CITY OF KINGSTON, TENNESSEE

Financial Statements
and Supplementary Information

Year Ended June 30, 2011

CITY OF KINGSTON, TENNESSEE
Financial Statements and Supplementary Information
Year Ended June 30, 2011

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Governmental Fund, Financial Statements:	
Balance Sheet	10
Statement of Revenues, Expenditures, and Changes in Fund Balance	11
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to Statement of Activities	12
General Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	13
Proprietary Fund, Financial Statements:	
Statement of Net Assets	15
Statement of Revenues, Expenses, and Changes in Net Assets	16
Statement of Cash Flows	17
Notes to Financial Statements	18
Required Supplementary Information:	
Schedule of Retirement Plan Funding Progress	31
Supplementary Information:	
Combining and Individual Fund Statements and Schedules:	
Special Revenue Funds - Combining Balance Sheets	32
Special Revenue Funds - Combining Statements of Revenue, Expenditures, and Changes in Fund Balance	33
Non-Major Fund Budgetary Comparison Information:	
Drug Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	34
Waste Management Fund - Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	35
Statistical Schedules:	
Schedule of Changes in Property Taxes Receivable	36
Schedule of Utility Rates and Number of Customers Served - Water and Sewer Fund	37
Schedule of Long-Term Debt Requirements - Water and Sewer Fund	38
Schedule of Insurance in Force	40
Schedule of Unaccounted for Water	41
Compliance Information:	
Report on Internal Control Over Financial Reporting and on Compliance and on Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Governmental Auditing Standards*	42

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RODEFER MOSS & CO, PLLC

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 (the "City"), as of and for the year ended June 30, 2011, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

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, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2011, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the schedule of Funding Progress on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section, combining and individual non-major fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
November 23, 2011

As management of the City of Kingston, Tennessee, (the "City") 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, 2011. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights

- At June 30, 2011, the assets of the City of Kingston exceeded its liabilities by $12,029,348. Of this amount, $2,160,482 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 $184,971 while the amount paid down on debt totaled $191,787 resulting in a net decrease in debt of $6,816.
- At the end of the current fiscal year, the City's enterprise (water and sewer) fund reported an ending fund balance of $7,317,602. Of this amount, $1,154,751 or 15.78% 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 are comprised of 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 signification 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, 2011 and 2010:

	June 30, 2011	June 30, 2010	Increase/ (Decrease)	% Increase/ (Decrease)
Current and other assets	$ 5,450,006	$ 5,902,127	$ (452,121)	-7.7%
Capital assets	17,570,649	16,947,285	623,364	3.7%
Total assets	$ 23,020,655	$ 22,849,412	$ 171,243	0.7%
Long-term liabilities outstanding	$ 8,272,196	$ 8,820,464	$ (548,268)	-6.2%
Other liabilities	2,719,055	2,636,553	82,502	3.1%
Net assets	12,029,404	11,392,395	637,009	5.6%
Total liabilities and net assets	$ 23,020,655	$ 22,849,412	$ 171,243	0.7%

The following table provides a summary of the City's changes in net assets for the years ended June 30, 2011 and 2010:

Summary of Changes in Net Assets

	June 30, 2011	June 30, 2010	Increase/ (Decrease)	% Increase/ (Decrease)
Revenues				
Governmental activities	$ 4,880,733	$ 4,813,619	$ 67,114	1.4%
Business-type activities	3,441,906	4,049,962	(608,056)	-15.0%
Total revenues	8,322,639	8,863,581	(540,942)	-6.1%
Expenses	7,925,601	8,498,621	(573,020)	-6.7%
Change in net assets	$ 397,038	$ 364,960	$ 32,078	8.8%

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 $12,029,404 at the close of this fiscal year.

The largest portion of the City of Kingston's net assets (72.28%) 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, 2011, the City of Kingston's general fund reported an ending fund balance of $1,397,436, an increase in comparison with the prior year. The Special Revenue Funds reported an ending fund balance of $18,767, an increase in comparison to the prior year.

The general fund is the chief operating fund of the City of Kingston. At June 30, 2011, unassigned fund balance of the general fund was $1,459,988. As a measure of the general fund's liquidity, it may be useful to compare both the unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 33.6% of total general fund expenditures. The fund balance increased $124,652 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 $763,102. The total increase in net assets for the Water and Sewer fund was $299,963. The fund had $5,399,749 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, 2011, amounted to $5,389,662. 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, 2011, is $12,180,989.

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, 2011 are as follows:

	Governmental activities	Business-Type activities	Total
Land	$ 718,084	$ 46,361	$ 764,445
Buildings and improvements	4,511,811	-	4,511,811
Machinery and equipment	3,344,316	405,514	3,749,830
Water plant and distribution	-	5,918,273	5,918,273
Sewer plant and transmission	-	11,858,982	11,858,982
Other improvements	1,824,898	-	1,824,898
Construction in progress	-	1,402,731	1,402,731
Total capital assets at cost	10,399,109	19,631,861	30,030,970
Accumulated depreciation	(5,009,449)	(7,450,872)	(12,460,321)
Capital assets, net	$ 5,389,660	$ 12,180,989	$ 17,570,649

Economic Factors and Next Year's Budget and Rates

The following factors were considered in preparing the City's budget for the 2010-2011 fiscal year.

- Water and sewer rates did not increase in the current year.
- With the exception of business taxes, state shared revenues have marginally increased 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, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	$ 1,277,460	$ 410,360	$ 1,687,820
Receivables, net	2,020,045	262,124	2,282,169
Inventories	-	98,241	98,241
Unbilled revenue	-	160,000	160,000
Due from other governmental units	27,983	-	27,983
Interfund receivable	27,282	-	27,282
Total current assets	3,352,770	930,725	4,283,495
Other Assets			
Restricted cash	-	1,154,751	1,154,751
Unamortized bond discount	-	11,760	11,760
Capital assets			
Land	718,084	46,361	764,445
Other capital assets, net	4,671,576	12,134,628	16,806,204
Total other assets	5,389,660	13,347,500	18,737,160
Total assets	$ 8,742,430	$ 14,278,225	$ 23,020,655
LIABILITIES			
Current Liabilities			
Accounts payable	95,847	11,605	107,452
Accrued employee benefits	20,000	20,000	40,000
Accrued interest	12,797	1,460	14,257
Current portion of long-term debt	227,865	387,000	614,865
Interfund payable	-	27,983	27,983
Other current liabilities	49,435	-	49,435
Total current liabilities	405,944	448,048	853,992
Long-Term Liabilities			
Long-term debt	1,866,196	6,406,000	8,272,196
Accrued compensated absences	62,552	7,931	70,483
Deferred revenue - taxes	1,695,936	98,644	1,794,580
Total liabilities	3,624,684	6,512,575	10,137,259
Net Assets			
Investment in capital assets, net of related debt	3,295,599	5,399,749	8,695,348
Restricted	18,767	1,154,751	1,173,518
Unrestricted	1,397,436	763,102	2,160,538
Total net assets	$ 4,711,802	$ 7,317,602	$ 12,029,404
Total net assets and liabilities	$ 8,742,430	$ 14,278,225	$ 23,020,655

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Statement of Activities
Year Ended June 30, 2011

Function/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net Revenue (Expense) and Changes in Net Assets, Primary Government: Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental activities						
General government	$ 1,158,264	$ 7,158	$ -	$ (1,151,106)	$ -	$ (1,151,106)
State Street Aid	133,204	-	211,531	78,327	-	78,327
Public safety	1,729,384	-	-	(1,729,384)	-	(1,729,384)
Public welfare	1,460,007	30,763	-	(1,429,244)	-	(1,429,244)
Drug fund	11,035	19,053	-	8,018	-	8,018
Waste management	265,274	327,933	-	62,659	-	62,659
Interest on long-term debt	26,490	-	-	(26,490)	-	(26,490)
Total governmental activities	4,783,658	384,907	211,531	(4,187,220)	-	(4,187,220)
Business-Type activities						
Water and Sewer Fund	3,141,943	3,441,906	-	-	299,963	299,963
Total business-type activities	3,141,943	3,441,906	-	-	299,963	299,963
Total primary government	$ 7,925,601	$ 3,826,813	$ 211,531	(4,187,220)	299,963	(3,887,257)
General Revenues						
Property taxes				1,610,641	-	1,610,641
Sales taxes				998,882	-	998,882
Business taxes				62,099	-	62,099
Other local taxes				254,521	-	254,521
Intergovernmental revenues				579,217	-	579,217
Licenses and permits				129,269	-	129,269
Fines and fees				136,385	-	136,385
Investment earnings				5,266	-	5,266
Other revenues				508,015	-	508,015
Total general revenues				4,284,295	-	4,284,295
Change in net assets				97,075	299,963	397,038
Net assets, beginning of the year				4,614,727	7,017,639	11,632,366
Net assets, end of the year				$ 4,711,802	$ 7,317,602	$ 12,029,404

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Governmental Funds
Balance Sheet
June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 1,258,693	$ 18,767	$ 1,277,460
Taxes receivables, net	2,020,045	-	2,020,045
Due from other funds	27,282	-	27,282
Due from other governmental units	27,983	-	27,983
Total assets	$ 3,334,003	$ 18,767	$ 3,352,770
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	95,847	-	95,847
Accrued employee benefits	20,000	-	20,000
Accrued interest	12,797	-	12,797
Other current liabilities	49,435	-	49,435
Deferred revenue	1,695,936	-	1,695,936
Total liabilities	1,874,015	-	1,874,015
Fund balances			
Unassigned	1,459,988	-	1,459,988
Assigned, reported in nonmajor Special revenue funds	-	18,767	18,767
Total fund balances	1,459,988	18,767	1,478,755
Total liabilities and fund balances	$ 3,334,003	$ 18,767	$ 3,352,770

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

Ending fund balance - governmental funds	$ 1,478,755
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,389,660
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,156,669)
Net assets of governmental activities	$ 4,711,802

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2011

	General	Other Governmental Funds	Total Governmental Funds
Revenues			
Local taxes	$ 2,943,932	$ -	$ 2,943,932
Intergovernmental revenues	751,234	-	751,234
Public welfare	7,158	-	7,158
Charges for service	129,269	-	129,269
Fines and forfeitures	136,385	-	136,385
Drug fund	-	19,053	19,053
Waste management	-	327,933	327,933
Other revenues	560,503	-	560,503
Investment earnings	5,266	-	5,266
Total revenues	4,533,747	346,986	4,880,733
Expenditures			
Current			
General government	934,136	11,035	945,171
Public safety	1,648,616	-	1,648,616
Public welfare	1,514,311	265,274	1,779,585
Capital improvements	218,555	-	218,555
Interest	26,490	-	26,490
Total expenditures	4,342,108	276,309	4,618,417
Excess of revenues over expenditures	191,639	70,677	262,316
Other financing sources (uses)			
Debt proceeds	119,440	-	119,440
Retirement of debt	(249,086)	-	(249,086)
Transfer in (out)	62,659	(62,659)	-
Total other financing (uses)	(66,987)	(62,659)	(129,646)
Excess of expenditures and other financing uses over revenues and other financing sources	124,652	8,018	132,670
Fund balance, at the beginning of the year	1,335,336	10,749	1,346,085
Fund balance, at the end of the year	$ 1,459,988	$ 18,767	$ 1,478,755

See 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, 2011

Net change in fund balances - total governmental funds	$ 132,670
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures and loan proceeds as other financing sources. However, in the statement of activities, the cost of those assets is allocated as depreciation over the useful life of the assets and the loan proceeds are recorded as a long term liability. The effect of the adjustments for these items in the current year is noted here.	(72,699)
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.	(211,982)
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.	249,086
Change in net assets of governmental activities	$ 97,075

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011

	Budget			Variance with Final
	Original	Final	Actual	Budget
Revenues				
Donations pavilion	$ 7,000	$ 7,000	$ -	$ (7,000)
Current property tax	1,448,525	1,448,525	1,441,213	(7,312)
Public utilities property tax	23,976	23,976	22,496	(1,480)
Property tax delinquent - 1st	106,000	106,000	87,843	(18,157)
Property tax delinquent - 2nd	12,000	12,000	8,302	(3,698)
Property tax delinquent - 3rd	8,200	8,200	29,062	20,862
Interest, penalty, and court costs	12,000	12,000	17,320	5,320
In lieu tax, Rockwood Electric	46,676	46,676	46,676	-
Local sales tax county trustee	1,006,135	1,006,135	1,038,396	32,261
Wholesale beer tax	173,900	173,900	168,691	(5,209)
Wholesale liquor tax	40,860	40,860	39,154	(1,706)
Business taxes	140,000	140,000	62,099	(77,901)
Cable TV franchise tax	73,400	73,400	76,007	2,607
Room occupancy tax	64,000	64,000	41,154	(22,846)
Beer licenses	1,950	1,950	2,100	150
Liquor licenses	200	200	800	600
Building and related permits	20,000	20,000	9,208	(10,792)
Safers grant	126,480	126,480	113,692	(12,788)
TVA Reimbursement	172,354	365,000	-	(365,000)
P&R art grant	48,445	48,445	48,446	1
State sales tax	342,780	342,780	320,714	(22,066)
State income tax	64,498	64,498	34,005	(30,493)
State beer tax	2,812	2,812	2,746	(66)
State liquor tax	4,126	4,126	4,995	869
State gasoline tax	158,208	158,208	172,017	13,809
State-City streets	11,303	11,303	11,299	(4)
State Street contract maintenance	39,000	39,000	49,264	10,264
Gross receipts - TVA	61,000	61,000	62,060	1,060
TVA impact funds	40,894	40,894	41,853	959
Corporate excise tax	26,900	26,900	3,835	(23,065)
TML full package bonus	3,500	3,500	3,500	-
General government - charges	500	500	683	183
Highways and streets charges	100	100	2,975	2,875
Swimming pool charges	26,220	26,220	20,446	(5,774)
Park and recreation charges	10,600	10,600	10,317	(283)
City court fines and cost	75,000	75,000	103,813	28,813
Drug fines	6,500	6,500	9,952	3,452
Traffic school charges	8,500	8,500	5,300	(3,200)
Interest earnings	11,000	11,000	5,322	(5,678)
Other funds received	250,000	-	195,778	195,778
ORUD franchise	21,500	21,500	21,500	-
Contract water billing	198,714	198,714	198,714	-
Total revenues	4,895,756	4,838,402	4,533,747	(304,655)

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual (Continued)
Year Ended June 30, 2011

	Budget			Variance with Final
	Original	Final	Actual	Budget
Expenditures				
Legislative	139,469	139,469	130,190	9,279
City court	23,672	23,672	22,242	1,430
City manager	102,651	102,651	92,889	9,762
Financial administration	377,845	377,845	340,141	37,704
Planning and zoning	10,554	10,554	10,106	448
City hall buildings maintenance	43,306	43,306	30,389	12,917
Other general governmental expense	312,192	312,192	278,090	34,102
Police	816,877	816,877	816,027	850
Automative services	85,000	85,000	85,000	-
Fire protection	636,071	636,071	636,071	-
Fire safers grant	180,598	180,598	152,107	28,491
Building and codes	31,699	31,700	31,700	-
Public works	743,204	743,204	743,204	-
State street aid	142,500	142,500	133,204	9,296
Capital improvements	428,856	428,856	77,197	351,659
Recreation	544,018	544,018	514,422	29,596
Swimming pools	34,030	34,030	28,151	5,879
Libraries	202,027	202,027	194,488	7,539
Interest	55,059	55,059	26,490	28,569
Total expenditures	4,909,628	4,909,629	4,342,108	567,521
Excess (deficiency) of revenues over (under) expenditures	(13,872)	(71,227)	191,639	262,866
Other financing sources (uses)				
Debt proceeds	750,000	300,021	119,440	180,581
Retirement of debt	(244,962)	(244,962)	(249,086)	4,124
Transfers from other funds	-	-	62,659	62,659
Net change in fund balance	491,166	(16,168)	124,652	510,230
Fund balance, July 1, 2010	432,098	712,620	1,335,336	-
Fund balance, June 30, 2011	$ 923,264	$ 696,452	$ 1,459,988	$ 510,230

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Fund - Water and Sewer Fund
Statement of Net Assets
June 30, 2011

ASSETS	
Current Assets	
Cash and cash equivalents	$ 410,360
Accounts receivable	422,124
Inventories	98,241
Total current assets	930,725
Other Assets	
Restricted cash	1,154,751
Unamortized bond discount	11,760
Capital assets	
Utility plant, net	12,180,989
Total other assets	13,347,500
Total assets	$ 14,278,225
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts payable	$ 11,605
Accrued employee benefits	27,931
Current portion of long- term debt	387,000
Interest payable	1,460
Due to general fund	27,983
Total current liabilities	455,979
Deferred taxes	98,644
Bonds payable	6,406,000
Total liabilities	6,960,623
Net Assets	
Invested in capital assets, net of related debt	5,399,749
Restricted	1,154,751
Unrestricted	763,102
Total net assets	7,317,602
Total liabilities and net assets	$ 14,278,225

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Fund - Water and Sewer Fund
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2011

Operating Revenue	
Sales	$ 2,948,300
Other operating revenue	481,342
Total operating revenues	3,429,642
Operating Expenses	
Auditing and accounting	13,600
Legal and professional	10,386
Subscriptions and dues	14,445
Salaries	555,279
Payroll taxes	31,835
Retirement	32,908
Utilities	90,710
Telephones and pagers	21,984
Education and training	2,590
Chemicals and lab	165,094
Garbage disposal-landfill	34,580
Auto expense	36,030
Equipment maintenance	125,076
Stone	7,047
Infiltration inflow	83,293
Repairs	200,522
Ground maintenance	23,083
Building maintenance	7,014
Hospital and health insurance	165,257
Safety supplies	982
Insurance	125,648
Travel	3,321
Operating supplies	32,248
Contract operations	307,773
Uniforms and safety boots	7,280
Depreciation and amortization	675,807
Environmental restoration	285,867
Total operating expenses	3,059,659
Operating income	369,983
Nonoperating Revenues (Expenses)	
Interest income	12,264
Interest expense	(82,284)
Total nonoperating revenue (expenses)	(70,020)
Change in net assets	299,963
Net assets, July 1, 2010	7,017,639
Net assets, June 30, 2011	$ 7,317,602

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Fund - Water and Sewer Fund
Statement of Cash Flows
Year Ended June 30, 2011

Cash Flows From Operating Activities	
Cash received from customers	$ 3,265,004
Cash paid to suppliers	(1,663,795)
Cash paid to employees	(620,022)
Net cash flows from operating activities	981,187
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(1,002,209)
Principal paid on long-term debt	(631,595)
Interest expense	(82,284)
Net cash flows from capital and related financing activities	(1,716,088)
Cash Flows From Investing Activities	
Interest earned	12,264
Net cash flows from investing activities	12,264
Net decrease in cash and cash equivalents	(722,637)
Cash and restricted cash equivalents at the beginning of year	2,287,748
Less: Restricted cash	(1,154,751)
Cash and cash equivalents at end of year	$ 410,360

Reconciliation of net operating income to net cash flows from operating activities

Cash Flows From Operating Activities	
Operating income	$ 369,983
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	675,807
Changes in operating assets and liabilities:	
Decrease in assets:	
Accounts receivable	(164,638)
Decrease in liabilities:	
Accounts payable	100,035
Net cash flows from operating activities	$ 981,187

See notes to financial statements.

NOTE 1 - REPORTING ENTITY

The City of Kingston, Tennessee (the "City") 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 Sewer Fund.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Kingston, Tennessee, 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 costs 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. Governments have 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 and sixty (960) work hours.

Capital Assets - The historical cost of capital assets (excluding infrastructure) is 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 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 typically reported net of bad debt expense.

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, 2010, upon which the 2010 levy was based, was $148,659,217 not including public utilities. The tax rate was $1.08 per $100 of assessed value. Current tax collections for the year ended June 30, 2011 were 91% 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, 2011, the allowance for uncollectible taxes in the General Fund was approximately $20,000 and the allowance for uncollectible accounts receivable in the enterprise fund was approximately $50,000.

Cash and 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, 2011, the bank balance of cash held with local financial institutions (checking and savings) was $3,017,760 of which $250,000 was covered by federal depository insurance, and $2,707,760 was covered by collateral held in the City's name.

A summary of these deposits at June 30, 2011 is as follows:

	Balance Per Books	Balance Per Bank
Deposits		
Governmental activities		
Cash on hand	$ 500	$ -
Cash in checking and savings	1,276,960	1,391,818
	1,277,460	1,391,818
Business-type activities		
Cash on hand	200	-
Cash in checking and savings	1,564,911	1,625,942
	1,565,111	1,625,942
Total cash and savings accounts	$ 2,842,571	$ 3,017,760

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, 2011 are summarized as follows:

	Due from	Due to
Water and sewer fund	$ 27,282	$ -
General fund	-	27,282
	$ 27,282	$ 27,282

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated				
Land	$ 718,084	$ -	$ -	$ 718,084
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	718,086	-	-	718,084
Capital assets, being depreciated:				
Building and improvements	3,994,811	517,000	-	4,511,811
Machinery and equipment	3,252,817	91,499	-	3,344,316
Other improvements	1,824,898	-	-	1,824,898
Total capital assets being depreciated	9,072,526	608,499	-	9,681,025
Less accumulated depreciation:	(4,686,297)	(323,152)	-	(5,009,449)
Total capital assets being depreciated, net	4,386,229	285,347	-	4,671,576
Governmental activities capital assets, net	$ 5,104,315	$ 285,347	$ -	$ 5,389,660
Business-type activities:				
Capital assets, not being depreciated				
Land	$ 46,361	$ -	$ -	$ 46,361
Construction in progress	782,552	620,179	-	1,402,731
Total capital assets, not being depreciated	828,913	620,179	-	1,449,092
Capital assets, being depreciated:				
Machinery and equipment	293,854	111,660	-	405,514
Water plant & distribution	5,918,273	-	-	5,918,273
Sewer plant & transmission	11,858,982	-	-	11,858,982
Total capital assets, being depreciated	18,071,109	111,660	-	18,182,769
Less accumulated depreciation:	(7,048,281)	(402,591)	-	(7,450,872)
Total capital assets being depreciated, net	11,022,838	(290,931)	-	10,731,897
Business-type activities capital assets, net	$ 11,851,751	$ 329,248	$ -	$ 12,180,989

NOTE 5 - CAPITAL ASSETS - (Continued)

Depreciation for the year ended June 30, 2011 was expensed as follows:

Governmental activities:	
General government	$ 160,338
Public safety	81,407
Public welfare	81,407
Total depreciation expense - governmental activities	$ 323,152
Business-type activities:	
Water	$ 135,180
Sewer	267,411
Total depreciation expense - business-type activities	$ 402,591

NOTE 6 - PENSION PLAN FUNDS - TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Plan Description

Employees of KINGSTON, CITY OF 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 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://www.tn.gov/treasury/tcrs/PS/.

Funding Policy

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

City of Kingston is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011 was 7.51 percent 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, 2011, the City of Kingston's annual pension cost of $176,201 to TCRS was equal to the City of Kingston's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post retirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. KINGSTON, CITY OF's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 16 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year Ending June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	$ 176,201	100%	$ -
2010	185,395	100%	-
2009	177,300	100%	-
2008	192,202	100%	-
2007	178,306	100%	-

NOTE 7 - GENERAL FUND CITY OF KINGSTON - LONG-TERM DEBT

Long-term debt consisted of the following at June 30, 2011:

$1,000,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is variable at 6/30/11	$ 735,000
$750,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is variable at 6/30/11	695,051
Municipal Asset Management, capital lease for the purchase of a fire truck, payments due annually of $54,688 includes principal and interest, interest rate is variable at 6/30/11	242,649
Citizens Bank, loan for improvements related to the Ladd Landing area, payments are based on tax rate increases directly related to the improvements, interest rate is zero at 6/30/11	282,440
DaimlerChrysler, capital lease for the purchase of a dump truck, payments due monthly of $1,365 includes principal and interest, interest rate is variable at 6/30/11	24,742
ORNL Credit Union, capital lease for the purchase of two police vehicles, payments due monthly of $1,235 includes principal and interest, interest rate is variable at 6/30/11	73,669
First Tennessee Bank, capital lease for the purchase of two police vehicles, payments due quarterly of $4,373 includes principal and interest, interest rate is variable at 6/30/11	16,427

NOTE 7 - GENERAL FUND - CITY OF KINGSTON - LONG-TERM DEBT - (Continued)

Ford Motor Credit, capital lease for the purchase of two police vehicles, payments due monthly of $1,462 includes principal and interest, interest rate is variable at 6/30/11	3,085
Citicapital Commercial, capital lease for the purchase of a bobcat, payments due monthly of $659 includes principal and interest, interest rate is variable at 6/30/11	11,411
Ford Motor Credit, capital lease for the purchase of a fire vehicle, payments due monthly of $524 includes principal and interest, interest rate is variable at 6/30/11	9,579
Total debt	2,094,053
Long-term portion of provision for compensated absences	82,552
	2,176,605
Less amounts due within one year	(227,865)
Total long-term debt	$ 1,948,740

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2012	$ 227,865	$ 84,813	$ 312,678
2013	189,924	75,673	265,597
2014	165,384	68,466	233,850
2015	158,456	62,053	220,509
2016	164,534	55,614	220,148
2017 and thereafter	1,187,890	250,425	1,438,315
	$ 2,094,053	$ 597,044	$ 2,691,097

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

Long-term debt consisted of the following at June 30, 2011:

Tennessee Municipal Bond Fund Series 1999 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2025	$ 4,663,000
Tennessee Municipal Bond Fund Series 2004 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2033	1,745,000
GMAC Commercial Mortgage Corp. Series 1979 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2020	290,000
Tennessee Municipal Bond Fund Series 2008 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2013	95,000
	6,793,000
Less amounts due in one year	(387,000)
	$ 6,406,000

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
2012	$ 387,000	$ 340,136	$ 727,136
2013	370,000	320,758	690,758
2014	352,000	302,208	654,208
2015	371,000	284,554	655,554
2016	387,000	265,946	652,946
Thereafter	4,926,000	1,604,094	6,530,094
Total	$ 6,793,000	$ 3,117,696	$ 9,910,696

Long-term debt activity for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and capital leases					
Tennessee municipal bond	$ 1,701,000	$ 126,400	$ (92,000)	$ 1,735,400	$ 97,008
Capital leases	482,421	58,571	(99,787)	441,205	130,857
TotalGovernmental activities long-term debt	$ 2,183,421	$ 184,971	$ (191,787)	$ 2,176,605	$ 227,865
Business-type Activities					
Bonds and capital leases					
Tennessee municipal bond	$ 7,022,318	$ -	$ (519,318)	$ 6,503,000	$ 357,000
Waterworks revenue bond	345,000	-	(55,000)	290,000	30,000
Capital leases	57,277	-	(57,277)	-	-
Total Business-type activities long-term debt	$ 7,424,595	$ -	$ (631,595)	$ 6,793,000	$ 387,000

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, 2011.

NOTE 11 – SUBSEQUENT EVENTS

The City's management has evaluated events and transactions occurring subsequent to the statement of net assets date of June 30, 2011, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through November 23, 2011 and no items of a significant nature were noted.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE
Schedule of Retirement Plan Funding Progress
Year Ended June 30, 2011

(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, 2009	$ 1,430	$ 2,214	$ 784	64.57%	$ 2,331	33.65%
July 1, 2007	$ 868	$ 1,164	$ 296	74.57%	$ 1,944	15.23%
July 1, 2005	$ 285	$ 448	$ 163	63.62%	$ 2,328	7.00%
July 1, 2003	$ -	$ -	$ -	0.00%	$ -	0.00%
July 1, 2001	$ -	$ -	$ -	0.00%	$ -	0.00%

See independent auditors' report.

SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE
Special Revenue Funds
Combining Balance Sheets
June 30, 2011

	Drug Fund	Waste Management Fund	Total
Assets			
Cash	$ 18,767	$ -	$ 18,767
Total assets	$ 18,767	$ -	$ 18,767
Unassigned	18,767	-	18,767
Total fund balance	$ 18,767	$ -	$ 18,767

See independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Special Revenue Funds
Combining Statements of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2011

	Drug Fund	Waste Management Fund	Total
Revenues			
Drug related fines	$ 19,109	$ -	$ 19,109
Garbage tip fees	-	327,933	327,933
Total revenues	19,109	327,933	347,042
Expenditures			
Contracted services (collection)	-	265,274	265,274
Operating supplies	11,091	-	11,091
Total expenditures	11,091	265,274	276,365
Excess (deficiency) of revenues over (under) expenditures	8,018	62,659	70,677
Other financing uses			
Transfer out	-	(62,659)	(62,659)
Excess of revenues and other financing sources over expenditures and other financing uses	8,018	-	8,018
Fund balance at July 1, 2010	10,749	-	10,749
Fund balance at June 30, 2011	$ 18,767	$ -	$ 18,767

See independent auditors' report on supplementary information.

CITY OF KINGSTON, TENNESSEE
Drug Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011

	Budget			Variance with Final
Revenues	Original	Final	Actual	Budget
Drug related fines	$ 19,800	$ 19,800	$ 19,109	$ (691)
Interest	200	200	-	(200)
Total revenues	20,000	20,000	19,109	(891)
Expenditures				
Education	1,000	1,000	-	1,000
Auditing	1,000	1,000	1,000	-
Other contractual services	2,000	2,000	-	2,000
Operating supplies	7,000	7,000	9,087	(2,087)
Uniforms and safety boots	2,000	2,000	-	2,000
Safety supplies	1,000	1,000	-	1,000
Machinery and equipment	10,500	10,500	948	9,552
Total expenditures	24,500	24,500	11,035	13,465
Excess of revenues over expenditures	(4,500)	(4,500)	8,018	12,518
Fund balance, July 1, 2010	4,125	4,125	-	-
Fund balance, June 30, 2011	$ (375)	$ (375)	$ 8,018	$ 12,518

See independent auditors' report on supplementary information.

CITY OF KINGSTON, TENNESSEE
Waste Management Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2011

	Budget			Variance with Final
Revenues	Original	Final	Actual	Budget
Garbage tip fees	$ 272,950	$ 268,000	$ 327,933	$ 59,933
Total revenues	272,950	268,000	327,933	59,933
Expenditures				
Contracted services (collection)	272,950	268,000	265,274	2,726
Total expenditures	272,950	268,000	265,274	2,726
Excess of revenues over expenditures	-	-	62,659	(62,659)
Other financing uses				
Transfers to other funds	-	-	(62,659)	62,659
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance at July 1, 2010	-	-	-	-
Fund balance at June 30, 2011	$ -	$ -	$ -	$ -

See independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Schedule of Changes in Property Taxes Receivable
Year Ended June 30, 2011

Fiscal Year June 30,	Balance July 1, 2010	Additions	Collections	Balance June 30, 2011
2011	$ -	$ 1,610,641	$ 1,465,701	$ 144,940
2010	119,599	-	74,975	44,624
2009	31,702	-	18,707	12,995
2008	20,346	-	9,143	11,203
2007	10,171	-	4,104	6,067
2006	6,394	-	2,928	3,466
2005	3,958	-	1,024	2,934
2004	3,130	-	580	2,550
2003	2,472	-	854	1,618
2002	1,851	-	258	1,593
Total Property Taxes Receivable	$ 199,623	$ 1,610,641	$ 1,578,274	$ 231,990

* As of June 30, 2011, all unpaid taxes for the years 2009 and earlier had been turned over to the county trustee for collection.

See independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Water and Sewer Fund
Schedule of Utility Rates and Number of Customers Served
June 30, 2011

WATER RATES

Quantity	Rates: Inside City Limits	Rates: Outside City Limits	
First 1,000 gallons	$ 8.56	$ 13.42	Minimum bill
Over 1,000 gallons	5.92	11.84	Per each additional 1,000 gallons

SEWER RATES

Quantity	Rates: Inside City Limits	Rates: Outside City Limits	
First 1,000 gallons	$ 8.56	$ 16.01	Minimum bill
Over 1,000 gallons	8.03	12.80	Per each additional 1,000 gallons

GARBAGE SERVICE FEES

Residential		
Tax Relief	$ 5.00	per month
Single Family Residence	10.00	per month
Multiple Family Units	10.00	per month /per unit
Trailer Parks	34.23	per month
Business and Commercial		
Small Enterprise	$ 17.11	per month
Medium Enterprise	25.66	per month
Food Service	51.34	per month
Motel	102.67	per month
Industrial	102.67	per month

The number of customers services by utility as of June 30, 2011, is as follows:

Water system	3,723
Sewer system	2,413
Sanitation services	2,405

See independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Water and Sewer Fund
Schedule of Long- Term Debt Requirements
June 30, 2011

Year Ended	1979 BOND ISSUE REQUIREMENTS		1999 BOND ISSUE REQUIREMENTS		2004 BOND ISSUE REQUIREMENTS		2008 BOND ISSUE REQUIREMENTS	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	30,000	16,000	238,000	232,136	56,000	87,250	63,000	4,750
2013	30,000	14,500	250,000	220,208	58,000	84,450	32,000	1,600
2014	30,000	13,000	262,000	207,658	60,000	81,550	-	-
2015	35,000	11,500	275,000	194,504	61,000	78,550	-	-
2016	35,000	9,750	289,000	180,696	63,000	75,500	-	-
2017	35,000	8,000	304,000	166,183	65,000	72,350	-	-
2018	40,000	6,250	319,000	150,921	67,000	69,100	-	-
2019	40,000	4,500	335,000	134,904	70,000	65,750	-	-
2020	15,000	2,250	351,000	118,087	72,000	62,250	-	-
2021	-	-	369,000	100,462	74,000	58,650	-	-
2022	-	-	388,000	81,933	77,000	54,950	-	-
2023	-	-	407,000	62,454	49,630	51,100	-	-
2024	-	-	427,000	42,021	82,000	47,150	-	-
2025	-	-	449,000	20,579	84,000	43,050	-	-
2026					87,000	38,850		
2027					90,000	34,500		
2028					92,000	30,000		
2029					95,000	25,400		
2030					98,000	20,650		
2031					102,000	15,750		
2032					105,000	10,650		
2033	-	-	-	-	137,370	5,400	-	-
	$ 290,000	$ 85,750	$4,663,000	$1,912,746	$1,745,000	$1,112,850	$ 95,000	$ 6,350

See independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Water and Sewer Fund
Schedule of Long- Term Debt Requirements (Continued)

Year Ended June 30,	TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL DEBT SERVICE REQUIREMENT
2012	387,000	343,094	766,173
2013	370,000	321,996	704,082
2014	352,000	302,971	663,971
2015	371,000	284,846	665,846
2016	387,000	265,946	652,946
2017	404,000	246,533	650,533
2018	426,000	226,271	652,271
2019	445,000	205,154	650,154
2020	438,000	182,587	650,587
2021	443,000	159,112	602,112
2022	465,000	136,883	601,883
2023	456,630	113,554	570,184
2024	509,000	89,171	598,171
2025	533,000	63,629	596,629
2026	87,000	38,850	125,850
2027	90,000	34,500	124,500
2028	92,000	30,000	122,000
2029	95,000	25,400	120,400
2030	98,000	20,650	118,650
2031	102,000	15,750	117,750
2032	105,000	10,650	115,650
2033	137,370	5,400	142,770
	$ 6,793,000	$ 3,122,947	$ 10,013,112

See independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Schedule of Insurance in Force
June 30, 2011

	Coverage Amount
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 independent auditors' report.

CITY OF KINGSTON, TENNESSEE
Water and Sewer Fund
Schedule of Unaccounted for Water
June 30, 2011

(All amounts in gallons)

Water Treated and Purchased:		
Water Pumped (potable)	366,828,000	
Water Purchased	0	
Total Water Treated and Purchased		366,828,000
Accounted for Water:		
Water Sold	269,349,074	
Metered for Consumption (in house usage)	0	
Fire Department Usage	750,000	
Flushing	44,028,000	
Tank Cleaning/Filling	1,600,000	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments / plus or (minus)	0	
Total Accounted for Water		315,727,074
Unaccounted for Water		51,100,926
Percent Unaccounted for Water		13.93%

Other (explain): See Below

Explain Other : 0

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

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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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Kingston, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City of Kingston, Tennessee's basic financial statements and have issued our report thereon dated November 23, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard s* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Kingston, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of 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 *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be a significant deficiency in internal control over financial reporting. [2011-1]. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
November 23, 2011

2011-1 Financial Statement and Footnote Preparation

CONDITION - An entity being audited is required to have sufficient internal control over financial reporting to allow management to prepare their own financial statements and footnotes in accordance with generally accepted accounting principles (GAAP). Due to limitations on staff size and resources, the Board's current internal control structure does not meet this requirement. Management obtains assistance from its external audit firm for the preparation of annual financial statements and footnotes in accordance with GAAP. Although this results in financial statements which are in accordance with GAAP, the external audit firm cannot and is not considered to be a part of the Board's internal control structure. This was also a finding in the prior year.

RECOMMENDATION - The Board should consider whether it should obtain training for its staff to allow them to prepare financial statements in accordance with GAAP or continue to rely on others for this service.

MANAGEMENT'S RESPONSE - The Board is a small entity with limited resources. Management has determined that it is more cost efficient to obtain assistance from its external auditors for the preparation of the annual financial statements and footnotes in accordance with GAAP. Management will continue to review the financial statements and footnotes and take responsibility for them.