

CITY OF KINGSTON, TENNESSEE

Financial Statements
and Supplementary Information

Year Ended June 30, 2010

CITY OF KINGSTON, TENNESSEE
 Financial Statements and Supplementary Information
 Year Ended June 30, 2010

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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 (the "City"), as of and for the year ended June 30, 2010, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2010, and the respective changes in financial position and, cash flows, where applicable, thereof and the respective 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 December 2, 2010, 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 schedule of funding progress on page 31 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. 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 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 opinions on the financial statements that collectively comprise the City of Kingston, Tennessee's basic financial statements. The supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Rodefer Moss & Co, PLLC

Knoxville, Tennessee
December 2, 2010

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis
June 30, 2010

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, 2010. Readers are encouraged to consider the information presented here in conjunction with the City's financial statements.

Financial Highlights

- At June 30, 2010, the assets of the City of Kingston exceeded its liabilities by \$11,549,774. Of this amount, \$2,759,636 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 \$1,022,856 while the amount paid down on debt totaled \$702,971 resulting in a net increase in debt of \$319,885.
- At the end of the current fiscal year, the City's enterprise (water and sewer) fund reported an ending fund balance of \$7,017,639. Of this amount, \$2,000,823 or 28.51% 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 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.

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis (Continued)

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.

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis (Continued)

Government-Wide Financial Analysis

The following table provides a summary of the City's net assets at June 30, 2010 and 2009:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Current and other assets	\$ 5,902,127	\$ 5,355,146	\$ 546,981	10.2%
Capital assets	<u>16,947,285</u>	<u>16,683,561</u>	<u>263,724</u>	1.6%
Total assets	<u>\$ 22,849,412</u>	<u>\$ 22,038,707</u>	<u>\$ 810,705</u>	3.7%
Long-term liabilities outstanding	\$ 8,663,083	\$ 8,624,814	\$ 38,269	0.4%
Other liabilities	2,636,555	2,386,460	250,095	10.5%
Net assets	<u>11,549,774</u>	<u>11,027,433</u>	<u>522,341</u>	4.7%
Total liabilities and net assets	<u>\$ 22,849,412</u>	<u>\$ 22,038,707</u>	<u>\$ 810,705</u>	3.7%

The following table provides a summary of the City's changes in net assets for the years ended June 30, 2010 and 2009:

	Summary of Changes in Net Assets			
	<u>June 30, 2010</u>	<u>June 30, 2009</u>	<u>Increase/ (Decrease)</u>	<u>% Increase/ (Decrease)</u>
Revenues				
Governmental activities	\$ 4,813,619	\$ 4,981,612	\$ (167,993)	-3.4%
Business-type activities	<u>4,049,962</u>	<u>2,875,314</u>	<u>1,174,648</u>	40.9%
Total revenues	8,863,581	7,856,926	1,006,655	12.8%
Expenses	<u>8,341,240</u>	<u>7,703,859</u>	<u>637,381</u>	8.3%
Change in net assets	<u>\$ 522,341</u>	<u>\$ 153,067</u>	<u>\$ 369,274</u>	241.2%

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 \$11,549,774 at the close of this fiscal year.

The largest portion of the City of Kingston's net assets (58.69%) 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.

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis (Continued)

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, 2010, the City of Kingston's general fund reported an ending fund balance of \$1,335,336, a decrease in comparison with the prior year. The Special Revenue Funds reported an ending fund balance of \$10,749, a decrease in comparison to the prior year.

The general fund is the chief operating fund of the City of Kingston. At June 30, 2010, unreserved fund balance of the general fund was \$1,335,336. As a measure of the general fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to total fund expenditures. Unreserved fund balance represents 25.95% of total general fund expenditures. The fund balance decreased \$11,757 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 \$589,670. The total increase in net assets for the Water and Sewer fund was \$604,933. The fund had \$4,427,146 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, 2010, amounted to \$5,095,544. 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, 2010, is \$11,851,741.

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

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

CITY OF KINGSTON, TENNESSEE
Management's Discussion and Analysis (Continued)

Capital assets of the City of Kingston at June 30, 2010 are as follows:

	Governmental activities	Business-type activities	Total
Land	\$ 718,086	\$ 46,361	\$ 764,447
Buildings and improvements	2,785,578	-	2,785,578
Machinery and equipment	3,004,276	293,854	3,298,130
Water plant and distribution	-	5,918,273	5,918,273
Sewer plant and transmission	-	11,858,982	11,858,982
Other improvements	3,273,390	-	3,273,390
Construction in progress	<u>-</u>	<u>782,552</u>	<u>782,552</u>
 Total capital assets at cost	 9,781,330	 18,900,022	 28,681,352
 Accumulated depreciation	 <u>(4,685,786)</u>	 <u>(7,048,281)</u>	 <u>(11,734,067)</u>
 Capital assets, net	 <u>\$ 5,095,544</u>	 <u>\$ 11,851,741</u>	 <u>\$ 16,947,285</u>

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, 2010

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 1,028,099	\$ 286,925	\$ 1,315,024
Receivables, net	2,123,278	97,486	2,220,764
Inventories	-	98,241	98,241
Unbilled revenue	-	160,000	160,000
Due from other governmental units	65,387	-	65,387
Interfund receivable	27,282	-	27,282
Total current assets	<u>3,244,046</u>	<u>642,652</u>	<u>3,886,698</u>
Other Assets			
Restricted cash	-	2,000,823	2,000,823
Unamortized bond discount	-	14,606	14,606
Capital assets			
Land	718,084	46,361	764,445
Other capital assets, net	4,377,460	11,805,380	16,182,840
Total other assets	<u>5,095,544</u>	<u>13,867,170</u>	<u>18,962,714</u>
Total assets	<u>\$ 8,339,590</u>	<u>\$ 14,509,822</u>	<u>\$ 22,849,412</u>
LIABILITIES			
Current Liabilities			
Accounts payable	38,621	9,430	48,051
Accrued employee benefits	20,000	20,000	40,000
Accrued interest	12,797	1,460	14,257
Current portion of long-term debt	253,080	534,472	787,552
Interfund payable	-	27,282	27,282
Other current liabilities	40,994	-	40,994
Total current liabilities	<u>365,492</u>	<u>592,644</u>	<u>958,136</u>
Long-Term Liabilities			
Long-term debt	1,930,341	6,890,123	8,820,464
Accrued compensated absences	70,505	9,416	79,921
Deferred revenue - taxes	1,598,498	-	1,598,498
Total liabilities	<u>3,599,344</u>	<u>6,899,539</u>	<u>10,498,883</u>
Net Assets			
Investment in capital assets, net of related debt	2,194,039	4,427,146	6,621,185
Restricted	10,749	2,000,823	2,011,572
Unrestricted	2,169,966	589,670	2,759,636
Total net assets	<u>\$ 4,374,754</u>	<u>\$ 7,017,639</u>	<u>\$ 11,392,393</u>
Total net assets and liabilities	<u>\$ 8,339,590</u>	<u>\$ 14,509,822</u>	<u>\$ 22,849,412</u>

CITY OF KINGSTON, TENNESSEE
Statement of Activities
Year Ended June 30, 2010

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
Primary Government						
Governmental activities						
General government	\$ 1,243,464	\$ 4,046	-	\$ (1,239,418)	\$ -	\$ (1,239,418)
State Street Aid	131,564	-	227,330	95,766	-	95,766
Public safety	1,827,769	-	-	(1,827,769)	-	(1,827,769)
Public welfare	1,552,282	-	-	(1,552,282)	-	(1,552,282)
Drug fund	22,956	10,032	-	(12,924)	-	(12,924)
Waste management	247,637	326,038	-	78,401	-	78,401
Interest on long-term debt	27,920	-	-	(27,920)	-	(27,920)
Total governmental activities	5,053,592	340,116	227,330	(4,486,146)	-	(4,486,146)
Business-Type activities						
Water and Sewer Fund	3,445,029	4,049,962	-	-	604,933	604,933
Total business-type activities	3,445,029	4,049,962	-	-	604,933	604,933
Total primary government	\$ 8,498,621	\$ 4,390,078	\$ 227,330	(4,486,146)	604,933	(3,881,213)
General Revenues						
Property taxes				1,650,170	-	1,650,170
Sales taxes				950,055	-	950,055
Business taxes				93,438	-	93,438
Other local taxes				249,824	-	249,824
Intergovernmental revenues				614,564	-	614,564
Licenses and permits				165,503	-	165,503
Fines and fees				79,724	-	79,724
Investment earnings				9,534	-	9,534
Rents				29,877	-	29,877
Other revenues				403,484	-	403,484
Total general revenues				4,246,173	-	4,246,173
Change in net assets				(239,973)	604,933	364,960
Net assets, beginning of the year				4,614,727	6,412,706	11,027,433
Net assets, end of the year				\$ 4,374,754	\$ 7,017,639	\$ 11,392,393

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
 Governmental Funds
 Balance Sheet
 June 30, 2010

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,017,350	\$ 10,749	\$ 1,028,099
Taxes receivables, net	2,123,278	-	2,123,278
Due from other funds	27,282	-	27,282
Due from other governmental units	65,387	-	65,387
Total assets	\$ 3,233,297	\$ 10,749	\$ 3,244,046
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts payable	38,621	-	38,621
Accrued employee benefits	20,000	-	20,000
Accrued interest	12,797	-	12,797
Other current liabilities	40,994	-	40,994
Deferred revenue	1,785,549	-	1,785,549
Total liabilities	1,897,961	-	1,897,961
Fund balances			
Unreserved	1,335,336	-	1,335,336
Reserved, reported in nonmajor Special revenue funds	-	10,749	10,749
Total fund balances	1,335,336	10,749	1,346,085
Total liabilities and fund balances	\$ 3,233,297	\$ 10,749	\$ 3,244,046

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

Ending fund balance - governmental funds	\$ 1,346,085
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	5,095,544
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.	187,051
Some liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,253,926)
Net assets of governmental activities	\$ 4,374,754

CITY OF KINGSTON, TENNESSEE
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balance
Year Ended June 30, 2010

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Local taxes	\$ 2,883,193	\$ -	\$ 2,883,193
Intergovernmental revenues	715,137	-	715,137
Public welfare	4,046	-	4,046
Charges for service	165,503	-	165,503
Fines and forfeitures	79,724	-	79,724
Drug fund	-	10,032	10,032
Waste management	-	326,038	326,038
Other revenues	543,216	-	543,216
Investment earnings	9,534	-	9,534
	<u>4,400,353</u>	<u>336,070</u>	<u>4,736,423</u>
Total revenues			
Expenditures			
Current			
General government	812,431	22,956	835,387
Public safety	1,714,009	-	1,714,009
Public welfare	1,570,087	247,637	1,817,724
Capital improvements	1,021,739	-	1,021,739
Interest	27,920	-	27,920
	<u>5,146,186</u>	<u>270,593</u>	<u>5,416,779</u>
Total expenditures			
Excess (deficiency) of revenues over (under) expenditures	<u>(745,833)</u>	<u>65,477</u>	<u>(680,356)</u>
Other financing sources (uses)			
Debt proceeds	849,000	-	849,000
Retirement of debt	(193,325)	-	(193,325)
Transfer in (out)	78,401	(78,401)	-
	<u>734,076</u>	<u>(78,401)</u>	<u>655,675</u>
Total other financing sources (uses)			
Excess of expenditures and other financing uses over revenues and other financing sources	(11,757)	(12,924)	(24,681)
Fund balance, beginning of the year	<u>1,347,093</u>	<u>23,673</u>	<u>1,370,766</u>
Fund balance, end of the year	<u>\$ 1,335,336</u>	<u>\$ 10,749</u>	<u>\$ 1,346,085</u>

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, 2010

Net change in fund balances - total governmental funds \$ (24,681)

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. 975

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. 187,051

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. (596,643)

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. 193,325

Change in net assets of governmental activities \$ (239,973)

CITY OF KINGSTON, TENNESSEE

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		with Final Budget
Revenues				
Donations pavilion	\$ -	\$ 67,000	\$ 77,136	\$ 10,136
Current property tax	1,485,310	1,437,990	1,475,765	37,775
Public utilities property tax	30,000	23,976	23,976	-
Property tax delinquent - 1st	106,000	82,000	82,378	378
Property tax delinquent - 2nd	12,000	12,000	11,894	(106)
Property tax delinquent - 3rd	8,000	8,200	8,157	(43)
Interest, penalty, and court costs	12,000	10,500	10,288	(212)
In lieu tax, Rockwood Electric	43,992	41,925	38,034	(3,891)
Local sales tax county trustee	1,048,495	987,600	937,761	(49,839)
Wholesale beer tax	171,500	171,000	172,406	1,406
Wholesale liquor tax	42,000	38,900	39,384	484
Business taxes	160,377	81,100	93,438	12,338
Cable TV franchise tax	74,260	73,400	75,219	1,819
Room occupancy tax	64,000	61,500	55,622	(5,878)
Beer licenses	1,800	1,950	1,950	-
Liquor licenses	200	-	-	-
Building and related permits	40,000	9,793	9,853	60
Safers grant	191,101	155,238	158,487	3,249
TVA Reimbursement	-	-	22,859	22,859
Grant Roan County (Docks, Pavilion)	-	59,500	59,542	42
P&R art grant	4,200	-	-	-
State sales tax	389,915	335,510	318,657	(16,853)
State income tax	69,000	64,302	64,303	1
State beer tax	2,940	2,608	2,609	1
State liquor tax	1,100	4,126	4,126	-
State gasoline tax	140,624	139,309	132,932	(6,377)
State-City streets	11,350	11,303	10,807	(496)
State Street contract maintenance	24,000	24,272	24,273	1
Gross receipts - TVA	61,000	60,726	60,726	-
TVA impact funds	-	20,894	20,894	-
Corporate excise tax	26,900	16,267	16,268	1
TML full package bonus	3,500	3,500	3,500	-
General government - charges	3,000	520	546	26
Highways and streets charges	400	-	-	-
Swimming pool charges	35,045	26,220	22,105	(4,115)
Park and recreation charges	25,500	10,600	7,772	(2,828)
City court fines and cost	75,000	58,900	59,088	188
Drug fines	2,500	3,650	3,698	48
Traffic school charges	12,000	7,980	6,650	(1,330)
Interest earnings	11,000	9,360	9,534	174
Other funds received	-	-	109,856	109,856
ORUD franchise	21,500	21,500	21,500	-
Contract water billing	146,360	146,360	146,360	-
Total revenues	4,557,869	4,291,479	4,400,353	108,874

CITY OF KINGSTON, TENNESSEE

General Fund

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

Year Ended June 30, 2010

	Budget		Actual	Variance with Final Budget
	Original	Final		
Expenditures				
Legislative	142,081	95,532	88,798	6,734
City court	22,986	20,547	19,955	592
City manager	105,522	107,506	104,568	2,938
Financial administration	374,031	361,348	352,224	9,124
Planning and zoning	9,630	9,943	9,712	231
City hall buildings maintenance	44,106	35,150	31,471	3,679
Other general governmental expense	250,017	207,356	205,702	1,654
Police	815,077	848,760	835,452	13,308
Automotive services	91,000	82,000	81,991	9
Fire protection	621,822	599,115	587,790	11,325
Fire safers grant	238,882	189,900	185,043	4,857
Building and codes	32,497	25,575	23,733	1,842
Public works	689,876	676,939	657,709	19,230
State street aid	178,135	144,500	131,564	12,936
Capital improvements	1,346,526	1,085,912	1,021,739	64,173
Recreation	539,774	548,440	547,707	733
Swimming pools	34,030	30,150	30,151	(1)
Libraries	203,864	205,853	202,957	2,896
Interest	55,059	39,500	27,920	11,580
Total expenditures	<u>5,794,915</u>	<u>5,314,026</u>	<u>5,146,186</u>	<u>167,840</u>
Excess (deficiency) of revenues over (under) expenditures	(1,237,046)	(1,022,547)	(745,833)	(58,966)
Other financing sources (uses)				
Debt proceeds	750,000	750,000	849,000	(99,000)
Retirement of debt	(216,565)	(150,542)	(193,325)	42,783
Transfers from other funds	-	-	78,401	78,401
Net change in fund balance	(703,611)	(423,089)	(11,757)	(36,782)
Fund balance, July 1, 2009	<u>1,135,709</u>	<u>1,135,709</u>	<u>1,347,093</u>	<u>-</u>
Fund balance, June 30, 2010	<u>\$ 432,098</u>	<u>\$ 712,620</u>	<u>\$ 1,335,336</u>	<u>\$ (36,782)</u>

CITY OF KINGSTON, TENNESSEE
 Proprietary Fund - Water and Sewer Fund
 Statement of Net Assets
 June 30, 2010

ASSETS

Current Assets	
Cash and cash equivalents	\$ 286,925
Accounts receivable	257,486
Inventories	<u>98,241</u>
Total current assets	<u>642,652</u>
Other Assets	
Restricted cash	2,000,823
Unamortized bond discount	14,606
Capital assets	
Utility plant, net	<u>11,851,741</u>
Total other assets	<u>13,867,170</u>
Total assets	<u>\$ 14,509,822</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts payable	\$ 9,430
Accrued employee benefits	20,000
Current portion of long- term debt	534,472
Interest payable	1,460
Due to general fund	<u>27,282</u>
Total current liabilities	<u>592,644</u>
Long-Term Liabilities	
Accrued employee benefits	9,416
Bonds payable	<u>6,890,123</u>
Total long-term liabilities	<u>6,899,539</u>
Total liabilities	<u>7,492,183</u>
Net Assets	
Invested in capital assets, net of related debt	4,427,146
Restricted	2,000,823
Unrestricted	<u>589,670</u>
Total net assets	<u>7,017,639</u>
Total liabilities and net assets	<u>\$ 14,509,822</u>

CITY OF KINGSTON, TENNESSEE
Proprietary Funds - Water and Sewer Fund
Statement of Revenues, Expenses, and Changes in Net Assets
Year Ended June 30, 2010

Operating Revenue	
Sales	\$ 2,810,513
Other operating revenue	<u>1,219,758</u>
Total operating revenues	<u>4,030,271</u>
Operating Expenses	
Auditing and accounting	11,500
Legal and professional	35,359
Subscriptions and dues	14,135
Salaries	582,726
Payroll taxes	45,726
Retirement	43,892
Utilities	173,762
Telephones and pagers	19,082
Education and training	6,440
Chemicals and lab	155,021
Garbage disposal-landfill	27,118
Auto expense	35,663
Equipment maintenance	122,011
Stone	7,225
Infiltration inflow	100,519
Repairs	316,171
Ground maintenance	12,206
Building maintenance	2,117
Hospital and health insurance	161,550
Safety supplies	1,084
Insurance	127,858
Travel	4,397
Operating supplies	46,125
Contract operations	146,360
Uniforms and safety boots	10,100
Depreciation and amortization	400,242
Environmental restoration	<u>742,567</u>
Total operating expenses	<u>3,350,956</u>
Operating income	<u>679,315</u>
Nonoperating Revenues (Expenses)	
Interest income	19,691
Interest expense	<u>(94,073)</u>
Total nonoperating revenue (expenses)	<u>(74,382)</u>
Change in net assets	604,933
Net assets, July 1, 2009	<u>6,412,706</u>
Net assets, June 30, 2010	<u>\$ 7,017,639</u>

See notes to financial statements.

CITY OF KINGSTON, TENNESSEE
Proprietary Funds - Water and Sewer Fund
Statement of Cash Flows
Year Ended June 30, 2010

Cash Flows From Operating Activities	
Cash received from customers	\$ 4,114,649
Cash paid to suppliers	(2,291,804)
Cash paid to employees	<u>(672,344)</u>
Net cash flows from operating activities	<u>1,150,501</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(57,882)
Principal paid on long-term debt	(513,022)
Interest expense	<u>(94,073)</u>
Net cash flows from capital and related financing activities	<u>(664,977)</u>
Cash Flows From Investing Activities	
Interest earned	<u>19,691</u>
Net cash flows from investing activities	<u>19,691</u>
Net increase in cash and cash equivalents	505,215
Cash and restricted cash equivalents at the beginning of year	1,782,533
Less: Restricted cash	<u>(2,000,823)</u>
Cash and cash equivalents at end of year	<u>\$ 286,925</u>
Reconciliation of net operating income to net cash flows from operating activities	
Cash Flows From Operating Activities	
Operating income	\$ 679,315
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	400,242
Changes in operating assets and liabilities:	
Decrease in assets:	
Accounts receivable	84,378
Decrease in liabilities:	
Accounts payable	<u>(13,434)</u>
Net cash flows from operating activities	<u>\$ 1,150,501</u>

CITY OF KINGSTON, TENNESSEE
Notes to Financial Statements
June 30, 2010

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.

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

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.

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

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, 2008, upon which the 2009 levy was based, was \$118,403,591 not including public utilities. The tax rate was \$1.35 per \$100 of assessed value. Current tax collections for the year ended June 30, 2010 were 89% 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, 2010, the allowance for uncollectible taxes in the General Fund was \$20,000 and the allowance for uncollectible accounts receivable in the enterprise fund was approximately \$50,000.

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.

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

NOTE 3 - DEPOSITS

At June 30, 2010, the bank balance of cash held with local financial institutions (checking and savings) was \$2,924,066 of which \$250,000 was covered by federal depository insurance, and \$2,674,066 was covered by collateral held in the City's name.

A summary of these deposits at June 30, 2010 is as follows:

	Balance Per Books	Balance Per Bank
Deposits		
Governmental activities		
Cash on hand	\$ 500	\$ -
Cash in checking and savings	1,027,599	1,235,305
	1,028,099	1,235,305
Business-type activities		
Cash on hand	200	-
Cash in checking and savings	1,029,599	1,688,761
	1,029,799	1,688,761
Total cash and savings accounts	\$ 2,057,898	\$ 2,924,066

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, 2010 are summarized as follows:

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

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

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 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	279,436	-	2,785,578
Machinery and equipment	3,004,276	-	-	3,004,276
Other improvements	<u>2,491,703</u>	<u>781,687</u>	<u>-</u>	<u>3,273,390</u>
Total capital assets being depreciated	8,002,121	1,061,123	-	9,063,244
Less accumulated depreciation:	<u>(4,230,747)</u>	<u>(455,039)</u>	<u>-</u>	<u>(4,685,786)</u>
Total capital assets being depreciated, net	<u>3,771,374</u>	<u>606,084</u>	<u>-</u>	<u>4,377,458</u>
Governmental activities capital assets, net	<u>\$ 4,489,460</u>	<u>\$ 606,084</u>	<u>\$ -</u>	<u>\$ 5,095,544</u>
Business-type activities:				
Capital assets, not being depreciated				
Land	\$ 46,361	\$ -	\$ -	\$ 46,361
Construction in progress	<u>724,670</u>	<u>57,882</u>	<u>-</u>	<u>782,552</u>
Total capital assets, not being depreciated	<u>771,031</u>	<u>57,882</u>	<u>-</u>	<u>828,913</u>
Capital assets, being depreciated				
Machinery and equipment	293,854	-	-	293,854
Water plant & distribution	5,918,273	-	-	5,918,273
Sewer plant & transmission	<u>11,858,982</u>	<u>-</u>	<u>-</u>	<u>11,858,982</u>
Total capital assets, being depreciated	<u>18,071,109</u>	<u>-</u>	<u>-</u>	<u>18,071,109</u>
Less accumulated depreciation:	<u>(6,648,039)</u>	<u>(400,242)</u>	<u>-</u>	<u>(7,048,281)</u>
Total capital assets being depreciated, net	<u>11,423,070</u>	<u>(400,242)</u>	<u>-</u>	<u>11,022,828</u>
Business-type activities capital assets, net	<u>\$ 12,194,101</u>	<u>\$ (342,360)</u>	<u>\$ -</u>	<u>\$ 11,851,741</u>

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

NOTE 5 - CAPITAL ASSETS - (Continued)

Depreciation for the year ended June 30, 2010 was expensed as follows:

Governmental activities:	
General government	\$ 227,520
Public safety	113,760
Public welfare	<u>113,759</u>
Total depreciation expense - governmental activities	<u>\$ 455,039</u>
Business-type activities:	
Water	\$ 124,158
Sewer	<u>276,084</u>
Total depreciation expense - business-type activities	<u>\$ 400,242</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 highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for a disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Kingston participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

Funding Policy

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

City of Kingston is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010 was 7.50 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.

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

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

Annual Pension Cost

For the year ending June 30, 2010, City of Kingston's annual pension cost of \$185,395 to TCRS was equal to City of Kingston's required and actual contributions. The required contribution was determined as part of the July 1, 2007 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, 2007 was 18 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
2010	\$ 185,395	100%	\$ -
2009	177,300	100%	-
2008	192,202	100%	-
2007	178,306	100%	-

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

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

Long-term debt consisted of the following at June 30, 2010:

\$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 6/30/10	\$ 788,000
\$750,000 loan from the Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program payments due annually and vary, interest rate is variable at 6/30/10	750,000
Municipal Asset Management, capital lease for the purchase of a fire truck, payments due annually of \$54,688 includes principal and interest, interest rate is variable at 6/30/10	285,574
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 6/30/10	163,000
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 6/30/10	40,469
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 6/30/10	39,682
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 6/30/10	32,801
Motorola, Inc., capital lease for the purchase of two police radios, payments due quarterly of \$8,429 includes principal and interest, interest rate is variable at 6/30/10	30,523
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 6/30/10	25,832

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

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

Citicapital Commercial, capital lease for the purchase of a bobcat, payments due monthly of \$659 includes principal and interest, interest rate is variable at 6/30/10	18,561
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 6/30/10	<u>8,979</u>
Total debt	2,183,421
Long-term portion of provision for compensated absences	<u>70,505</u>
	2,253,926
Less amounts due within one year	<u>(253,080)</u>
Total long-term debt	<u><u>\$ 2,000,846</u></u>

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

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 195,239	\$ 90,847	\$ 286,086
2012	194,645	82,160	276,805
2013	162,453	74,543	236,996
2014	153,459	68,279	221,738
2015	158,456	62,053	220,508
2016 and thereafter	<u>1,319,170</u>	<u>306,038</u>	<u>1,625,208</u>
	<u><u>\$ 2,183,421</u></u>	<u><u>\$ 683,920</u></u>	<u><u>\$ 2,867,341</u></u>

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

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

Long-term debt consisted of the following at June 30, 2010:

Tennessee Municipal Bond Fund Series 1999 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2025	\$ 4,890,000
Tennessee Municipal Bond Fund Series 2004 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2033	1,799,000
Tennessee Municipal Bond Fund Series 1991 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2016	134,318
GMAC Commercial Mortgage Corp. Series 1979 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2020	345,000
Tennessee Municipal Bond Fund Series 2008 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through May, 2013	155,000
GMAC Commercial Mortgage Corp. Series 1975 Waterworks Revenue Bond at a variable rate of interest, due in varying amounts through January, 2015	44,000
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	27,728
Lease payable to CNH Capital, due in monthly installments of \$1,270, including interest at 8.35%; due July 2012, collateralized by equipment	<u>29,549</u>
	7,424,595
Less amounts due in one year	<u>(534,472)</u>
	<u>\$ 6,890,123</u>

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

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
2011	\$ 534,472	\$ 367,069	\$ 901,541
2012	423,079	343,094	766,173
2013	382,086	321,996	704,082
2014	361,000	302,972	663,972
2015 and thereafter	<u>5,723,958</u>	<u>2,154,885</u>	<u>7,878,885</u>
Total	<u>\$ 7,424,595</u>	<u>\$ 3,490,016</u>	<u>\$ 10,914,653</u>

Long-term debt activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds and capital leases					
Tennessee municipal bond	\$ 833,000	\$ 913,000	\$ (45,000)	\$ 1,701,000	\$ 104,656
Capital leases	<u>517,514</u>	<u>109,856</u>	<u>(144,949)</u>	<u>482,421</u>	<u>148,424</u>
Governmental activities long-term debt	<u>\$ 1,350,514</u>	<u>\$ 1,022,856</u>	<u>\$ (189,949)</u>	<u>\$ 2,183,421</u>	<u>\$ 253,080</u>
Business-type Activities					
Bonds and capital leases					
Tennessee municipal bond	\$ 7,485,976	\$ -	\$ (463,658)	\$ 7,022,318	\$ 483,318
Waterworks revenue bond	370,000	-	(25,000)	345,000	25,000
Capital leases	<u>81,641</u>	<u>-</u>	<u>(24,364)</u>	<u>57,277</u>	<u>26,154</u>
Business-type activities long-term debt	<u>\$ 7,937,617</u>	<u>\$ -</u>	<u>\$ (513,022)</u>	<u>\$ 7,424,595</u>	<u>\$ 534,472</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.

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

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, 2010.

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, 2010, for items that should potentially be recognized or disclosed in the financial statements. The evaluation was conducted through December 2, 2010 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, 2010

(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%

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF KINGSTON, TENNESSEE
Special Revenue Funds
Combining Balance Sheets
June 30, 2010

	Drug Fund	Waste Management Fund	Total
Assets			
Cash	\$ 10,749	\$ -	\$ 10,749
Total assets	\$ 10,749	\$ -	\$ 10,749
Fund balance	10,749	-	10,749
Total fund balance	\$ 10,749	\$ -	\$ 10,749

CITY OF KINGSTON, TENNESSEE
Special Revenue Funds
Combining Statements of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2010

	Drug Fund	Waste Management Fund	Total
Revenues			
Drug related fines	\$ 10,032	\$ -	\$ 10,032
Garbage tip fees	<u>-</u>	<u>326,038</u>	<u>326,038</u>
Total revenues	<u>10,032</u>	<u>326,038</u>	<u>336,070</u>
 Expenditures			
Contracted services (collection)	-	247,637	247,637
Operating supplies	<u>22,956</u>	<u>-</u>	<u>22,956</u>
Total expenditures	<u>22,956</u>	<u>247,637</u>	<u>270,593</u>
 Excess (deficiency) of revenues over (under) expenditures	 (12,924)	 78,401	 65,477
 Other financing sources (uses)			
Transfer out	<u>-</u>	<u>(78,401)</u>	<u>(78,401)</u>
 Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	 (12,924)	 -	 (12,924)
 Fund balance, July 1, 2009	 <u>23,673</u>	 <u>-</u>	 <u>23,673</u>
 Fund balance, June 30, 2010	 <u>\$ 10,749</u>	 <u>\$ -</u>	 <u>\$ 10,749</u>

CITY OF KINGSTON, TENNESSEE
Drug Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2010

Revenues	Budget		Actual	Variance
	Original	Final		with Final Budget
Drug related fines	\$ 19,800	\$ 19,800	\$ 10,032	\$ (9,768)
Interest	200	200	-	(200)
Total revenues	<u>20,000</u>	<u>20,000</u>	<u>10,032</u>	<u>(9,968)</u>
Expenditures				
Education	1,000	1,000	417	583
Auditing	1,000	1,000	1,000	-
Other contractual services	2,000	2,000	-	2,000
Operating supplies	3,000	3,000	11,169	(8,169)
Uniforms and safety boots	2,000	2,000	926	1,074
Safety supploes	1,000	1,000	-	1,000
Confidential drug buys	4,000	4,000	-	4,000
Machinery and equipment	<u>10,500</u>	<u>10,500</u>	<u>9,443</u>	<u>1,057</u>
Total expenditures	<u>24,500</u>	<u>24,500</u>	<u>22,955</u>	<u>1,545</u>
Excess of revenues over expenditures	(4,500)	(4,500)	(12,923)	(8,423)
Fund balance, July 1, 2009	<u>4,125</u>	<u>4,125</u>	<u>23,673</u>	<u>-</u>
Fund balance, June 30, 2010	<u>\$ (375)</u>	<u>\$ (375)</u>	<u>\$ 10,750</u>	<u>\$ (8,423)</u>

CITY OF KINGSTON, TENNESSEE
Waste Management Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2010

	Budget		Actual	Variance
	Original	Final		with Final Budget
Revenues				
Garbage tip fees	\$ 272,950	\$ 272,950	\$ 326,038	\$ 53,088
Total revenues	<u>272,950</u>	<u>272,950</u>	<u>326,038</u>	<u>53,088</u>
Expenditures				
Contracted services (collection)	<u>272,950</u>	<u>272,950</u>	<u>247,637</u>	<u>25,313</u>
Total expenditures	<u>272,950</u>	<u>272,950</u>	<u>247,637</u>	<u>25,313</u>
Excess of revenues over expenditures	-	-	78,401	(78,401)
Other financing sources (uses)				
Transfers to other funds	<u>-</u>	<u>-</u>	<u>(78,401)</u>	<u>78,401</u>
Excess of revenues and other financing sources over expenditures and other financing uses	-	-	-	-
Fund balance, July 1, 2009	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, June 30, 2010	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF KINGSTON, TENNESSEE
Schedule of Changes in Property Taxes Receivable
Year Ended June 30, 2010

Fiscal Year June 30,	Balance July 1, 2009	Additions	Collections	Balance June 30, 2010
2010	\$ -	\$ 1,622,457	\$ 1,515,001	\$ 107,456
2009	67,586		35,884	31,702
2008	26,282	-	5,936	20,346
2007	13,204	-	3,033	10,171
2006	7,434	-	1,040	6,394
2005	4,365	-	407	3,958
2004	3,836	-	706	3,130
2003	3,796	-	1,324	2,472
2002	2,620	-	769	1,851
2001	1,909	-	1,127	782
2000	2,097	-	-	2,097
1999	2,547	-	-	2,547
Total Property Taxes Receivable	<u>\$ 135,676</u>	<u>\$ 1,622,457</u>	<u>\$ 1,565,227</u>	<u>\$ 192,906</u>

* As of June 30, 2010, all unpaid taxes for the years 2008 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, 2010

WATER RATES

<u>Quantity</u>	<u>Rates</u>		
	<u>Inside City Limits</u>	<u>Outside City Limits</u>	
First 1,000 gallons	\$ 7.99	\$ 12.54	Minimum bill
Over 1,000 gallons	5.52	9.54	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	\$ 7.99	\$ 14.96	Minimum bill
Over 1,000 gallons	7.49	11.96	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, 2010, is as follows:

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

CITY OF KINGSTON, TENNESSEE
 Water and Sewer Fund
 Schedule of Long-Term Debt Requirements
 June 30, 2010

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
2011	\$ 8,000	\$ 2,033	\$ 25,000	\$ 17,250	\$ 134,318	\$ 3,281	\$ 227,000	\$ 243,554	\$ 54,000	\$ 89,950
2012	8,000	1,633	30,000	16,000	-	-	238,000	232,136	56,000	87,250
2013	9,000	1,213	30,000	14,500	-	-	250,000	220,208	58,000	84,450
2014	9,000	763	30,000	13,000	-	-	262,000	207,658	60,000	81,550
2015	10,000	292	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	-	-	45,000	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
	<u>\$ 44,000</u>	<u>\$ 5,934</u>	<u>\$ 345,000</u>	<u>\$ 103,000</u>	<u>\$ 134,318</u>	<u>\$ 3,281</u>	<u>\$ 4,890,000</u>	<u>\$ 2,156,300</u>	<u>\$ 1,799,000</u>	<u>\$ 1,202,800</u>

See independent auditors' report on supplementary information.

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

Year Ended June 30,	2008 BOND ISSUE REQUIREMENTS		EQUIPMENT LEASE REQUIREMENTS		EQUIPMENT LEASE REQUIREMENTS		TOTAL PRINCIPAL	TOTAL INTEREST	TOTAL DEBT SERVICE REQUIREMENT
	Principal	Interest	Principal	Interest	Principal	Interest			
2011	\$ 60,000	\$ 7,750	\$ 13,263	\$ 1,971	\$ 12,890	\$ 1,280	\$ 534,471	\$ 367,069	\$ 901,540
2012	63,000	4,750	14,415	820	13,664	505	423,079	343,094	766,173
2013	32,000	1,600	1,912	18	1,174	7	382,086	321,996	704,082
2014	-	-	-	-	-	-	361,000	302,971	663,971
2015	-	-	-	-	-	-	381,000	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	-	-	-	-	-	-	468,000	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
	<u>\$ 155,000</u>	<u>\$ 14,100</u>	<u>\$ 29,590</u>	<u>\$ 2,809</u>	<u>\$ 27,728</u>	<u>\$ 1,792</u>	<u>\$ 7,424,636</u>	<u>\$ 3,490,016</u>	<u>\$ 10,914,652</u>

See independent auditors' report on supplementary information.

CITY OF KINGSTON, TENNESSEE
Schedule of Insurance in Force
June 30, 2010

	<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

CITY OF KINGSTON, TENNESSEE
 Water and Sewer Fund
 Schedule of Unaccounted for Water
 June 30, 2010

(All amounts in gallons)

Water Treated and Purchased:		
Water Pumped (potable)	315,096,000	
Water Purchased	<u>0</u>	
Total Water Treated and Purchased		315,096,000
Accounted for Water:		
Water Sold	251,038,664	
Metered for Consumption (in house usage)	0	
Fire Department Usage	750,000	
Flushing	30,266,175	
Tank Cleaning/Filling	1,600,000	
Street Cleaning	0	
Bulk Sales	0	
Water Bill Adjustments / plus or (minus)	<u>0</u>	
Total Accounted for Water		<u>283,654,839</u>
Unaccounted for Water		31,441,161
Percent Unaccounted for Water		9.98%

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.



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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Kingston, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City of Kingston, Tennessee's basic financial statements and have issued our report thereon dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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.

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
December 2, 2010