

CITY OF KINGSTON, TENNESSEE

Financial Statements
With Supplementary Information

June 30, 2007

CITY OF KINGSTON, TENNESSEE
 Financial Statements
 With Supplementary Information
 Year Ended June 30, 2007

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RODEFER MOSS
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- ▶ CERTIFIED PUBLIC ACCOUNTANTS
- ▶ BUSINESS ADVISORS
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Independent Auditors' Report

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Honorable Mayor,
City Manager and Members of the City Council
City of Kingston, 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 of the City of Kingston, Tennessee, as of and for the year ended June 30, 2007, 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 Kingston, Tennessee, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America and the respective budgetary comparison for the General Fund.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 4, 2007, on our consideration of the City of Kingston, 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6, and the required supplementary information on page 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Kingston, Tennessee's basic financial statements. The accompanying financial information listed as supplemental financial information in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of Kingston, Tennessee. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

Rodefer Moss + Co, PLLC

Knoxville, Tennessee
December 4, 2007

As management of the City of Kingston, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Kingston for the fiscal year ended June 30, 2007. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights

- At June 30, 2007, the assets of the City of Kingston exceeded its liabilities by \$10,983,064. Of this amount, \$2,196,691 is considered unrestricted funds and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total debt amount was increased by \$333,029 during the current fiscal year.
- At the end of the current fiscal year, the City's enterprise (water and sewer) fund reported an ending fund balance of \$6,133,680. Of this amount, \$255,692 or 4.17% is in restricted funds.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction of the City of Kingston's basic financial statements. The City of Kingston's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The Government-wide Financial Statements are designed to provide readers with a broad overview of the City of Kingston's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the Government-wide Financial Statements distinguish functions of the City of Kingston that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, highways and streets, drug enforcement, parks and recreation and waste management services. The business-type activities include Kingston Utilities wastewater and waterworks services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Kingston, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Kingston can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable

resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds

The City of Kingston maintains a Water and Sewer fund as an enterprise or proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information of the Water and Sewer activities, which is also considered a major fund of the City.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Kingston's budgetary fund balance, noting variances with actual and final budget amounts.

Government-wide Financial Analysis

The following table provides a summary of the City's net assets at June 30, 2007 and 2006:

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current and other assets	\$ 4,107,495	\$ 5,051,715	\$ (944,220)	(18.69)%
Capital assets	<u>17,393,559</u>	<u>16,275,813</u>	<u>1,117,746</u>	<u>6.86%</u>
Total assets	<u>\$ 21,501,054</u>	<u>\$ 21,327,528</u>	<u>\$ 173,526</u>	<u>.81%</u>
Long-term liabilities outstanding	\$ 8,333,766	\$ 7,894,906	\$ 438,860	5.56%
Other liabilities	2,184,224	2,773,059	(588,835)	(21.23)%
Net assets	<u>10,983,064</u>	<u>10,659,563</u>	<u>323,501</u>	<u>3.03%</u>
Total liabilities and net assets	<u>\$ 21,501,054</u>	<u>\$ 21,327,528</u>	<u>\$ 173,526</u>	<u>.81%</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Kingston, total assets exceeded liabilities by \$10,659,563 at the close of this fiscal year.

The largest portion of the City of Kingston's net assets (77.7%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, and infrastructure), less any related debt used to acquire those assets that are still outstanding. The City of Kingston uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Kingston's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Financial Analysis of the City's Funds

As noted earlier, the City of Kingston uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Kingston's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. As of June 30, 2007, the City of Kingston's general fund reported an ending fund balance of \$1,039,672 a decrease in comparison with the prior year. The Special Revenue Funds reported an ending fund balance of \$257, a decrease in comparison to the prior year.

The general fund is the chief operating fund of the City of Kingston. At June 30, 2007, unreserved fund balance of the general fund was \$1,039,672. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 25.03% of total general fund expenditures. The fund balance decreased \$96,037 as a result of the current fiscal year operations.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer fund at the end of the year amounted to \$1,030,949. The total increase in net assets for the Water and Sewer fund was \$168,877. The fund had \$4,847,039 in net assets invested in capital assets net of related debt. Factors concerning the financial position of this fund have already been addressed in the discussion of the City's business-type activities.

Capital Assets

The City of Kingston's investment in capital assets for its governmental activities as of June 30, 2007, amounted to \$5,083,266. This investment includes land and land improvements, buildings, machinery, equipment and construction in progress. In the City's proprietary fund, the utility plant in service (net of depreciation) as of June 30, 2007, is \$12,310,293.

Major capital asset events during the current fiscal year included the following:

- Completion of Gallaher Road, Phase I
- Construction of new sewer lines

Capital assets of the City of Kingston at June 30, 2007 are as follows:

	Governmental activities	Business-type activities	Total
Land	\$ 718,086	\$ 46,361	\$ 764,447
Buildings and improvements	2,506,142	-	2,506,142
Machinery and equipment	2,695,588	613,432	3,309,020
Water plant and distribution	-	5,572,985	5,572,985
Sewer plant and transmission Infrastructure	-	11,557,746	11,557,746
Construction in progress	2,491,703	-	2,491,703
	-	312,367	312,367
 Total capital assets at cost	 8,411,519	 18,102,891	 26,514,410
 Accumulated depreciation	 (3,328,253)	 (5,792,598)	 (9,120,851)
 Capital assets, net	 \$ 5,083,266	 \$ 12,310,293	 \$ 17,393,559

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2007-2008 fiscal year.

- Water and sewer rates were increased by 5%.
- With the exception of business taxes, state shared revenues have increased somewhat over the past few years.
- Inflationary trends in health care and fuel costs continue to impact increases in next year's budget projections.

Requests for Information

This financial report is designed to provide a general overview of the City of Kingston's finances. Questions concerning any information provided in this report or requests for any additional financial information should be addressed to the Office of the City Manager, City of Kingston, 125 W. Cumberland St., Kingston, Tennessee 37763.

CITY OF KINGSTON, TENNESSEE
Statement of Net Assets
June 30, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 833,954	\$ 600,712	\$ 1,434,666
Receivables, net	1,866,564	270,973	2,137,537
Inventories	-	42,988	42,988
Unbilled revenue	-	148,000	148,000
Due from other governmental units	4,616	-	4,616
Interfund receivable	26,938	-	26,938
Prepaid interest	-	3,144	3,144
Total current assets	<u>2,732,072</u>	<u>1,065,817</u>	<u>3,797,889</u>
Other Assets			
Restricted cash	-	255,692	255,692
Unamortized bond discount	-	28,192	28,192
Start-up costs	-	128,611	128,611
Less: allowance for amortization	-	(102,889)	(102,889)
Capital assets			
Land	718,086	46,361	764,447
Other capital assets, net	<u>4,365,180</u>	<u>12,263,932</u>	<u>16,629,112</u>
Total other assets	<u>5,083,266</u>	<u>12,619,899</u>	<u>17,703,165</u>
Total assets	<u>\$ 7,815,338</u>	<u>\$ 13,685,716</u>	<u>\$ 21,501,054</u>
Liabilities			
Current Liabilities			
Accounts payable	1,753	20,686	22,439
Accrued employee benefits	20,000	20,000	40,000
Accrued interest	12,795	-	12,795
Current portion of long-term debt	134,327	395,042	529,369
Interfund payable	-	26,938	26,938
Other	<u>23,316</u>	<u>11,742</u>	<u>35,058</u>
Total current liabilities	<u>192,191</u>	<u>474,408</u>	<u>666,599</u>
Long-Term Liabilities			
Long-term debt	1,265,554	7,068,212	8,333,766
Accrued employee benefits	63,889	9,416	73,305
Deferred revenue - taxes	<u>1,444,320</u>	<u>-</u>	<u>1,444,320</u>
Total long-term liabilities	<u>2,773,763</u>	<u>7,077,628</u>	<u>9,851,391</u>
Net Assets			
Investment in capital assets, net of related debt	3,683,385	4,847,039	8,530,424
Restricted for			
special revenue	257	255,692	255,949
Unrestricted	<u>1,165,742</u>	<u>1,030,949</u>	<u>2,196,691</u>
Total net assets	<u>\$ 4,849,384</u>	<u>\$ 6,133,680</u>	<u>\$ 10,983,064</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Statement of Activities
Year Ended June 30, 2007

Function/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government	
			Grants and Contributions			Business-type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 1,032,154	\$ 28,505	\$ -	\$ -	\$ (1,003,649)	\$ -	\$ (1,003,649)
Public safety	1,440,276	-	-	-	(1,440,276)	-	(1,440,276)
Public welfare	1,508,915	-	-	-	(1,508,915)	-	(1,508,915)
Drug fund	4,595	2,671	-	-	(1,924)	-	(1,924)
Waste management	214,498	244,480	-	-	29,982	-	29,982
Interest on long-term debt	65,639	-	-	-	(65,639)	-	(65,639)
Total governmental activities	<u>4,266,077</u>	<u>275,656</u>	<u>-</u>	<u>-</u>	<u>(3,990,421)</u>	<u>-</u>	<u>(3,990,421)</u>
Business-type activities							
Water and Sewer Fund	2,388,120	2,555,997	-	-	-	167,877	167,877
Total business-type activities	<u>2,388,120</u>	<u>2,555,997</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>167,877</u>	<u>167,877</u>
Total primary government	<u>\$ 6,654,197</u>	<u>\$ 2,831,653</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(3,990,421)</u>	<u>167,877</u>	<u>(3,822,544)</u>
General Revenues							
Local taxes					2,850,457	-	2,850,457
Intergovernmental revenues					714,406	-	714,406
Licenses and permits					281,558	-	281,558
Fines and fees					65,737	-	65,737
Investment earnings					29,295	-	29,295
Rents					32,102	-	32,102
Other revenues					172,490	-	172,490
Total general revenues					<u>4,146,045</u>	<u>-</u>	<u>4,146,045</u>
Change in net assets					155,624	167,877	323,501
Net assets, beginning					4,693,760	5,965,803	10,659,563
Net assets, ending					<u>\$ 4,849,384</u>	<u>\$ 6,133,680</u>	<u>\$ 10,983,064</u>

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Governmental Funds
Balance Sheet
June 30, 2007

	General	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 833,697	\$ 257	\$ 833,954
Taxes receivables, net	1,866,564	-	1,866,564
Due from other funds	26,938	-	26,938
Due from other governmental units	4,616	-	4,616
Total assets	\$ 2,731,815	\$ 257	\$ 2,732,072
Liabilities and Fund Balance			
Liabilities			
Accounts payable	1,753	-	1,753
Accrued employee benefits	20,000	-	20,000
Accrued interest	12,795	-	12,795
Other current liabilities	23,316	-	23,316
Deferred revenue	1,634,279	-	1,634,279
Total liabilities	1,692,143	-	1,692,143
Fund balances			
Unrestricted	1,039,672	-	1,039,672
Restricted, reported in nonmajor Special revenue funds	-	257	257
Total fund balances	1,039,672	257	1,039,929
Total liabilities and fund balances	\$ 2,731,815	\$ 257	

Amounts reported for governmental activities in the statement of net assets are different because

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,083,266
Certain revenues will be collected after year-end, but not within the period considered available to pay current period expenditures. Therefore, these amounts were deferred in the fund financial statements but have been recognized as revenues under the accrual basis.	189,959
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,463,770)

Net assets of governmental activities	\$ 4,849,384
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Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2007

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local taxes	\$ 2,708,756	\$ -	\$ 2,708,756
Intergovernmental	666,149	-	666,149
Public welfare	28,505	-	28,505
Licenses and permits	281,558	-	281,558
Rents	32,102	-	32,102
Fines and forfeitures	65,737	-	65,737
Drug fund	-	2,671	2,671
Waste management	-	244,480	244,480
Other revenues	172,490	-	172,490
Investment earnings	29,295	-	29,295
	<u>3,984,592</u>	<u>247,151</u>	<u>4,231,743</u>
Total revenues			
Expenditures			
Current			
General government	762,869	4,595	767,464
Public safety	1,331,675	-	1,331,675
Public welfare	1,380,480	214,498	1,594,978
Capital improvements	491,197	-	491,197
Debt service			
Principal	121,630	-	121,630
Interest	65,639	-	65,639
	<u>4,153,490</u>	<u>219,093</u>	<u>4,372,583</u>
Total expenditures			
Deficiency of revenues under expenditures	<u>(168,898)</u>	<u>28,058</u>	<u>(140,840)</u>
Other financing sources (uses)			
Transfer in (out)	<u>72,861</u>	<u>(72,861)</u>	<u>-</u>
Total other financing sources (uses)	<u>72,861</u>	<u>(72,861)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(96,037)	(44,803)	(140,840)
Fund Balance, beginning	<u>1,135,709</u>	<u>45,060</u>	<u>1,180,769</u>
Fund Balance, ending	<u>\$ 1,039,672</u>	<u>\$ 257</u>	<u>\$ 1,039,929</u>

See accompanying notes to financial statements.

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Revenues				
Local taxes	\$ 2,745,929	\$ 2,745,929	\$ 2,708,756	\$ (37,173)
Licenses and permits	226,700	226,700	281,558	54,858
Intergovernmental revenues	673,240	673,240	666,149	(7,091)
Fines, fees and costs	68,000	68,000	65,737	(2,263)
Charges for service	71,400	71,400	60,607	(10,793)
Investment earnings	5,000	5,000	29,295	24,295
Other revenues	169,445	169,445	172,490	3,045
Total revenues	3,959,714	3,959,714	3,984,592	24,878
Expenditures				
Current				
General government	847,238	847,238	762,869	84,369
Public safety	1,382,495	1,382,495	1,331,675	50,820
Public welfare	1,491,660	1,491,660	1,380,480	111,180
Capital improvements	95,300	95,300	491,197	(395,897)
Debt service				
Principal	119,045	119,045	121,630	(2,585)
Interest	36,932	36,932	65,639	(28,707)
Total expenditures	3,972,670	3,972,670	4,153,490	(180,820)
Excess of revenues over expenditures	(12,956)	(12,956)	(168,898)	(155,942)
Other financing sources (uses)				
Transfers from other funds	12,956	12,956	72,861	59,905
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	(96,037)	(96,037)
Fund balance, July 1, 2006	1,135,709	1,135,709	1,135,709	-
Fund balance, June 30, 2007	\$ 1,135,709	\$ 1,135,709	\$ 1,039,672	\$ (96,037)

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
 Governmental Funds
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balance to the Statement of Activities
 Year Ended June 30, 2007

Net change in fund balances - total governmental funds	\$	(140,840)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$459,422) was exceeded by depreciation (\$410,657) in the current period.</p>		
		48,765
<p>Certain revenues will be collected after year-end but not within the period considered available to pay current period expenditures. Therefore, these amounts were recognized as revenues in the statement of activities but were not reported as revenues in the fund financial statements.</p>		
		189,959
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.</p>		
		130,801
<p>Note proceeds provide current financial resources to governmental funds, but the issuance of debt increases long-term obligations for governmental activities.</p>		
Adjustment for compensated absences		(194,691)
<p>Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of principal repayments.</p>		
		<u>121,630</u>
Change in net assets of governmental activities	\$	<u>155,624</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
 Proprietary Fund - Water and Sewer
 Statement of Net Assets
 June 30, 2007

Assets	
Current Assets	
Cash and cash equivalents	\$ 600,712
Accounts receivable	418,973
Inventories	42,988
Prepaid interest	<u>3,144</u>
Total current assets	<u>1,065,817</u>
Other Assets	
Restricted cash	255,692
Unamortized bond discount	28,192
Start up costs, net of accumulated amortization	25,722
Capital assets	
Utility plant, net	<u>12,310,293</u>
Total other assets	<u>12,619,899</u>
Total assets	<u>\$ 13,685,716</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 20,686
Accrued employee benefits	20,000
Current portion of long- term debt	395,042
Sales tax payable	11,742
Due to general fund	<u>26,938</u>
Total current liabilities	<u>474,408</u>
Long-Term Liabilities	
Accrued employee benefits	9,416
Bonds payable	<u>7,068,212</u>
Total long-term liabilities	<u>7,077,628</u>
Net Assets	
Invested in capital assets, net of related debt	4,847,039
Restricted	255,692
Unrestricted	<u>1,030,949</u>
Total net assets	<u>6,133,680</u>
Total liabilities and net assets	<u>\$ 13,685,716</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Funds - Water and Sewer Fund
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2007

Operating Revenue	
Sales	\$ 2,499,343
Other operating revenue	<u>6,220</u>
Total operating revenues	<u>2,505,563</u>
Operating Expenses	
Auditing and accounting	8,000
Legal and professional	9,274
Subscriptions and dues	10,554
Salaries	591,799
Payroll taxes	43,130
Retirement	45,511
Utilities	165,933
Telephones and pagers	23,862
Education and training	1,367
Chemicals and lab	144,538
Garbage disposal-landfill	17,507
Auto expense	27,107
Equipment maintenance	85,621
Stone	7,904
Infiltration inflow	23,717
Repairs	42,949
Ground maintenance	22,079
Building maintenance	5,173
Hospital and health insurance	140,945
Safety supplies	1,199
Insurance	89,263
Travel	1,706
Operating supplies	20,173
Contract operations	130,000
Uniforms and safety boots	9,801
Depreciation and amortization	393,321
Machinery and equipment	7,168
Other operating expenses	<u>5,745</u>
Total operating expenses	<u>2,075,346</u>
Operating income	<u>430,217</u>
Nonoperating Revenues (Expenses)	
Interest income	50,434
Interest expense	<u>(312,774)</u>
Total nonoperating revenue (expenses)	<u>(262,340)</u>
Change in net assets	167,877
Net assets, July 1, 2006	<u>5,965,803</u>
Net assets, June 30, 2007	<u>\$ 6,133,680</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Funds - Water and Sewer Fund
Statement of Cash Flows
Year Ended June 30, 2007

Cash Flows From Operating Activities	
Cash received from customers	\$ 2,464,234
Cash paid to suppliers and employees	<u>(2,182,533)</u>
Net cash flows from operating activities	<u>281,701</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(1,470,529)
Principal paid on long-term debt	(360,067)
Proceeds from long-term debt	1,014,000
Interest expense	<u>(320,100)</u>
Net cash flows from capital and related financing activities	<u>(1,136,696)</u>
Cash Flows From Investing Activities	
Interest earned	<u>50,434</u>
Net cash flows from investing activities	<u>50,434</u>
Net decrease in cash and cash equivalents	(804,561)
Cash and restricted cash equivalents at the beginning of year	1,660,965
Less: Restricted cash	<u>(255,692)</u>
Cash and cash equivalents at end of year	<u>\$ 600,712</u>
Cash Flows From Operating Activities	
Operating income	\$ 430,217
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	373,667
Amortization	19,654
Changes in operating assets and liabilities	
(Increase) decrease in:	
Accounts receivable	(41,329)
Inventories	(24,455)
Prepaid interest	(3,144)
Unamortized bond discount	7,207
Increase (decrease) in:	
Accounts payable	(417,489)
Compensated absences	29,416
Retainage payable	(96,232)
Withholdings payable	(325)
Sales tax payable	1,521
Interest payable	(4,182)
Due to general fund	<u>7,175</u>
Net cash flows from operating activities	<u>\$ 281,701</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Notes to Financial Statements
June 30, 2007

NOTE 1 - REPORTING ENTITY

The City of Kingston, Tennessee was incorporated in 1903 under the provisions of the State of Tennessee and operates under a Council-Manager form of government. It has the usual corporate powers of municipalities, including taxation, entering into contracts, and issuing bonds. The following services are authorized by Charter: Public Safety (Police and Fire), Streets, Sanitation, Health and Social Services, Culture-Recreation, Public Improvements, Planning and Zoning, Water and Sewer and General Administrative duties.

The City, for financial purposes, includes all of the funds relevant to the operations of the City of Kingston, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws as separate and distinct units of government apart from the City of Kingston, Tennessee.

The financial statements of the City include the General Fund, the Lakefront Project Fund, the Drug Fund, the Waste Management Fund, and the Water and Waste Water Department.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Kingston, Tennessee, (the "City") have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below:

Basic Financial Statements - Government-Wide Statements - The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's public safety, streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The government-wide Statement of Activities reports both the gross and net costs of each of the City's functions (public safety, streets, etc.) and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function (public safety, streets, etc.) or a business-type activity. Operating grants include operating-specific and discretionary grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales and use taxes, intergovernmental revenues, interest income, etc).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basic Financial Statements - Fund Financial Statements - The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

Governmental Funds

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

General Fund - The General Fund is the general operating fund of the City. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

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

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America that are applicable are those similar to businesses in the private sector. The following is a description of the proprietary fund of the City:

Enterprise Fund - Kingston Utilities is an enterprise fund that falls under the proprietary fund type. Proprietary fund types are used to account for activities conducted on a fee-for-service basis in a manner similar to commercial enterprises providing services to the public. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. GASB Statement No. 20 gives governments the option of applying all Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, to its proprietary funds, unless they conflict with or contradict GASB pronouncements. The City has elected not to implement FASB statements and interpretations issued thereafter, unless they are adopted by GASB.

BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Accrual - Both governmental and business-type activities in the government-wide financial statements and the proprietary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgets and Budgetary Accounting - The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. These budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
- (2) The combined statement of revenues and expenditures - budget and actual for the General and Special Revenue Funds present comparisons of legally adopted budgets with actual data on a budgetary basis.
- (3) The City Council approves the budget at the beginning of each year. The City Manager is then authorized by resolution to pay, without further Council action, bills and charges as specified in the budget.
- (4) Unused appropriations for annually budgeted funds lapse at the end of the year.

Compensated Absences - The cost of vacation pay and sick leave benefits is recognized as earned by employees. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days on a regular pay-period basis. In no event will an employee who has not completed at least six months of service receive vacation pay upon separation. Employees can accumulate sick leave, and upon retirement, employees are reimbursed for 50% of their accumulated sick leave benefits not to exceed nine hundred sixty (960) work hours.

Revenue Recognition

- (1) Property taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent March 1 of the following year. Property taxes attach as an enforceable lien on property after one year of delinquency.

Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Allowances for uncollectible taxes within the General Fund are based upon historical experience in collecting taxes.

The assessed value at January 1, 2006, upon which the 2006 levy was based, was \$110,880,276 not including public utilities. The tax rate was \$1.30 per \$100. Current tax collections for the year ended June 30, 2007 were 95.6% of the tax levy.

Sales taxes, which are collected by the State and subsequently remitted to the town, are recognized as revenues and receivables upon collection by the State, which is generally in the month proceeding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received.

- (2) Kingston Utilities records revenue as billed to its customers based on a monthly meter reading cycle. Fees charged by Kingston Utilities to join an existing line or extension of an existing line are recorded as operating income. The related costs are expensed.

Inventories - Enterprise fund materials and supplies inventories are recorded at average cost.

Allowance for Uncollectible Accounts - At June 30, 2007, the allowance for uncollectible taxes in the General Fund was \$20,000 and the allowance for uncollectible accounts receivable in the enterprise fund was \$25,000.

Cash Equivalents - Certificates of deposit with original maturities of three months or less are considered to be cash equivalents.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

NOTE 3 - DEPOSITS

At June 30, 2007, the bank balance of cash held with local financial institutions (checking and savings) was \$1,872,833 of which \$200,000 was covered by federal depository insurance, and \$1,672,833 was covered by collateral held in the City's name. The carrying balance of cash at June 30, 2007 was \$1,690,358.

A summary of these deposits at June 30, 2007 is as follows:

	<u>Carrying Amount</u>	<u>Balance Per Bank</u>
Deposits		
Governmental activities		
Cash on hand	\$ 500	\$ -
Cash in checking and savings	<u>833,454</u>	<u>851,436</u>
	<u>833,954</u>	<u>851,436</u>
Business-type activities		
Cash on hand	200	-
Cash in checking and savings	<u>856,204</u>	<u>1,021,397</u>
	<u>856,404</u>	<u>1,021,397</u>
 Total cash and savings accounts	 <u>\$ 1,690,358</u>	 <u>\$ 1,872,833</u>

State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the deposits, less amounts insured by the federal deposit insurance. The collateral must be held by the City, its agent or by the Federal Reserve in the City's name.

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES

Net amounts due from and to other funds at June 30, 2007 are summarized as follows:

	<u>Due from</u>	<u>Due to</u>
Water and sewer fund	\$ 26,938	\$ -
General fund	<u>-</u>	<u>26,938</u>
	<u>\$ 26,938</u>	<u>\$ 26,938</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 718,086	\$ -	\$ -	\$ 718,086
Construction in progress	523,644	-	(523,644)	-
Total capital assets, not being depreciated	<u>1,241,730</u>	<u>-</u>	<u>(523,644)</u>	<u>718,086</u>
Capital assets, being depreciated:				
Building and improvements	2,506,142	-	-	2,506,142
Machinery and equipment	2,666,691	28,897	-	2,695,588
Infrastructure	1,537,534	954,169	-	2,491,703
Total capital assets being depreciated	6,710,367	983,066	-	7,693,433
Less accumulated depreciation:	<u>(2,917,596)</u>	<u>(410,657)</u>	<u>-</u>	<u>(3,328,253)</u>
Total capital assets being depreciated, net	<u>3,792,771</u>	<u>572,409</u>	<u>-</u>	<u>4,365,180</u>
Governmental activities capital assets, net	<u>\$ 5,034,501</u>	<u>\$ 572,409</u>	<u>\$ (523,644)</u>	<u>\$ 5,083,266</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 46,361	\$ -	\$ -	\$ 46,361
Construction in progress	1,017,839	1,359,345	(2,064,817)	312,367
Total capital assets, not being depreciated	<u>1,064,200</u>	<u>1,359,345</u>	<u>(2,064,817)</u>	<u>358,728</u>
Capital assets, being depreciated				
Machinery and equipment	71,945	83,274	-	155,219
Water plant & distribution	5,918,273	-	-	5,918,273
Sewer plant & transmission	9,605,826	2,064,846	-	11,670,672
Total capital assets, being depreciated	<u>15,596,044</u>	<u>2,148,120</u>	<u>-</u>	<u>17,744,164</u>
Less accumulated depreciation:	<u>(5,418,932)</u>	<u>(373,667)</u>	<u>-</u>	<u>(5,792,599)</u>
Total capital assets being depreciated, net	<u>10,177,112</u>	<u>1,774,453</u>	<u>-</u>	<u>11,951,565</u>
Business-type activities capital assets, net	<u>\$ 11,241,312</u>	<u>\$ 3,133,798</u>	<u>\$ (2,064,817)</u>	<u>\$ 12,310,293</u>

Depreciation for the year ended June 30, 2007 was expensed as follows:

Governmental activities:	
General government	\$ 205,329
Public safety	102,664
Public welfare	102,664
Total depreciation expense - governmental activities	<u>\$ 410,657</u>
Business-type activities:	
Water	\$ 147,037
Sewer	226,630
Total depreciation expense - business-type activities	<u>\$ 373,667</u>

NOTE 6 - PENSION PLAN FUNDS-TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Plan Description

Employees of the City of Kingston 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. 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 a 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. Political subdivisions such as the City of Kingston 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 <http://treasury.state.tn.us/tcrs/PS>.

Funding Policy

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

City of Kingston is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2007 was 9.05% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the City of Kingston is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2007, City of Kingston's annual pension cost of \$178,306 to TCRS was equal to City of Kingston's required and actual contributions. The required contribution was determined as part of the July 1, 2005 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 salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation and salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 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 five-year period. City of Kingston's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 0 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2007	\$ 178,306	100%	\$ -
2006	139,593	100%	-
2005	67,079	100%	-

NOTE 7 - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2007:

\$1,000,000 loan from the Tennessee Municipal Bond
Fund Variable Rate Pooled Loan Program
payments are annually and vary, interest rate
is 2.88% at 6/30/07 \$ 919,000

Municipal Asset Management, capital lease for
the purchase of a fire truck, payments due annually
of \$54,688 includes principal and interest, interest rate
at 4.11% at 6/30/07 404,423

Old Capital Leasing, purchase of fire truck
payments due annually of \$27,296 includes
principal and interest, interest rate of 4.23%
at 6/30/07 26,158

Ford Motor Credit, capital lease for the purchase
of 3 police vehicles, payments due monthly
of \$1,863 includes principal and interest, interest rate
of 5.60% at 6/30/07 37,180

Ford Motor Credit, capital lease for the purchase
of a police vehicle, payments due monthly
of \$657 includes principal and interest, interest rate
at 5.60% at 6/30/07 13,120

Total debt 1,399,881

Long-term portion of provision for compensated absences 63,889

1,463,770

Less amounts due within one year (134,327)

Total long-term debt \$ 1,329,443

NOTE 7 - LONG-TERM DEBT (Continued)

Maturities on long-term debt are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2008	\$ 134,327	\$ 47,312	\$ 181,639
2009	105,755	41,816	147,571
2010	86,226	38,398	124,624
2011	88,925	35,404	124,329
2012	92,693	32,255	124,948
2013	95,534	28,974	124,508
2014	99,451	25,588	125,039
2015	102,446	22,062	124,508
2016	105,524	18,424	123,948
2017	55,000	14,670	69,670
2018	57,000	13,020	70,020
2019	58,000	11,310	69,310
2020	60,000	9,570	69,570
2021	62,000	7,770	69,770
2022	64,000	5,910	69,910
2023	66,000	3,990	69,990
2024	<u>67,000</u>	<u>2,010</u>	<u>69,010</u>
Total	<u>\$ 1,399,881</u>	<u>\$ 358,483</u>	<u>\$ 1,758,364</u>

NOTE 8 - PROPRIETARY FUND - KINGSTON UTILITIES-LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2007:

Tennessee Municipal Bond Fund Series 1999 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2025	\$ 5,507,000
Tennessee Municipal Bond Fund Series 2004 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2023	966,000
Tennessee Municipal Bond Fund Series 1991 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2011	504,254
GMAC Commercial Mortgage Corp. Series 1979 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2020	420,000
GMAC Commercial Mortgage Corp. Series 1975 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2015	<u>66,000</u>
	7,463,254
Less amounts due in one year	<u>(395,042)</u>
	<u>\$ 7,068,212</u>

NOTE 9 - RISK MANAGEMENT

The City 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's risks of loss are covered by its commercial package insurance policies. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three years.

NOTE 10 - CONCENTRATIONS OF CREDIT RISK

Financial instruments that potentially subject the City to concentrations of credit risk consist primarily of customer accounts and taxes receivable. Management does not believe significant credit risk exists at June 30, 2007.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE
 Schedule of Retirement Plan Funding Progress
 Year Ended June 30, 2007

(Dollar amounts in thousands)

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)
July 1, 2005	\$ 285	\$ 448	\$ 163	63.68%	\$ 2,328	6.99%
July 1, 2003	\$ -	\$ -	\$ -	0.00%	\$ -	0.00%
July 1, 2001	\$ -	\$ -	\$ -	0.00%	\$ -	0.00%

See accompanying independent auditors' report.

SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE
Special Revenue Funds
Combining Balance Sheets
June 30, 2007

	Lakefront Project Fund	Drug Fund	Waste Management Fund	Total
Assets				
Cash in bank	\$ -	\$ 257	\$ -	\$ 257
Total assets	\$ -	\$ 257	\$ -	\$ 257
Fund balance	-	257	-	257
Total fund balance	\$ -	\$ 257	\$ -	\$ 257

See accompanying independent auditors' report.

Special Revenue Funds
 Combined Statements of Revenues, Expenditures and Changes in Fund Balance
 Year Ended June 30, 2007

	Lakefront Project Fund	Drug Fund	Waste Management Fund	Total
Revenues				
Drug related fines	\$ -	\$ 2,671	\$ -	\$ 2,671
Garbage tip fees	-	-	244,480	244,480
Total revenues	<u>-</u>	<u>2,671</u>	<u>244,480</u>	<u>247,151</u>
Expenditures				
Contracted services (collection)	-	-	214,498	214,498
Auditing	-	1,500	-	1,500
Telephones and pagers	-	-	-	-
Operating supplies	-	28	-	28
Safety supplies	-	1,000	-	1,000
Confidential drug buys	-	700	-	700
Machinery and equipment	-	1,367	-	1,367
Total expenditures	<u>-</u>	<u>4,595</u>	<u>214,498</u>	<u>219,093</u>
Excess (deficiency) of revenues over (under) expenditures	-	(1,924)	29,982	28,058
Other financing sources (uses)				
Transfer out	(42,879)	-	(29,982)	(72,861)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(42,879)	(1,924)	-	(44,803)
Fund balance, July 1, 2006	<u>42,879</u>	<u>2,181</u>	<u>-</u>	<u>45,060</u>
Fund balance, June 30, 2007	<u>\$ -</u>	<u>\$ 257</u>	<u>\$ -</u>	<u>\$ 257</u>

See accompanying independent auditors' report.

Lakefront Project Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Revenues				
Local tax	\$ -	\$ -	\$ -	\$ -
Fund balance and other revenues	-	-	-	-
Interest	-	-	-	-
Total revenues	-	-	-	-
Expenditures				
Contract operations	-	-	-	-
Professional services	-	-	-	-
Auditing	-	-	-	-
Repairs and maintenance	-	-	-	-
Total expenditures	-	-	-	-
Excess (deficiency) of revenues over (under) expenditures	-	-	-	-
Other financing sources (uses)				
Transfer out	(42,879)	(42,879)	(42,879)	-
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(42,879)	(42,879)	(42,879)	-
Fund balance, July 1, 2006	42,879	42,879	42,879	-
Fund balance, June 30, 2007	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditors' report.

Drug Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

Revenues	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Drug Related Fines	\$ 19,800	\$ 19,800	\$ 2,671	\$ (17,129)
Interest	200	200	-	(200)
Total Revenues	<u>20,000</u>	<u>20,000</u>	<u>2,671</u>	<u>(17,329)</u>
Expenditures				
Education	1,000	1,000	-	1,000
Telephones and Pagers	4,000	4,000	-	4,000
Auditing	1,500	1,500	1,500	-
Other Contractual Services	1,500	1,500	-	1,500
Operating Supplies	2,000	2,000	28	1,972
Uniforms and Safety Boots	1,000	1,000	-	1,000
Safety Supplies	1,000	1,000	1,000	-
Confidential Drug Buys	3,000	3,000	700	2,300
Machinery and Equipment	<u>5,000</u>	<u>5,000</u>	<u>1,367</u>	<u>3,633</u>
Total Expenditures	<u>20,000</u>	<u>20,000</u>	<u>4,595</u>	<u>15,405</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	(1,924)	(1,924)
Fund balance, July 1, 2006	<u>4,125</u>	<u>4,125</u>	<u>2,181</u>	<u>-</u>
Fund balance, June 30, 2007	<u>\$ 4,125</u>	<u>\$ 4,125</u>	<u>\$ 257</u>	<u>\$ (1,924)</u>

See accompanying independent auditors' report.

Waste Management Fund

Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Revenues				
Garbage tip fees	\$ 229,723	\$ 229,723	\$ 244,480	\$ 14,757
Total revenues	229,723	229,723	244,480	14,757
Expenditures				
Contracted services (collection)	216,767	216,767	214,498	2,269
Total expenditures	216,767	216,767	214,498	2,269
Excess of revenues over expenditures	12,956	12,956	29,982	17,026
Other financing sources (uses)				
Transfers to other funds	(12,956)	(12,956)	(29,982)	(17,026)
Excess of revenues and other financing sources (over) under expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2006	-	-	-	-
Fund balance, June 30, 2007	\$ -	\$ -	\$ -	\$ -

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
 Schedule of Changes in Taxes Receivable
 Year Ended June 30, 2007

For the Tax Year Ended June 30,	Balance July 1, 2006	Additions	Collections	Balance June 30, 2007
2007	\$ -	\$ 1,476,179	\$ 1,411,289	\$ 64,890
2006	83,371	-	62,942	20,429
2005	14,144	-	3,959	10,185
2004	13,382	-	6,496	6,886
2003	23,323	-	16,482	6,841
2002	5,551	-	1,164	4,387
2001	4,993	-	528	4,465
2000	2,831	-	54	2,777
1999	3,065	-	-	3,065
1998	1,771	-	98	1,673
Total Property Taxes Receivable	<u>\$ 152,431</u>	<u>\$ 1,476,179</u>	<u>\$ 1,503,012</u>	<u>\$ 125,598</u>

CITY OF KINGSTON, TENNESSEE
 Water and Sewer Fund
 Schedule of Utility Rates and Number of Customers Served
 June 30, 2007

WATER RATES

<u>Quantity</u>	<u>Rates</u>		
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 7.12	\$ 11.17	Minimum bill
Over 1,000 gallons	4.93	8.50	Per each additional 1,000 gallons

SEWER RATES

<u>Quantity</u>	<u>Rates</u>		
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 7.12	\$ 13.98	Minimum bill
Over 1,000 gallons	6.67	10.65	Per each additional 1,000 gallons

GARBAGE SERVICE FEES

Residential			
Single Family Residence	\$ 8.08		per month
Multiple Family Units	8.08		per month /per unit
Business and Commercial			
Small Enterprise	\$ 13.86		per month
Medium Enterprise	20.79		per month
Food Service	41.58		per month
Motel	83.15		per month
Industrial	83.15		per month

The number of customers services by utility as of June 30, 2007, is as follows:

Water system	3,654
Sewer system	2,366
Sanitation services	2,349

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
 Water and Sewer Fund
 Schedule of Long-term Debt Requirements
 June 30, 2007

Year Ended June 30,	1975 BOND ISSUE REQUIREMENTS		1979 BOND ISSUE REQUIREMENTS		1991 BOND ISSUE REQUIREMENTS		1999 BOND ISSUE REQUIREMENTS		2004 BOND ISSUE REQUIREMENTS		TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL DEBT SERVICE REQUIREMENT
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2008	\$ 7,000	\$ 3,154	\$ 25,000	\$ 21,000	\$ 118,042	\$ 13,176	\$ 196,000	\$ 274,533	\$ 49,000	\$ 48,300	\$ 395,042	\$ 360,163	\$ 755,205
2009	7,000	2,804	25,000	19,750	123,236	10,019	205,000	264,696	51,000	45,850	411,236	343,119	754,355
2010	8,000	2,433	25,000	18,500	128,658	6,723	216,000	254,400	53,000	43,300	430,658	325,356	756,014
2011	8,000	2,033	25,000	17,250	134,318	3,281	227,000	243,554	54,000	40,650	448,318	306,768	755,086
2012	8,000	1,633	30,000	16,000	-	-	238,000	232,136	56,000	37,950	332,000	287,719	619,719
2013	9,000	1,213	30,000	14,500	-	-	250,000	220,208	58,000	35,150	347,000	271,071	618,071
2014	9,000	763	30,000	13,000	-	-	262,000	207,658	60,000	32,250	361,000	253,671	614,671
2015	10,000	292	35,000	11,500	-	-	275,000	194,504	61,000	29,250	381,000	235,546	616,546
2016	-	-	35,000	9,750	-	-	289,000	180,696	63,000	26,200	387,000	216,646	603,646
2017	-	-	35,000	8,000	-	-	304,000	166,183	65,000	23,050	404,000	197,233	601,233
2018	-	-	40,000	6,250	-	-	319,000	150,921	67,000	19,800	426,000	176,971	602,971
2019	-	-	40,000	4,500	-	-	335,000	134,904	70,000	16,450	445,000	155,854	600,854
2020	-	-	45,000	2,250	-	-	351,000	118,087	72,000	12,950	468,000	133,287	601,287
2021	-	-	-	-	-	-	369,000	100,462	74,000	9,350	443,000	109,812	552,812
2022	-	-	-	-	-	-	388,000	81,933	77,000	5,650	465,000	87,583	532,583
2023	-	-	-	-	-	-	407,000	62,454	36,000	1,800	443,000	64,254	507,254
2024	-	-	-	-	-	-	427,000	42,021	-	-	427,000	42,021	469,021
2025	-	-	-	-	-	-	449,000	20,579	-	-	449,000	20,579	469,579
	\$ 66,000	\$ 14,325	\$ 420,000	\$ 162,250	\$ 504,254	\$ 33,199	\$ 5,507,000	\$ 2,949,929	\$ 966,000	\$ 427,950	\$ 7,463,254	\$ 3,587,653	\$ 11,050,907

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE
 Schedule of Insurance in Force
 June 30, 2007

	Coverage Amount
Buildings and contents - fire and extended coverage including vandalism and malicious mischief (actual cash value less \$1,000 each occurrence)	\$ 14,491,018
Automotive Coverage:	
Liability coverage for bodily injury - each occurrence	250,000
Liability coverage for bodily injury - maximum	600,000
Liability coverage for property damage - each occurrence	85,000
Liability coverage for property damage - maximum	600,000
Uninsured motorists for bodily injury	250,000
Uninsured motorists for property damage	85,000
Medical payments - maximum	100,000
City Employees and Elected Officials	
Breach of Duty Insurance (errors and omissions)	600,000
Aggregate	300,000
Products aggregate	300,000
Excess: each occurrence	
Aggregate	900,000
Products aggregate	2,700,000
Products aggregate	2,700,000
Blanket Crime Policy: (1) Employee Dishonesty, (2) Loss of Money Orders and Securities (inside premises), (3) Loss of Money Orders and Securities (outside premises), (4) Money Orders and Counterfeit Paper, and (5) Depositor's Forgery Coverage	
	100,000
Workman's Compensation Liability	Statutory Limits
Business Auto Policy: Personal Injury, Auto Medical Payments, Uninsured Motorists, Comprehensive Coverage, Collision Insurance	
Liability:	
Liability:	1,000,000
Uninsured Motorists	1,000,000

See accompanying independent auditors' report.

CITY OF KINGSTON, TN
Water and Sewer Fund
Schedule of Unaccounted for Water
June 30, 2007

Input to System	408,660,000	Gallons
Total Billed Sales	310,416,600	Gallons
Used in Operations	<u>16,603,500</u>	Gallons
Total Accounted For	<u>327,020,100</u>	Gallons
Total Unaccounted For	81,639,900	Gallons
Distribution Loss	19.98%	

See accompanying independent auditors' report.



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- ▶ BUSINESS ADVISORS
- ▶ TECHNOLOGY CONSULTANTS

Report on Internal Control and on Compliance Over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

608 Mabry Hood Road
Knoxville, TN 37932

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Honorable Mayor,
Members of City Council and City Manager
City of Kingston, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the general fund, and the aggregate remaining fund information of the City of Kingston, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Kingston, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kingston, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Kingston, Tennessee's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Kingston, Tennessee's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Kingston, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Kingston, Tennessee's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Kingston, Tennessee's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kingston, 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City of Kingston, Tennessee, in a separate letter dated December 4, 2007.

This report is intended solely for the information and use of the audit committee, management and others within the organization, City council members, 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.

A handwritten signature in black ink that reads "Rodefer Mow & Co, PLLC". The signature is written in a cursive, flowing style.

Knoxville, Tennessee
December 4, 2007