	16,808	16,808	-	-
Tennessee Department of Education: ConnectTenn - State Match	N/A	N/A	-	2,585	2,585	-	-
Tennessee Department of Education: National School Lunch - State Match	N/A	N/A	-	4,151	4,151	-	-
Federal Emergency Management Agency Pass through from Tennessee Emergency Management Agency - Storm Damage 25% State	N/A	FEMA-1974-DR-TN	-	41,435	58,987	-	(17,552)
Total State Awards			<u>(75,670)</u>	<u>328,640</u>	<u>388,414</u>	<u>-</u>	<u>(135,444)</u>
Total Federal and State Awards			<u>\$ (496,975)</u>	<u>\$ 2,874,805</u>	<u>\$ 2,775,660</u>	<u>\$ -</u>	<u>\$ (397,831)</u>

(Continued)

CITY OF NEWPORT, TENNESSEE
 Schedule of Expenditures of Federal and State Awards
 (Continued)

For the Fiscal Year Ended June 30, 2012

Federal Grantor/Pass-Through Grantor Program or Cluster Title	CFDA Number	Contract Number	Beginning (Receivable) Unexpended	Receipts and Loans Received	Expenditures and Loans Paid	Adjustments	Ending (Receivable) Unexpended
Loans:							
USDA Rural Development Administration: Community Facilities Direct Loan	10.660	48-015	\$ (212,219)	\$ 245,000	\$ 32,781	\$ -	\$ -
USDA Rural Development Administration: Community Facilities Direct Loan	10.660	48-018	-	195,000	195,000	-	-
Total Loans			<u>\$ (212,219)</u>	<u>\$ 440,000</u>	<u>\$ 227,781</u>	<u>\$ -</u>	<u>\$ -</u>
Federal Assistance:							
Noncash Federal Awards:							
Commodities Program	10.550	N/A	\$ -	\$ 22,059	\$ 22,059	\$ -	\$ -

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2012

	Governmental Funds				
<u>ASSETS</u>	Schools - Federal Project Fund	Schools - Cafeteria Fund	Drug Fund	Schools - Capital Project Fund	Total Governmental Funds
Cash and cash equivalents	\$ 18,266	\$ 81,855	\$ 35,608	\$ 91,871	\$ 227,600
Inventory	-	18,219	-	-	18,219
Due from other governmental units	85,477	19,742	-	-	105,219
Due from other funds	-	-	23,952	-	23,952
Total assets	\$ 103,743	\$ 119,816	\$ 59,560	\$ 91,871	\$ 374,990
 <u>LIABILITIES AND FUND EQUITIES</u>					
Liabilities:					
Accounts payable	\$ 2,035	\$ -	\$ 74	\$ -	\$ 2,109
Due to other funds	115	-	-	-	115
Deferred revenue	1,669	-	2,633	-	4,302
Total liabilities	3,819	-	2,707	-	6,526
Fund balances:					
Nonspendable:					
Inventories	-	18,219	-	-	18,219
Restricted:					
Cafeteria fund	-	101,597	-	-	101,597
Drug fund	-	-	56,853	-	56,853
Assigned:					
Federal projects	99,924	-	-	-	99,924
Capital projects	-	-	-	91,871	91,871
Total fund balances	99,924	119,816	56,853	91,871	368,464
Total liabilities and fund balances	\$ 103,743	\$ 119,816	\$ 59,560	\$ 91,871	\$ 374,990

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Nonmajor Governmental Funds

For the Fiscal Year Ended June 30, 2012

	Schools - Federal Project Fund			Schools - Cafeteria Fund			Drug Fund		
	2012 Original Budget	2012 Final Budget	2012 Actual	2012 Original Budget	2012 Final Budget	2012 Actual	2012 Original Budget	2012 Final Budget	2012 Actual
Revenues:									
Intergovernmental revenue:									
Federal grants	\$ 1,015,295	\$ 1,115,538	\$ 985,296	\$ 215,500	\$ 240,500	\$ 235,347	\$ -	\$ -	\$ -
State grants	-	-	-	4,500	4,500	4,151	-	-	-
Charges for services	-	-	-	144,400	144,400	113,931	-	-	-
Drug related fines	-	-	-	-	-	-	-	-	18,781
Other revenue	-	-	-	1,600	1,600	4,675	-	-	4,850
Interest	-	-	-	1,000	1,000	209	-	-	-
Total revenues	1,015,295	1,115,538	985,296	367,000	392,000	358,313	-	-	23,631
Expenditures:									
Personal services	817,664	819,624	742,336	-	-	-	-	-	-
Contractual services	41,100	45,291	35,633	-	-	-	-	-	1,661
Supplies	40,584	44,119	35,227	-	-	-	-	-	5,538
Food services	-	-	-	367,000	449,653	407,369	-	-	-
Drug investigation	-	-	-	-	-	-	-	-	-
Capital outlay	86,072	160,464	151,464	-	-	-	-	-	126
Other	29,875	33,321	20,618	-	-	-	-	-	-
Total expenditures	1,015,295	1,102,819	985,278	367,000	449,653	407,369	-	-	7,325
Revenues over (under) expenditures	-	12,719	18	-	(57,653)	(49,056)	-	-	16,306
Fund balances, beginning	99,906	99,906	99,906	168,872	168,872	168,872	40,547	40,547	40,547
Fund balances, ending	\$ 99,906	\$ 112,625	\$ 99,924	\$ 168,872	\$ 111,219	\$ 119,816	\$ 40,547	\$ 40,547	\$ 56,853

(Continued)

CITY OF NEWPORT, TENNESSEE

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Nonmajor Governmental Funds
 (Continued)

For the Fiscal Year Ended June 30, 2012

	Schools - Capital Project Fund			Total Nonmajor Governmental Funds		
	2012 Original Budget	2012 Final Budget	2012 Actual	2012 Original Budget	2012 Final Budget	2012 Actual
Revenues:						
Intergovernmental revenue:						
Federal grants	\$ -	\$ -	\$ -	\$ 1,230,795	\$ 1,356,038	\$ 1,220,643
State grants	-	-	-	4,500	4,500	4,151
Charges for services	-	-	-	144,400	144,400	113,931
Drug related fines	-	-	-	-	-	18,781
Other revenue	-	-	-	1,600	1,600	9,525
Interest	-	838	525	1,000	1,838	734
Total revenues	-	838	525	1,382,295	1,508,376	1,367,765
Expenditures:						
Personal services	-	-	-	817,664	819,624	742,336
Contractual services	-	-	-	41,100	45,291	37,294
Supplies	-	-	-	40,584	44,119	40,765
Food services	-	-	-	367,000	449,653	407,369
Drug investigation	-	-	-	-	-	-
Capital outlay	-	92,184	-	86,072	252,648	151,590
Other	-	-	-	29,875	33,321	20,618
Total expenditures	-	92,184	-	1,382,295	1,644,656	1,399,972
Revenues over (under) expenditures	-	(91,346)	525	-	(136,280)	(32,207)
Fund balances, beginning	91,346	91,346	91,346	400,671	400,671	400,671
Fund balances, ending	\$ 91,346	\$ -	\$ 91,871	\$ 400,671	\$ 264,391	\$ 368,464

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Long-Term Principal and Interest Requirements by Issue
Governmental Activities

June 30, 2012

Year Ending June 30,	Loan Agreement Dated 08/01/2000 Tennessee Municipal Bond Fund Variable Rate*		Loan Agreement Dated 10/13/2005 Tennessee Municipal Bond Fund Variable Rate**		Capital Outlay Note 9/15/2005 Local Government Efficiency Loan Zero - Interest		Capital Outlay Note 6/1/2006 Local Government Efficiency Loan Zero - Interest		General Obligation Capital Outlay Note, 10/8/08 Tennessee Municipal Bond Fund 3.32%	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2013	\$ 227,000	\$ 200,650	\$ 45,000	\$ 25,410	\$ 7,285	\$ -	\$ 7,714	\$ -	\$ 52,000
2014	238,000	189,300	47,000	23,835	-	-	-	-	54,000	1,793
2015	250,000	177,400	48,000	22,190	-	-	-	-	-	-
2016	262,000	164,900	50,000	20,510	-	-	-	-	-	-
2017	275,000	151,800	52,000	18,760	-	-	-	-	-	-
2018	289,000	138,050	54,000	16,940	-	-	-	-	-	-
2019	304,000	123,600	55,000	15,050	-	-	-	-	-	-
2020	319,000	108,400	57,000	13,125	-	-	-	-	-	-
2021	335,000	92,450	59,000	11,130	-	-	-	-	-	-
2022	351,000	75,700	61,000	9,065	-	-	-	-	-	-
2023	369,000	58,150	64,000	6,930	-	-	-	-	-	-
2024	387,000	39,700	66,000	4,690	-	-	-	-	-	-
2025	407,000	20,350	68,000	2,380	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-	-
2027	-	-	-	-	-	-	-	-	-	-
2028	-	-	-	-	-	-	-	-	-	-
2029	-	-	-	-	-	-	-	-	-	-
2030	-	-	-	-	-	-	-	-	-	-
2031	-	-	-	-	-	-	-	-	-	-
2032	-	-	-	-	-	-	-	-	-	-
2033	-	-	-	-	-	-	-	-	-	-
2034	-	-	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-
2040	-	-	-	-	-	-	-	-	-	-
2041	-	-	-	-	-	-	-	-	-	-
2042 & Thereafter Draws not taken	-	-	(275,661)	-	-	-	-	-	-	-
	<u>\$ 4,013,000</u>	<u>\$ 1,540,450</u>	<u>\$ 450,339</u>	<u>\$ 190,015</u>	<u>\$ 7,285</u>	<u>\$ -</u>	<u>\$ 7,714</u>	<u>\$ -</u>	<u>\$ 106,000</u>	<u>\$ 5,312</u>

*Future interest amounts are based on an estimated interest rate of 5.00% annually; the interest rate at June 30, 2012 was 0.47%.

**Future interest amounts are based on an estimated interest rate of 3.50% annually; the interest rate at June 30, 2012 was 0.49%.

(Continued)

CITY OF NEWPORT, TENNESSEE

Schedule of Long-Term Principal and Interest Requirements by Issue
Governmental Activities
(Continued)

June 30, 2012

Year Ending June 30,	General Obligation Capital Outlay Note, 3/1/11 Tennessee Municipal Bond Fund 3.23%		Energy Efficient Schools Initiative Loan Dated December 14, 2010 0.00%		Energy Efficient Schools Initiative Loan September 1, 2011 0.00%		General Obligation Capital Outlay Note, 9/27/11 USDA 4.25%		USDA Overrun Loan December 21, 2011 4.25%		Total General Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 66,000	\$ 7,914	\$ 99,996	\$ -	\$ 39,996	\$ -	\$ 2,698	\$ 10,412	\$ 1,965	\$ 8,288	\$ 549,654	\$ 256,193
2014	68,000	5,749	99,996	-	39,996	-	2,812	10,298	2,048	8,204	551,852	239,179
2015	71,000	3,504	99,996	-	39,996	-	2,932	10,178	2,135	8,117	514,059	221,389
2016	73,000	1,179	99,996	-	39,996	-	3,056	10,054	2,226	8,026	530,274	204,669
2017	-	-	99,996	-	39,996	-	3,186	9,924	2,320	7,932	472,498	188,416
2018	-	-	99,996	-	39,996	-	3,322	9,788	2,419	7,833	488,733	172,611
2019	-	-	99,996	-	39,996	-	3,463	9,647	2,522	7,730	504,977	156,027
2020	-	-	99,996	-	39,996	-	3,610	9,500	2,629	7,623	522,231	138,648
2021	-	-	133,368	-	39,996	-	3,763	9,347	2,741	7,511	573,868	120,438
2022	-	-	-	-	40,036	-	3,923	9,187	2,857	7,395	458,816	101,347
2023	-	-	-	-	-	-	4,090	9,020	2,979	7,273	440,069	81,373
2024	-	-	-	-	-	-	4,264	8,846	3,105	7,147	460,369	60,383
2025	-	-	-	-	-	-	4,445	8,665	3,237	7,015	482,682	38,410
2026	-	-	-	-	-	-	4,634	8,476	3,375	6,877	8,009	15,353
2027	-	-	-	-	-	-	4,831	8,279	3,518	6,734	8,349	15,013
2028	-	-	-	-	-	-	5,036	8,074	3,668	6,584	8,704	14,658
2029	-	-	-	-	-	-	5,250	7,860	3,824	6,428	9,074	14,288
2030	-	-	-	-	-	-	5,473	7,637	3,986	6,266	9,459	13,903
2031	-	-	-	-	-	-	5,706	7,404	4,155	6,097	9,861	13,501
2032	-	-	-	-	-	-	5,948	7,162	4,332	5,920	10,280	13,082
2033	-	-	-	-	-	-	6,201	6,909	4,516	5,736	10,717	12,645
2034	-	-	-	-	-	-	6,465	6,645	4,708	5,544	11,173	12,189
2035	-	-	-	-	-	-	6,740	6,370	4,908	5,344	11,648	11,714
2036	-	-	-	-	-	-	7,026	6,084	5,117	5,137	12,143	11,221
2037	-	-	-	-	-	-	7,325	5,785	5,334	4,918	12,659	10,703
2038	-	-	-	-	-	-	7,636	5,474	5,561	4,691	13,197	10,165
2039	-	-	-	-	-	-	7,960	5,150	5,797	4,455	13,757	9,605
2040	-	-	-	-	-	-	8,299	4,811	6,044	4,208	14,343	9,019
2041	-	-	-	-	-	-	8,652	4,459	6,301	3,951	14,953	8,410
2042 & Thereafter	-	-	-	-	-	-	96,254	21,558	86,673	22,737	182,927	44,295
Draws not taken	-	-	-	-	-	-	-	-	-	-	(275,661)	-
	<u>\$ 278,000</u>	<u>\$ 18,346</u>	<u>\$ 933,336</u>	<u>\$ -</u>	<u>\$ 400,000</u>	<u>\$ -</u>	<u>\$ 245,000</u>	<u>\$ 253,003</u>	<u>\$ 195,000</u>	<u>\$ 211,721</u>	<u>\$ 6,635,674</u>	<u>\$ 2,218,847</u>

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Long-Term Principal and Interest Requirements by Issue
Business-Type Activities

June 30, 2012

Year Ending June 30,	Electric System Revenue and Refunding Bonds - Series 2011 2.00%		Water and Sewer Revenue and Tax Bond - Series 2007 4.375%		Water and Sewer Revenue and Tax Bond - Series 2006 4.125%		Sewer Treatment Work State Loan 2.45%		Water and Sewer Revenue and Tax Bonds Series 1999 3.25%	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2013	\$ 645,000	\$ 100,522	\$ 4,051	\$ 12,185	\$ 14,639	\$ 38,821	\$ 236,430	\$ 29,418	\$ 2,050
2014	675,000	70,100	4,232	12,005	15,255	38,205	242,288	23,560	2,118	2,478
2015	685,000	56,600	4,421	11,816	15,896	37,564	248,291	17,557	2,188	2,408
2016	700,000	42,900	4,618	11,618	16,564	36,896	254,443	11,405	2,260	2,336
2017	715,000	28,900	4,824	11,412	17,261	36,199	260,747	5,101	2,334	2,262
2018	730,000	14,600	5,040	11,197	17,986	35,474	66,434	272	2,411	2,185
2019	-	-	5,264	10,972	18,742	34,718	-	-	2,491	2,105
2020	-	-	5,499	10,737	19,530	33,930	-	-	2,573	2,023
2021	-	-	5,745	10,492	20,351	33,109	-	-	2,658	1,938
2022	-	-	6,001	10,235	21,207	32,253	-	-	2,745	1,851
2023	-	-	6,269	9,967	22,099	31,361	-	-	2,836	1,760
2024	-	-	6,549	9,687	23,028	30,432	-	-	2,929	1,666
2025	-	-	6,841	9,395	23,996	29,464	-	-	3,026	1,570
2026	-	-	7,147	9,090	25,004	28,456	-	-	3,126	1,470
2027	-	-	7,466	8,771	26,055	27,405	-	-	3,229	1,367
2028	-	-	7,799	8,438	27,151	26,309	-	-	3,336	1,260
2029	-	-	8,147	8,089	28,292	25,168	-	-	3,446	1,150
2030	-	-	8,511	7,726	29,482	23,978	-	-	3,559	1,037
2031	-	-	8,891	7,346	30,721	22,739	-	-	3,677	919
2032	-	-	9,287	6,949	32,012	21,448	-	-	3,798	798
2033	-	-	9,702	6,535	33,358	20,102	-	-	3,923	673
2034	-	-	10,135	6,102	34,761	18,699	-	-	4,052	543
2035	-	-	10,587	5,649	36,222	17,238	-	-	4,187	409
2036	-	-	11,060	5,177	37,745	15,715	-	-	4,325	271
2037	-	-	11,554	4,683	39,331	14,129	-	-	4,467	129
2038	-	-	12,069	4,167	40,985	12,475	-	-	1,528	6
2039	-	-	12,608	3,628	42,708	10,752	-	-	-	-
2040	-	-	13,171	3,066	44,503	8,957	-	-	-	-
2041	-	-	13,759	2,478	46,374	7,086	-	-	-	-
2042 & Thereafter Draws not taken	-	-	49,118	3,668	146,507	9,230	-	-	-	-
	<u>\$ 4,150,000</u>	<u>\$ 313,622</u>	<u>\$ 280,365</u>	<u>\$ 243,280</u>	<u>\$ 947,765</u>	<u>\$ 758,312</u>	<u>\$ 1,308,633</u>	<u>\$ 87,313</u>	<u>\$ 79,272</u>	<u>\$ 37,160</u>

(Continued)

CITY OF NEWPORT, TENNESSEE

Schedule of Long-Term Principal and Interest Requirements by Issue
Business-Type Activities
(Continued)

June 30, 2012

Year Ending June 30,	State of Tennessee Drinking Water Revolving Fund Loan 2.15%		State of Tennessee Water and Sewer USDA Loan 2.625%		State of Tennessee Water and Sewer TMBF Loan Variable Rate		General Obligation Refunding Bonds Series 2011 2.00% - 2.50%		Total Business-Type Activity Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 20,676	\$ 8,772	\$ 5,613	\$ 9,003	\$ 88,000	\$ 4,438	\$ 150,000	\$ 29,049	\$ 1,166,459	\$ 234,754
2014	21,120	8,328	5,762	8,854	92,000	4,279	160,000	24,813	1,217,775	192,622
2015	21,588	7,860	5,915	8,701	97,000	4,113	160,000	21,612	1,240,299	168,231
2016	22,056	7,392	6,072	8,544	102,000	3,938	165,000	18,413	1,273,013	143,442
2017	22,536	6,912	6,234	8,382	107,000	3,753	170,000	15,112	1,305,936	118,033
2018	23,016	6,432	6,399	8,217	112,000	3,560	170,000	11,713	1,133,286	93,650
2019	23,520	5,928	6,569	8,047	118,000	3,357	175,000	8,312	349,586	73,439
2020	24,036	5,412	6,744	7,872	124,000	3,144	175,000	4,375	357,382	67,493
2021	24,552	4,896	6,923	7,693	130,000	2,920	-	-	190,229	61,048
2022	25,080	4,368	7,107	7,509	136,000	2,685	-	-	198,140	58,901
2023	25,632	3,816	7,296	7,320	143,000	2,439	-	-	207,132	56,663
2024	26,184	3,264	7,490	7,126	150,000	2,181	-	-	216,180	54,356
2025	26,760	2,688	7,689	6,927	158,000	1,909	-	-	226,312	51,953
2026	27,336	2,112	7,893	6,723	166,000	1,624	-	-	236,506	49,475
2027	27,936	1,512	8,103	6,513	174,000	1,324	-	-	246,789	46,892
2028	28,536	912	8,318	6,298	183,000	1,009	-	-	258,140	44,226
2029	26,832	271	8,539	6,077	192,000	679	-	-	267,256	41,434
2030	-	-	8,766	5,850	201,000	332	-	-	251,318	38,923
2031	-	-	8,999	5,617	-	-	-	-	52,288	36,621
2032	-	-	9,238	5,378	-	-	-	-	54,335	34,573
2033	-	-	9,483	5,133	-	-	-	-	56,466	32,443
2034	-	-	9,735	4,881	-	-	-	-	58,683	30,225
2035	-	-	9,994	4,622	-	-	-	-	60,990	27,918
2036	-	-	10,259	4,357	-	-	-	-	63,389	25,520
2037	-	-	10,532	4,084	-	-	-	-	65,884	23,025
2038	-	-	10,812	3,804	-	-	-	-	65,394	20,452
2039	-	-	11,099	3,517	-	-	-	-	66,415	17,897
2040	-	-	11,399	3,222	-	-	-	-	69,073	15,245
2041	-	-	11,696	2,920	-	-	-	-	71,829	12,484
2042 & Thereafter Draws not taken	-	-	104,854	11,448	(556,107)	-	-	-	300,479	24,346
	\$ 417,396	\$ 80,875	\$ 345,532	\$ 194,639	\$ 1,916,893	\$ 47,684	\$ 1,325,000	\$ 133,399	\$ 10,770,856	\$ 1,896,284

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE
Newport Electric System
Schedule of Capital Assets and Accumulated Depreciation
For the Fiscal Year Ended June 30, 2012

	Assets			Accumulated Depreciation			Annual Rate			
	Balance July 1, 2011	Additions	Retirements & Reclassifications	Balance June 30, 2012	Balance July 1, 2011	Net Additions		Retirements	Balance June 30, 2012	Net Plant
Transmission plant:										
Land and land rights	\$ 1,185,219	\$ -	\$ -	\$ 1,185,219	\$ -	\$ -	\$ -	\$ -	\$ 1,185,219	0%
Clearing land and rights of way	137,597	12,294	-	149,891	137,596	119	-	137,715	12,176	3%
Structures and improvements	1,391,920	385,228	-	1,777,148	949,411	42,826	-	992,237	784,911	3%
Station equipment	6,777,320	-	-	6,777,320	3,943,268	203,320	-	4,146,588	2,630,732	3%
Poles, towers and fixtures	1,821,548	49,036	12,066	1,858,518	805,009	54,756	13,696	846,069	1,012,449	3%
Overhead conductors	838,393	-	-	838,393	553,720	25,152	-	578,872	259,521	3%
	<u>12,151,997</u>	<u>446,558</u>	<u>12,066</u>	<u>12,586,489</u>	<u>6,389,004</u>	<u>326,173</u>	<u>13,696</u>	<u>6,701,481</u>	<u>5,885,008</u>	
Distribution plant:										
Land and land rights	66,997	-	-	66,997	-	-	-	-	66,997	0%
Station and storage battery equipment	951,539	-	-	951,539	523,879	28,546	-	552,425	399,114	3%
Poles, towers and fixtures	15,391,418	824,675	155,278	16,060,815	5,486,421	473,214	167,657	5,791,978	10,268,837	3%
Overhead conductors and devices	10,376,185	494,076	52,111	10,818,150	4,725,945	320,445	8,127	5,038,263	5,779,887	3%
Underground conductors and devices	3,675,430	167,487	5,990	3,836,927	516,175	149,723	5,779	660,119	3,176,808	4%
Line transformers	13,714,110	634,993	86,396	14,262,707	6,885,984	419,049	87,836	7,217,197	7,045,510	3%
Services	2,769,068	63,718	22,030	2,810,756	1,729,007	125,272	24,466	1,829,813	980,943	5%
Meters	2,927,048	148,152	15,762	3,059,438	46,269	90,150	15,763	120,656	2,938,782	3%
Street lighting systems	1,254,547	13,771	46,278	1,222,040	1,253,941	11,015	8,525	1,256,431	(34,391)	6%
Suburban outdoor lighting	1,700,624	70,908	7,042	1,764,490	1,412,038	136,836	58,650	1,490,224	274,266	8%
	<u>52,826,966</u>	<u>2,417,780</u>	<u>390,887</u>	<u>54,853,859</u>	<u>22,579,659</u>	<u>1,754,250</u>	<u>376,803</u>	<u>23,957,106</u>	<u>30,896,753</u>	
General plant:										
Land and land rights	141,720	-	-	141,720	-	-	-	-	141,720	0%
Utility Board buildings	3,852,798	29,694	-	3,882,492	1,364,994	77,320	-	1,442,314	2,440,178	2%
Office furniture and equipment	920,786	7,075	-	927,861	906,827	20,043	-	926,870	991	10%
Transportation equipment	2,136,027	54,102	95,090	2,095,039	1,280,408	182,395	77,021	1,385,782	709,257	6%
Stores equipment	36,568	-	-	36,568	36,568	-	-	36,568	-	0%
Tools, shop and garage equipment	285,848	-	-	285,848	281,356	4,493	-	285,849	(1)	8%
Laboratory equipment	44,370	4,762	-	49,132	32,674	2,397	-	35,071	14,061	5%
Communications equipment	207,545	42,025	-	249,570	162,603	19,615	(35)	182,253	67,317	0%
	<u>7,625,662</u>	<u>137,658</u>	<u>95,090</u>	<u>7,668,230</u>	<u>4,065,430</u>	<u>306,263</u>	<u>76,986</u>	<u>4,294,707</u>	<u>3,373,523</u>	
Total electric plant in service	72,604,625	3,001,996	498,043	75,108,578	33,034,093	2,386,686	467,485	34,953,294	40,155,284	
Construction work in progress	5,763,954	3,107,669	-	8,871,623	-	-	-	-	8,871,623	
Total	\$78,368,579	\$6,109,665	\$ 498,043	\$ 83,980,201	\$33,034,093	\$2,386,686	\$ 467,485	\$ 34,953,294	\$49,026,907	

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Newport Water and Sewer System
 Schedule of Capital Assets and Accumulated Depreciation

For the Fiscal Year Ended June 30, 2012

	Assets			Accumulated Depreciation				Net Plant	
	Balance	Additions	Retirements	Balance	Balance	Net			Balance
	July 1, 2011			June 30, 2012		July 1, 2011	Retirements		
Water plant in service:									
Source of supply plant	\$ 722,688	\$ -	\$ -	\$ 722,688	\$ 506,842	\$ 26,890	\$ -	\$ 533,732	\$ 188,956
Pumping plant	1,028,872	116,496	-	1,145,368	790,994	49,187	-	840,181	305,187
Treatment plant	4,027,918	20,529	-	4,048,447	2,225,421	136,587	-	2,362,008	1,686,439
Transmission and distribution plant	31,325,530	3,863,868	-	35,189,398	9,847,176	769,828	(5,846)	10,622,850	24,566,548
General plant	1,349,114	156,191	22,480	1,482,825	715,698	72,009	17,985	769,722	713,103
Total water plant in service	38,454,122	4,157,084	22,480	42,588,726	14,086,131	1,054,501	12,139	15,128,493	27,460,233
Sewer plant in service:									
Pumping plant	658,129	-	-	658,129	427,701	27,181	-	454,882	203,247
Treatment plant	18,356,782	205,768	-	18,562,550	11,640,112	626,219	-	12,266,331	6,296,219
Collection system plant	8,672,458	719,850	-	9,392,308	3,412,927	219,107	-	3,632,034	5,760,274
General plant	1,680,524	131,492	18,043	1,793,973	961,459	98,072	17,042	1,042,489	751,484
Total sewer plant in service	29,367,893	1,057,110	18,043	30,406,960	16,442,199	970,579	17,042	17,395,736	13,011,224
Total utility plant in service	67,822,015	5,214,194	40,523	72,995,686	30,528,330	2,025,080	29,181	32,524,229	40,471,457
Construction work in progress	3,672,457	(1,354,053)	-	2,318,404	-	-	-	-	2,318,404
Total utility plant	\$ 71,494,472	\$ 3,860,141	\$ 40,523	\$ 75,314,090	\$ 30,528,330	\$ 2,025,080	\$ 29,181	\$ 32,524,229	\$ 42,789,861

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Changes in Property Taxes Receivable

For the Fiscal Year Ended June 30, 2012

<u>Tax Year</u>	<u>Balance July 1, 2011</u>	<u>Current Assessment</u>	<u>Abatements and Adjustments</u>	<u>Collections</u>	<u>Balance June 30, 2012</u>
2011	\$ -	\$2,579,080	\$ 24,585	\$ (2,389,507)	\$ 214,158
2010	193,482	-	(3,985)	(81,523)	107,974
2009	80,654	-	(1,792)	(29,969)	48,893
2008	30,142	-	(8)	(3,844)	26,290
2007	11,611	-	-	(2,687)	8,924
2006	4,442	-	248	(758)	3,932
2005	4,200	-	-	(632)	3,568
2004	2,526	-	-	(522)	2,004
2003	3,033	-	-	(635)	2,398
2002	8,343	-	15	(1,213)	7,145
2001	5,941	-	-	(1,213)	4,728
2000	6,057	-	-	(1,173)	4,884
1999	4,767	-	-	(1,156)	3,611
1998	4,814	-	-	-	4,814
1997	1,702	-	-	-	1,702
1996	3,605	-	-	-	3,605
1995	1,812	-	-	-	1,812
Total	<u>\$ 367,131</u>	<u>\$ 2,579,080</u>	<u>\$ 19,063</u>	<u>\$ (2,514,832)</u>	450,442

January 1, 2012 property tax assessment,
which will be billed on October 1, 2012

2,717,299

\$ 3,167,741

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Analysis of Tax Rates and Assessments

June 30, 2012

<u>Fiscal Year</u>	<u>Assessed Value</u>	<u>Tax Rate Per \$100</u>	<u>Total Tax Levy</u>	<u>Total Tax Collections</u>	<u>Total Collections as a Percent of Total Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Outstanding Delinquent Taxes Filed in Circuit Court</u>
2012	\$151,632,177	\$ 1.75	\$2,717,299	\$ -	0.00%	\$2,717,299	\$ -
2011	143,723,092	1.75	2,603,665	2,389,507	91.77%	214,158	-
2010	147,581,704	1.75	2,575,616	2,467,643	95.81%	107,973	107,973
2009	123,290,049	2.04	2,515,437	2,466,554	98.06%	48,883	48,883
2008	123,910,441	2.04	2,527,773	2,501,483	98.96%	26,290	26,290
2007	121,540,126	2.04	2,479,445	2,470,521	99.64%	8,924	8,924
2006	124,296,286	2.04	2,535,562	2,531,630	99.84%	3,932	3,932
2005	116,967,761	2.04	2,385,513	2,381,945	99.85%	3,568	3,568
2004	94,864,847	2.46	2,334,479	2,332,475	99.91%	2,004	2,004
2003	99,613,437	2.46	2,450,121	2,447,723	99.90%	2,398	2,398
2002	94,427,838	2.46	2,322,925	2,315,780	99.69%	7,145	7,145
2001	93,716,179	2.46	2,305,418	2,300,690	99.79%	4,728	4,728
2000	93,933,801	2.21	2,075,937	2,071,053	99.76%	4,884	4,884
1999	71,516,109	2.75	1,966,693	1,963,082	99.82%	3,611	3,611
1998	71,377,323	2.69	1,920,050	1,915,236	99.75%	4,814	4,814

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Newport Electric System
Schedule of Utility Rates and Number of Customers

For the Fiscal Year Ended June 30, 2012

<u>Class of Service</u>	<u>Customers</u>
Residential	17,778
Commercial:	
Small	3,491
Large	199
	<u>21,468</u>
Street and athletic lighting	51
Outdoor lighting	150
	<u>21,669</u>
Number of customers in June, 2012	<u>21,669</u>
Electric sales:	
Cents per kilowatt-hour sold	<u>8.22¢</u>
Percent of revenue by classes to total electric sales:	
Residential	48.80%
Small lighting and power	9.15%
Large lighting and power	40.07%
Street and outdoor lighting	1.98%
	<u>100.00%</u>
Purchased power, excluding facilities rental:	
Cents per kilowatt-hour purchased	<u>7.12¢</u>
Percent of unaccounted for kilowatt-hours (distribution losses)	<u>5.22%</u>
Percent of purchased power, including facilities rent, to revenue from energy sales	<u>82.63%</u>

(Continued)

CITY OF NEWPORT, TENNESSEE

Newport Electric System
 Schedule of Utility Rates and Number of Customers
 (Continued)

For the Fiscal Year Ended June 30, 2012

NOTE: TVA Fuel Cost Adjustment changes monthly and adds to base rate.

RESIDENTIAL RATE - RS

Customer Charge:	\$16.59 per delivery point per month less \$1.60 Hydro Allocation Credit	
Energy Charge:	Base Rates	June Fuel Cost Adj.
Transition Rate	5.908 cents per kWh	
Winter Rate	6.085 cents per kWh	
Summer Rate	6.367 cents per kWh	2.543 cents per kWh

GENERAL POWER RATE - GSA 1 (Demand 0-50 kW)

Customer Charge:	Single Phase	\$16.70 per delivery point per month
	Three Phase	\$40.00 per delivery point per month
Energy Charge:	Base Rates	June Fuel Cost Adj.
Transition Rate	7.019 cents per kWh	
Winter Rate	7.195 cents per kWh	
Summer Rate	7.478 cents per kWh	2.502 cents per kWh

GENERAL POWER RATE - GSA 2 (Demand 51-1,000 kW)

Customer Charge:	Single Phase	\$28.00 per delivery point per month
	Three Phase	\$77.00 per delivery point per month
Transition Rate:		
Demand Charge:		
First 50 kW -		No charge
Over 50 kW -		\$10.40 per kW
Energy Charge:		
First 15,000 kWh per month		7.344 cents per kWh
Additional kWh		3.658 cents per kWh
Winter Rate:		
Demand Charge:		
First 50 kW -		No charge
Over 50 kW -		\$10.40 per kW
Energy Charge:		
First 15,000 kWh per month		7.520 cents per kWh
Additional kWh		3.778 cents per kWh

(Continued)

CITY OF NEWPORT, TENNESSEE

Newport Electric System
 Schedule of Utility Rates and Number of Customers
 (Continued)

For the Fiscal Year Ended June 30, 2012

GENERAL POWER RATE - GSA 2 (Demand 51-1,000 kW) (Continued)

Summer Rate:

Demand Charge:

First 50 kW -	No charge
Over 50 kW -	\$11.24 per kW

Energy Charge:

	Base Rates	June Fuel Cost Adj.
First 15,000 kWh per month	7.803 cents per kWh	2.502 cents per kWh
Additional kWh	4.057 cents per kWh	2.455 cents per kWh

GENERAL POWER RATE - GSA 3 (Demand 1,000-5,000 kW)

Customer Charge:	\$242.00 per delivery point per month
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Transition Rate:

Demand Charge:

First 1,000 kW -	\$10.17 per kW
Over 1,000 kW -	\$11.99 per kW

Energy Charge:

All kWh per month	3.592 cents per kWh
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Winter Rate:

Demand Charge:

First 1,000 kW -	\$10.17 per kW
Over 1,000 kW -	\$11.99 per kW

Energy Charge:

All kWh per month	3.711 cents per kWh
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Summer Rate:

Demand Charge:

First 1,000 kW -	\$11.01 per kW
Over 1,000 kW -	\$12.83 per kW

Energy Charge:

	Base Rates	June Fuel Cost Adj.
All kWh per month	3.991 cents per kWh	2.455 cents per kWh

GENERAL POWER RATE - SMSB

Customer Charge:	\$1,850.00 per delivery point per month
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Demand Charge:

Transition Rate	\$ 7.65 per kW
Winter Rate	\$12.41 per kW
Summer Rate	\$18.74 per kW

(Continued)

CITY OF NEWPORT, TENNESSEE

Newport Electric System
 Schedule of Utility Rates and Number of Customers
 (Continued)

For the Fiscal Year Ended June 30, 2012

GENERAL POWER RATE - SMSB (Continued)

Energy Charge:	Base Rates	June Fuel Cost Adj.
Transition Rate All kWh per month	1.210 cents per kWh	
Winter Rate All kWh per month	1.319 cents per kWh	
Summer Rate All kWh per month	1.783 cents per kWh	2.434 cents per kWh

GENERAL POWER RATE - SMSC

Customer Charge:	\$1,850.00 per delivery point per month	
Demand Charge:		
Transition Rate	\$7.14 per kW	
Winter Rate	\$11.90 per kW	
Summer Rate	\$18.23 per kW	
Energy Charge:	Base Rate	June Fuel Cost Adj.
Transition Rate All kWh per month	1.213 cents per kWh	
Winter Rate All kWh per month	1.317 cents per kWh	
Summer Rate All kWh per month	1.752 cents per kWh	2.434 cents per kWh

GENERAL POWER RATE - SMSD

Customer Charge:	\$1,850.00 per delivery point per month	
Demand Charge:		
Transition Rate	\$ 9.93 per kW	
Winter Rate	\$14.69 per kW	
Summer Rate	\$21.01 per kW	
Energy Charge:	Base Rate	June Fuel Cost Adj.
Transition Rate	0.607 cents per kWh	
Winter Rate	0.691 cents per kWh	
Summer Rate	1.040 cents per kWh	2.434 cents per kWh

OUTDOOR LIGHTING POWER RATE

Customer Charge:	\$2.50	
Energy Charge:	Base Rate	June Fuel Cost Adj.
Transition Rate	3.766 cents per kWh	
Winter Rate	3.942 cents per kWh	
Summer Rate	4.225 cents per kWh	2.543 cents per kWh
Facility Charge:	LS (12)% $\frac{B}{A \text{ or } B}$	

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Newport Water and Sewer System
Schedule of Utility Rates and Statistical Information

For the Fiscal Year Ended June 30, 2012

<u>Utility Rates:</u>	<u>Outside County</u>	<u>Outside City Limits</u>	<u>Inside City Limits</u>
Water:			
First 2,000 gallons (minimum billing)	\$ 17.88	\$ 17.02	\$ 12.36
Next 5,000 gallons (per 1,000 gallons)	4.53	4.31	3.18
Next 15,000 gallons	3.73	3.55	2.59
Next 53,000 gallons	3.15	3.00	2.10
Next 225,000 gallons	2.43	2.31	1.83
Over 300,000 gallons	2.01	1.91	1.44
Flat service (4,800 gallons)	30.56	29.09	21.26
Fire service (each meter)	.59	.59	.77
Standard water tap fee	750.00	750.00	600.00

All other taps are at actual cost, but in no case less than the above amounts.

Water rates are subject to sales tax as follows:

Industrial plants	1.50%
All others	9.75%

	<u>Outside City Limits</u>	<u>Inside City Limits</u>
Sewer:		
Commercial and residential customers:		
Base rate	\$ 9.96	\$ 9.96
Usage charge (per 1,000 gallons water usage)	3.18	2.13
Flat-rate residential billing (sewer-only Customers)	25.22	20.18

Large industrial customers - rates are based upon treatment plant capacity and are negotiated periodically.

	<u>Outside City Limits</u>	<u>Inside City Limits</u>
Standard sewer tap fees:		
4 Inch Tap	\$ 715.00	\$ 500.00
6 Inch Tap	1,500.00	1,500.00
E-1 Pump Tap	1,200.00	1,200.00

All other taps are at actual cost, but in no case less than the above amounts.

Statistical Information:

Number of metered customers -	
Water	10,364
Sewer	4,397

Gallons of water sold to metered customers during the year ended June 30, 2012	1,445,524,272
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See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Unaccounted for Water

June 30, 2012

(All amounts in gallons)

A	Water Treated and Purchased:		
B	Water Pumped (potable)	1,603,120,000	
C	Water Purchased	<u>0</u>	
D	Total Water Treated and Purchased (Sum Lines B and C)		<u>1,603,120,000</u>
E	Accounted for Water:		
F	Water Sold	1,391,715,572	
G	Metered for Consumption (in house usage)	<u>53,808,700</u>	
H	Fire Department(s) Usage	<u>0</u>	
I	Flushing	<u>0</u>	
J	Tank Cleaning/Filling	<u>0</u>	
K	Street Cleaning	<u>0</u>	
L	Bulk Sales	<u>0</u>	
M	Water Bill Adjustments	<u>0</u>	
N	Total Accounted for Water (Sum Lines F thru M)		<u>1,445,524,272</u>
O	Unaccounted for Water (Line D minus Line N)		<u>157,595,728</u>
P	Percent Unaccounted for Water (Line O divided by Line D times 100)		<u>9.83%</u>

Q Other (explain)

See Below

Explain Other:

None

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Schedule of Activities - Sanitation Fund

For the Fiscal Year Ended June 30, 2012
 (With Comparative Totals for the Fiscal Year Ended June 30, 2011)

	<u>2012</u>	<u>2011</u>
Revenues	\$ -	\$ -
Expenditures:		
Personal services	238,835	223,870
Contractual services	47,310	43,751
Supplies	1,178	518
Capital outlay	<u>568,743</u>	<u>212,219</u>
Total expenditures	<u>856,066</u>	<u>480,358</u>
Expenditures in excess of revenues	<u>\$ (856,066)</u>	<u>\$ (480,358)</u>

Excess expenditures are funded by the City's General Fund through general revenues.

See independent auditor's report.

CITY OF NEWPORT, TENNESSEE

Miscellaneous Statistical Data

June 30, 2012

Incorporated	1903
Form of government	Board of Mayor and Alderman
Area in square miles	4.74
Police protection:	
Number of stations	1
Number of full-time employees	30
Number of part-time employees	0
Fire protection:	
Number of stations	2
Number of full-time employees	25
Number of part-time employees	0
Public works:	
Number of full-time employees	28
Number of part-time employees	3
Recreation:	
Parks and ball fields (acres)	80
Playgrounds	7
Number of full-time employees	13
Number of part-time employees	10-16
Education:	
Number of certified teachers	71
Number of specialized instructional staff	0
Number of administrative staff	4
Enrollment - one (1) elementary school K-8	718
Average daily attendance	672.44

See independent auditor's report.

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Board of Mayor and Aldermen
City of Newport, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport, Tennessee (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 31, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City of Newport, Tennessee, is responsible for establishing and maintaining effective 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 of Newport, Tennessee's internal control over financial reporting.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct

misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items #12-1 through #12-6 and #12-8 through #12-14 to be material weaknesses.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #12-7 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Newport, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items #12-15 through #12-17.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 management, the Mayor and Board of Aldermen, 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.



CERTIFIED PUBLIC ACCOUNTANTS

May 31, 2013

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

Mayor and Board of Aldermen
City of Newport, Tennessee

Compliance

We have audited the City of Newport, Tennessee's (the City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. 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 on the City's compliance with those requirements.

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

Internal Control Over Compliance

Management of the City of Newport, Tennessee 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 the auditing procedures for the

purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

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

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

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



CERTIFIED PUBLIC ACCOUNTANTS

May 31, 2013

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

ACCOMPANYING SCHEDULE OF FINDINGS AND QUESTIONED COSTS

I. SUMMARY OF AUDITOR'S RESULTS

- A. An unqualified opinion was issued on the financial statements of the City of Newport, Tennessee (the City) for the year ended June 30, 2012.
- B. Internal control over financial reporting:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified
 that are not considered to be
 material weakness(es)? yes none reported
- C. Our audit disclosed no instances of noncompliance considered by us to be material to the financial statements.
- D. Internal control over major programs:
 Material weakness(es) identified? yes no
 Significant deficiency(ies) identified
 that are not considered to be
 material weakness(es)? yes none reported
- E. An unqualified opinion was issued for compliance for the City's major programs.
- F. The audit disclosed no audit findings requiring reporting under Section .510(a).
- G. We identified the following major federal assistance programs:

Tennessee Department of Education ARRA - U.S. Department of Education - IDEA B CFDA # 84.391 2011/2012	<u>\$ 42,579</u>
Tennessee Department of Education ARRA - U.S. Department of Education - Title I CFDA # 84.389 2011/2012	<u>\$ 29,394</u>
Tennessee Department of Education U.S. Department of Education - IDEA B CFDA # 84.027/84.392 2011/2012	<u>\$ 153,388</u>
Tennessee Department of Education U.S. Department of Education - Title I CFDA # 84.010 2011/2012	<u>\$ 543,212</u>

I. SUMMARY OF AUDITOR'S RESULTS (Continued)

G. Major federal assistance programs (continued):

Tennessee Emergency Management Agency Federal Emergency Management Agency - DR 1974 CFDA # 97.036	<u>\$ 353,920</u>
State of Tennessee Department of Economic and Community Development ARRA - EECBG grant - Tanner Building CFDA # 81.128	<u>\$ 80,150</u>
State of Tennessee Housing Development Agency U.S. Department of Housing and Urban Dev. Home Investment Partnership Program CFDA # 14.239	<u>\$ 148,052</u>

H. The threshold for distinguishing between Type A and Type B programs was \$300,000.

I. The auditee was not determined to be a low risk auditee.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL

City of Newport, Tennessee

Bank Accounts and Reconciliations

Finding (#12-1): The payroll cash account was not properly reconciled at June 30, 2012. One bank being used ceased to send the back of checks clearing the bank in their imaged monthly documents. This finding was noted in the prior year.

Recommendation: We recommend the City properly reconcile all bank account balances in a timely manner. We also recommend the City request all banks furnish the front and back of each check clearing an account during the month to allow for a proper review of the disbursement activity.

Management's Response: We concur with this finding

Finding (#12-2): During our audit, we noted several former City employees who are still listed as authorized signers on several bank accounts maintained at two banks used by the City for its banking activities. This finding was noted in the prior year.

Recommendation: We recommend that all former City employees be removed as authorized signers on the City's accounts.

Management's Response: We agree with this finding; and are reviewing authorized signers for all of the City's bank accounts.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

Segregation of Duties

Finding (#12-3): There is an absence of appropriate segregation of duties consistent with control objectives within the revenue cycle. The same accounting personnel are currently responsible for and/or performing duties involving collections, account adjustments, maintenance of receivables, general ledger activity and bank reconciliations. This finding was noted in the prior year.

Recommendation: We recommend that the City implement a proper segregation of duties consistent with control objectives. The lack of an adequate number of personnel may make optimal segregation of duties impractical.

Management's Response: We concur with this finding. In an effort to segregate the duties of the finance system, the finance staff has been expanded and we are utilizing personnel from other departments to make bank deposits to assure segregation of duties while another individual reconciles bank accounts. We are continuing to refine our procedures and staff structure/duties in this area. This finding will be an area of emphasis.

Cash Disbursements

Finding (#12-4): During our testing of cash disbursements and expenses, we noted the following:

- Three instances where purchase orders were missing and/or not complete as to pricing, quantity, terms or approvals.
- Several instances of missing or incomplete invoices/support.
- Two instances where purchases were made without obtaining quotes or bids in compliance with the City's purchasing policy.
- We noted that invoices are not routed to management for review before checks are signed.
- One instance where a check cleared the bank but the check number did not agree with the check number posted in the general ledger.
- In addition, we found some decentralized cash account disbursements that bypassed the normal purchasing system.
- We observed checks that were signed by stamp only and management approval to pay invoices appears to be verbal.
- Three instances where employee travel was not properly documented as to attendees, purpose, and location.

This finding was noted in the prior year.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

Cash Disbursements (Continued)

Recommendation: We recommend the City require the proper preparation of purchase orders. All decentralized disbursements should be processed through the adopted purchasing policies. The accounting staff should determine that properly completed purchase orders are present for matching to supporting vendor invoices before preparation of disbursement checks and that all supporting invoices are properly cancelled and maintained after processing items for payment. Management should review and cross reference supporting documentation with checks before they are signed. Invoices should be paid timely to avoid finance charges.

Management's Response: We agree with this finding; however, due to changes in financial personnel and changes in departmental personnel we were unable to locate supporting documentation for some disbursements. This finding has been discussed with all department heads and our accounting personnel. We are continuing to refine our procedures in this area to help resolve this issue.

Cash Receipting and Depositing

Finding (#12-5): During our review of cash receipting and depositing, we noted the following:

- Numerous instances where cash receipts were not supported with remittances advices.
- Daily cash reports are not reviewed and signed by management personnel.

This finding was noted in the prior year.

Recommendation: We recommend a supervisor review all deposits and daily cash reports for depositing and posting accuracy the following day to insure cash receipts are properly reflected in the City's financial records and internal interim financial statements. We also recommend that all receipts be kept together with a daily cash report and deposit reconciliation.

Management's Response: We concur with this finding. We will review this issue with all department heads, with special emphasis on decentralized cash receipt areas, to ensure we comply with the three-day deposit requirements. Also, we will be reviewing our daily balancing procedures for cash receipts, depositing and general ledger postings to improve our current system and related procedures to prevent these issues from occurring in the future. We are reviewing all decentralized bank accounts in order to eliminate any that are not needed or required.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

General Ledger and Reconcilements

Finding (#12-6): During our audit, we noted that several significant general ledger accounts, including property taxes receivable, accounts payable and receipts and business tax activities, are not being reconciled to detailed records during the year. This caused numerous general ledger posting errors to go undetected and/or reclassifications for certain asset and liability accounts to be uncorrected. During our audit, we corrected these known errors with adjusting journal entries. This finding was noted in the prior year.

Recommendation: We recommend that all balance sheet accounts be reconciled to the detailed records periodically to insure financial records and interim internal financial statements are accurate.

Management's Response: We agree with this finding. All balance sheet accounts will be reconciled and reviewed by supervisory personnel at least monthly. A new system has been implemented with our expanded staff to enable supervisory staff to review reconciliation reports. We are continuing to refine our procedures for this area and it will be another area of emphasis.

Property Taxes

Finding (#12-7): During our audit, we noted that the City maintains property taxes receivable greater than ten years old. TCA § 67-5-1806 provides that property taxes are discharged and uncollectible after ten years.

Recommendation: We recommend that the City write off uncollectible property taxes.

Management's Response: We concur with this finding. This issue has been resolved with a delinquent property tax sale in the fiscal year ending June 30, 2012.

Journal Entries

Finding (#12-8): During our review of journal entries, we noted that numerous journal entries posted by the client during the year lacked proper support, approval, or explanations.

Recommendation: We recommend all general journal entries have proper supporting documentation or explanations and be approved by management prior to posting to the City's general ledger system.

Management's Response: We agree with this finding. All general ledger journal voucher entries will have a cover approval form indicating why the entry is being made and will require the approval signatures of both the City Administrator and the Finance Director. The use of these procedures is currently being implemented.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

Journal Entries (Continued)

Finding (#12-9): During our audit, we had to make significant adjustments to various asset and liability accounts of the City so the City's financial statements would conform to generally accepted accounting principles. This finding was noted in the prior year.

Recommendation: Management should evaluate the cost and benefits of training or employing personnel with the technical expertise to detect and correct significant misstatements of asset and liability accounts so the financial statements conform to generally accepted accounting principles.

Management's Response: We concur. We have evaluated the cost and benefits of training or employing such personnel. We concluded that the benefits do not outweigh the cost. We are currently implementing a systematic training system for our finance department staff. We hope to eliminate a significant number of current audit adjustments required.

Payroll and Compensated Absences

Finding (#12-10): During our testing of payroll expenditures, we noted the following:

- Two instances where client could not provide a timecard for a specific pay period.
- Several instances where timesheets were incorrectly calculated or hours worked did not match hours paid in the payroll journals.
- Several instances where the employee pay rate did not agree with the personnel file, the authorized rate information was missing, or the employee did not have a personnel file at all. We noted one instance where an employee W-4 was not present in the personnel file.
- We noted instances where overtime and holiday pay did not calculate correctly.
- We noted that the payroll in one department was processed and paid before time was turned in to the finance department.
- Although management is reviewing and approving payroll, it appears that this sometimes happens after payroll is complete and distributed.
- We noted several instances where employee vacation earned did not calculate properly based on hire date.

Recommendation: Timesheets should be reviewed and authorized by an appropriate department head or supervisor before they are submitted to be processed. Employee personnel files should be maintained for each employee and updated with each pay rate change.

Management's Response: We agree with this finding; we will keep personnel authorized pay rate changes in employee personnel files. We have assigned human resource management to one of our staff members for review of our policies regarding recordkeeping and to improve our current system of the management and security of employee records. Emphasis is being place on these issues and improvements are continuing.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

Finding (#12-11): In 2010, we noted several calculations errors for the employer portion of retirement contributions to the Tennessee Consolidated Retirement System. However, it does not appear that monthly remitting reports for these incorrect periods have been amended and the corrected amounts paid. In addition, the City was assessed penalties for late reporting and payments to TCRS for months during 2011.

Recommendation: We recommend retirement contributions be reviewed prior to payment by multiple City staff to prevent calculation errors. We recommend that prior year TCRS remittances be amended and delinquent amounts paid.

Management's Response: We concur with this finding. We will require at least one additional management staff member to review the payroll reports for calculation of the City retirement contribution and the monthly retirement contribution report to the TCRS prior to its filing and the disbursement of funds. Management is also conferring with outside consultants to resolve this issue.

Finding (#12-12): During our audit procedures, we noted that the liability accounts for employee benefits such as health, dental and life insurance are not posting correctly, resulting in an understatement of employer expense in the general ledger.

Recommendation: We recommend that automatic postings of employee and employer expense are reviewed periodically to ensure their accuracy.

Management's Response: We concur with this finding. All automated postings for payroll costs and related benefit expense will be reviewed monthly by management personnel for accuracy.

Finding (#12-13): During our audit, we noted that the City has many inconsistencies in their leave liability report as to whether vacation and sick time is reported in hours or days. We noted that leave for some employees appeared to be incorrect or was missing altogether. It appears that some employees are keeping up with their own sick and vacation leave amounts. We also noted that this report included employees who had already been terminated. We noted that changes to the leave liability report can be made with ease and without approval. This finding was noted in the prior year.

Recommendation: We recommend that the City maintain an accurate and up to date listing of vacation and sick leave and periodically reconcile those amounts with the payroll system and that employees should not be responsible for their own vacation and sick leave.

Management's Response: We concur with this finding. The recommendations will be implemented as we review policies and procedures in this area. Periodic reviews will be made to reconcile vacation and sick leave records maintained by Departmental personnel to payroll system records for these items.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

Financial Statement Presentation

Finding (#12-14): The City does not employ personnel that have the technical expertise to prepare annual financial reports in accordance with generally accepted accounting principles.

Recommendation: The City should evaluate the cost and benefits of training or employing personnel with the technical expertise to prepare comprehensive annual financial reports in accordance with generally accepted accounting principles.

Management's Response: We concur. We have evaluated the cost and benefits of training or employing such personnel. We concluded that the benefits do not outweigh the cost. Instead, we will contract the preparation of the City's annual financial report to our auditors and will retain the responsibility of reviewing and accepting the financial report.

Grants

Finding (#12-15): Grant files were incomplete with missing grant award letters, remittance advices, invoices and loan documents. The City has not assigned personnel to oversee and monitor the grant process, resulting in violations of several grant agreements including the following:

- Safe Routes to Schools Grant - per section C.4 of the grant contract, invoices are to be submitted, at a minimum, quarterly. Client has not submitted any of these invoices for reimbursement.
- Per review of the Neighborhood Stabilization grant contract, it appears the City made an inappropriate purchase of land from an alderman in a prior year, which resulted in disciplinary action from the Tennessee Housing Development Agency. The City had to pay back the funds used in 2012 for the inappropriate purchase.

Failure to properly review and monitor the grant process has also caused the City to be unaware of amounts due to them, and without proper follow-up, this cash is not being received and recognized in revenue in a timely manner.

Recommendation: We recommend that the City maintain accurate and up to date grant files complete with contracts, loan documents, remittance advices and invoices. We also recommend that the City assign appropriate personnel to monitor the use of the grant funds and periodically reconcile them back to the general ledger.

Management's Response: We concur with this finding. The recommendations will be implemented as we review policies and procedures in this area. Staff will be assigned to monitor and review all grants.

II. SUMMARY OF FINDINGS REPORTED AT THE FINANCIAL STATEMENT LEVEL
(Continued)

City of Newport, Tennessee (Continued)

Drug Fund

Finding (#12-16): The City did not adopt a separate budget during the year for the Drug Fund.

Recommendation: We recommend the City adopt a budget for all funds and maintain proper documentation for drug fund revenues and disbursements.

Management's Response: We concur with this finding. A separate budget for the Drug Fund was approved by the Board of Mayor and Aldermen for the 2012-2013 Fiscal Year.

Budget

Finding (#12-17): We noted that during the year ended June 30, 2012, the City overexpended the legally adopted budget in the General Fund and that the budget passed did not balance.

Recommendation: We recommend the City adhere to its policies regarding appropriations to its budget in order to avoid overexpended funds.

Management's Response: We concur with this finding. Revenues and expenditures are being reviewed weekly to ensure compliance with the adopted budgets. If necessary we will submit budget amendments for approval by the governing body.

III. SUMMARY OF FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None

CITY OF NEWPORT, TENNESSEE

Summary Schedule of Prior Audit Findings

All reportable conditions from the June 30, 2011 auditor's report on compliance and internal control, except for the items referenced in the Accompanying Schedule of Findings and Questioned Costs, were not noted during the performance of the current year audit.