

CITY OF KINGSTON, TENNESSEE

Financial Statements  
With Supplementary Information

Year Ended June 30, 2008

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 Year Ended June 30, 2008

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## Independent Auditors' Report

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, 2008, 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, 2008, 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 November 6, 2008, 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 7, and the required supplementary information on page 29, 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 inquiries 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.

Knoxville, Tennessee  
November 6, 2008

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, 2008. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

### **Financial Highlights**

- At June 30, 2008, the assets of the City of Kingston exceeded its liabilities by \$10,874,366. Of this amount, \$2,430,985 is considered unrestricted funds and may be used to meet the City's ongoing obligations to citizens and creditors.
- The City issued new debt during the current fiscal year in the amount of \$336,495 while the amount paid down on debt totaled \$563,346 resulting in a net decrease in debt of \$226,851.
- At the end of the current fiscal year, the City's enterprise (water and sewer) fund reported an ending fund balance of \$6,270,936. Of this amount, \$637,829 or 10.17% 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 two categories: governmental funds and proprietary 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.

### **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, 2008 and 2007:

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current and other assets	\$ 4,040,186	\$ 4,107,495	\$ (67,309)	-1.6%
Capital assets	<u>17,158,492</u>	<u>17,393,559</u>	<u>(235,067)</u>	-1.35%
Total assets	<u>\$ 21,198,678</u>	<u>\$ 21,501,054</u>	<u>\$ (302,376)</u>	-1.41%
Long-term liabilities outstanding	\$ 8,050,108	\$ 8,333,766	\$ (283,658)	-3.4%
Other liabilities	2,274,204	2,184,224	89,980	4.1%
Net assets	<u>10,874,366</u>	<u>10,983,064</u>	<u>(108,698)</u>	-0.99%
Total liabilities and net assets	<u>\$ 21,198,678</u>	<u>\$ 21,501,054</u>	<u>\$ (302,376)</u>	-1.41%

The following table provides a summary of the City's changes in net assets for the years ended June 30, 2008 and 2007:

	Summary of Changes in Net Assets			
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Revenues				
Governmental activities	\$ 4,309,121	\$ 4,421,701	\$ (112,580)	-2.5%
Business-type activities	<u>2,729,418</u>	<u>2,555,997</u>	<u>173,421</u>	6.8%
Total revenues	7,038,539.00	6,977,698.00	60,841.00	0.9%
Expenses	<u>7,147,237.00</u>	<u>6,654,197.00</u>	<u>493,040.00</u>	7.4%
Change in net assets	<u>\$ (108,698)</u>	<u>\$ 323,501</u>	<u>\$ (432,199)</u>	-133.6%

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 \$10,874,366 at the close of this fiscal year.

The largest portion of the City of Kingston's net assets (71.77%) 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, 2008, the City of Kingston's general fund reported an ending fund balance of \$1,070,294 a decrease in comparison with the prior year. The Special Revenue Funds reported an ending fund balance of \$1,427 an increase in comparison to the prior year.

The general fund is the chief operating fund of the City of Kingston. At June 30, 2008, unreserved fund balance of the general fund was \$1,070,294. 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 26.96% of total general fund expenditures. The fund balance increased \$30,622 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 \$528,500. The total increase in net assets for the Water and Sewer fund was \$137,256. 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, 2008, amounted to \$4,881,291. This investment includes land and land improvements, buildings, machinery, and equipment. In the City's proprietary fund, the utility plant in service (net of depreciation) as of June 30, 2008, is \$12,277,201.

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, 2008 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	2,931,376	293,854	3,225,230
Water plant and distribution	-	5,918,273	5,918,273
Sewer plant and transmission	-	11,858,982	11,858,982
Other improvements	2,491,703	-	2,491,703
Construction in progress	-	374,867	374,867
 Total capital assets at cost	 8,647,307	 18,492,337	 27,139,644
 Accumulated depreciation	 (3,766,016)	 (6,215,136)	 (9,981,152)
 Capital assets, net	 \$ 4,881,291	 \$ 12,277,201	 \$ 17,158,492

**Economic Factors and Next Year's Budget and Rates**

The following factors were considered in preparing the City's budget for the 2008-2009 fiscal year.

- Water and sewer rates were increased by 7%.
- Property tax rate increased by 4%.
- 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, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 882,482	\$ 132,618	\$ 1,015,100
Receivables, net	1,854,395	181,489	2,035,884
Inventories	-	98,242	98,242
Unbilled revenue	-	160,000	160,000
Due from other governmental units	37,349	-	37,349
Interfund receivable	21,522	-	21,522
Total current assets	<u>2,795,748</u>	<u>572,349</u>	<u>3,368,097</u>
<b>Other Assets</b>			
Restricted cash	-	637,829	637,829
Unamortized bond discount	-	21,399	21,399
Start-up costs	-	128,611	128,611
Less: allowance for amortization	-	(115,750)	(115,750)
Capital assets			
Land	718,084	46,361	764,445
Other capital assets, net	4,163,207	12,230,840	16,394,047
Total other assets	<u>4,881,291</u>	<u>12,949,290</u>	<u>17,830,581</u>
Total assets	<u>\$ 7,677,039</u>	<u>\$ 13,521,639</u>	<u>\$ 21,198,678</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	4,119	14,281	18,400
Accrued employee benefits	20,000	20,000	40,000
Accrued interest	12,797	1,459	14,256
Current portion of long-term debt	152,240	433,936	586,176
Interfund payable	-	21,522	21,522
Other	35,645	11,431	47,076
Total current liabilities	<u>224,801</u>	<u>502,629</u>	<u>727,430</u>
<b>Long-Term Liabilities</b>			
Long-term debt	1,311,450	6,738,658	8,050,108
Accrued employee benefits	70,505	9,416	79,921
Deferred revenue - taxes	1,466,853	-	1,466,853
Total long-term liabilities	<u>2,848,808</u>	<u>6,748,074</u>	<u>9,596,882</u>
<b>Net Assets</b>			
Investment in capital assets, net of related debt	2,699,517	5,104,607	7,804,124
Restricted for			
special revenue	1,428	637,829	639,257
Unrestricted	1,902,485	528,500	2,430,985
Total net assets	<u>\$ 4,603,430</u>	<u>\$ 6,270,936</u>	<u>\$ 10,874,366</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE  
Statement of Activities  
Year Ended June 30, 2008

Function/Programs	Program Revenues			Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
<b>Primary Government</b>						
Governmental activities						
General government	\$ 1,067,082	\$ 33,976	\$ -	\$ (1,033,106)	\$ -	\$ (1,033,106)
State Street Aid	222,914	-	161,264	(61,650)	-	(61,650)
Public safety	1,590,740	-	-	(1,590,740)	-	(1,590,740)
Public welfare	1,386,082	-	-	(1,386,082)	-	(1,386,082)
Drug fund	2,890	4,061	-	1,171	-	1,171
Waste management	233,397	250,398	-	17,001	-	17,001
Interest on long-term debt	51,970	-	-	(51,970)	-	(51,970)
Total governmental activities	<u>4,555,075</u>	<u>288,435</u>	<u>161,264</u>	<u>(4,105,376)</u>	<u>-</u>	<u>(4,105,376)</u>
Business-type activities						
Water and Sewer Fund	<u>2,592,162</u>	<u>2,729,418</u>	<u>-</u>	<u>-</u>	<u>137,256</u>	<u>137,256</u>
Total business-type activities	<u>2,592,162</u>	<u>2,729,418</u>	<u>-</u>	<u>-</u>	<u>137,256</u>	<u>137,256</u>
Total primary government	<u>\$ 7,147,237</u>	<u>\$ 3,017,853</u>	<u>\$ 161,264</u>	<u>(4,105,376)</u>	<u>137,256</u>	<u>(3,968,120)</u>
General Revenues						
Property taxes				1,502,294	-	1,502,294
Sales taxes				1,111,000	-	1,111,000
Business taxes				112,490	-	112,490
Other local taxes				245,882	-	245,882
Intergovernmental revenues				586,360	-	586,360
Licenses and permits				100,304	-	100,304
Fines and fees				82,241	-	82,241
Investment earnings				26,151	-	26,151
Rents				32,160	-	32,160
Other revenues				60,540	-	60,540
Total general revenues				<u>3,859,422</u>	<u>-</u>	<u>3,859,422</u>
Change in net assets				(245,954)	137,256	(108,698)
Net assets, beginning				4,849,384	6,133,680	10,983,064
Net assets, ending				<u>\$ 4,603,430</u>	<u>\$ 6,270,936</u>	<u>\$ 10,874,366</u>

See accompanying notes to financial statements.

CITY OF KINGSTON, TENNESSEE  
 Governmental Funds  
 Balance Sheet  
 June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 881,054	\$ 1,428	\$ 882,482
Taxes receivables, net	1,854,395	-	1,854,395
Due from other funds	21,522	-	21,522
Due from other governmental units	37,349	-	37,349
Total assets	\$ 2,794,320	\$ 1,428	\$ 2,795,748
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	4,119	-	4,119
Accrued employee benefits	20,000	-	20,000
Accrued interest	12,797	-	12,797
Other current liabilities	35,645	-	35,645
Deferred revenue	1,651,465	-	1,651,465
Total liabilities	1,724,026	-	1,724,026
<b>Fund balances</b>			
Unreserved	1,070,294	-	1,070,294
Reserved, reported in nonmajor Special revenue funds	-	1,428	1,428
Total fund balances	1,070,294	1,428	1,071,722
Total liabilities and fund balances	\$ 2,794,320	\$ 1,428	\$ 2,795,748

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

Ending fund balance - governmental funds	\$1,071,722
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,881,291
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.	184,612
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,534,195)

Net assets of governmental activities \$ 4,603,430

CITY OF KINGSTON, TENNESSEE

Governmental Funds

Statement of Revenues, Expenditures, and Changes in Fund Balance  
Year Ended June 30, 2008

	General	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>			
Local taxes	\$ 2,719,587	\$ -	\$ 2,719,587
Intergovernmental	702,602	-	702,602
Public welfare	33,976	-	33,976
Licenses and permits	212,794	-	212,794
Rents	32,160	-	32,160
Fines and forfeitures	82,241	-	82,241
Drug fund	-	4,061	4,061
Waste management	-	250,398	250,398
Other revenues	173,728	-	173,728
Investment earnings	26,151	-	26,151
<b>Total revenues</b>	<u>3,983,239</u>	<u>254,459</u>	<u>4,237,698</u>
<b>Expenditures</b>			
<b>Current</b>			
General government	816,441	2,890	819,331
Public safety	1,421,517	-	1,421,517
Public welfare	1,495,923	233,397	1,729,320
Capital improvements	29,454	-	29,454
<b>Debt service</b>			
Principal	154,313	-	154,313
Interest	51,970	-	51,970
<b>Total expenditures</b>	<u>3,969,618</u>	<u>236,287</u>	<u>4,205,905</u>
Deficiency of revenues under expenditures	<u>13,621</u>	<u>18,172</u>	<u>31,793</u>
<b>Other financing sources (uses)</b>			
Transfer in (out)	<u>17,001</u>	<u>(17,001)</u>	<u>-</u>
<b>Total other financing sources (uses)</b>	<u>17,001</u>	<u>(17,001)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	30,622	1,171	31,793
Fund Balance, beginning	<u>1,039,672</u>	<u>257</u>	<u>1,039,929</u>
Fund Balance, ending	<u>\$ 1,070,294</u>	<u>\$ 1,428</u>	<u>\$ 1,071,722</u>

See accompanying notes to financial statements.

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, 2008

Net change in fund balances - total governmental funds \$ 31,793

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

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 (\$29,454) was exceeded by depreciation (\$437,763) in the current period. (408,309)

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. 116,301

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. 73,496

Note proceeds provide current financial resources to governmental funds, but the issuance of debt increases long-term obligations for governmental activities. (213,548)

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. 154,313

Change in net assets of governmental activities \$ (245,954)

## General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Year Ended June 30, 2008

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Revenues				
Local taxes	\$ 3,694,950	\$ 3,694,950	\$ 2,719,587	\$ (975,363)
Licenses and permits	53,800	53,800	212,794	158,994
Intergovernmental revenues	225,780	225,780	702,602	476,822
Fines, fees and costs	78,000	78,000	82,241	4,241
Charges for service	51,400	51,400	66,136	14,736
Investment earnings	20,000	25,500	26,151	651
Other revenues	26,200	26,200	173,728	147,528
Total revenues	<u>4,150,130</u>	<u>4,155,630</u>	<u>3,983,239</u>	<u>(172,391)</u>
Expenditures				
Current				
General government	991,278	991,278	816,441	174,837
Public safety	1,359,559	1,359,559	1,421,517	(61,958)
Public welfare	1,553,189	1,553,189	1,495,923	57,266
Capital improvements	55,435	55,435	29,454	25,981
Debt service				
Principal	139,188	145,288	154,313	(9,025)
Interest	78,667	72,567	51,970	20,597
Total expenditures	<u>4,177,316</u>	<u>4,177,316</u>	<u>3,969,618</u>	<u>207,698</u>
Excess of revenues over expenditures	(27,186)	(21,686)	13,621	35,307
Other financing sources (uses)				
Transfers from other funds	<u>27,186</u>	<u>21,686</u>	<u>17,001</u>	<u>(4,685)</u>
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	30,622	30,622
Fund balance, July 1, 2007	<u>1,135,709</u>	<u>1,135,709</u>	<u>1,039,672</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ 1,135,709</u>	<u>\$ 1,135,709</u>	<u>\$ 1,070,294</u>	<u>\$ 30,622</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE  
 Proprietary Fund - Water and Sewer  
 Statement of Net Assets  
 June 30, 2008

Assets	
Current Assets	
Cash and cash equivalents	\$ 132,618
Accounts receivable	341,489
Inventories	<u>98,242</u>
Total current assets	<u>572,349</u>
Other Assets	
Restricted cash	637,829
Unamortized bond discount	21,399
Start up costs, net of accumulated amortization	12,861
Capital assets	
Utility plant, net	<u>12,277,201</u>
Total other assets	<u>12,949,290</u>
Total assets	<u>\$ 13,521,639</u>
Liabilities and Net Assets	
Current Liabilities	
Accounts payable	\$ 14,281
Accrued employee benefits	20,000
Current portion of long- term debt	433,936
Interest payable	1,459
Sales tax payable	11,431
Due to general fund	<u>21,522</u>
Total current liabilities	<u>502,629</u>
Long-Term Liabilities	
Accrued employee benefits	9,416
Bonds payable	<u>6,738,658</u>
Total long-term liabilities	<u>6,748,074</u>
Net Assets	
Invested in capital assets, net of related debt	5,104,607
Restricted	637,829
Unrestricted	<u>528,500</u>
Total net assets	<u>6,270,936</u>
Total liabilities and net assets	<u>\$ 13,521,639</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, 2008

Operating Revenue	
Sales	\$ 2,696,230
Other operating revenue	<u>4,406</u>
Total operating revenues	<u>2,700,636</u>
Operating Expenses	
Auditing and accounting	10,500
Legal and professional	10,630
Subscriptions and dues	11,407
Salaries	570,021
Payroll taxes	44,573
Retirement	49,551
Utilities	172,284
Telephones and pagers	25,011
Education and training	2,680
Chemicals and lab	144,362
Garbage disposal-landfill	27,903
Auto expense	39,161
Equipment maintenance	135,662
Stone	11,368
Infiltration inflow	17,807
Repairs	36,106
Ground maintenance	16,358
Building maintenance	9,332
Hospital and health insurance	149,300
Safety supplies	140
Insurance	92,134
Travel	3,664
Operating supplies	20,413
Contract operations	140,780
Uniforms and safety boots	10,178
Depreciation and amortization	442,191
Machinery and equipment	1,269
Bad debt expense	108,362
Other operating expenses	<u>12,516</u>
Total operating expenses	<u>2,315,663</u>
Operating income	<u>384,973</u>
Nonoperating Revenues (Expenses)	
Interest income	28,782
Interest expense	<u>(276,499)</u>
Total nonoperating revenue (expenses)	<u>(247,717)</u>
Change in net assets	137,256
Net assets, July 1, 2007	<u>6,133,680</u>
Net assets, June 30, 2008	<u><u>\$ 6,270,936</u></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, 2008

Cash Flows From Operating Activities	
Cash received from customers	\$ 2,778,120
Cash paid to suppliers	(1,272,110)
Cash paid to employees	<u>(664,145)</u>
Net cash flows from operating activities	<u>841,865</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(389,445)
Principal paid on long-term debt	(412,772)
Proceeds from long-term debt	122,112
Interest expense	<u>(276,499)</u>
Net cash flows from capital and related financing activities	<u>(956,604)</u>
Cash Flows From Investing Activities	
Interest earned	<u>28,782</u>
Net cash flows from investing activities	<u>28,782</u>
Net decrease in cash and cash equivalents	(85,957)
Cash and restricted cash equivalents at the beginning of year	856,404
Less: Restricted cash	<u>(637,829)</u>
Cash and cash equivalents at end of year	<u>\$ 132,618</u>
Cash Flows From Operating Activities	
Operating income	\$ 384,973
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	422,537
Amortization	12,861
Changes in operating assets and liabilities	
(Increase) decrease in:	
Accounts receivable	77,484
Inventories	(55,254)
Prepaid interest	3,144
Unamortized bond discount	6,793
Increase (decrease) in:	
Accounts payable	(6,405)
Sales tax payable	(311)
Interest payable	1,459
Due to general fund	<u>(5,416)</u>
Net cash flows from operating activities	<u>\$ 841,865</u>

See accompanying notes to financial statements.

#### 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 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 City's policy is to eliminate internal activity by distinguishing overhead cost which are eliminated by inter-fund services used and provided. The City does not allocate indirect costs on the Statement of Activities.

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.

**Accumulated 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.

**Capital Assets** - The historical cost of capital assets (excluding infrastructure) are recorded in the Government-Wide Statements. Infrastructure assets have been recorded at deflated replacement cost. Depreciation is expensed based on the estimated useful lives of the assets on a straight line basis. Assets with a cost of greater than \$1,000 are capitalized. Estimated useful lives range from 4-50 years.

**Operating Revenue** - Operating revenue consists primarily of charges for services provided by the principal operations of the City. Operating revenue is recorded when the service is rendered, on a cycle basis, and includes an estimate of unbilled revenue. Revenues are reported net of bad debt expense of \$108,362.

**Non-operating Revenue** - Non-operating revenue consists of revenues that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

**Expense** - When an expense is incurred for purposes for which there are both restricted and unrestricted net assets available, it is the City's policy to apply those expenses to restricted net assets to the extent such are available and then to unrestricted net assets.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**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, 2007, upon which the 2007 levy was based, was \$112,829,652 not including public utilities. The tax rate was \$1.30 per \$100. Current tax collections for the year ended June 30, 2008 were 96% 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, 2008, 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.

**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, 2008, the bank balance of cash held with local financial institutions (checking and savings) was \$1,816,018 of which \$200,000 was covered by federal depository insurance, and \$1,616,018 was covered by collateral held in the City's name. The carrying balance of cash at June 30, 2008 was \$1,652,928.

A summary of these deposits at June 30, 2008 is as follows:

	Carrying Amount	Balance Per Bank
Deposits		
Governmental activities		
Cash on hand	\$ 500	\$ -
Cash in checking and savings	881,981	1,040,174
	882,481	1,040,174
Business-type activities		
Cash on hand	200	-
Cash in checking and savings	770,247	775,844
	770,447	775,844
Total cash and savings accounts	\$ 1,652,928	\$ 1,816,018

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 4 - INTERFUND RECEIVABLES AND PAYABLES

Net amounts due from and to other funds at June 30, 2008 are summarized as follows:

	Due from	Due to
Water and sewer fund	\$ 21,522	\$ -
General fund	-	21,522
	\$ 21,522	\$ 21,522

CITY OF KINGSTON, TENNESSEE  
Notes to Financial Statements (Continued)  
June 30, 2008

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	\$ 718,086	\$ -	\$ -	\$ 718,086
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	<u>718,086</u>	<u>-</u>	<u>-</u>	<u>718,086</u>
Capital assets, being depreciated:				
Building and improvements	2,506,142	-	-	2,506,142
Machinery and equipment	2,695,588	235,788	-	2,931,376
Other improvements	2,491,703	-	-	2,491,703
Total capital assets being depreciated	7,693,433	235,788	-	7,929,221
Less accumulated depreciation:	<u>(3,328,253)</u>	<u>(437,763)</u>	<u>-</u>	<u>(3,766,016)</u>
Total capital assets being depreciated, net	<u>4,365,180</u>	<u>(201,975)</u>	<u>-</u>	<u>4,163,205</u>
Governmental activities capital assets, net	<u>\$ 5,083,266</u>	<u>\$ (201,975)</u>	<u>\$ -</u>	<u>\$ 4,881,291</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 46,361	\$ -	\$ -	\$ 46,361
Construction in progress	312,367	77,500	(15,000)	374,867
Total capital assets, not being depreciated	<u>358,728</u>	<u>77,500</u>	<u>(15,000)</u>	<u>421,228</u>
Capital assets, being depreciated				
Machinery and equipment	155,219	138,635	-	293,854
Water plant & distribution	5,918,273	-	-	5,918,273
Sewer plant & transmission	11,670,672	188,310	-	11,858,982
Total capital assets, being depreciated	<u>17,744,164</u>	<u>326,945</u>	<u>-</u>	<u>18,071,109</u>
Less accumulated depreciation:	<u>(5,792,599)</u>	<u>(422,537)</u>	<u>-</u>	<u>(6,215,136)</u>
Total capital assets being depreciated, net	<u>11,951,565</u>	<u>(95,592)</u>	<u>-</u>	<u>11,855,973</u>
Business-type activities capital assets, net	<u>\$ 12,310,293</u>	<u>\$ (18,092)</u>	<u>\$ (15,000)</u>	<u>\$ 12,277,201</u>

NOTE 5 - CAPITAL ASSETS (Continued)

Depreciation for the year ended June 30, 2008 was expensed as follows:

Governmental activities:	
General government	\$ 218,881
Public safety	109,441
Public welfare	<u>109,441</u>
Total depreciation expense - governmental activities	<u><u>\$ 437,763</u></u>
Business-type activities:	
Water	\$ 147,167
Sewer	<u>275,370</u>
Total depreciation expense - business-type activities	<u><u>\$ 422,537</u></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, 10<sup>th</sup> 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, 2008 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.

NOTE 6 - PENSION PLAN FUNDS-TENNESSEE CONSOLIDATED RETIREMENT SYSTEM  
(Continued)

Annual Pension Cost

For the year ending June 30, 2008, City of Kingston's annual pension cost of \$192,202 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, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2008	\$ 192,202	100%	\$ -
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, 2008:

\$1,000,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is 2.88% at 6/30/08	\$ 877,000
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 4.10% at 6/30/08	366,395
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 5.85% at 6/30/08	16,380
Ford Motor Credit, capital lease for the purchase of a police vehicle, payments due monthly of \$657 includes principal and interest, interest rate at 5.85% at 6/30/08	5,780
Citicapital Commercial, capital lease for the purchase of a bobcat, payments due monthly of \$659 includes principal and interest, interest rate at 4.97% at 6/30/08	31,840
DaimlerChrysler, capital lease for the purchase of a dump truck, payments due monthly of \$1,365 includes principal and interest, interest rate at 5.36% at 6/30/08	68,543
Ford Motor Credit, capital lease for the purchase of a police vehicle, payments due monthly of \$610 includes principal and interest, interest rate at 5.85% at 6/30/08	13,777

NOTE 7 - LONG-TERM DEBT (Continued)

First Tennessee Bank, capital lease for the purchase of 2 police vehicles, payments due quarterly of \$4,373 includes principal and interest, interest rate at 4.08% at 6/30/08	64,245
Ford Motor Credit, capital lease for the purchase of a fire vehicle, payments due monthly of \$524 includes principal and interest, interest rate at 5.85% at 6/30/08	19,730
Total debt	1,463,690
Long-term portion of provision for compensated absences	<u>70,505</u>
	1,534,195
Less amounts due within one year	<u>(152,240)</u>
Total long-term debt	<u>\$ 1,381,955</u>

Maturities on long-term debt excluding compensated absences are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 152,240	\$ 50,714	\$ 202,954
2010	135,119	44,888	180,007
2011	132,832	39,559	172,391
2012	135,631	34,238	169,869
2013	111,445	29,301	140,746
2014-2018	419,423	93,764	513,187
2019-2023	310,000	38,550	348,550
2024	<u>67,000</u>	<u>2,010</u>	<u>69,010</u>
Total	<u>\$ 1,463,690</u>	<u>\$ 333,024</u>	<u>\$ 1,796,714</u>

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

Long-term debt consisted of the following at June 30, 2008:

Tennessee Municipal Bond Fund Series 1999 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2025	\$ 5,311,000
Tennessee Municipal Bond Fund Series 2004 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2023	917,000
Tennessee Municipal Bond Fund Series 1991 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2011	386,212
GMAC Commercial Mortgage Corp. Series 1979 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2020	395,000
GMAC Commercial Mortgage Corp. Series 1975 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2015	59,000
Lease payable to Ford Motor Credit Company, due in monthly installments of \$1,181, including interest at 5.85%; due July 2012, collateralized by equipment	51,357
Lease payable to CNH Capital, due in monthly installments of \$1,270, including interest at 8.35%; due July 2012, collateralized by equipment	<u>53,025</u>
	7,172,594
Less amounts due in one year	<u>(433,936)</u>
	<u>\$ 6,738,658</u>

NOTE 8 - PROPRIETARY FUND - KINGSTON UTILITIES-LONG-TERM DEBT (Continued)

Maturities on long-term debt for the proprietary fund are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2009	\$ 433,936	\$ 349,823	\$ 783,759
2010	455,021	330,397	785,418
2011	474,472	310,019	784,491
2012	360,079	289,044	649,123
2013	350,086	271,096	621,182
2014-2018	1,959,000	1,080,067	3,039,067
2019-2023	2,264,000	550,790	2,814,790
2024-2025	876,000	62,600	938,600
Total	<u>\$ 7,172,594</u>	<u>\$ 3,243,836</u>	<u>\$ 10,416,430</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, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE  
 Schedule of Retirement Plan Funding Progress  
 Year Ended June 30, 2008

(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, 2007	\$ 868	\$ 1,164	\$ 296	74.56%	\$ 1,944	15.24%
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, 2008

	Drug Fund	Waste Management Fund	Total
Assets			
Cash in bank	\$ 1,427	\$ -	\$ 1,427
Total assets	\$ 1,427	\$ -	\$ 1,427
Fund balance	1,427	-	1,427
Total fund balance	\$ 1,427	\$ -	\$ 1,427

See accompanying independent auditors' report.

## CITY OF KINGSTON, TENNESSEE

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## Special Revenue Funds

Combined Statements of Revenues, Expenditures and Changes in Fund Balance  
Year Ended June 30, 2008

	Drug Fund	Waste Management Fund	Total
	<u>          </u>	<u>          </u>	<u>          </u>
Revenues			
Drug related fines	\$ 4,061	\$ -	\$ 4,061
Garbage tip fees	<u>-</u>	<u>250,398</u>	<u>250,398</u>
Total revenues	<u>4,061</u>	<u>250,398</u>	<u>254,459</u>
Expenditures			
Contracted services (collection)	-	233,397	233,397
Operating supplies	<u>2,891</u>	<u>-</u>	<u>2,891</u>
Total expenditures	<u>2,891</u>	<u>233,397</u>	<u>236,288</u>
Excess (deficiency) of revenues over (under) expenditures	1,170	17,001	18,171
Other financing sources (uses)			
Transfer out	<u>-</u>	<u>(17,001)</u>	<u>(17,001)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,170	-	1,170
Fund balance, July 1, 2007	<u>257</u>	<u>-</u>	<u>257</u>
Fund balance, June 30, 2008	<u>\$ 1,427</u>	<u>\$ -</u>	<u>\$ 1,427</u>

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, 2008

Revenues	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Drug Related Fines	\$ 19,800	\$ 19,800	\$ 4,061	\$ (15,739)
Interest	200	200	-	(200)
Total Revenues	<u>20,000</u>	<u>20,000</u>	<u>4,061</u>	<u>(15,939)</u>
Expenditures				
Education	1,000	1,000	-	1,000
Telephones and Pagers	4,000	3,100	-	3,100
Auditing	1,500	1,500	-	1,500
Other Contractual Services	1,500	1,500	-	1,500
Operating Supplies	2,000	2,900	2,890	10
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	-	3,000
Machinery and Equipment	5,000	5,000	-	5,000
Total Expenditures	<u>20,000</u>	<u>20,000</u>	<u>2,890</u>	<u>17,110</u>
Excess (deficiency) of revenues over (under) expenditures	-	-	1,171	1,171
Fund balance, July 1, 2007	<u>4,125</u>	<u>4,125</u>	<u>257</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ 4,125</u>	<u>\$ 4,125</u>	<u>\$ 1,428</u>	<u>\$ 1,171</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, 2008

	Budget		Actual	Variance
	Original	Final		Favorable/ (Unfavorable)
Revenues				
Garbage tip fees	\$ 255,186	\$ 255,186	\$ 250,398	\$ (4,788)
Total revenues	<u>255,186</u>	<u>255,186</u>	<u>250,398</u>	<u>(4,788)</u>
Expenditures				
Contracted services (collection)	<u>228,000</u>	<u>233,500</u>	<u>233,397</u>	<u>103</u>
Total expenditures	<u>228,000</u>	<u>233,500</u>	<u>233,397</u>	<u>103</u>
Excess of revenues over expenditures	27,186	21,686	17,001	4,685
Other financing sources (uses)				
Transfers to other funds	<u>(27,186)</u>	<u>(21,686)</u>	<u>(17,001)</u>	<u>(4,685)</u>
Excess of revenues and other financing sources (over) under expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2007	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE  
Schedule of Changes in Taxes Receivable  
Year Ended June 30, 2008

For the Tax Year Ended June 30,	Balance July 1, 2007	Additions	Collections	Balance June 30, 2008
2008	\$ -	\$ 1,493,071	\$ 1,433,333	\$ 59,738
2007	64,890	-	47,378	17,512
2006	20,429	-	11,002	9,427
2005	10,185	-	4,455	5,730
2004	6,886	-	2,313	4,573
2003	6,481	-	2,404	4,077
2002	4,387	-	1,713	2,674
2001	4,465	-	2,502	1,963
2000	2,777	-	653	2,124
1999	3,065	-	513	2,552
Total Property Taxes Receivable	<u>\$ 123,565</u>	<u>\$ 1,493,071</u>	<u>\$ 1,506,266</u>	<u>\$ 110,370</u>

\* As of June 30, 2008, all unpaid taxes for the years 2006 and earlier had been turned over to the county trustee for collection.

CITY OF KINGSTON, TENNESSEE  
 Water and Sewer Fund  
 Schedule of Utility Rates and Number of Customers Served  
 June 30, 2008

WATER RATES

<u>Quantity</u>	<u>Rates</u>		
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 7.47	\$ 11.72	Minimum bill
Over 1,000 gallons	5.17	8.92	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	\$ 7.47	\$ 14.67	Minimum bill
Over 1,000 gallons	7.00	11.18	Per each additional 1,000 gallons

GARBAGE SERVICE FEES

Residential		
Single Family Residence	\$ 8.58	per month
Multiple Family Units	8.58	per month /per unit

Business and Commercial		
Small Enterprise	\$ 14.69	per month
Medium Enterprise	22.03	per month
Food Service	44.07	per month
Motel	88.13	per month
Industrial	88.13	per month

The number of customers services by utility as of June 30, 2008, is as follows:

Water system	3,721
Sewer system	2,422
Sanitation services	2,412

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE  
Water and Sewer Fund  
Schedule of Long- term Debt Requirements  
June 30, 2008

Year Ended June 30,	1975 BOND ISSUE REQUIREMENTS		1979 BOND ISSUE REQUIREMENTS		1991 BOND ISSUE REQUIREMENTS		1999 BOND ISSUE REQUIREMENTS		2004 BOND ISSUE REQUIREMENTS	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 7,000	\$ 2,804	\$ 25,000	\$ 19,750	\$ 123,236	\$ 10,019	\$ 205,000	\$ 264,696	\$ 51,000	\$ 45,850
2010	8,000	2,433	25,000	18,500	128,658	6,723	216,000	254,400	53,000	43,300
2011	8,000	2,033	25,000	17,250	134,318	3,281	227,000	243,554	54,000	40,650
2012	8,000	1,633	30,000	16,000	-	-	238,000	232,136	56,000	37,950
2013	9,000	1,213	30,000	14,500	-	-	250,000	220,208	58,000	35,150
2014	9,000	763	30,000	13,000	-	-	262,000	207,658	60,000	32,250
2015	10,000	292	35,000	11,500	-	-	275,000	194,504	61,000	29,250
2016	-	-	35,000	9,750	-	-	289,000	180,696	63,000	26,200
2017	-	-	35,000	8,000	-	-	304,000	166,183	65,000	23,050
2018	-	-	40,000	6,250	-	-	319,000	150,921	67,000	19,800
2019	-	-	40,000	4,500	-	-	335,000	134,904	70,000	16,450
2020	-	-	45,000	2,250	-	-	351,000	118,087	72,000	12,950
2021	-	-	-	-	-	-	369,000	100,462	74,000	9,350
2022	-	-	-	-	-	-	388,000	81,933	77,000	5,650
2023	-	-	-	-	-	-	407,000	62,454	36,000	1,800
2024	-	-	-	-	-	-	427,000	42,021	-	-
2025	-	-	-	-	-	-	449,000	20,579	-	-
	<u>\$ 59,000</u>	<u>\$ 11,171</u>	<u>\$ 395,000</u>	<u>\$ 141,250</u>	<u>\$ 386,212</u>	<u>\$ 20,023</u>	<u>\$5,311,000</u>	<u>\$2,675,396</u>	<u>\$ 917,000</u>	<u>\$ 379,650</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE  
 Water and Sewer Fund  
 Schedule of Long- term Debt Requirements (Continued)  
 June 30, 2008

Year Ended June 30,	EQUIPMENT LEASE REQUIREMENTS		EQUIPMENT LEASE REQUIREMENTS		TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL DEBT SERVICE REQUIREMENT
	Principal	Interest	Principal	Interest			
2009	\$ 11,230	\$ 4,004	\$ 11,470	\$ 2,700	\$ 433,936	\$ 349,823	\$ 783,759
2010	12,204	3,030	12,159	2,011	455,021	330,397	785,418
2011	13,264	1,971	12,890	1,280	474,472	310,019	784,491
2012	14,415	820	13,664	505	360,079	289,044	649,123
2013	1,912	18	1,174	7	350,086	271,096	621,182
2014	-	-	-	-	361,000	253,671	614,671
2015	-	-	-	-	381,000	235,546	616,546
2016	-	-	-	-	387,000	216,646	603,646
2017	-	-	-	-	404,000	197,233	601,233
2018	-	-	-	-	426,000	176,971	602,971
2019	-	-	-	-	445,000	155,854	600,854
2020	-	-	-	-	468,000	133,287	601,287
2021	-	-	-	-	443,000	109,812	552,812
2022	-	-	-	-	465,000	87,583	552,583
2023	-	-	-	-	443,000	64,254	507,254
2024	-	-	-	-	427,000	42,021	469,021
2025	-	-	-	-	449,000	20,579	469,579
	<u>\$ 53,025</u>	<u>\$ 9,843</u>	<u>\$ 51,357</u>	<u>\$ 6,503</u>	<u>\$ 7,172,594</u>	<u>\$ 3,243,836</u>	<u>\$ 10,416,430</u>

See accompanying independent auditors' report.

CITY OF KINGSTON, TENNESSEE  
Schedule of Insurance in Force  
June 30, 2008

	<u>Coverage Amount</u>
Buildings and contents - fire and extended coverage including vandalism and malicious mischief (actual cash value less \$1,000 each occurrence)	\$ 16,606,025
Automotive Coverage:	
Liability coverage for bodily injury - each occurrence	300,000
Liability coverage for bodily injury - maximum	700,000
Liability coverage for property damage - each occurrence	100,000
Liability coverage for property damage - maximum	700,000
Uninsured motorists for bodily injury	300,000
Uninsured motorists for property damage	100,000
Medical payments - maximum	100,000
City Employees and Elected Officials	
Breach of Duty Insurance (errors and omissions)	700,000
Aggregate	350,000
Products aggregate	350,000
Excess: each occurrence	900,000
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, 2008

*(All amounts in gallons)*

Water Treated and Purchased:		
Water Pumped (potable)	396,268,000	
Water Purchased	<u>-</u>	
Total Water Treated and Purchased		396,268,000
Accounted for Water:		
Water Sold	325,361,800	
Metered for Consumption	-	
Fire Department Usage	1,202,100	
Flushing	389,500	
Tank Cleaning/Filling	500,000	
Street Cleaning	-	
Bulk Sales	-	
Water Bill Adjustments	-	
Other	<u>31,021,265</u>	
Total Accounted for Water		<u>358,474,665</u>
Unaccounted for Water		37,793,335
Percent Unaccounted for Water		9.54%
Cost per 1,000 gallons of Water		\$1.92
Cost of Unaccounted for Water		\$ 72,563.20

Explain Other : Includes leaks, flushing, repairs and timing differences

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*

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, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 6, 2008. 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 of the financial statements of the governmental activities, the business-type activities, and aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kingston, Tennessee as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, 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*.

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.

Knoxville, Tennessee  
November 6, 2008