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# **Town of Kingston, Oklahoma**

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Financial Statements and Independent Auditor's Reports  
For the Year Ended June 30, 2011

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**TOWN OF KINGSTON, OKLAHOMA**

**FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

Town Officials:

Charlotte Matchen  
Frank Johnson  
Rick Roach  
Scott Uhlenhake  
Richard Taylor

Independent Audit Firm:  
Casey J. Russell CPA, Inc.  
Certified Public Accountant

TOWN OF KINGSTON, OKLAHOMA  
JUNE 30, 2011

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**TOWN OF KINGSTON, OKLAHOMA**  
**JUNE 30, 2011**

Our discussion and analysis of the Town of Kingston's financial performance provides an overview of the Town's financial activities for the year ended June 30, 2011. Please read this in conjunction with the Town's financial statements, which follow.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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This annual report consists of the following four parts:

- I. Management's discussion and analysis – this section
- II. Basic financial statements – consisting of:
  - A) Government-wide financial statements
  - B) Fund financial statements
  - C) Notes to the financial statements
- III. Required supplementary information – consisting of:
  - A) Budgetary comparison schedules
  - B) Defined benefit retirement plan information
- IV. Other supplementary information – consisting of:
  - A) Combining schedules
  - B) Other information

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Town's *overall* financial status.

The remaining statements are *fund financial statements* that focus on *individual parts* of the Town government, reporting the Town's operations *in more detail* than the government-wide statements.

- The *governmental funds* statements tell how *general government* services such as public safety were financed in the *short term* as well as what remains for future spending.
- *Proprietary funds* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as the water and sewer system.
- *Fiduciary funds* statements provide information about the financial relationships in which the Town acts solely as a *trustee or agent* for the benefit of those outside of the government. The Town of Kingston has no fiduciary funds.
- *Component Unit* fund statements provide information about the operations of entities which are part of the government, but which the Kingston Economic Development Authority which is currently serving as a conduit for building and financing a Multi-Purpose Building for Kingston Public Schools.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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### Reporting Government-wide Financial Statements (The Town as a Whole)

The government-wide statements report information about the Town as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the Town's *net assets* and how they have changed. Looking at net assets – the difference between the Town's assets and liabilities – is one way to measure the Town's financial health or *financial position*. Over time, increases or decreases in the Town's net assets are an indicator of whether its financial health is improving or deteriorating. You should also consider other nonfinancial factors such as changes in the Town's sales tax base and the condition of the Town's infrastructure networks, to assess the *overall health* of the Town.

In the government-wide financial statements, the Town's activities are divided into three categories:

- *Governmental activities* – Most of the Town's basic services are included here, such as the police, fire, streets, town maintenance, cemetery, parks, and general administration. Sales taxes, fines and grants finance most of these activities.
- *Business-type activities* – The Town charges fees to customers to help cover all or most of the costs of certain services it provides. The Town's water and sewer system and sanitation services are reported here as Kingston Municipal Authority.
- *Component unit activities* – The Town includes a separate legal entity in its report -- the Kingston Economic Development Authority. Although legally separate, this "component unit" is important because the Town is financially accountable for it.

### Reporting Fund Financial Statements (The Town's Most Significant Individual Funds)

The fund financial statements provide more detailed information about the Town's *funds*, focusing on its most significant or "major" funds – not the Town as a whole. Funds are accounting devices that the Town uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by State law or by bond covenants.
- Other funds are established by the Town Council to control and manage money for particular purposes (such as the Police Fine Fund) or to show that certain taxes or grants are being used properly (such as the Street & Alley Fund).

The Town has two kinds of funds, governmental and proprietary, and they use different accounting approaches.

- *Governmental funds* – Most of the Town's basic services are included in governmental funds, which focus on (1) how money flows in and out and (2) the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and other financial assets that can be readily converted to cash. Consequently, the governmental funds statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the Town charges customers a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. In fact, the Town's enterprise fund is the Kingston Municipal Authority and is its only proprietary fund and business-type activity.

## FINANCIAL HIGHLIGHTS

- The Town's primary government total net assets decreased from \$3,739,796 to \$ 3,723,794. The decrease was comprised of the following:

Governmental activities	decreased	3.02 %	\$ (57,074)
Business-type activities	increased	2.22 %	<u>41,072</u>
			\$ (16,002)
- During the year, the Primary Government's expenses were \$ 697,336 more than program related revenues. This deficit was offset by general, non-program revenues of \$ 689,785. Additionally, the Town recorded a prior period adjustment which decreased net assets by \$8,451.
- The Primary Government's financial statements now reflect land and capital assets, net of depreciation, for governmental activities of \$ 1,186,186 and business-type activities of \$ 2,279,710.
- The General Fund revenues were \$ 20,632 more than budgeted expectations and expenditures were \$ 4,507 less than budgeted.
- The Municipal Authority revenues were \$ 33,335 less than budgeted and expenses were \$ 123,407 less than budgeted.

## FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE

Condensed government-wide statement of net assets – June 30, 2010 & June 30, 2011:

	Governmental Activities		Business-type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current assets, unrestricted	\$678,370	\$ 719,198	\$ 242,010	\$ 324,735	\$ 920,380	\$1,043,933
Current assets, restricted	3,357	2,829	89,484	77,366	92,841	80,195
Capital assets	<u>1,262,029</u>	<u>1,186,186</u>	<u>2,338,274</u>	<u>2,279,710</u>	<u>3,600,303</u>	<u>3,465,896</u>
Total assets	1,943,756	1,943,756	2,669,768	2,669,768	4,613,316	4,590,024
Accts Payable & Current Debt	37,106	54,047	67,621	79,584	104,727	133,631
Other current liabilities	13,722	17,198	42,412	48,346	56,134	65,544
Long-term debt	<u>979</u>	<u>2,043</u>	<u>711,938</u>	<u>665,012</u>	<u>712,867</u>	<u>667,055</u>
Total liabilities	<u>51,757</u>	<u>73,288</u>	<u>821,971</u>	<u>792,942</u>	<u>873,728</u>	<u>866,230</u>
Net assets						
Invested in capital assets, net of related debt	1,235,809	1,171,250	1,580,676	1,567,595	2,816,485	2,738,845
Restricted	3,357	74,586	89,484	77,367	92,841	151,952
Unrestricted	<u>652,833</u>	<u>589,089</u>	<u>177,637</u>	<u>243,907</u>	<u>830,470</u>	<u>832,997</u>
Total net assets	\$ <u>1,891,999</u>	\$ <u>1,834,925</u>	\$ <u>1,847,797</u>	\$ <u>1,888,869</u>	\$ <u>3,739,796</u>	\$ <u>3,723,794</u>

The unrestricted net asset positions of both the governmental activities and the business-type activities should provide the Town with adequate resources for future period expenditures in the event future period revenues are not sufficient or fall short of expectations.

**FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (CONTINUED)**

Condensed government-wide statement of activities –  
Change in Net Assets – June 30, 2010 & June 30, 2011:

	<u>Governmental</u> <u>Activities</u>		<u>Business-type</u> <u>Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2009</u>	<u>2010</u>
Program revenues	296,849	296,849	776,112	776,112	\$ 761,346	\$1,072,961
Functional expenses	<u>847,098</u>	<u>847,098</u>	<u>665,363</u>	<u>665,363</u>	<u>1,444,065</u>	<u>1,512,461</u>
Excess (shortage)	(550,249)	(550,249)	110,749	110,749	(382,719)	(439,500)
General revenues	<u>749,481</u>	<u>749,481</u>	<u>13,038</u>	<u>13,038</u>	<u>694,134</u>	<u>762,519</u>
Change in Net Assets	<u>199,232</u>	<u>199,232</u>	<u>123,787</u>	<u>123,787</u>	<u>\$ 11,415</u>	<u>\$ 323,019</u>

The composition of total revenues, program and general, was as follows:

	<u>-----2010-----</u>		<u>-----2011-----</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
Sales tax	\$ 484,688	26.41%	\$ 500,891	32.17%
Use tax	28,218	1.53%	29,824	1.92%
Franchise taxes	56,944	3.10%	56,138	3.61%
Other taxes	50,838	2.77%	52,522	3.37%
Fines, forfeitures & costs	250,624	13.65%	171,469	11.01%
Charges for utility service	628,398	34.24%	627,408	40.29%
Charges for other services	8,445	0.46%	6,325	0.41%
Grants	185,494	10.11%	62,036	3.98%
Donations & Reimbursed	125,129	6.82%	34,030	2.19%
Investment earnings	635	0.03%	665	0.04%
Other revenues	<u>16,067</u>	<u>.88%</u>	<u>15,715</u>	<u>1.01%</u>
	<u>\$ 1,835,480</u>	<u>100.00%</u>	<u>\$ 1,557,023</u>	<u>100.00%</u>

The composition of total functional expenses was as follows:

	<u>-----2010-----</u>		<u>-----2011-----</u>	
	<u>Amount</u>	<u>Percent of Total</u>	<u>Amount</u>	<u>Percent of Total</u>
General government	279,324	18.47%	\$ 322,100	20.59%
City Maintenance	57,283	3.79%	61,680	3.94%
Cemetery, Parks & Community Development	2,992	0.20%	2,360	.15%
Police & Court	365,095	24.14%	404,228	25.83%
Fire protection	67,420	4.46%	74,942	4.79%
Streets & Highways	73,120	4.83%	69,796	4.46%
Public Works	630,406	41.68%	600,727	38.40%
Interest & Trustee Fees	<u>36,821</u>	<u>2.43%</u>	<u>28,741</u>	<u>1.84%</u>
	<u>\$ 1,512,461</u>	<u>100.00%</u>	<u>\$ 1,564,574</u>	<u>100.00%</u>

## **FINANCIAL ANALYSIS OF THE TOWN AS A WHOLE (CONTINUED)**

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### **Governmental activities**

For the year ended June 30, 2011, governmental activities revenues were higher than budgeted and expenditures were lower than expected; resulting in a variance in the Town favor for both receipts and outflows. During the immediately previous year, the Town experienced a decrease in sales tax revenue, which was unusual related to the Town's recent history. Only 2 times in the past 13 years, had the Town experienced a decrease in sales tax revenue. But this year, that trend reversed and the Town saw an increase in sales tax revenue once again. Operating expenses were generally consistent and increased over the prior year after experiencing an overall decline in 2010. The Town has made fewer significant capital expenditures in the past few years, and has been especially cautious not to pay for many capital expenses from the General Fund budget. However, the following assets were purchased from General Fund moneys during the year: fencing and infrastructure completion at the City Park on Hwy 70 costing \$3,520; major repairs to a zero turn mower used for town upkeep costing \$2,268. Most capital outlay that has been incurred recently is taking place with special revenue fund moneys and those details are discussed below by fund.

### **Business-type activities**

The Town's business type activity consists entirely of the Town's Municipal Authority which operates the water, sewer and sanitation systems. Operating revenues from utility charges was very constant compared to the prior year and fluctuated less than \$1,500 from 2010. These revenues were in line with expectations and are an indication that the Town's population is remaining steady. Budget basis non-capital operating expenses of the Municipal Authority decreased from the prior year by \$52,199. This amount was not due to any specific category, but is a reflection of the Authority's effort to hold expenses down. This is the second year, that expenses have decreased. In addition to operating expenses, the Municipal Authority also spent \$84,056 on capital expenses, with money partially funded by a CDBG grant. This project was completed and has been a 3 phase effort to begin the update the Town's sewer systems.

## **FINANCIAL ANALYSIS OF THE TOWN'S INDIVIDUAL FUNDS**

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The financial highlights of the Town's General Fund and Municipal Authority Fund were discussed above as the primary components of the governmental and business-type activities, respectively. Other individual fund information is noted below:

- Street and Alley Fund increased its fund balance by \$10,036 and had no expenditures during the year.
- The Police Special Fund increased its fund balance by \$ 86,921, resulting from an increase in fine revenues.
- The Court Costs Fund decreased its fund balance by \$14,502 for the year resulting from expenditures incurred to begin renovation on the old City Hall building and continued transfer of funds to cover the salary paid for the Town judge from General Fund. This trend is expected to continue into the following year, as the building project is completed.
- The Volunteer Fire Fund increased its fund balance by \$8,512 resulting from fundraising efforts and operating grants collected in excess of operating costs during the year.
- The Cemetery Care Fund, increased its fund balance by \$4,191 as the result of lot sales and fees in excess of very small operating expenses. Revenue in this fund is decreasing as available lot spaces become more scarce. The Town continues to search for acceptable land to expand its available cemetery space.
- All funds ended the year with positive fund balances.

**FINANCIAL ANALYSIS OF TOWN'S INDIVIDUAL FUNDS (CONTINUED)**

Condensed financial summary of individual funds FYE 6/30/2011									
	General Fund	Street & Alley	Police Special	Court Costs	Volunteer Fire Dept	Cemetery Care Fund	Public Works		
<u>Statement of Net Assets</u>									
Current unrestricted assets	\$ 431,832	\$ 69,694	\$ 77,010	\$ 53,519	\$ 13,184	\$ 71,896	\$ 324,735		
Restricted assets	675	-	-	2,829	-	1,388	77,366		
Capital assets (net of depreciation)	1,186,186	-	-	-	-	-	2,279,710		
Total assets	1,618,693	69,694	77,010	56,348	13,184	73,284	2,681,811		
Current liabilities	25,017	-	8,027	-	-	-	-		
Long-term liabilities	-	-	-	-	-	-	-		
Total liabilities	25,017	-	8,027	-	-	-	-		
Net fund equity	1,593,676	69,694	68,983	56,348	13,184	73,284	2,681,811		
<u>Statement of Activities</u>									
Revenues	\$ 657,977	\$ 13,026	\$ 149,412	\$ 32,547	\$ 29,870	\$ 4,791	\$ 669,400		
Expenditures/Expenses	(819,855)	-	(81,197)	(15,507)	(19,087)	(600)	(628,328)		
Transfers In of Cash	50,965	-	-	-	-	-	-		
Transfers Out of Cash	-	-	(45,025)	(5,940)	-	-	-		
Net Change	(110,913)	13,026	23,190	11,100	10,783	4,191	41,072		
Fund Equity, beginning	1,597,252	59,658	98,584	63,944	3,468	69,093	1,847,797		
Fund Equity, ending	1,486,339	72,684	121,774	75,044	14,251	73,284	1,888,869		

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Town adopts an annual budget prior to the July 1<sup>st</sup> start of each fiscal year. This original budget is prepared under a modified cash basis and is based on the projected current year ending fund balance and an estimate of the next year’s revenues. Expenditure appropriations are then established for each department. During the year, the Town Council can amend the budget as necessary. Generally, such amendments fall into three categories:

- Adjustments for corrections to the carryover fund balance or to the estimated revenues.
- Additional appropriations for new revenue sources not included in the original budget.
- Reclassifications between departments or expenditure accounts to prevent budget overspending.
- Additional appropriations for expenditures not anticipated at the original budget’s adoption.

General Fund budget summary for the year ended June 30, 2011:

	<u>Original Budget</u>	<u>Adjustments</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance</u>
Resources (inflows)	\$ <u>615,870</u>	\$ <u>7,200</u>	\$ <u>623,070</u>	\$ <u>666,511</u>	\$ <u>43,441</u>
Charges by department					
General Government	301,560	2,200	303,760	297,933	5,827
Town Maint, Parks & Cemetery	65,000	-0-	65,000	59,177	5,823
Community Development	1,000	-0-	1,000	821	179
Police & Court	249,000	5,000	254,000	250,208	3,792
Fire	33,132	-0-	33,132	29,855	3,277
Street	<u>10,000</u>	<u>-0-</u>	<u>10,000</u>	<u>8,251</u>	<u>1,749</u>
Total charges	<u>659,692</u>	<u>7,200</u>	<u>666,892</u>	<u>646,245</u>	<u>20,647</u>
Resources over (under) charges	(43,822)	-0-	(43,822)	20,266	64,088
Transfers from Other Funds	65,240	-0-	65,240	50,965	(14,275)
Transfers to Other Funds	-0-	-0-	-0-	-0-	-0-
Beginning Fund Balance	<u>206,773</u>	<u>-0-</u>	<u>206,773</u>	<u>219,092</u>	<u>12,319</u>
Ending Fund Balance	\$ <u>228,191</u>	\$ <u>-0-</u>	\$ <u>228,191</u>	\$ <u>290,323</u>	\$ <u>62,132</u>

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2011, the Town and Authority had invested \$3,465,896 (net of depreciation) in a broad range of capital assets, including land, buildings, equipment, roads and water and sewer systems. For the year ended June 30, 2011, the Town and Authority added \$ 109,994 in capital assets.

Summary of capital assets at June 30, 2011:			
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 67,626	\$ -	\$ 67,626
Buildings and improvements	600,304	94,772	695,076
Equipment	826,396	102,391	928,787
Infrastructure network	692,419	3,031,204	3,723,623
Accumulated depreciation	<u>(1,000,559)</u>	<u>(948,657)</u>	<u>(1,949,216)</u>
Total	\$ <u>1,186,186</u>	\$ <u>2,279,710</u>	\$ <u>3,465,896</u>

This year's major capital asset additions included:

- Storm siren upgrades for \$2,924;
- Fire fighter protective suits and equipment as well as continued lease purchase payments for a fire truck totaling \$14,903;
- Five used police vehicles including a light package to equip one of those cars. Asset cost of these 5 vehicles totaled \$73,523. Additionally, four existing units of the department were traded in on the purchase of the new units, and one vehicle was salvaged due to a traffic accident. Total costs of units removed from service totaled \$68,460. The department increased its asset cost a net of \$5,063;
- A CDBG sewer grant project was completed during the year at a year ended 6/30/2011 cost of \$84,056 paid partially from grant funds and partially from Municipal Authority funds.

### Debt Administration

At June 30, 2011, the long-term debt of the government consists of five items: A note payable to Oklahoma Water Resources Board from the Municipal Authority with an original principal balance of \$210,000 and two notes payable to Landmark Bank held by the Municipal Authority with original balances of \$97,411 and \$482,501 which are presented as notes payable in the proprietary fund types. A lease purchase obligation between the Town and Bancfirst for a fire truck with an original balance of \$55,020; and a new lease purchase obligation between the Town and Bancfirst for police vehicles are both presented in the governmental fund types of the statement of net assets as notes payable. Future funding obligations of these notes and lease are detailed in the Notes.

Summary of outstanding long-term debt:				
	<u>June 30,2010</u>	<u>Issued</u>	<u>Retired</u>	<u>June 30, 2011</u>
OWRB-water system	\$ 205,000	-0-	\$ (15,000)	\$ 190,000
Landmark Bank-sewer system	459,706	-0-	(25,442)	434,264
Landmark Bank –Sewer System	92,892	-0-	(5,042)	87,850
BancFirst - Fire Truck Lease	\$ 13,143	-0-	(12,214)	929
BancFirst – Police Vehicles	13,077	\$23,600	(22,670)	14,007

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

Several economic factors will influence the Town's operations and financial decisions in the next year and in years to come. Some of the most significant factors include:

- Population growth and tourism/business development in Kingston and the surrounding area appears to have leveled off and may even be declining with the nation-wide economic downturn. During the 2010 year, the Town experienced it's first decline in sales tax revenue in recent history; however, in the current year 2011, the tax had a small increase again. The Town has also noticed increasing costs of supplying maintenance and services to the citizens.
- Contemplation of additional borrowing by the Municipal Authority to finance sewer system improvements which are still necessary to upgrade the Town's systems.
- Looking to the future, the Town is actively looking for additional land available for purchase and suitable for use as a cemetery.

These factors were all considered in the preparation and adoption of the Town's 2011-2012 budget.

Summary of 2011-2012 original budget:				
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Municipal Authority</u>	<u>Total</u>
<b>Resources</b>				
Fund Balance, Unreserved	\$ 257,061	260,578	203,287	\$ 720,926
Revenues	648,573	222,930	618,500	1,490,003
Transfers	<u>53,540</u>	<u>-0-</u>	<u>-0-</u>	<u>53,540</u>
<b>Total Resources</b>	<u>959,174</u>	<u>483,508</u>	<u>821,787</u>	<u>2,264,469</u>
<b>Appropriations</b>				
Gen Government/Admin	313,200	14,000	-0-	327,200
City Maintenance	70,000	30,000	-0-	100,000
Police & Court	262,000	120,040	-0-	382,040
Fire	65,803	30,100	-0-	95,903
Street	39,753	60,000	-0-	99,753
Cemetery	-0-	52,000	-0-	52,000
Water & Sewer	-0-	-0-	404,000	404,000
Sanitation	-0-	-0-	137,000	137,000
Debt Service	-0-	-0-	78,000	78,000
Transfers	<u>-0-</u>	<u>53,820</u>	<u>-0-</u>	<u>53,820</u>
<b>Total Appropriations</b>	<u>750,756</u>	<u>359,960</u>	<u>619,000</u>	<u>1,729,716</u>
<b>Ending Fund Balance</b>	<u>\$ 208,418</u>	<u>123,548</u>	<u>202,787</u>	<u>\$ 534,753</u>

## **CONTACTING THE TOWN'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town's business office at Kingston Town Hall, North Main Street, Kingston, Oklahoma 73439.

**MD&A MISCELLANEOUS SCHEDULES**

**Town of Kingston, Oklahoma**  
**Combining Statement of Net Assets**  
**Governmental Activities**  
**June 30, 2011**

	<b><u>General Fund</u></b>	<b><u>Street &amp; Alley</u></b>	<b><u>Police Special Fund</u></b>	<b><u>Court Costs Fund</u></b>	<b><u>Volunteer Fire Fund</u></b>	<b><u>Cemetery Care Fund</u></b>	<b><u>Combined Totals</u></b>
<b><u>Assets</u></b>							
Current assets:							
Cash and cash equivalents	289,648	67,056	58,454	50,368	13,184	71,896	550,606
Receivables (net)	142,184	2,638	18,556	3,151	-	-	166,529
Intergovernmental receivable	-	-	-	-	-	-	-
	<u>431,832</u>	<u>69,694</u>	<u>77,010</u>	<u>53,519</u>	<u>13,184</u>	<u>71,896</u>	<u>717,135</u>
Noncurrent assets:							
Restricted cash and cash equivalents	675	-	-	2,829	-	1,388	4,892
Land and construction in progress	67,626	-	-	-	-	-	67,626
Capital assets, net of depreciation	<u>1,118,560</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,118,560</u>
	<u>1,186,861</u>	<u>-</u>	<u>-</u>	<u>2,829</u>	<u>-</u>	<u>1,388</u>	<u>1,191,078</u>
Total noncurrent assets	<u>1,186,861</u>	<u>-</u>	<u>-</u>	<u>2,829</u>	<u>-</u>	<u>1,388</u>	<u>1,191,078</u>
Total assets	<u>1,618,693</u>	<u>69,694</u>	<u>77,010</u>	<u>56,348</u>	<u>13,184</u>	<u>73,284</u>	<u>1,908,213</u>
<b><u>Liabilities</u></b>							
Current liabilities:							
Accounts payable	25,017	-	8,027	6,906	1,204	-	41,154
Notes Payable, current portion	12,893	-	-	-	-	-	12,893
Intergovernmental payable	-	-	-	-	-	-	-
	<u>37,910</u>	<u>-</u>	<u>8,027</u>	<u>6,906</u>	<u>1,204</u>	<u>-</u>	<u>54,047</u>
Noncurrent liabilities:							
Notes payable	2,043	-	-	-	-	-	2,043
Compensated absences	<u>17,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,198</u>
	<u>19,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,241</u>
Total noncurrent liabilities	<u>19,241</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,241</u>
Total liabilities	<u>57,151</u>	<u>-</u>	<u>8,027</u>	<u>6,906</u>	<u>1,204</u>	<u>-</u>	<u>73,288</u>
<b><u>Net Assets</u></b>							
Invested in capital assets,							
net of related debt	1,171,250	-	-	-	-	-	1,171,250
Restricted for:							
Pymt of State/Agency requd purposes	675	69,694	-	2,829	-	1,388	74,586
Unrestricted	<u>389,617</u>	<u>-</u>	<u>68,983</u>	<u>46,613</u>	<u>11,980</u>	<u>71,896</u>	<u>589,089</u>
Total net assets	<u>1,561,542</u>	<u>69,694</u>	<u>68,983</u>	<u>49,442</u>	<u>11,980</u>	<u>73,284</u>	<u>1,834,925</u>

**MD&A MISCELLANEOUS SCHEDULES**

**Town of Kingston, Oklahoma**  
**Allocation of Fund Expenses to Statement of Activities Functions**  
**For the Year Ended June 30, 2011**

	General Fund										Totals	
	Personal Services	Materials & Supplies	Other Charges	Depreciation	Street & Alley	Police Special	Volunteer Fire Dept	Court Costs	Cemetery Care	Interest		
Primary government:												
Governmental activities												
General government	\$ 160,476	\$ 18,096	\$ 133,404	\$ 10,124	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 322,100
City Maintenance	26,691	34,356	-	633	-	-	-	-	-	-	-	61,680
Community Development	-	-	1,143	-	-	-	-	-	-	-	-	1,143
Cemetery & Parks	-	-	-	617	-	-	-	-	600	-	-	1,217
Public Safety												
Policing, Court & Anml Control	217,251	-	33,072	57,201	-	81,197	-	15,507	-	-	-	404,228
Fire & General Safety	9,534	6,090	1,450	38,781	-	-	19,087	-	-	-	-	74,942
Streets & Highways	-	5,942	-	63,854	-	-	-	-	-	-	-	69,796
Interest	-	-	1,140	-	-	-	-	-	-	-	-	1,140
Total governmental activities	<u>\$ 413,952</u>	<u>\$ 64,484</u>	<u>\$ 170,209</u>	<u>\$ 171,210</u>	<u>\$ -</u>	<u>\$ 81,197</u>	<u>\$ 19,087</u>	<u>\$ 15,507</u>	<u>\$ 600</u>	<u>\$ -</u>	<u>\$ 1,140</u>	<u>\$ 936,246</u>

**MD&A MISCELLANEOUS SCHEDULES**

**Town of Kingston, Oklahoma  
Historical Comparison of Key Financial Information -- Budget Basis  
For the Years Ended June 30**

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
<u>Cash in Bank &amp; CD's</u>										
General Fund	\$ 290,723	\$ 219,092	\$ 211,607	\$ 167,358	\$ 236,378	\$ 324,468	\$ 387,793	\$ 367,987	\$ 250,332	\$ 475,627
Street & Alley	67,056	54,076	44,157	46,073	33,439	52,187	37,556	29,726	44,117	31,363
Municipal Court Cost Fund	53,197	62,884	37,244	32,550	29,796	28,845	23,814	19,157	-	-
Police Fines Fund	58,454	85,034	18,029	25,976	7,584	26,475	28,807	28,907	18,167	23,253
Volunteer Fire Fund	13,184	3,467	6,374	16,036	12,094	36,927	24,387	42,878	26,839	5,815
Cemetery Care Fund	73,284	69,093	61,677	-	-	-	-	-	-	-
Public Works Authority	336,117	273,196	193,096	276,996	211,486	152,008	152,529	226,308	222,938	289,317
Total Primary Government	\$ 892,015	\$ 766,842	\$ 572,184	\$ 564,989	\$ 530,777	\$ 620,910	\$ 654,886	\$ 714,963	\$ 562,393	\$ 825,375
<u>General Fund</u>										
Sales & Use Tax Revenues	530,715	512,906	515,946	488,576	471,255	445,419	431,629	414,571	347,522	362,509
Other Tax Revenues	95,634	89,677	98,371	91,109	74,398	76,809	58,356	57,906	56,227	53,012
Other Revenues (less grant to PWA)	31,628	85,906	85,906	39,786	62,642	26,620	127,956	23,106	47,018	83,086
Total General Fund Revenues	\$ 657,977	\$ 688,489	\$ 700,223	\$ 619,471	\$ 608,295	\$ 548,848	\$ 617,941	\$ 495,583	\$ 450,767	\$ 498,607
Admin & General Govt	310,287	271,890	277,309	348,768	316,253	301,225	254,550	188,784	264,723	224,065
Streets, Maintenance & Comm Dev	66,119	65,001	75,676	31,452	26,329	657	4,878	8,215	81,164	77,810
Public Safety - Police & Anml Control	250,486	231,690	202,357	192,200	158,575	160,375	152,334	137,824	105,778	96,788
Public Safety - Fire & General	17,074	15,785	21,912	8,838	4,779	3,604	1,236	1,964	3,293	4,715
Capital Outlay	18,419	53,480	89,298	101,581	188,046	142,642	210,898	38,976	216,335	-
Transfers to Other Funds	-	-	14,674	-	4,015	3,680	4,115	2,165	1,305	1,230
Total General Fund Expenditures	\$ 662,385	\$ 637,846	\$ 681,226	\$ 682,839	\$ 697,997	\$ 612,183	\$ 628,011	\$ 377,928	\$ 672,598	\$ 404,608
<u>Municipal Authority Operations</u>										
Utility Revenues	627,408	628,398	567,147	509,890	485,349	434,679	370,167	377,671	365,938	346,990
Other Revenues	9,007	13,038	50,092	79,923	14,001	33,608	4,742	2,593	2,832	5,474
Loan Proceeds	-	-	500,263	99,737	-	-	-	-	-	-
Grant Proceeds for KMA Assets	32,985	147,714	-	250,000	-	250,000	250,000	163,503	-	-
Total Revenues	\$ 669,400	\$ 789,150	\$ 1,117,502	\$ 939,550	\$ 499,350	\$ 718,287	\$ 624,909	\$ 543,767	\$ 368,770	\$ 352,464
Personal Services Expenses	170,087	187,965	194,530	179,379	140,144	194,194	166,228	142,185	125,459	96,753
Maintenance & Operations	288,020	308,317	298,364	247,380	244,044	223,670	206,244	189,070	177,363	172,372
Debt Service	73,026	76,293	74,412	15,291	14,424	12,245	8,675	8,776	8,510	4,848
Capital Outlay	84,056	149,343	636,172	435,005	45,700	41,663	67,362	39,085	112,443	280,789
Total Expenses & Asset Purch	\$ 615,189	\$ 721,918	\$ 1,203,478	\$ 877,055	\$ 444,312	\$ 471,772	\$ 448,509	\$ 379,116	\$ 423,775	\$ 554,762

NOTE: Above expenditure amounts for the Public Works include principal payments on OWRB debt and capitalized costs of property, plant and equipment acquisitions and construction, including those paid from loan proceeds, but do not include depreciation charges thereon.

## BASIC FINANCIAL STATEMENTS

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**Town of Kingston, Oklahoma**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities (Exh. C)</b>	<b>Business-type Activities (Exh. F)</b>	<b>Total Primary Government</b>	<b>Economic Dev Authority (Exh. I)</b>
<b><u>Assets</u></b>				
Current assets:				
Cash and cash equivalents	\$ 550,606	\$ 259,151	\$ 809,757	\$ 197,193
Receivables (net)	166,529	65,584	232,113	755,986
Total current assets	<u>717,135</u>	<u>324,735</u>	<u>1,041,870</u>	<u>953,179</u>
Noncurrent assets:				
Restricted cash and cash equivalents	4,892	35,547	40,439	-
Customer deposits	-	41,819	41,819	-
Bond Issue Costs, net of amortization	-	-	-	195,933
Land and construction in progress	67,626	-	67,626	8,090,308
Capital assets, net of depreciation	<u>1,118,560</u>	<u>2,279,710</u>	<u>3,398,270</u>	<u>-</u>
Total noncurrent assets	<u>1,191,078</u>	<u>2,357,076</u>	<u>3,548,154</u>	<u>8,286,241</u>
Total assets	<u>1,908,213</u>	<u>2,681,811</u>	<u>4,590,024</u>	<u>9,239,420</u>
<b><u>Liabilities</u></b>				
Current liabilities:				
Accounts payable	41,154	32,481	73,635	324,765
Customer deposits	-	41,819	41,819	-
Notes payable, current portion	12,893	47,103	59,996	493,404
Compensated absences	<u>17,198</u>	<u>6,527</u>	<u>23,725</u>	<u>-</u>
Total current liabilities	<u>71,245</u>	<u>127,930</u>	<u>199,175</u>	<u>818,169</u>
Noncurrent liabilities:				
Notes payable, less current portion	<u>2,043</u>	<u>665,012</u>	<u>667,055</u>	<u>7,412,902</u>
Total noncurrent liabilities	<u>2,043</u>	<u>665,012</u>	<u>667,055</u>	<u>7,412,902</u>
Total liabilities	<u>73,288</u>	<u>792,942</u>	<u>866,230</u>	<u>8,231,071</u>
<b><u>Net Assets</u></b>				
Invested in capital assets, net of related debt	1,171,250	1,567,595	2,738,845	55,170
Restricted	74,586	77,366	151,952	953,179
Unrestricted	<u>589,089</u>	<u>243,908</u>	<u>832,997</u>	<u>-</u>
Total net assets	<u>\$ 1,834,925</u>	<u>\$ 1,888,869</u>	<u>\$ 3,723,794</u>	<u>\$ 1,008,349</u>

See accompanying notes to the financial statements.

Town of Kingston, Oklahoma  
Statement of Activities  
For the Year Ended June 30, 2011

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Operating		Governmental Activities	Primary Business-type Activities	Total	Component Unit
		Charges for Services	Grants and Contributions				
Primary government:							
Governmental activities							
General Government	\$ 322,100	\$ 6,325	\$ -	\$ (315,775)	\$ -	\$ (315,775)	-
City Maintenance	61,680	-	-	(61,680)	-	(61,680)	-
Public Safety	479,170	171,469	28,351	(279,350)	-	(279,350)	-
Community Development	1,143	-	700	(443)	-	(443)	-
Cemetery & Parks	1,217	-	-	(1,217)	-	(1,217)	-
Streets & Highways	69,796	-	-	(69,796)	-	(69,796)	-
Interest	1,140	-	-	(1,140)	-	(1,140)	-
Total governmental activities	<u>936,246</u>	<u>177,794</u>	<u>29,051</u>	<u>(729,401)</u>	<u>-</u>	<u>(729,401)</u>	<u>-</u>
Business-type activities							
Water, Sewer & Sanitation	600,727	627,408	-	-	59,666	59,666	-
Interest Expense & Trustee Fees	27,601	-	-	-	(27,601)	(27,601)	-
Total business-type activities	<u>628,328</u>	<u>627,408</u>	<u>-</u>	<u>-</u>	<u>32,065</u>	<u>32,065</u>	<u>-</u>
Total primary government	\$ <u>1,564,574</u>	\$ <u>805,202</u>	\$ <u>29,051</u>	\$ <u>(729,401)</u>	\$ <u>32,065</u>	\$ <u>(697,336)</u>	\$ <u>-</u>
<b>Component Unit</b>							
Economic Development Authority	\$ <u>388,100</u>	\$ -	\$ -				<u>(388,100)</u>
Kingston Public Schools Project							
General Revenues:							
Taxes				639,375	-	639,375	-
Donations & Reimbursements				34,030	-	34,030	-
Property Rental Receipts				-	8,625	8,625	853,610
Interest earnings				283	382	665	5,869
Miscellaneous income				7,090	-	7,090	-
Total general revenues				<u>680,778</u>	<u>9,007</u>	<u>689,785</u>	<u>859,479</u>
Change in net assets				(48,623)	41,072	(7,551)	471,379
Net assets - beginning				1,891,999	1,847,797	3,739,796	536,970
Prior Period Adjustment				(8,451)	-	(8,451)	-
Net assets - ending				<u>\$ 1,834,925</u>	<u>\$ 1,888,869</u>	<u>\$ 3,723,794</u>	<u>\$ 1,008,349</u>

See accompanying notes to the financial statements.

**Town of Kingston, Oklahoma**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	General Fund	Police Fines Fund	Other Govt Funds (Sch. 1)	Total
<b><u>ASSETS</u></b>				
Cash & Cash Equivalents	\$ 289,648	\$ 58,454	202,504	\$ 550,606
Restricted Cash	675	-	4,217	4,892
Revenues Receivable	142,184	18,556	5,789	166,529
Total Assets	<u>\$ 432,507</u>	<u>\$ 77,010</u>	<u>\$ 212,510</u>	<u>\$ 722,027</u>
<b><u>LIABILITIES</u></b>				
Accounts Payable	\$ 25,017	\$ 8,027	\$ 8,110	\$ 41,154
Total Liabilities	<u>25,017</u>	<u>8,027</u>	<u>8,110</u>	<u>41,154</u>
<b><u>FUND BALANCES</u></b>				
Non-Spendable	-	-	-	-
Restricted	675	-	73,911	74,586
Committed	-	-	-	-
Assigned	2,781	68,983	130,489	202,253
Unassigned	404,034	-	-	404,034
Total Fund Balances	407,490	68,983	204,400	680,873
Total Liabilities & Fund Balances	<u>\$ 432,507</u>	<u>\$ 77,010</u>	<u>\$ 212,510</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	1,186,186
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(32,134)</u>
Net assets of governmental activities	<u>\$ 1,834,925</u>

See accompanying notes to the financial statements.

**Town of Kingston, Oklahoma**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**June 30, 2011**

	General Fund	Police Fines Fund	Other Govt Funds	Total
<b>REVENUES</b>				
Taxes & Licenses	\$ 626,349	\$ -	\$ 13,026	\$ 639,375
Fines & Forfeitures	-	138,934	32,535	171,469
Charges for Services	895	-	5,430	6,325
Donations, Fundraising & Reimb	16,722	6,461	10,847	34,030
Grant Proceeds	10,700 *	-	18,351 **	29,051
Other Revenue	3,073	4,017	-	7,090
Interest	238	-	45	283
Total Revenues	<u>657,977</u>	<u>149,412</u>	<u>80,234</u>	<u>887,623</u>
<b>EXPENDITURES</b>				
Current				
General Government	310,287	-	-	310,287
Maintenance	59,034	-	-	59,034
Public Safety	267,560	81,197	34,594	383,351
Community Development	1,143	-	-	1,143
Cemetery & Parks	-	-	600	600
Highways & Streets	5,942	-	-	5,942
Capital Outlay				
General Government	-	-	22,678	22,678
Maintenance	-	-	-	-
Public Safety	12,632	61,562	5,195	79,389
Cemetery & Parks	3,520	-	-	3,520
Highways & Streets	2,267	-	-	2,267
Sewer Improvements	-	-	-	-
Total Expenditures	<u>662,385</u>	<u>142,759</u>	<u>63,067</u>	<u>868,211</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,408)</u>	<u>6,653</u>	<u>17,167</u>	<u>19,412</u>
Other Sources and (Uses)				
Transfers from Other Funds	50,965	-	-	50,965
Transfers from Component Units	-	-	-	-
Transfers to Other Funds	-	(45,025)	(5,940)	(50,965)
Total Other Sources (Uses)	<u>50,965</u>	<u>(45,025)</u>	<u>(5,940)</u>	<u>-</u>
Net Change in Fund Balances	46,557	(38,372)	11,227	19,412
Total Fund Balance - Beginning	360,933	112,816	196,163	669,912
Prior Period Adjustment	-	(5,461)	(2,990)	(8,451)
Total Fund Balance - Ending	<u>\$ 407,490</u>	<u>\$ 68,983</u>	<u>\$ 204,400</u>	<u>\$ 680,873</u>

\* Century Community Grant--\$700; Kingston Schools--\$10,000

\*\* Dept of Ag Fire Support --\$4,398; Fire department--\$13,953

See accompanying notes to the financial statements.



**Town of Kingston, Oklahoma**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2011**

	Kingston Municipal Authority
<b>Assets</b>	
Current Assets	
Cash & Cash Equivalents	\$ 259,151
Restricted Cash & Cash Equivalents	77,366
Revenues Receivable	65,584
Total Current Assets	402,101
Non-Current Assets	
Machinery & Equipment	102,391
Leasehold Improvements	94,772
Water System Infrastructure	512,645
Sewer System Infrastructure	2,518,559
Accumulated Depreciation	(948,657)
Total Non-Current Assets	2,279,710
Total Assets	2,681,811
<b>Liabilities</b>	
Current Liabilities	
Accounts Payable	32,481
Refundable Meter Deposits	41,819
Compensated Absences Payable	6,527
Current Portion of Notes Payable	47,103
Total Current Liabilities	127,930
Long-Term Liabilities	
Notes Payable	665,012
Total Long-Term Liabilities	665,012
Total Liabilities	792,942
<b>Net Assets</b>	
Invested in Capital Assets, net of related debt	1,567,595
Restricted	77,366
Unrestricted	243,908
Total Net Assets	\$ 1,888,869

See accompanying notes to the financial statements.

**Town of Kingston, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2011**

	<u>Kingston Municipal Authority</u>
<b>Operating Revenues:</b>	
Water Charges	\$ 239,573
Sewer Charges	214,771
Sanitation Charges	158,301
Miscellaneous Charges	<u>14,763</u>
Total Operating Revenue	<u>627,408</u>
<b>Operating Expenses:</b>	
Personal Services & Payroll Burdens	170,087
Materials, Supplies & Other Charges	121,513
Utilities	41,680
Sanitation Disposal Fees	124,827
Depreciation Expense	<u>142,620</u>
Total Operating Expenses	<u>600,727</u>
Operating Income (Loss)	<u>26,681</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	382
Tower Rental Receipts	8,625
Grant Revenues	32,985
Interest Expense	(26,601)
Bank Charges & Trustee Fees	<u>(1,000)</u>
Total Non-Operating Revenues (Expenses)	<u>14,391</u>
Excess (Deficiency) of Revenues Over (Under) Expenses before Change in Net Assets	41,072
<b>Contributed Capital from grant project</b>	
Total Net Assets - Beginning	<u>1,847,797</u>
Total Net Assets - Ending	<u><u>\$ 1,888,869</u></u>

See accompanying notes to the financial statements

**Town of Kingston, Oklahoma**  
**Statement of Cash Flows**  
**Proprietary Fund - Kingston Municipal Authority**  
**For the Year Ended June 30, 2011**

**Cash Flows from Operating Activities**

Received from customers	\$ 617,792
Received from utility deposits	21,992
Payments to / for employees	(166,488)
Payments to suppliers and vendors	(277,054)
Refunded or applied utility deposits	(19,322)
Net cash provided by operating activities	<u>176,920</u>

**Cash Flows from Non-Operating Activities**

Interest Receipts	542
Rental Receipts	9,775
Grant Revenues -- CDBG	32,985
Payment of Trustee Fees	(1,000)
Net cash used by nonoperating activities	<u>42,302</u>

**Cash Flows from Capital and Related Financing Activities**

Purchases of Capital Assets	(84,056)
Contributed Capital from other funds for Capital Assets	
Loan Proceeds	-
Principal paid on notes payable	(45,437)
Interest paid on notes payable	(26,601)
Net cash (used) by capital and related financing activities	<u>(156,094)</u>
Net increase (decrease) in cash and cash equivalents	63,128

Cash and cash equivalents - beginning of the year	<u>273,389</u>
Cash and cash equivalents - end of the year	<u>\$ 336,517</u>

**Reconciliation of operating income (loss) to net cash provided by operating activities**

Operating income	\$ 26,681
Adjustments for non-cash and items:	
Depreciation expense	142,620
Decrease (increase) in net receivables	(9,616)
Increase (decrease) in accounts payable for operating activities	11,299
Increase (decrease) in meter deposits payable	2,670
Increase (decrease) in compensated absences payable	3,266
Net cash provided by operating activities	<u>\$ 176,920</u>

**Schedule of cash and cash equivalents**

Cash on Hand	\$ 400	
Cash, BancFirst	6,883	
Cash, Landmark	201,172	
Certificates of Deposit	<u>50,697</u>	
Total Cash & Cash Equivalents - Unrestricted		\$ 259,152
Cash, Meter	\$ 41,819	
Cash, Grant Account	-	
Cash, Restricted Debt Service	<u>35,546</u>	
Total Cash & Cash Equivalents - Restricted		<u>77,365</u>
Total cash and cash equivalents - end of the year		<u>\$ 336,517</u>

See accompanying notes to the financial statements.

**Exhibit I**

**Town of Kingston, Oklahoma**  
**Statement of Net Assets**  
**Kingston Economic Development Authority**  
**June 30, 2011**

	<u>Kingston Economic Development Auth</u>
<b>Assets</b>	
Current Assets	
Cash & Cash Equivalents	\$ 197,193
Revenues Receivable	<u>755,986</u>
Total Current Assets	<u>953,179</u>
Non-Current Assets	
Bond Issue Costs	209,555
Accumulated Amortization	(13,622)
Construction in Progress	<u>8,090,308</u>
Total Non-Current Assets	<u>8,286,241</u>
Total Assets	<u>9,239,420</u>
<b>Liabilities</b>	
Current Liabilities	
Accrued Interest Payable	324,765
Notes Payable - Current Portion	<u>493,404</u>
Total Current Liabilities	<u>818,169</u>
Long-Term Liabilities	
Notes Payable	<u>7,412,902</u>
Total Long-Term Liabilities	<u>7,412,902</u>
Total Liabilities	<u>8,231,071</u>
<b>Net Assets</b>	
Invested in Capital Assets, net of related debt	55,170
Restricted	953,179
Unrestricted	-
Total Net Assets	<u>\$ 1,008,349</u>

See accompanying notes to the financial statements

**Exhibit J**

**Town of Kingston, Oklahoma**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Kingston Economic Development Authority**  
**For the Year Ended June 30, 2011**

	<u>Kingston Economic Development Auth</u>
<b>Revenues:</b>	
Lease Income	\$ 853,610
Interest Income	<u>5,869</u>
Total Revenues	<u>859,479</u>
<b>Expenses:</b>	
Interest Expense	374,887
Professional Services	2,000
Amortization Expense	<u>11,213</u>
Total Expenses	<u>388,100</u>
Excess (Deficiency) of Revenues Over (Under)	
Expenses before Change in Net Assets	471,379
Total Net Assets - Beginning	<u>536,970</u>
Total Net Assets - Ending	<u>\$ 1,008,349</u>

See accompanying notes to the financial statements

## NOTES TO THE FINANCIAL STATEMENTS

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TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Kingston, Oklahoma operates under a statutory Town board of trustees form of government and provides the following services: law enforcement, volunteer fire, highways and streets, parks, cemetery services, public improvements, planning and zoning and general community development and administrative services. The Town trustees may on occasion be referred to as the Town council. These two terms represent the same governing body and are meant to be synonymous.

1A. REPORTING ENTITY

The accompanying financial statements present the Town's primary government and component units over which the Town exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the Town (as distinct from legal relationships).

The Town's reporting entity comprises the following:

Primary Government	Town of Kingston
Blended Component Unit	Kingston Municipal Authority
Discretely Presented Component Unit	Kingston Economic Development Authority

*Blended component units*, although legally separate entities, are in substance, part of the primary government's operations. These component units' funds are blended into those of the Town's by appropriate activity type to compose the primary government presentation.

The Kingston Municipal Authority (KMA) was created October 9, 1972, and is a beneficial public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 1961, Sections 176 to 180 inclusive, as amended and to the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. The Town of Kingston is the beneficiary of the Trust and the Town Trustees (council members) are the Trustees of this Authority.

The Town of Kingston leased to the Kingston Municipal Authority its water, sanitary sewer, and solid waste management systems. The term of the lease is 50 years with the option to renew for another 50 years. Because of the nature of its operations, this Authority has sometimes been referred to as the Public Works Authority or the KPWA. Any references to the KPWA or the KMA are meant to be synonymous and references to this same entity.

*Discretely presented component units* are separate legal entities that do not rise to the same level of significance as a blended component unit. Although the Town is financially accountable, the operations of a discretely presented component unit are not, in substance, part of the primary government. In fact, in some cases blending their operations and positions with those of the primary government could misrepresent the character of the government as a whole.

The Kingston Economic Development Authority (KEDA) was created August 20, 2008, and is a beneficial public trust created under the authority and pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Section 176 et seq., as amended and supplemented; the Oklahoma Trust Act and the other applicable statutes and laws of the State of Oklahoma. The Town of Kingston is the beneficiary of the Trust and the Town Trustees (council members) are Trustees of this Authority.

The KEDA states as one of its purposes to "promote, stimulate, encourage and finance the growth and development of the commerce and industry of the Beneficiary Town as a whole..." In conjunction with this purpose, the KEDA has issued revenue bonds for the financing and construction of a multi-purpose building to be used and lease purchased from the KEDA by Kingston Public Schools (KPS). The revenue pledged to secure these bonds is lease revenue from the school. KPS is in turn, issuing shorter term bonds which are funded by property tax assessments to property owners of the school district, and the School is using those bond proceeds to pay lease purchase obligations to the Economic Development Authority. Since, for all practical purposes, the use, occupancy, upkeep, furnishings and ultimate ownership of this facility belong to Kingston Public Schools rather than the Town of Kingston or Kingston Economic Development Authority, presentation of this information blended with the Town would be misleading. Therefore, the KEDA is presented in a separate column as a discretely presented component unit in these financial statements. Note information pertaining to the Kingston Economic Development Authority is included in Note 15 beginning on page 45.

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1B. BASIS OF PRESENTATION

*Government-wide Financial Statements:*

The government-wide financial statements include the statement of net assets and the statement of activities. The statement of net assets and statement of activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole, or in part, by fees charged to external parties for goods or services. The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

*Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Major individual funds are reported in separate columns with composite columns for non-major funds.

The individual funds of the reporting entity are described below. Those funds which are considered major funds are noted with (\*):

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1B. BASIS OF PRESENTATION (continued)

Governmental Funds

General Fund (\*) – The General Fund is the principle fund of the Town which accounts for all financial transactions not properly accounted for in another fund.

Special Revenue Funds – Used to account for the transactions arising from, or designated to, a specific purpose or activity. The Town maintains the following special revenue funds:

Street and Alley Fund – This fund is used to account for revenues derived from specific taxes or other earmarked sources for street and alley maintenance.

Police Special Fund (\*) – This fund is used to account for fines collected from citations issued which are designated by the Town Council for use only by the Police Department.

Volunteer Fire Department Fund – This fund is used to account for money raised by the volunteer fire department, and certain other grants and donations to the volunteer fire department. It is used for operating, grant and capital expenditures. The firemen's pension fund is maintained by the Oklahoma Firefighters Pension and Retirement Fund.

Court Cost Fund – This fund is used to account for the costs collected associated with citations issued in the Town. This fund also administers the collection and remission of funds required by the state associated with each citation which must be collected and remitted to the appropriate state agency. The court cost fund pays fees for the municipal judge and other operating costs, and may, upon council approval, transfer surplus moneys to other funds of the Town.

Cemetery Care Fund – This fund was created by the Town in July 2007, with funds donated by the Kingston Cemetery Association. The association, which had a separate board of trustees, voted to disband and turn all operations over to the Town. This fund receives moneys from donations, lot sales, and charges to open and close spaces. The fund pays for maintenance, equipment and capital outlay of the cemetery.

Proprietary Fund

Enterprise Fund – Kingston Municipal Authority (\*) – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The financial statements of the Town are prepared in accordance with generally accepted accounting principles (GAAP). The Town's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Town's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

Measurement focus is a term used to describe "which" transactions are recorded within the financial statements. Basis of accounting refers to "when" transactions are recorded within the financial statements.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives of the economic resources measurement focus are determination of financial position and changes in net assets. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred or economic asset is used, regardless of the timing of related cash flows.

In the fund financial statements, the measurement focus and basis of accounting is determined by the various types of funds as follows:

a. Governmental Funds –

All governmental funds utilize a "current financial resources" measurement focus and the modified accrual basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The Town considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

b. Proprietary Fund –

The proprietary fund (Kingston Municipal Authority) utilizes the economic resources measurement focus and accrual basis of accounting as discussed above for the government-wide financial statements. All assets and liabilities associated with the Authority's activities are reported and fund equity is classified as net assets. Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

**Cash and Investments**

For the purpose of the Statement of Net Assets, “cash and cash equivalents” includes all demand, savings accounts, and certificates of deposits of the Town. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit, including restricted assets.

The Town’s only investments consist of short-term certificates of deposit.

**Inventories**

Consumable supplies are the only inventoriable item of the Municipal Authority. The value of supplies on hand at year-end or at any time during the year is not significant and is, therefore, not included as an asset in the financial statements. Purchases of such supplies are recorded as an expense at the time of purchase.

**Receivables**

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon historical trends and the periodic aging of accounts receivable. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, and police fines. Business-type activities report utilities charges as their major receivables.

**Interfund Receivables and Payables**

During the course of operations, various transactions may occur between individual funds that result in amounts owed between funds. Those transactions are classified as “due to or from other funds” in the fund financial statements. Such amounts would be eliminated from presentation in the government-wide financial statements; however, no such amounts between funds, existed at the year ended June 30,2011.

**Capital Assets and Depreciation**

The accounting treatment for property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-wide Statements*

In the government-wide financial statements, capital assets are accounted for at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The Town generally capitalizes assets with cost of \$1,000 or more as purchase or construction outlays occur. The cost of normal maintenance and repairs that do not add to the asset value or materially extend the useful life are not capitalized. Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets’ estimated useful lives using the straight-line method of depreciation. (When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.) The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	15-40 years
Infrastructure	25-40 years
Water & waste water systems	10-40 years
Equipment	3-15 years

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

*Fund Financial Statements*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

**Restricted Assets**

Restricted assets include cash accounts of the governmental funds and proprietary fund that are legally restricted as to their use. The primary restricted assets are related to restricted purpose grants and gifts in the volunteer fire fund and promissory note trustee accounts and utility meter deposits in the public works authority.

**Long-Term Debt**

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debts to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of notes payable, accrued compensated absences, and utility customer deposits.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary fund is the same in the fund statements as it is in the government-wide statements.

**Net Assets and Fund Equity**

*Government-wide Statements*

Equity is classified as net assets and displayed in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

**Prior Period Adjustments**

Occasionally, financial statements require adjustments for events that occurred in previous periods or for changes in accounting principles. These changes are limited to corrections of errors and changes with retroactive effect. Two prior period adjustments are reflected in these financial statements as follows:

Street & Alley Fund – Correction of prior year revenue receivable	\$ 2,990
Police Special Fund – Correction to record prior year accounts payable	<u>5,461</u>
	\$ 8,451

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

1D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY (continued)

*Fund Statements*

Governmental fund equity is classified as fund balance. Fund balance is further classified as non-spendable, restricted, committed, assigned and unassigned. The Town uses the following guidelines to determine its fund balance classifications.

*Non-Spendable* -- includes amounts that cannot be spent because they are either not in spendable form, or they are legally and contractually required to be maintained intact.

*Restricted* – includes amounts that are restricted for specific purposes by constraints placed on the use of these resources which are either a.) externally imposed by creditors, grantors, contributors, or laws and regulations of other governments or b.) imposed by law through constitutional provisions or enabling legislation.

*Committed* – consists of amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. The Town of Kingston’s highest level of decision making authority is an Ordinance approved by the Board of Trustees, also referred to as the Town Council. The approval of an ordinance is the action required to establish, modify or rescind a fund balance commitment.

*Assigned* – includes amounts that are constrained by the government’s *intent* to be used for specific purposes, but not meeting the requirements to be restricted or committed. The authority for making an assignment can be a lesser authority than the government’s highest level of decision making. The Town of Kingston treats fund balance as assigned if some formal action of the council has been taken, either in the form of a resolution or motion; or if accepted practice is and has been to constrain resources for a specific purpose.

*Unassigned* – fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to a specific purpose. Unassigned is the residual classification for the general fund.

The Town’s policy is to generally consider amounts with the highest level of constraint as spent first, when an expenditure is incurred. Thus for purposes for which both restricted and unrestricted fund balance is available, restricted amounts are considered spent first. When amounts in any of the unrestricted classifications of committed, assigned or unassigned could be used for a particular expenditure, it is the Town’s policy to allocate expenditures from committed amounts first, then assigned and last, unassigned fund balance.

1E. REVENUES, EXPENDITURES AND EXPENSES

**Sales Tax**

The Town presently levies a three-cent sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. By ordinance, this sales tax revenue is deposited in the General Fund. Amounts collected by the State prior to June 30 and received by the Town after year end are included as “receivables” in the Statement of Net Assets.

**Operating Revenues and Expenses**

Operating revenues and expenses for the proprietary fund are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

1E. REVENUES, EXPENDITURES AND EXPENSES (continued)

**Expenditures/Expenses**

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character:	Current (further classified by function)
	Debt Service
	Capital Outlay
Proprietary Fund – By Operating and Non-operating	

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

**Interfund Transfers**

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds, if any, would be eliminated. Transfers between funds for the year ended June 30, 2011 are detailed in Note 8 on Page 41 of these notes.

1F. 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.

The significant estimates used in these financial statements include the following:

- a. Useful lives of capital assets
- b. Original cost of certain asset
- c. Allocations of certain revenues and expenses to functions

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature as a local government unit, the Town and its component units are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

2A. FUND ACCOUNTING REQUIREMENTS

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the Town include the following:

<u>Fund</u>	<u>Required By</u>
General Fund	State law
Cemetery Care Fund	State law
Municipal Authority	Trust indenture
Economic Development Authority	Trust indenture

In addition, the Town has established other operating funds for accounting and administrative purposes.

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

2B. DEFICIT FUND NET ASSETS

During the year ended June 30, 2011, the Town had no funds operating with a deficit of net assets (i.e., a negative fund balance).

2C. DEPOSITORY ACCOUNTS

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations, or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2011, all deposits were fully insured or collateralized.

2D. REVENUE RESTRICTIONS

The Town has various restrictions placed over certain revenue sources from either state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Restriction</u>
Gasoline Excise Tax	Street & Alley Fund
Motor Vehicle Tax	Street & Alley Fund
Police Fines	Police Special Fund
12.5 % of Cemetery Lot Sales	Cemetery Care Fund
12.5% of Cemetery Open/Close Charges	Cemetery Care Fund
Water, Sewer & Sanitation Charges	Debt Service & Utility Operations

For the year ended June 30, 2011, the Town complied, in all material respects, with these revenue restrictions.

2E. RISK MANAGEMENT

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years. Significant losses are covered by commercial insurance for all Town programs and activities, these insurance policies are detailed in Note 13.

2F. INCOME TAXES

The Town, the Municipal Authority and the Economic Development Authority, as governmental units, are exempt from income taxes.

2G. DEBT RESTRICTIONS AND COVENANTS

**General Obligation Debt**

Article 10, Sections 26 and 27, of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10 percent of net assessed valuation. For the year ended June 30, 2011, the Town had no outstanding general obligation debt.

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

2G. DEBT RESTRICTIONS AND COVENANTS (CONTINUED)

**Other Long-Term Debt**

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue without first obtaining voter approval. For the year ended June 30, 2011, the Town incurred no such indebtedness.

The Town has entered into lease agreements as lessee for financing the acquisition of certain equipment. These lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The leases contain an escape clause which gives the Town the ability to terminate the lease agreements at the end of each fiscal year.

**Notes Payable**

The loan agreement relating to the Kingston Municipal Authority note payable to Oklahoma Water Resources Board was amended during the year to take advantage of converting from a variable rate of interest to a fixed rate. This conversion required the Authority to expend funds for costs associated with the Amended agreement, and to reserve additional funds held by the trustee debt service reserve fund. Those costs have been included as non-operating expenses and the increased reserve requirement is reflected in restricted assets in these financial statements. This note agreement contains some restrictions or covenants that are financially related. These include covenants such as a debt service coverage requirement and required reserve account balances mentioned above.

The debt service coverage requirement says that “the schedule of rates or charges for the services of the System shall be sufficient to provide funds which, together with other revenues pledged under the Local Act, will provide Net Revenues Available for Debt Service equal to at least 125% of the maximum annual amount required for debt service.”

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

2G. DEBT RESTRICTIONS AND COVENANTS (continued)

In the loan agreement, "Net Revenues Available for Debt Service" is defined. The portion of that definition which is applicable to Town of Kingston is as follows: "Revenues of the System less: the Operation and Maintenance expenses of the system (except that (1) interest on any debt payable from the revenues of the system (2) depreciation and any other items not requiring the expenditure of cash (3) and, any amounts expended for capital replacements, repairs and maintenance not recurring annually shall not be included as an Operation and Maintenance Expense for purposes of this calculation); plus any other revenues pledged to payment of the Local Note. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2010. Since detailed information about the separation of Authority expenses pertaining only to water operations is not available, for purposes of this calculation, revenues and expenses related to the operations of the water system, which cannot be directly allocated to water, have been estimated based on water revenue as a percentage of operating revenues other than sanitation charges. Sanitation is not included because these services are provided by an outside agency. The applicable percentage is 54.23% for the year ended June 30, 2011. Items which have been estimated are noted below with an asterisk (\*).

Calculation of Net Revenues Available for Debt Service

Revenues of the System	
Water Charges	\$ 239,573
Misc Charges (late fees, taps)*	13,981
Water Tower Rent Revenue	<u>8,625</u>
Total Revenue	\$ 262,179
Expenses of the Water System	
Personal Services*	\$ 92,238
Materials, Supplies & Charges*	65,896
Utilities*	22,603
Trustee Fees	<u>1,000</u>
Total Expenses	\$ 181,737
Net Revenues Available	
For Debt Service	\$ <u>80,442</u>

Requirement	Level of Compliance
<b>a. Note Payable Overage:</b> <b>1. Net water and sewer operating revenues (excluding depreciation) of the Authority must equal 1.25 times the maximum annual debt service.</b>	<b>For the year ended June 30, 2011, income available for debt is \$ 80,442. The maximum annual debt service defined as the largest calendar year of required payments is \$23,870. Actual coverage is 3.37 times.</b>
<b>b. Reserve Account Requirement:</b> <b>1. OWRB Note:</b> <b>Account balance, as calculated by OWRB, should be equal to \$ 21,000.</b>	<b>The actual account balance at June 30, 2011, is \$21,000.51</b>

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

2H. BUDGETARY INFORMATION

**Budget Policy and Practice**

The Town prepares an annual budget in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Town Council for review, and a public hearing is held to address priorities and the allocation of resources. In June, the Council adopts the annual fiscal year budgets for the Town's operating funds. Once approved, the Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Similarly, the Kingston Municipal Authority also prepares an annual budget for submission to the governing body.

**Basis of Budgeting**

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and class as follows: personal services, other services and charges, supplies, capital outlay, transfers, and debt service. However, the departmental total appropriations according to state law are the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions at this level are subject to final review by the Town Council. Revisions to the budget were made throughout the year.

The budgets for the operating funds (general fund and special revenue funds) of the Town are prepared using cash receipts and cash disbursements. The budget for the proprietary fund (KMA) is prepared on the same basis of accounting used in the individual fund financial statements (modified accrual basis). Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

**Encumbrances**

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve a portion of the applicable appropriation, is not employed by the Town. Any outstanding claims for goods or services not received by June 30 are cancelled and such expenditures are recorded against the following year's budget appropriations.

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 3. CASH AND INVESTMENTS

Oklahoma Statutes require municipalities to adequately insure or collateralize cash deposits and investment accounts. Such insurance and/or collateral is carried on the basis of separate legal entities within the Town's organizational structure and is subject to changes in the FDIC insurance rules. Further, the comparison of insurance and collateral amounts is made against the actual bank account balances at any given time, which may vary from the carrying book balances because of outstanding or transit items. The Town's depository funds are categorized to give an indication of the level of custody credit risk assumed by the Town as follows:

Category 1 – Insured by FDIC or collateralized with securities held by the Town (or public trust) or by its agent in its name

Category 2 – Uninsured but collateralized with securities held by the pledging financial institution's trust department or agent in the Town's name

Category 3 – Uninsured and uncollateralized; or collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name; or collateralized with no written or approved collateral agreement

At June 30, 2011, the Town's deposits, categorized by level of risk, were as follows:

	Category <u>(1)</u>	Category <u>(2)</u>	Category <u>(3)</u>	Total Bank Balance	Total Carrying Amount
Town – Governmental Funds					
Landmark Bank	\$ 250,000	292,581	6,797	549,378	\$ 548,721
BancFirst	<u>6,778</u>	<u>-0-</u>	<u>-0-</u>	<u>6,778</u>	<u>6,778</u>
Total	\$ <u>256,778</u>	<u>292,581</u>	<u>6,797</u>	<u>556,156</u>	\$ <u>555,499</u>
Public Works Authority					
Landmark Bank	\$ 250,000	45,028	-0-	295,028	\$ 293,688
BancFirst	<u>42,429</u>	<u>-0-</u>	<u>-0-</u>	<u>42,429</u>	<u>42,430</u>
Total	\$ <u>292,429</u>	<u>45,028</u>	<u>-0-</u>	<u>337,457</u>	\$ <u>336,118</u>

At June 30, 2011, the Town's only investments consisted of short-term certificates of deposit, a savings account and checking accounts. These amounts are included in the depository amounts above.

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 3. CASH AND INVESTMENTS (CONTINUED)

Total Town reconciled carrying value of funds above are comprised of the following cash and investment balances:

GENERAL FUND		
Portion of Pooled Cash Account		\$ 290,323
STREET & ALLEY FUND		
Portion of Pooled Cash Account		67,056
POLICE SPECIAL FUND		
Portion of Pooled Cash Account		58,454
VOLUNTEER FIRE DEPT. FUND		
Portion of Pooled Cash Account	9,236	
Volunteer Fire Account	<u>3,948</u>	13,184
COURT COSTS FUND		
Portion of Pooled Cash Account	50,368	
State Fees Account	<u>2,829</u>	53,197
CEMETERY CARE FUND		
Cemetery Care Account		73,284
GRANT ACCOUNT		
CDBG grant		-0-
KINGSTON PUBLIC WORKS AUTHORITY		
Petty Cash	400	
Pooled Account - Operating (Landmark)	201,172	
Operating Account (Bancfirst)	6,883	
Pooled Account - Customer Deposits (Landmark)	41,819	
Certificates of Deposit	50,696	
Debt Service Trustee	<u>35,547</u>	<u>336,517</u>
TOTAL ALL ACCOUNTS		\$ <u>892,015</u>

NOTE 4. RESTRICTED CASH

At June 30, 2011, the Town held restricted assets, the use of which is limited to designated purposes, as detailed below. These balances are also included in total cash and investments discussed in Note 3.

Governmental Funds

a) Court Cost Fund – State CLEET Acct	\$ 2,829
b) Cemetery Care Fund – 12.5% State Statute designated	1,388
c) General Fund – State Grant unspent for Sr Citizens Cntr	675

Proprietary Fund

a) Kingston Municipal Authority	
Funds held in depository account for utility customer security deposits	\$ 41,819
b) Kingston Municipal Authority	
Funds held in trust accounts for compliance with reserve requirements of long-term debt, discussed in Note 7	
OWRB Debt Reserve Account	21,001
OWRB Debt Service Account	<u>14,546</u>
Total Restricted Cash	\$ <u>82,258</u>

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 5. ACCOUNTS RECEIVABLE

Accounts receivable of the governmental activities consists of sales tax and police fines. Accounts receivable of the business-type activities consist of utilities charges. At June 30, 2011, the receivables detail was as follows:

	Governmental Activities	Business-type Activities	Total
Taxes – General Fund	\$ 142,184	-	\$ 142,184
Taxes – Street & Alley	2,638	-	2,638
Court Costs & Fees – Court Cost Fund	3,151	-	3,151
Police Fines – Police Special	18,556	-	18,556
Utilities Charges	-	<u>65,584</u>	<u>65,584</u>
Net Accounts Receivable	<u>\$ 166,529</u>	<u>65,584</u>	<u>\$ 232,113</u>

NOTE 6. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Land (not depreciated)	\$ 67,626	-	-	67,626
Buildings & improvements	577,626	18,806	(970)	595,462
Infrastructure network	688,899	3,520		692,419
Equipment	825,687	74,233	(73,523)	826,397
Accumulated depreciation	<u>(897,811)</u>	<u>(171,210)</u>	<u>69,430</u>	<u>(999,591)</u>
Capital assets, net of depreciation	<u>\$ 1,262,027</u>	<u>(74,651)</u>	<u>(5,063)</u>	<u>\$ 1,182,313</u>
Business-type activities				
Water System & Improvements	\$ 512,645	-	-	\$ 512,645
Sewer System & Improvements	2,434,503	84,056	-	2,518,559
Water & Sewer System Equip.	74,691	-	-	74,691
Office Buildings & Improvements	94,772	-	-	94,772
General Use Equipment	27,700	-	-	27,700
Accumulated depreciation	<u>(806,037)</u>	<u>(142,620)</u>	<u>-</u>	<u>(948,657)</u>
Capital assets, net of depreciation	<u>\$ 2,338,274</u>	<u>(58,564)</u>	<u>-</u>	<u>\$ 2,279,710</u>

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities	
General government	\$ 10,124
City Maintenance	633
General Public Safety	2,892
Public Safety – Police & Court	57,201
Public Safety – General & Fire	35,889
Parks & Cemetery	617
Street maintenance	<u>63,854</u>
	<u>\$ 171,210</u>
Business-type activities	
Water, Sewer & Sanitation	<u>\$ 142,620</u>

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 7. LONG-TERM DEBT

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. At June 30, 2011, the outstanding long-term debt obligations consisted of the following:

Governmental activities:

Compensated absences – accrued and unused vacation, holiday and comp time leave calculated by individual employees then aggregated to a total liability amount.

Note/Lease Purchase Payable – on June 29, 2006, the Town entered into a lease purchase arrangement with Bancfirst for the purpose of acquiring a 1999 GMC Fire Truck. The original purchase principal totaled \$55,020 and requires 60 monthly lease installments of \$1,052.68, for a fixed APR of 5.5%.

Note/Lease Purchase Payable – in August, 2010, the Town entered into a lease purchase arrangement with Bancfirst for the purpose of acquiring Police vehicles. The original purchase principal totaled \$23,600 and requires 24 monthly lease installments of \$1,027.04, with a fixed APR of 4.21%.

Business-type activities:

Compensated absences – accrued and unused vacation and comp time leave calculated by individual employees then aggregated to a total liability amount.

Note payable to Oklahoma Water Resources Board (OWRB) – originally issued in 2001 at \$245,000 for improvements to the Town's water system. This was amended April 2, 2009 to convert from a variable interest rate to fixed interest rates which average 3.513%. The amended note totals \$210,000 and is payable in semi-annual payments with a final maturity of August 15, 2021. This amendment results in a payout amortization which is 9½ years earlier than the previous payout schedule. This note is secured by the Town's utility revenues and the assets of the water system.

Notes payable to Landmark Bank – these loans were entered into by the Authority to finance sewer system construction projects. At June 30, 2009, the Authority finalized the construction associated with these loans. The original loan totaled \$500,000, and the supplemental loan totaled \$100,879. These notes carried original maturity dates of October 1, 2023 and an interest rate of 4.61% for a 60 month period. After 60 months, the interest rate will adjust to the Wall Street Journal prime rate at that time less 2.75% percentage points. Amortizations of these notes are shown on page 41:

For the year ended June 30, 2011, the changes in long-term debt (including the current portion) were as follows:

	<u>Balance</u> <u>June 30,2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>June 30, 2011</u>
Governmental activities				
Compensated absences, net change only	\$ 13,722	3,476	-0-	17,198
Lease Purchase Obligations				
Police Cars	13,077	23,600	(22,670)	14,007
Fire Truck	<u>13,143</u>	<u>-0-</u>	<u>(12,214)</u>	<u>929</u>
Total	<u>\$ 39,942</u>	<u>27,076</u>	<u>(34,884)</u>	<u>\$ 32,134</u>
Business-type activities				
Note payable-OK Water Resources Bd. on water tower	\$ 205,000	-0-	(15,000)	\$ 190,000
Notes payable-Landmark Bank on sewer system improvements	459,706	-0-	(25,441)	434,265
	92,892	-0-	(5,042)	87,850
Compensated absences, net change only	<u>3,262</u>	<u>3,265</u>	<u>-0-</u>	<u>6,527</u>
Total	<u>\$ 760,860</u>	<u>3,265</u>	<u>(45,483)</u>	<u>\$ 718,642</u>

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 7. LONG-TERM DEBT (continued)

The annual debt service requirements of the various long-term notes payable are as follows:

1.) Lease Purchase for Fire Truck with Bancfirst:

Year	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Ending</u>			
06-30-12	929	4	933
Totals	\$ <u>929</u>	\$ <u>4</u>	\$ <u>933</u>

Lease payments for this obligation will be paid from Town General Fund moneys.

2.) Lease Purchase for Police Vehicles with Bancfirst:

Year	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Ending</u>			
06-30-12	11,964	361	12,324
06-30-13	2,043	11	2,054
Totals	\$ <u>14,007</u>	\$ <u>372</u>	\$ <u>14,379</u>

Lease payments for this obligation will be paid from Police Special Fund moneys.

3.) Notes Payable of Kingston Municipal Authority for water tower construction payable to Oklahoma Water Resources Board:

Year	———— OWRB Note ————		
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
06-30-12	15,000	6,007	21,007
06-30-13	15,000	5,730	20,730
06-30-14	15,000	5,401	20,401
06-30-15	15,000	5,019	20,019
06-30-16	15,000	4,589	19,589
2017-21	95,000	13,775	108,775
2022	<u>20,000</u>	<u>427</u>	<u>20,427</u>
Totals	\$ <u>190,000</u>	\$ <u>40,948</u>	\$ <u>230,948</u>

4.) Notes Payable of the Kingston Municipal Authority for sewer system assets consisting of two notes with Landmark Bank with amortizations as follows:

Year	———— Landmark \$100,878 ————			———— Landmark \$500,000 ————		
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
06-30-12	5,309	3,939	9,248	28,012	18,233	46,245
06-30-13	5,559	3,689	9,248	28,106	18,139	46,245
06-30-14	5,821	3,427	9,248	29,429	16,816	46,245
06-30-15	6,095	3,153	9,248	30,815	15,430	46,245
06-30-16	6,382	2,866	9,248	32,266	13,979	46,245
2017-21	36,709	9,529	46,238	185,601	45,625	231,226
2022-24	<u>21,975</u>	<u>1,345</u>	<u>23,320</u>	<u>100,036</u>	<u>5,550</u>	<u>105,586</u>
Totals	\$ <u>87,850</u>	\$ <u>27,948</u>	\$ <u>115,798</u>	\$ <u>434,265</u>	\$ <u>133,772</u>	\$ <u>568,037</u>

Debt service payments of these obligations will be paid by Kingston Public Works Authority.

Long-Term Debt information related to the Kingston Economic Development Authority is discussed in Note 15.

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2011

NOTE 8. INTERFUND TRANSACTIONS AND BALANCES

The Court Cost fund transferred to the General fund to reimburse for costs of payroll and related expenditures for the City Judge. \$ 5,940

The Police Special fund transferred to the General fund to reimburse certain costs of payroll for the Police Department and other operating costs 45,025  
 Total Interfund Transactions \$ 50,965

NOTE 9. FUND EQUITIES

The following shows the net asset restrictions at June 30, 2010

<u>Governmental-type Activities</u>	<u>Restricted By</u>	<u>Amount</u>
Court Cost Fund	State Statute	\$ 2,829
Street & Alley Fund	State Statute	69,694
Cemetery Care Fund	State Statute	1,388
General Fund	State Grant Project	<u>675</u>
		\$ <u>74,586</u>
<u>Business-type Activities</u>	<u>Restricted By</u>	<u>Amount</u>
Municipal Authority	Customer deposits	\$ 41,819
Municipal Authority	Debt covenants	<u>35,547</u>
		\$ <u>77,366</u>

NOTE 10. EMPLOYEE HEALTH INSURANCE

The Town and Public Works Authority participate in a group insurance plan to provide medical insurance coverage to full-time employees. The Town and Authority pay the premium on behalf of the employee and employees may elect to cover their dependents and pay that extra portion of the premium through a salary reduction. The Town also qualifies for an insurance premium from the OEPIC plan sponsored by the State of Oklahoma designed to subsidize the insurance premiums of certain low income workers. Those amounts received by the Town reduce their insurance premium expenditures. For the year ending June 30, 2010 the following is the activity of the Town and Authority with regard to health coverage:

	<u>Town</u>	<u>Authority</u>	<u>Total</u>
Health Insurance Premiums	\$ 42,963	\$ 21,410	\$ 64,374
OEPIC Reimbursements	<u>(7,555)</u>	<u>-0-</u>	<u>(7,555)</u>
Town Expenditure/Expense	\$ <u>35,408</u>	\$ <u>21,410</u>	\$ <u>56,819</u>

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011

NOTE 11. EMPLOYEE COMPENSATED ABSENCES

Sick leave: All full-time employees accrue paid sick leave time at the rate of 12 hours per month, cumulative to a maximum of 360 hours (45 days). Unused accumulated hours are forfeited when service is terminated; therefore, no liability is included in these statements for sick leave.

Vacation: All full-time employees accrue paid vacation time based on the employee's anniversary of hire date, as follows:

1-2 years of service	1 week
3-5 years of service	2 weeks
6-15 years of service	3 weeks
16+ years of service	4 weeks

Holidays: Paid holidays are established annually by the Town Board. Full-time employees are paid for such holidays at the regular base rate of pay, and all employees except police officers are expected to take their holiday leave on the designated days. Police officers are allowed the same number of days off as are established by the board for holidays for the calendar year.

Comp Time: Employees who choose to take time off rather than receiving overtime pay at 1.5 times their rate of pay, are allowed time off at 1.5 times the hours worked in excess of 40 hours per week.

At June 30, 2011, the recorded liabilities for earned but unused compensated absences calculated at individual employee's current rates of pay were as follows:

	<u>Vacation</u>	<u>Holiday</u>	<u>Comp Time</u>	<u>Total</u>
Governmental activities				
Administration	\$ 2,914	-0-	-0-	\$ 2,914
Maintenance Department	952	-0-	1,787	2,739
Police Department	<u>6,229</u>	<u>4,634</u>	<u>682</u>	<u>11,545</u>
	10,095	4,634	2,470	17,198
Business-type activities				
Public Works Authority	<u>4,564</u>	<u>-0-</u>	<u>1,963</u>	<u>6,527</u>
Totals	\$ <u>14,659</u>	<u>4,634</u>	<u>4,433</u>	\$ <u>23,725</u>

NOTE 12. PENDING LITIGATION, CONTINGENT LIABILITIES & SUBSEQUENT EVENTS

Subsequent events were evaluated through March 6, 2013, which is the date the financial statements were available to be issued. No events occurred which would affect the amounts on the financial statements.

The Town receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by the federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Town Council, such disallowances, if any, will not be significant to the Town's financial statements.

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011

NOTE 13. RISK MANAGEMENT

The Town of Kingston manages its risk of loss related to torts, theft of, damage to, or destruction of assets; errors and omissions; injuries to employees and natural disasters. The Town manages these various risks of loss with purchased commercial insurance and, therefore, retains a risk of loss only for the commercial policy's deductible. The Town maintains the following insurance policies:

**Policy Dates 7/13/2010 to 7/13/2011**

Coverage: Commercial General Liability  
Limits: \$1,000,000 Aggregate – Personal & Advertising Injury  
\$100,000 Failure to Supply, \$100,000 Premises Damage including Sewer Backup  
\$100,000 Employee Benefit Liability  
Deductible: \$2,000 Sewer Backup  
\$ -0- Others

Coverage: Commercial Property  
Limits: \$1,580,814 Buildings & Contents  
Deductible: \$1000 per Occurrence

Coverage: Employee Benefit Plans Administration Liability  
Limits: \$3,000,000 Total limit, \$1,000,000 each wrongful act  
Deductible: \$1,000 each wrongful act

Coverage: Law Enforcement Officer's Liability  
Limits: \$125,000 Personal Injury, \$25,000 Property Damage  
\$1,000,000 Policy Aggregate  
Deductible: \$5,000 each wrongful act

Coverage: Public Entity Management Liability  
Limits: \$1,000,000 Total Limit; \$1,000,000 each wrongful act limit  
Deductible: \$2,500 each wrongful act

Coverage: Employment Practices Liability  
Limits: \$1,000,000 Total Limit; \$1,000,000 each wrongful employment practice offense  
Deductible: \$5,000 each wrongful employment practice offense deductible

Coverage: Commercial Crime  
Limits: \$11,000  
Deductible: \$500

Coverage: Automobile Liability Protection  
Limits: \$1,000,000 Liability, \$125,000 each person bodily injury, \$25,000 each accident property damage, \$50,000 Uninsured Motorist  
Deductible: \$-0- per occurrence, liability; \$500 per occurrence, comprehensive and collision

Coverage: Worker's Compensation

**Titan Indemnity Company**

Coverage: Errors and Omissions: Public Officials  
Limits: \$100,000 Employment Related, \$1,000,000 Policy Aggregate  
Deductible: \$2,500 per Claimant  
Policy Dates: 07/13/10 to 07/13/11

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011

NOTE 14. ARBITRAGE REBATE LIABILITY

In connection with the 2001 promissory note issued through the Oklahoma Water Resources Board, the Municipal Authority is required to perform arbitrage rebate calculations as prescribed by the Internal Revenue Code. A rebate liability will occur as a result of investment income earned on the proceeds of a tax exempt municipal debt issue over a calculated allowable amount. However, under IRS regulations, an exception to the liability provisions and the related calculation requirement applies to government units issuing less than \$5,000,000 in debt. According to the Municipal Authority's loan documents, this exception was properly executed, therefore eliminating the rebate liability.

Also, in connection with the Kingston Economic Development Authority's Lease Revenue Notes, Series 2009 (Kingston Public Schools Project), the Economic Development Authority is required to perform arbitrage rebate calculations as prescribed by the Internal Revenue Code. A rebate liability will occur as a result of investment income earned on the proceeds of a tax exempt municipal debt issue over a calculated allowable amount. However, under IRS regulations, an exception to the liability provisions and the related calculation requirement applies to government units issuing less than \$15,000,000 in debt attributable to financing the construction of public school facilities. According to the Economic Development Authority's loan documents, this exception was properly executed, therefore eliminating the rebate liability.

NOTE 15. KINGSTON ECONOMIC DEVELOPMENT AUTHORITY

Cash and Investments

At June 30, 2011, the KEDA reconciled carrying value of \$ 197,193 shown on the Statement of Net Assets, was comprised of funds held at RCB Corporate Trust in the following accounts:

RCB Corporate Trust Accounts	\$ <u>197,193</u>
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Accounts Receivable

At June 30, 2011, the accounts receivable presented in these financial statements represents lease revenue earned between August 15, 2010 and June 30, 2011, but not yet collected. The third lease payment is scheduled from Kingston Public Schools August 15, 2011, in the amount of \$865,000. We have calculated the portion earned at June 30, 2011 to total \$755,986. That amount is reflected as receivable in these financial statements.

Bond Issue Costs and Amortization Expense

Associated with the issue of the Lease Revenue Bonds, Kingston Public Schools Project, used to fund the Capital Assets under construction by this fund, issue costs including attorney fees, financial advisor fees, placement agent fees and trustee fees were incurred totaling \$209,555. Those costs have been capitalized and are shown net of related accumulated amortization in these statements. Accumulated amortization is calculated based on the ratio of debt retired during the current year to the total original debt issue. Since no debt was retired during the current fiscal year, no amortization expense has been recorded to the year ended June 30, 2011.

Original Bond Issue Costs	\$ 209,555
Accumulated Amortization	<u>(13,622)</u>
Net Bond Issue Costs	\$ <u>195,933</u>

(continued)

TOWN OF KINGSTON, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2011

NOTE 15. KINGSTON ECONOMIC DEVELOPMENT AUTHORITY (CONTINUED)

Capital Assets

Capital asset activity of the Kingston Economic Development Authority for the year ended June 30, 2011 consists entirely of Construction in Progress totaling \$8,090,308.

Long-Term Debt

At June 30, 2011 the outstanding long-term debt obligations of the Kingston Economic Development Authority consisted of an issue titled Lease Revenue Notes, Series 2009 (Kingston Public Schools Project). These notes are dated February 12, 2009 and have a final maturity date of August 15, 2017. Annual debt service requirements associated with these notes are as follows:

<u>Year</u> <u>Ending</u>	Lease Revenue Notes, Series 2009 (Kingston Public Schools Project)		
	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
06-30-12	493,404	371,596	865,000
06-30-13	626,594	348,406	975,000
06-30-14	701,043	318,957	1,020,000
06-30-15	788,993	286,007	1,075,000
2016-18	<u>5,296,272</u>	<u>618,728</u>	<u>5,915,000</u>
Totals	\$ <u>7,906,306</u>	\$ <u>1,943,694</u>	\$ <u>9,850,000</u>

## REQUIRED SUPPLEMENTARY INFORMATION

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**Town of Kingston, Oklahoma**  
**Unaudited Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended June 30, 2011**

	Budget Amounts			Actual	Variance
	Original	Adjustments	Final	Budget Basis	
<b>Resources (Inflows)</b>					
Sales Tax	\$ 460,000	\$ 7,200	\$ 467,200	\$ 510,238	\$ 43,038
Use Tax	28,000	-	28,000	29,463	1,463
Franchise Taxes	60,000	-	60,000	55,827	(4,173)
Beverage Tax	12,600	-	12,600	13,467	867
Cigarette Tax	6,500	-	6,500	7,443	943
Other Taxes	1,500	-	1,500	6,445	4,945
Gaming from Tribe	12,000	-	12,000	12,000	-
Charges for Services	1,000	-	1,000	895	(105)
Interest Income	-	-	-	238	238
Donations & Reimbursements	-	-	-	16,722	16,722
Grants Revenues	31,770	-	31,770	10,700	(21,070)
Other Income	2,500	-	2,500	3,073	573
Total resources	<u>615,870</u>	<u>7,200</u>	<u>623,070</u>	<u>666,511</u>	<u>43,441</u>
<b>Charges to appropriations (outflows)</b>					
General Government Function					
Administration Department	301,560	2,200	303,760	297,933	5,827
Town Maintenance & Parks	65,000	-	65,000	59,177	5,823
Public Safety Function					
Police Department	249,000	5,000	254,000	250,208	3,792
Volunteer Fire & Safety	33,132	-	33,132	29,855	3,277
Community Development	1,000	-	1,000	821	179
Streets & Highways Function	10,000	-	10,000	8,251	1,749
Sewer Improvements for PWA	-	-	-	-	-
Total charges to appropriations	<u>659,692</u>	<u>7,200</u>	<u>666,892</u>	<u>646,245</u>	<u>20,647</u>
Excess of resources over (under) charges	(43,822)	-	(43,822)	20,266	64,088
Transfers from Other Funds	65,240	-	65,240	50,965	(14,275)
Transfers to Other Funds	-	-	-	-	-
Budgetary fund balance - beginning of year	<u>206,773</u>	<u>-</u>	<u>206,773</u>	<u>219,092</u>	<u>12,319</u>
Budgetary fund balance - end of year	<u>\$ 228,191</u>	<u>\$ -</u>	<u>\$ 228,191</u>	<u>290,323</u>	<u>\$ 62,132</u>
Reconciliation of Budget to GAAP:					
Revenues Receivable				142,184	
Accounts Payable				(25,017)	
Fund Balance, GAAP				<u>\$ 407,490</u>	

See accompanying notes to the financial statements.

**Town of Kingston, Oklahoma**  
**Unaudited Budgetary Comparison Schedule**  
**Proprietary Fund - Kingston Public Works Authority**  
**For the Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>			<u>Actual</u>	<u>Variance</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Adjustments</u>	<u>Final</u>	<u>Budget</u> <u>Basis</u>	
<b>Operating Revenues</b>					
Water charges	\$ 240,000	\$ -	\$ 240,000	\$ 236,157	\$ (3,843)
Sewer charges	213,000	-	213,000	211,665	(1,335)
Garbage charges	156,000	-	156,000	156,140	140
Interest Income	500	-	500	380	(120)
Other Income	10,000	-	10,000	14,807	4,807
Tower Rent Revenue	13,200	-	13,200	8,775	(4,425)
Loan Proceeds - net of costs	-	-	-	-	-
Grant Revenue - CDBG	70,035	-	70,035	32,985	(37,050)
Grant Revenue - FEMA	-	-	-	-	-
Transfers from Other Funds	-	-	-	-	-
Total operating revenues	<u>702,735</u>	<u>-</u>	<u>702,735</u>	<u>660,909</u>	<u>(41,826)</u>
<b>Operating Expenses</b>					
Personnel Costs	118,000	-	118,000	124,790	(6,790)
Payroll Burdens	45,000	-	45,000	41,698	3,302
Garbage Disposal	136,000	-	136,000	124,993	11,007
Utilities	50,000	-	50,000	40,273	9,727
Materials, Supplies & Other Charges	125,000	-	125,000	111,789	13,211
Debt Service Payments	77,000	-	77,000	73,026	3,974
Grant Expenditures - CDBG	70,035	-	70,035	47,756	22,279
Capital Expenditures - Grant Match	<u>130,700</u>	<u>-</u>	<u>130,700</u>	<u>36,300</u>	<u>94,400</u>
Total operating expenses	<u>751,735</u>	<u>-</u>	<u>751,735</u>	<u>600,625</u>	<u>151,110</u>
Excess of Revenues over Expenses-budget	(49,000)	-	(49,000)	60,284	109,284
Total unrestricted net assets - beginning	<u>157,469</u>	<u>-</u>	<u>157,469</u>	<u>198,867</u>	<u>41,398</u>
Total net assets ending	<u>\$ 108,469</u>	<u>\$ -</u>	<u>\$ 108,469</u>	<u>\$ 259,151</u>	<u>\$ 150,682</u>

See accompanying notes to the financial statements.

**Town of Kingston, Oklahoma**  
**Employee Pension & Retirement Plan Information**  
**June 30, 2011**

The Town and the Authority participate in a defined benefit retirement plan (for regular full time employees) which is administered by the Oklahoma Municipal Retirement Fund. The plan provisions call for employee contributions of 3.75% of gross wages each year. The Town and the Authority then make additional contributions on behalf of the employee. For the year ended 6/30/11 that rate was an amount equal to 8.98% of the employee's gross wages. For wages earned during the fiscal year ending June 30, 2011, the following contributions were made:

	<u>Town</u>	<u>Authority</u>	<u>Total</u>
Employee Contributions	\$ 9,763	4,304	\$ 14,067
Employer Contributions	<u>23,335</u>	<u>10,306</u>	<u>33,641</u>
Total Contributions	<u>\$ 33,098</u>	<u>14,610</u>	<u>\$ 47,708</u>

The following provisions are applicable to the plan and its participants:

- ◆ Members participating in the plan become 100% vested in retirement benefits earned to date after 10 years of service. Members are eligible for normal retirement at or after age 65 with 10 years of vesting service or at age 62 with 30 years of vesting service.
- ◆ Early retirement benefits are available at reduced amounts as early as age 55 with 10 or more year of vesting service.
- ◆ Benefits upon normal retirement are calculated at 1.875% of an employee's final average compensation multiplied by his or her number of years of credited service. Final compensation is defined as the average of the 5 highest consecutive annual salaries out of the last 10 years of service.
- ◆ A member is eligible for disability benefits upon becoming vested.
- ◆ Upon separation from the Fund, nonvested defined benefit members' contributions are refundable in addition to interest on his or her contributions.

At January 1, 2011, actuarial calculations provided by the Oklahoma Municipal Retirement Fund for the Town's portion of the plan were as follows:

Value of Assets Available for Benefits	\$ 392,365
Actuarial Accrued Liability	<u>(698,764)</u>
Unfunded Obligation Liability	\$ ( <u>306,399</u> )

The Town's annual contribution rate is set by the plan administrator at a rate designed to amortize the above unfunded obligation over a period of years based on the estimated retirement dates of the plan's participants. As such, the above unfunded liability is not, and should not be, recorded in the Town's financial statements.

The following table summarizes the Town's funding progress in relation to the retirement plan benefit liability:

SCHEDULE OF FUNDING PROGRESS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/01	151,590	228,124	76,534	66.5%	212,459	36.0%
1/1/02	169,795	257,302	87,508	66.0%	196,296	44.6%
1/1/03	179,964	290,662	110,699	61.9%	251,735	44.0%
1/1/04	211,214	317,280	106,066	66.6%	255,852	41.5%
1/1/05	246,758	417,123	170,365	59.2%	273,469	62.3%
1/1/06	280,595	452,900	172,305	62.0%	274,426	62.8%
1/1/07	312,086	484,886	172,800	64.4%	272,994	63.3%
1/1/08	350,528	533,430	182,902	65.7%	322,923	56.6%
1/1/09	348,020	575,517	227,498	60.5%	333,389	68.2%
1/1/10	371,790	620,445	248,665	59.9%	380,692	65.3%
1/1/11	392,365	698,764	306,399	56.2%	358,475	85.5%

Covered payroll is the total annualized rate of pay as of the valuation date based on actual pay for the preceding year.

The Town also participates in the Oklahoma State Firefighters Pension and Retirement system which is a defined contribution plan applying only to the Town's volunteer firefighters. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. Contributions are made by the Town at a rate per volunteer firefighter per year. The total contribution for 2010-2011 was \$ 840.00

## OTHER SUPPLEMENTARY INFORMATION

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**City of Kingston, Oklahoma**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**

	<b><u>Street &amp; Alley Fund</u></b>	<b><u>Court Costs</u></b>	<b><u>Volunteer Fire Fund</u></b>	<b><u>Cemetery Care Fund</u></b>	<b><u>Totals</u></b>
<b><u>ASSETS</u></b>					
Cash	\$ 67,056	\$ 50,368	\$ 13,184	\$ 71,896	\$ 202,504
Restricted Cash	-	2,829	-	1,388	4,217
Revenues Receivable	<u>2,638</u>	<u>3,151</u>	-	-	<u>5,789</u>
Total Assets	<u>\$ 69,694</u>	<u>\$ 56,348</u>	<u>\$ 13,184</u>	<u>\$ 73,284</u>	<u>\$ 212,510</u>
<b><u>LIABILITIES</u></b>					
Accounts Payable	<u>\$ -</u>	<u>\$ 6,906</u>	<u>\$ 1,204</u>	<u>\$ -</u>	<u>\$ 8,110</u>
Total Liabilities	<u>-</u>	<u>6,906</u>	<u>1,204</u>	<u>-</u>	<u>8,110</u>
<b><u>FUND BALANCES</u></b>					
Non-Spendable	-	-	-	-	-
Restricted	69,694	2,829	-	1,388	73,911
Committed	-	-	-	-	-
Assigned	-	46,613	11,980	71,896	130,489
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balances	69,694	49,442	11,980	73,284	204,400
Total Liabilities & Fund Balances	<u>\$ 69,694</u>	<u>\$ 56,348</u>	<u>\$ 13,184</u>	<u>\$ 73,284</u>	<u>\$ 212,510</u>

See accompanying notes to the financial statements.

**Town of Kingston, Oklahoma**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Street &amp; Alley</u>	<u>Court Costs</u>	<u>Volunteer Fire Fund</u>	<u>Cemetery Care Fund</u>	<u>Totals</u>
<b>REVENUES:</b>					
Taxes	\$ 13,026	\$ -	\$ -	\$ -	\$ 13,026
Fines & Forfeitures	-	32,535	-	-	32,535
Charges for Services	-	-	1,430	4,000	5,430
Donations, Fundraising & Reimb	-	-	10,089	758	10,847
Grant Revenues	-	-	18,351	-	18,351
Other Revenues	-	-	-	-	-
Interest Income	-	12	-	33	45
Total Revenues	<u>13,026</u>	<u>32,547</u>	<u>29,870</u>	<u>4,791</u>	<u>80,234</u>
<b>EXPENDITURES:</b>					
Current					
Public Safety	-	15,507	19,087	-	34,594
Cemetery & Parks	-	-	-	600	600
Highways & Streets	-	-	-	-	-
Capital Outlay					
General Government	-	22,678	-	-	22,678
Maintenance	-	-	-	-	-
Public Safety	-	2,924	2,271	-	5,195
Cemetery & Parks	-	-	-	-	-
Highways & Streets	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>41,109</u>	<u>21,358</u>	<u>600</u>	<u>63,067</u>
Excess of Revenues Over (Under) Expenditures	13,026	(8,562)	8,512	4,191	17,167
Other Sources (Uses)					
Transfers from Other Funds	-	-	-	-	-
Transfers to Other Funds	<u>-</u>	<u>(5,940)</u>	<u>-</u>	<u>-</u>	<u>(5,940)</u>
Excess of Revenues Over (Under) Expenditures and Other Sources	13,026	(14,502)	8,512	4,191	11,227
Fund Balance, Beginning of Year	59,658	63,944	3,468	69,093	196,163
Prior Period Adjustment	<u>(2,990)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,990)</u>
Fund Balance, End of Year	<u>\$ 69,694</u>	<u>\$ 49,442</u>	<u>\$ 11,980</u>	<u>\$ 73,284</u>	<u>\$ 204,400</u>

See accompanying notes to the financial statements.

Town of Kingston, Oklahoma  
Schedule of Award Programs  
For the Year Ended June 30, 2011

Federal/State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Program or Award Amount	Cash/Expend Payable or (Rev Recvbl) at 7-1-10	Contract Receipts or Revenue Recognized	Contract Disbursements/ Expenditures	Cash/Expend Payable or (Rev Recvbl) at 6-30-11
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FEDERAL AWARD PROGRAMSHousing & Urban Development

Passed thru Oklahoma Department of Commerce Community Development Block Grant	14.228	CDBG- 13767-09	179,999**	14,731	32,985	47,716	-0-
Cash Match CDBG 13767-09: 09-10--\$16,400, 10-11--\$36,340 moneys paid from Kingston Public Works Authority funds.							

Department of Justice

Passed through Oklahoma District Attorneys Council Justice Assistance – Local Law Enforcement Award			13,953	(7,330)	13,953	6,623	-0-
<b>TOTAL FEDERAL AWARD PROGRAMS</b>				<b>\$ <u>7,401</u></b>	<b><u>46,938</u></b>	<b><u>54,339</u></b>	<b>\$ <u>-0-</u></b>

STATE AWARD PROGRAMSOkla. Dept. of Agriculture

Passed through Forestry Services Rural Fire Dept. Assistance			4,398	\$ -0-	4,398	4,398	\$ -0-
Southern Oklahoma Development Agency (SODA) Century Community Grant			5,000	-0-	700	700	-0-
Sr. Citizens Building Grant			2,000	800	-0-	125	675
<b>TOTAL STATE AWARDS</b>				<b>\$ <u>800</u></b>	<b><u>5,198</u></b>	<b><u>5,323</u></b>	<b>\$ <u>675</u></b>

OTHER AWARD PROGRAMSKingston Public Schools

School Officer Salary Support			10,000	\$ -0-	10,000	10,000	\$ -0-
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See accompanying notes to the financial statements.

## AUDITOR'S REPORTS

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	58-59

## INDEPENDENT AUDITOR'S REPORT

To the Town Council  
Town of Kingston, Oklahoma

We have audited the accompanying 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 Town of Kingston, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Kingston, Oklahoma'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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Kingston, Oklahoma, as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013, on our consideration of the Town of Kingston, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provision 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 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 and budgetary comparison information on pages 1 through 12 and 47 through 49 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 Town of Kingston, Oklahoma's financial statements as a whole. The introductory section, combining and individual nonmajor 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 nonmajor 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.

A handwritten signature in black ink, appearing to read "Cary J. Luce" followed by a stylized flourish or initials.

February 25, 2013

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

To the Town Council  
Town of Kingston, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kingston, Oklahoma, as of and for the year ending June 30, 2011, which collectively comprise the Town of Kingston, Oklahoma's basic financial statements and have issued our report thereon dated February 25, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Town of Kingston is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Town of Kingston's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Kingston's internal control over financial reporting. Accordingly, we do not express on the effectiveness of the Town of Kingston'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 Town of Kingston'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 material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provision 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 management, Town Council, others with the entity and federal awarding agencies and pass-through entities and is not intended to be and should be used by anyone other than these specified parties.



February 25, 2013