

*Financial Statements*

TOWN OF CUMBERLAND GAP, TENNESSEE

Year Ended June 30, 2014

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INDEPENDENT ACCOUNTANTS' AUDIT REPORT

Board of Mayor and Aldermen  
Town of Cumberland Gap, Tennessee  
Cumberland Gap, Tennessee

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Town of Cumberland Gap, Tennessee as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Cumberland Gap, Tennessee's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Town of Cumberland Gap, Tennessee as of June 30, 2014, and the respective changes in its financial position and the respective budgetary comparison of the General Fund and Drug Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 to 10 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 management's discussion and analysis 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.

### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Town of Cumberland Gap, Tennessee's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedules of assets and liabilities - water and sewer activities, revenue and expenditures - water and sewer activities, investments, property taxes receivable and long-term debt requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of assets and liabilities - water and sewer activities, revenue and expenditures - water and sewer activities, investments, property taxes receivable, and long-term debt requirements are fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedules of utility rates and metered customers and principal officials as well as the water utility reporting worksheet and water utility performance indicators 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2015 on our consideration of Town of Cumberland Gap, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* in considering Town of Cumberland Gap, Tennessee's internal control over financial reporting and compliance.

*Mitchell Emert + Hill*

January 12, 2015

# Historic Town of Cumberland Gap

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## **Management's Discussion and Analysis For the Year Ended June 30, 2014**

The management of Town of Cumberland Gap, Tennessee (the Town) presents this management's discussion and analysis (MD&A) of the Town's financial condition and results of operations for the fiscal year ended June 30, 2014. This information should be read in conjunction with the accompanying financial statements.

This MD&A presents an overview of the Town, known as the Primary Government. The government-wide financial statements include the primary government which is the total reporting entity.

### **Financial Highlights**

The following are key financial highlights:

- The assets of the Town of Cumberland Gap, Tennessee Primary Government were more than its liabilities at June 30, 2014 by \$3,183,339 (\$3,268,186 in 2013).
- The Town of Cumberland Gap, Tennessee Primary Government's net position decreased by \$84,848 (\$6,596 in 2013) or 2.5 percent during the year ended June 30, 2014 (0.2 percent during 2013).
- At June 30, 2014 the Town's governmental funds reported combined ending fund balances of \$120,405, a decrease of \$2,404 for the year ended June 30, 2014. At June 30, 2013, the Town's governmental funds reported combined ending fund balances of \$1, a decrease of \$19,377 for the year ended June 30, 2013. As of June 30, 2014, \$117,958 (\$120,362 in 2013) of governmental fund balances is unassigned and available for ongoing operations.
- At June 30, 2014 the unassigned general fund balance was \$117,958 (\$120,362 for 2013) or 34 percent (19 percent for 2013) of general fund expenditures. These unassigned fund balances demonstrate the Town's fiscal discipline and will help meet unexpected emergencies and other uncertainties the Town may face during the course of everyday operations.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, including budget comparisons, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements report functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities). The governmental activities of the Town include the following:

- General government
- Highways and streets
- Public safety
- Parks and recreation
- Water utilities
- Sewer services
- Sanitation

The government-wide financial statements can be found on pages 11 and 12 of this report.

Fund Financial Statements - A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town are reported in one category: governmental funds.



*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements.

By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenue, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures and changes in fund balances for the general fund and drug fund, which are considered to be major funds. To demonstrate compliance with the budget, budgetary comparison statements have been provided for all major funds and are presented on pages 18 to 25.

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

Internal Control and Compliance Section - This includes the auditors' report on the Town's internal control and compliance.

### **Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded its liabilities by \$3,183,339 at June 30, 2014 (\$3,268,186 in 2013).

By far, the largest portion of the Town's net position reflects its investment in capital assets (e.g., land, buildings, water and sewer facilities, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services; consequently, these assets are *not* available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate long-term debt.

At June 30, 2014 and 2013 the Town's statement of net position consisted of the following:

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets	\$ 177,737	\$ 189,412
Capital assets, net of accumulated depreciation	<u>3,410,216</u>	<u>3,526,767</u>
<b>Total Assets</b>	<u><b>\$ 3,587,954</b></u>	<u><b>\$ 3,716,179</b></u>
<b>Liabilities</b>		
Current liabilities	\$ 44,790	\$ 44,694
Non-current liabilities	<u>337,565</u>	<u>367,258</u>
<b>Total Liabilities</b>	382,355	411,952
<b>Deferred inflow of resources</b>		
Deferred revenue	0	14,684
Deferred property tax revenue	<u>22,261</u>	<u>21,356</u>
<b>Total Deferred Inflow of Resources</b>	22,261	36,040
<b>Net position</b>		
Net investment in capital assets	3,055,740	3,138,461
Restricted	2,446	2,446
Unrestricted	<u>125,152</u>	<u>127,278</u>
<b>Total Net Position</b>	<u><b>3,183,339</b></u>	<u><b>3,268,186</b></u>
<b>Total Liabilities, Deferred Inflows of Resources and Net Position</b>	<u><b>\$ 3,587,954</b></u>	<u><b>\$ 3,716,179</b></u>

A portion of the Town's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted net position may be used to meet the obligations to employees and creditors and to help fund next year's budget.

Following is a summary of financial activities for the Town during the fiscal year ended June 30:

	<u>2014</u>	<u>2013</u>
<b>Revenue</b>		
Program revenue:		
Fees, fines and charges for services	\$ 193,689	\$ 204,920
Operating grants and contributions	35,674	100,665
Capital grants and contributions	0	97,900
General revenue:		
Local taxes	54,398	46,499
Intergovernmental	42,085	40,411
Investment earnings	228	412
Insurance proceeds	18,347	7,291
Miscellaneous	<u>0</u>	<u>7,745</u>
	344,193	505,843

	<u>2014</u>	<u>2013</u>
<b>Expenses</b>		
General government	60,670	138,366
Public safety	30,637	41,687
Highways and streets	38,314	36,260
Sanitation	26,190	18,545
Parks and recreation	23,633	25,997
Water utilities	53,391	61,580
Sewer services	<u>196,432</u>	<u>190,004</u>
	<u>429,267</u>	<u>512,439</u>
<b>(Decrease) in net position</b>	(84,848)	(6,596)
<b>Net position at the beginning of the year</b>	<u>3,268,186</u>	<u>3,274,782</u>
<b>Net position at the end of the year</b>	<u>\$ 3,183,339</u>	<u>\$ 3,268,186</u>

Governmental Activities - For the year ended June 30, 2014, governmental activities decreased the Town's net position by \$84,848 (\$6,596 in 2013).

The Town's main sources of revenue are from property tax, local option sales tax, local and state-shared taxes, which consist of tax revenue shared by the State of Tennessee, and water and sewer service charges.

#### **Capital Assets**

The Town's investment in capital assets as of June 30, 2014 was \$3,410,216 (\$3,526,767 in 2013) net of accumulated depreciation.

	<u>2014</u>	<u>2013</u>
Land	\$ 79,998	\$ 79,998
Machinery and equipment	202,259	202,259
Buildings	895,453	895,453
Plant	3,375,771	3,368,899
Vehicles	237,633	280,058
Accumulated depreciation	<u>(1,380,898)</u>	<u>(1,299,900)</u>
	<u>\$ 3,410,216</u>	<u>\$ 3,526,767</u>

The major capital asset additions during the year ended June 30, 2014 were due to the following:

Plant	<u>\$ 15,541</u>
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**Debt Administration**

At June 30, 2014 the Town's general fund had outstanding debt of \$354,476 (\$387,304 in 2013) consisting of the following:

	<u>2014</u>	<u>2013</u>
Rural Development loan	\$ 327,129	\$ 332,408
Capital outlay note	4,677	10,146
Capital outlay note	22,670	29,750
Capital outlay note	0	15,000
Note payable	<u>0</u>	<u>1,000</u>
Total debt - principal	354,476	388,304
Less: current portion due	<u>(16,911)</u>	<u>(21,046)</u>
Total long-term debt-principal	<u>\$ 337,565</u>	<u>\$ 367,258</u>

During the year ended June 30, 2014 the Town retired \$33,828 (\$21,046 in 2013) on debt of its governmental funds.

**Financial Analysis of the Town's Funds**

As previously discussed, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. The general fund's fund balance decreased by \$2,404 during the year ended June 30, 2014 (\$21,624 in 2013).

### **General Fund Budgetary Highlights**

During the year ended June 30, 2014, there were no significant changes between the original budgeted revenue or expenditures and the final amended budgeted revenue or expenditures for the general fund or drug fund.

### **Economic Factors and Next Year's Budgets and Rates**

The Board of Mayor and Aldermen have approved a budget for the year ending June 30, 2015. The estimated revenue and appropriations did not vary significantly from the budget for the year ended June 30, 2014.

### **Requests for Information**

This MD&A and accompanying financial statements and notes are designed to provide our citizens, employees, creditors and regulatory agencies with an overview of the Town's finances. If you have any questions or need additional information, you may contact:

Linda Moyers, City Recorder  
Town of Cumberland Gap, Tennessee  
P.O. Box 78  
Cumberland Gap, TN 37724  
Telephone 423-869-3860



TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF NET POSITION**

June 30, 2014

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 46,890
Certificate of deposit	72,901
Inventory	301
Customer accounts receivable, net of allowance for uncollectible accounts of \$36,000	21,434
Property taxes receivable	23,262
Due from other governments	8,788
Taxes receivable	4,162
Capital assets not being depreciated	79,998
Capital assets being depreciated, net of accumulated depreciation	<u>3,330,219</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,587,954</u></b>

See the accompanying notes to the financial statements.

	<u>Governmental Activities</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 26,503
Sales tax payable	1,375
Current portion of long-term debt	16,911
Long-term debt, net of current portion	<u>337,565</u>
<b>TOTAL LIABILITIES</b>	382,355
<b>DEFERRED INFLOW OF RESOURCES</b>	
Deferred property tax revenue	22,261
<b>NET POSITION</b>	
Net investment in capital assets	3,055,740
Restricted for drug enforcement	2,446
Unrestricted	<u>125,152</u>
<b>TOTAL NET POSITION</b>	<u>3,183,339</u>
	<u>\$ 3,587,954</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014

		<u>Program Revenue</u>	
	<u>Expenses</u>	<u>Fees, and Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
General government	\$ 60,670	\$ 9,297	\$ 15,826
Highways and streets	38,314	0	12,781
Sanitation	26,190	18,496	0
Public safety	30,637	225	7,067
Parks and recreation	23,633	0	0
Water utilities	53,391	49,646	0
Sewer services	196,432	116,024	0
	<u>\$ 429,267</u>	<u>\$ 193,689</u>	<u>\$ 35,674</u>

**General Revenue:**

Taxes:

    Property taxes

    Local sales tax

    Wholesale beer tax

Intergovernmental

Investment earnings

Insurance proceeds

Total general revenue

**CHANGE IN NET POSITION**

**NET POSITION AT THE BEGINNING OF THE YEAR**

**NET POSITION AT THE END OF THE YEAR**

See the accompanying notes to the financial statements.

Net (Expense)  
Revenue and  
Change In  
Net Position

\$ (35,547)  
(25,533)  
(7,693)  
(23,345)  
(23,633)  
(3,745)  
(80,408)

(199,904)

20,535  
19,376  
14,487  
42,085  
228  
18,347

115,057

(84,848)

3,268,186

\$ 3,183,339

TOWN OF CUMBERLAND GAP, TENNESSEE

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**

June 30, 2014

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 44,444	\$ 2,446	\$ 46,890
Certificate of deposit	72,901	0	72,901
Inventory	301	0	301
Customer accounts receivable, net of allowance for uncollectible accounts of \$36,000	21,434	0	21,434
Property taxes receivable	23,262	0	23,262
Due from other governments	8,788	0	8,788
Taxes receivable	<u>4,162</u>	<u>0</u>	<u>4,162</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 175,292</u></b>	<b><u>\$ 2,446</u></b>	<b><u>\$ 177,738</u></b>
<b>LIABILITIES</b>			
Accounts payable	\$ 26,503	\$ 0	\$ 26,503
Sales tax payable	1,375	0	1,375
Deferred revenue	<u>29,455</u>	<u>0</u>	<u>29,455</u>
<b>TOTAL LIABILITIES</b>	57,333	0	57,333
<b>FUND BALANCES</b>			
Restricted	0	2,446	2,446
Unassigned	<u>117,958</u>	<u>0</u>	<u>117,958</u>
	<u>117,958</u>	<u>2,446</u>	<u>120,405</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b><u>\$ 175,292</u></b>	<b><u>\$ 2,446</u></b>	<b><u>\$ 177,738</u></b>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION**

June 30, 2014

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 120,405</b>
Capital assets used in governmental activities are reported in the statement of net position; however, they are not current financial resources and therefore are not reported in the governmental funds balance sheet.	3,410,216
Some of the Town's taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures; therefore, they are reported as deferred revenue in the governmental funds balance sheet.	7,194
Long-term liabilities are not due in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(354,476)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 3,183,339</u></b>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS**

Year Ended June 30, 2014

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>REVENUE</b>			
Taxes:			
Property taxes	\$ 20,940	\$ 0	\$ 20,940
Local sales tax	18,728	0	18,728
Wholesale beer tax	14,487	0	14,487
Intergovernmental	54,823	0	54,823
Charges for services	181,221	0	181,221
Fines and forfeitures	3,660	0	3,660
Licenses and permits	6,699	0	6,699
Contributions	22,893	0	22,893
Interest earnings	228	0	228
Sale of equipment	2,116	0	2,116
Insurance proceeds	18,347	0	18,347
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE</b>	344,141	0	344,141
<b>EXPENDITURES</b>			
Current:			
General government	55,807	0	55,807
Highways and streets	37,029	0	37,029
Solid waste services	26,190	0	26,190
Public safety	18,088	0	18,088
Parks and recreation	3,007	0	3,007
Water utilities	52,421	0	52,421
Sewer services	89,203	0	89,203
Capital outlay	15,541	0	15,541
Debt service	49,259	0	49,259
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	346,545	0	346,545

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
(continued)

Year Ended June 30, 2014

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>(DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	(2,404)	0	(2,404)
<b>FUND BALANCES AT THE BEGINNING OF THE YEAR</b>	<u>120,362</u>	<u>2,446</u>	<u>122,809</u>
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<u>\$ 117,958</u>	<u>\$ 2,446</u>	<u>\$ 120,405</u>

See the accompanying notes to financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**RECONCILIATION OF THE STATEMENT OF REVENUE,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014

<b>(Deficiency) of Revenue Over Expenditures - Governmental Funds</b>	<b>\$ (2,404)</b>
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:	
Acquisition of capital assets	15,541
Depreciation expense	(132,091)
Repayment of long-term debt is an expenditure in the governmental funds, but reduces the long-term liabilities for governmental activities.	33,828
Revenue reported in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental fund financial statements.	
Deferred tax revenue - June 30, 2013	(6,916)
Deferred tax revenue - June 30, 2014	<u>7,194</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ (84,848)</u></b>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**  
**GENERAL FUND**

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUE</b>				
Taxes:				
Property tax	\$ 17,917	\$ 17,917	\$ 20,940	\$ 3,023
Local sales tax	16,680	16,680	18,728	2,048
Wholesale beer tax	15,000	15,000	14,487	(513)
	<u>49,597</u>	<u>49,597</u>	<u>54,155</u>	<u>4,558</u>
Intergovernmental:				
State income tax	350	350	30	(320)
State beer tax	242	242	234	(8)
State sales tax	33,864	33,864	35,253	1,390
State gasoline and motor fuel tax	12,800	12,800	12,829	30
City streets and transportation	1,013	1,013	1,011	(2)
CDBG grant	184,800	184,800	0	(184,800)
TVA-In Lieu of tax	5,207	5,207	5,465	259
	<u>238,275</u>	<u>238,275</u>	<u>54,823</u>	<u>(183,452)</u>
Charges for services:				
Water utility charges	53,560	53,560	47,816	(5,744)
Sewer collection charges	114,000	114,000	114,294	294
Garbage collection charges	17,600	17,600	17,040	(560)
Other charges	2,525	2,525	2,072	(453)
	<u>187,685</u>	<u>187,685</u>	<u>181,221</u>	<u>(6,464)</u>
Fines and forfeitures:				
Court fines	0	0	15	15
Garbage penalties	225	225	85	(140)
Utility penalties	2,050	2,050	3,560	1,510
	<u>2,275</u>	<u>2,275</u>	<u>3,660</u>	<u>1,385</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**  
**GENERAL FUND**

(continued)

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
Licenses and permits:				
Building permits	1,000	1,000	4,365	3,365
Business license	2,000	2,000	1,084	(916)
Beer and liquor license	600	600	1,250	650
	<u>3,600</u>	<u>3,600</u>	<u>6,699</u>	<u>3,099</u>
Other revenue:				
Contributions	24,875	24,875	22,893	(1,982)
Interest earnings	534	534	228	(306)
Sale of equipment	0	0	2,116	2,116
Insurance proceeds	500	500	18,347	17,847
	<u>25,909</u>	<u>25,909</u>	<u>43,583</u>	<u>17,674</u>
<b>TOTAL REVENUE</b>	<b>507,341</b>	<b>507,341</b>	<b>344,141</b>	<b>(163,200)</b>
<b>EXPENDITURES</b>				
General government:				
Salaries and wages	9,580	9,580	11,239	1,659
Payroll taxes	764	764	893	129
Unemployment insurance	124	124	164	41
Payroll processing	153	153	127	(26)
Dues and subscriptions	2,305	2,305	2,271	(34)
Utilities	5,104	5,104	6,591	1,487
Professional services	13,000	13,000	12,785	(216)
Travel	700	700	235	(465)
Operating supplies	150	150	19	(131)
Office supplies and postage	1,830	1,830	1,811	(19)
Liability insurance	6,400	6,400	5,464	(936)
Surety bond	180	180	180	0
Workers' compensation	1,600	1,600	826	(774)

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**  
**GENERAL FUND**

(continued)

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
General government (continued):				
Property insurance	12,000	12,000	12,834	834
Repairs and maintenance	500	500	17	(483)
Education and training	500	500	350	(150)
	<u>54,890</u>	<u>54,890</u>	<u>55,807</u>	<u>917</u>
Highways and streets:				
Salaries and wages	9,568	9,568	11,649	2,081
Payroll taxes	732	732	891	159
Unemployment insurance	105	105	123	19
Payroll processing	153	153	127	(26)
Utilities	2,277	2,277	1,938	(339)
Repairs and maintenance	2,400	2,400	5,825	3,425
Fuel	3,000	3,000	1,937	(1,063)
Operating supplies	110	110	90	(20)
Insurance	2,400	2,400	2,400	0
Uniforms	468	468	477	9
	<u>21,213</u>	<u>21,213</u>	<u>25,458</u>	<u>4,245</u>
State Street Aid:				
Street lighting	12,800	12,800	11,571	(1,229)
Solid waste services:				
Salaries and wages	9,939	9,939	10,022	83
Payroll taxes	870	870	790	(80)
Unemployment insurance	0	0	113	113
Payroll processing	127	127	46	(81)
Office supplies and postage	1,315	1,315	1,682	367
Landfill fees	3,425	3,425	3,902	477

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**  
**GENERAL FUND**

(continued)

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
Solid waste services (continued):				
Fuel	2,000	2,000	3,034	1,034
Repairs and maintenance	500	500	6,600	6,100
	<u>18,176</u>	<u>18,176</u>	<u>26,190</u>	<u>8,014</u>
Police department:				
Repairs and maintenance	200	200	81	(119)
Office supplies and postage	650	650	285	(365)
Operating supplies	<u>1,600</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>2,450</u>	<u>850</u>	<u>367</u>	<u>(483)</u>
Fire department:				
Salaries and wages	0	1,200	400	(800)
Payroll taxes	0	92	31	(61)
Unemployment insurance	0	36	12	(24)
Dues and subscriptions	10	10	10	0
Utilities	3,903	3,903	3,476	(427)
Repairs and maintenance	300	300	846	546
Fuel	500	772	493	(279)
Travel	100	100	0	(100)
Office supplies and postage	100	100	7	(93)
Training	100	100	123	23
Small equipment	8,700	8,700	4,670	(4,030)
Insurance	<u>7,500</u>	<u>7,500</u>	<u>7,654</u>	<u>154</u>
	<u>21,213</u>	<u>22,813</u>	<u>17,721</u>	<u>(5,092)</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**  
**GENERAL FUND**

(continued)

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
Parks and recreation:				
Utilities	1,654	1,654	1,998	344
Repairs and maintenance	1,250	1,250	283	(968)
Office supplies and postage	875	875	304	(571)
Operating supplies	100	100	223	123
Miscellaneous	250	250	200	(50)
	<u>4,129</u>	<u>4,129</u>	<u>3,007</u>	<u>(1,122)</u>
Water utilities:				
Salaries and wages	11,700	11,700	14,758	3,058
Payroll taxes	1,000	1,000	1,129	129
Unemployment insurance	0	0	122	122
Water purchased for resale	25,000	25,000	27,912	2,912
Professional services	0	0	3,600	3,600
Office supplies and postage	1,260	1,260	1,730	470
Operating supplies	600	600	2	(598)
Fuel	0	0	1,211	1,211
Dues and subscriptions	480	480	284	(196)
Repairs and maintenance	2,000	2,000	796	(1,204)
Water testing	660	660	493	(167)
Annual maintenance fee	350	350	383	34
	<u>43,050</u>	<u>43,050</u>	<u>52,421</u>	<u>9,371</u>
Sewer services:				
Salaries and wages	8,710	8,710	8,870	160
Payroll taxes	800	800	678	(122)
Unemployment	0	0	92	92
Office supplies and postage	2,216	2,216	2,439	223
Utilities	22,174	22,174	30,622	8,448
Professional services	37,000	37,000	36,429	(571)

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET**  
**GENERAL FUND**

(continued)

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
Sewer services (continued):				
Dues and subscriptions	415	415	333	(82)
Repairs and maintenance	2,500	2,500	5,249	2,749
Operating supplies	5,489	5,489	2,723	(2,766)
Fuel	0	0	727	727
Permit fee	1,040	1,040	1,040	0
	<u>80,344</u>	<u>80,344</u>	<u>89,203</u>	<u>8,859</u>
Capital outlay:				
Water and sewer utilities	220,000	220,000	15,541	(204,459)
Debt service:				
Principal	34,379	34,379	33,828	(551)
Interest	16,108	16,108	15,432	(676)
	<u>50,487</u>	<u>50,487</u>	<u>49,259</u>	<u>(1,227)</u>
<b>TOTAL EXPENDITURES</b>	<u>528,752</u>	<u>528,752</u>	<u>346,545</u>	<u>(182,207)</u>
<b>(DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	(21,411)	(21,411)	(2,404)	19,007
<b>OTHER FINANCING SOURCES</b>				
Note proceeds	<u>35,200</u>	<u>35,200</u>	<u>0</u>	<u>(35,200)</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET  
GENERAL FUND**

(continued)

Year Ended June 30, 2014

	Budget		Actual	Variance Over (Under)
	Original	Final		
<b>EXCESS(DEFICIENCY) OF REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES</b>	13,789	13,789	(2,404)	(16,193)
<b>FUND BALANCE AT THE BEGINNING OF THE YEAR</b>	<u>0</u>	<u>0</u>	<u>120,362</u>	<u>120,362</u>
<b>FUND BALANCE AT THE END OF THE YEAR</b>	<u>\$ 13,789</u>	<u>\$ 13,789</u>	<u>\$ 117,959</u>	<u>\$ 104,171</u>

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - ACTUAL AND BUDGET  
DRUG FUND**

Year Ended June 30, 2014

	<u>Budget</u>			Variance
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Over (Under)</u>
<b>REVENUE</b>				
Drug related fines	\$ 0	\$ 0	\$ 0	\$ 0
<b>EXPENDITURES</b>				
Drug education	<u>450</u>	<u>450</u>	<u>0</u>	<u>(450)</u>
<b>(DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	(450)	(450)	0	450
<b>FUND BALANCE AT THE BEGINNING OF THE YEAR</b>	<u>450</u>	<u>450</u>	<u>2,446</u>	<u>1,996</u>
<b>FUND BALANCE AT THE END OF THE YEAR</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,446</u>	<u>\$ 2,446</u>

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2014

**NOTE A - DESCRIPTION OF ORGANIZATION**

Town of Cumberland Gap, Tennessee (the Town) was incorporated under Chapter 210, Acts of 1907, as amended by Chapter 72, Private Acts of 1915. The Town operates under a Board of Mayor and Aldermen form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, water and sewer utilities, public improvements, planning and zoning, and general administrative services.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Town, for financial reporting purposes, includes all funds relevant to the operation of Town of Cumberland Gap, Tennessee. The financial statements presented herein do not include agencies which have been formed under applicable state laws, or separate and distinct units of government apart from the Town. As of June 30, 2014, and for the year then ended, the Town had no discretely presented component units which were required to be included in these financial statements.

Government-wide and fund financial statements

The government-wide financial statements, which consist of the statement of net position and the statement of activities, report information on all nonfiduciary activities of the Town. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Grants and similar items are recognized as revenue as soon as all requirements imposed by the provider have been met.



TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenue to be available if it is collected within 30 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures related to claims and judgments, are recorded only when the payment is due.

All trade receivables are shown net of an allowance for uncollectible accounts. Property taxes receivable are recognized as of the date an enforceable legal claim to the taxable property arises. In Tennessee, this date is January 1<sup>st</sup>, and is referred to as the lien date. Revenue from property taxes, however, is recognized in the period for which the taxes are levied, which for the Town is October 1<sup>st</sup> of the ensuing fiscal year. Since the receivable for property taxes is recognized before the period of revenue recognition, the entire amount of the receivable, less an amount for uncollectible taxes, is reported as deferred revenue in the fund financial statements and unearned revenue in the government-wide financial statements as of June 30.

Property taxes receivable are also reported as of June 30 for the taxes that are levied and uncollected during the current fiscal year as well as the previous two fiscal years. These property tax receivables are presented on the general fund balance sheet with offsetting deferred revenue to reflect the amounts not available as of June 30. Property taxes collected within 60 days of year end are considered available and are accrued as revenue. Property taxes collected later than 60 days after year end are not considered available and are accrued and reported as deferred revenue. An allowance for uncollectible taxes is also recorded representing the estimated amount of delinquent taxes receivable that will be filed with the Claiborne County Clerk and Master for collection.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

The Town reports the following major governmental funds:

The *general fund* is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *drug fund* is used to account for costs associated with drug investigation and control and officers' training.

The Town had no internal service funds or fiduciary funds as of or for the year ended June 30, 2014.

Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting reporting purposes into the following three net position groups:

Net investment in capital assets

This category includes capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Net investment in capital assets at June 30, 2014 has been calculated as follows:

Governmental activities:

Capital assets	\$ 4,791,114
Accumulated depreciation	(1,380,898)
Principal balance on long-term debt	<u>(354,476)</u>
	<u>\$ 3,055,740</u>

Restricted

This category includes net position whose use is subject to externally imposed stipulations that can be fulfilled by actions of the Town pursuant to those stipulations or that expire by the passage of time. Net position of the drug fund is classified as restricted net position because its use is limited to police drug enforcement or education programs. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

Unrestricted

This category includes net position that is not subjected to externally imposed stipulations and that does not meet the definition of “restricted” or “net investment in capital assets”. Unrestricted net position may be designated for specific purposes by action of management or the Board of Mayor and Aldermen or may otherwise be limited by contractual agreements with outside parties.

Fund Balances

Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* establishes standards for fund balance classifications for state and local governments and requires that resources be classified for accounting reporting purposes into the following fund balances:

Nonspendable Fund Balance

Fund balances reported as nonspendable in the accompanying financial statements represent amounts for prepaid expenses or inventory.

Restricted Fund Balance

Fund balances reported as restricted in the accompanying financial statements represent amounts restricted to specific purposes by externally imposed restrictions or imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balances reported as committed in the accompanying financial statements represent amounts that can be used only for the specific purposes determined by a formal action of the Town’s highest level of decision-making authority. The Board of Mayor and Aldermen commits resources for specific purposes by passing ordinances.

Assigned Fund Balance

Fund balances reported as assigned in the accompanying financial statements represent amounts that are constrained by the Town’s intent to be used for a specific purpose but are neither restricted nor committed.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

**Unassigned Fund Balance**

In accordance with generally accepted accounting principles, the general fund is the only fund of the Town that reports amounts for unassigned fund balance. This classification represents fund balance that is not nonspendable and has not been committed to specific purposes within the general fund.

The Town would typically use restricted resources first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

**Budgets and Budgetary Accounting**

The Board of Mayor and Aldermen are required to adopt, by ordinance, total budget appropriations by line item for all funds. The Town's budgetary basis of accounting is consistent with generally accepted accounting principles (GAAP). All budget amendments must be approved by the Board of Mayor and Aldermen. Unused appropriations lapse at the end of the year.

**Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns on the government-wide financial statements. Capital assets are defined by the Town as assets with an initial cost of \$10,000 or more. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at estimated fair value on the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years.

The cost of normal maintenance and repairs that does not add to the value of the assets or materially extend assets lives is not capitalized.

**Compensated Absences**

Employees of the Town are granted vacation and sick leave in varying amounts and may accumulate a maximum of 20 vacation days and 90 sick days. The Town's policies do not provide for an employee to be paid for any unused vacation or sick leave in the event of termination. Accordingly, no liability for compensated absences is included in the accompanying financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

Inventory

Inventory which consists of materials and supplies is reported at the lower of cost (determined on a first-in, first-out basis) or market.

Allowance for Uncollectible Accounts

An allowance for uncollectible accounts of \$36,000 is provided based upon historical trends.

**NOTE C - CASH AND INVESTMENTS**

Investments that have maturities of three months or less at the date of purchase are classified as cash equivalents. Cash and investments are stated at cost which approximates market value. Carrying amounts at June 30, 2014, were as follows:

Checking and savings accounts	\$ 46,890
Certificate of deposit	<u>72,901</u>
	<u>\$ 119,791</u>

State of Tennessee law authorizes the Town to invest in obligations of the United States of America or its agencies, nonconvertible debt securities of certain federal agencies, other obligations guaranteed as to principal and interest by the United States of America or any of its agencies, secured certificates of deposit and other evidences of deposit in state and federal banks and savings and loan associations, and the Tennessee Department of Treasury Local Government Investment Pool (the LGIP). The LGIP contains investments in certificated of deposit, U.S. Treasury securities and repurchase agreements, backed by the U.S. Treasury securities. The Treasurer of the State of Tennessee administers the investment pool.

All deposits with financial institutions in excess of Federal Deposit Insurance Corporation (FDIC) limits are required to be secured by one of two methods. Excess funds can be deposited with a financial institution that participates in the State of Tennessee Bank Collateral Pool. For deposits with financial institutions that do not participate in the State of Tennessee Bank Collateral Pool, state statutes require that all deposits be collateralized with collateral whose market value is equal to 105 percent of the uninsured amount of the deposits. All cash balances at June 30, 2014 were entirely insured through the Federal Deposit Insurance Corporation.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2014 was as follows:

	<u>Balance</u> <u>7/1/13</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/14</u>
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated</u>				
Land	\$ 79,998	\$ 0	\$ 0	\$ 79,998
<u>Capital assets being depreciated</u>				
Buildings and improvements	895,453	0	0	895,453
Machinery and equipment	202,259	0	0	202,259
Vehicles	280,058	0	(42,425)	237,633
Water and sewer plant	<u>3,368,899</u>	<u>15,541</u>	<u>(8,669)</u>	<u>3,375,771</u>
	4,746,669	15,541	(51,094)	4,711,116
<u>Accumulated depreciation</u>				
Buildings and improvements	(237,646)	(27,677)	0	(265,324)
Machinery and equipment	(139,684)	(8,036)	0	(147,721)
Vehicles	(192,854)	(8,973)	42,425	(159,402)
Water and sewer plant	<u>(729,715)</u>	<u>(87,404)</u>	<u>8,669</u>	<u>(808,450)</u>
	<u>(1,299,900)</u>	<u>(132,091)</u>	<u>51,094</u>	<u>(1,380,898)</u>
	<u>\$ 3,526,767</u>	<u>\$ (116,550)</u>	<u>\$ 0</u>	<u>\$ 3,410,216</u>

Depreciation expense is charged to the various governmental functions as follows:

General government	\$ 4,695
Public safety	12,549
Highways and streets	1,285
Parks and recreation	20,626
Sewer plant	<u>92,936</u>
	<u>\$ 132,091</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

**NOTE E - LONG-TERM DEBT**

Long-term debt at June 30, 2014 consisted of the following:

Sewer Revenue and Tax Bond, Series 2005 payable in monthly installments of \$1,563, including interest at 4.25% until maturity in 2046	\$ 327,129
Capital outlay note payable in monthly installments of \$571, including interest at 4.50% until maturity in 2014	4,677
Capital outlay note payable in various semiannual installments including interest at 3.31% until maturity in 2017	<u>22,670</u>
	354,476
Less current maturities	<u>(16,911)</u>
	<u>\$ 337,565</u>

Maturities of long-term debt as of June 30, 2014 were as follows:

Governmental Activities:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	\$ 16,911	\$ 14,625	\$ 31,536
2016	12,698	14,126	26,824
2017	13,160	13,654	26,814
2018	5,593	13,163	18,756
2019	5,835	12,921	18,756
2020	6,088	12,668	18,756
2021	6,352	12,404	18,756
2022	6,627	12,129	18,756
2023	6,914	11,842	18,756
2024	7,214	11,542	18,756
2025	7,527	11,229	18,756
2026	7,853	10,903	18,756

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

**Governmental Activities (continued):**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2027	8,193	10,563	18,756
2028	8,548	10,208	18,756
2029	8,919	9,837	18,756
2030	9,305	9,451	18,756
2031	9,709	9,048	18,756
2032	10,129	8,627	18,756
2033	10,568	8,188	18,756
2034	11,026	7,730	18,756
2035	11,504	7,252	18,756
2036	12,003	6,753	18,756
2037	12,523	6,233	18,756
2038	13,066	5,690	18,756
2039	13,632	5,124	18,756
2040	14,223	4,533	18,756
2041	14,839	3,917	18,756
2042	15,482	3,274	18,756
2043	16,153	2,603	18,756
2044	16,853	1,903	18,756
2045	17,583	1,173	18,756
2046	<u>17,446</u>	<u>411</u>	<u>17,857</u>
	<u>\$ 354,476</u>	<u>\$ 273,723</u>	<u>\$ 628,199</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2014

Changes in long-term debt for the year ended June 30, 2014 were as follows:

	<u>Balance</u> <u>7/1/13</u>	<u>Proceeds</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/14</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Sewer Revenue and Tax Bond					
Series 2005	\$ 332,408	\$ 0	\$ (5,279)	\$ 327,129	\$ 4,924
Capital outlay note	10,146	0	(5,469)	4,677	4,677
Capital outlay note	29,750	0	(7,080)	22,670	7,310
Capital outlay note	15,000	0	(15,000)	0	0
Note payable	<u>1,000</u>	<u>0</u>	<u>(1,000)</u>	<u>0</u>	<u>0</u>
	<u>\$ 388,304</u>	<u>\$ 0</u>	<u>\$ (33,828)</u>	<u>\$ 354,476</u>	<u>\$ 16,911</u>

Interest expense has been included in the direct expenses of individual functions on the government-wide statement of activities as follows:

General government	\$ 169
Water utilities	970
Sewer services	<u>14,293</u>
	<u>\$ 15,432</u>

**NOTE F - RISK MANAGEMENT**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in the Tennessee Municipal League Risk Management Pool (the Pool) and pays an annual premium to the Pool for its worker's compensation and general liability insurance. The Town carries commercial insurance for all other risks of loss, including destruction of property and employee dishonesty bonds. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The pooling agreement allows the Pool to make additional assessments or refund surplus revenue to the Town. It is not possible to estimate the amount of such additional assessments or refunds.

SUPPLEMENTARY INFORMATION

TOWN OF CUMBERLAND GAP, TENNESSEE

**ASSETS AND LIABILITIES - WATER AND SEWER ACTIVITIES**

June 30, 2014

**ASSETS**

Cash and cash equivalents	\$ 16,771
Customer accounts receivable, net of allowance for uncollectible accounts of \$36,000	21,434
Capital assets being depreciated, net of accumulated depreciation	<u>2,612,926</u>

**TOTAL ASSETS** \$ 2,651,131

**LIABILITIES**

Accounts payable	\$ 23,506
Sales tax payable	1,375
Current portion of long-term debt	12,234
Long-term debt, net of current portion	<u>337,565</u>

**TOTAL LIABILITIES** \$ 374,680

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**REVENUE AND EXPENDITURES - WATER AND SEWER ACTIVITIES**

Year Ended June 30, 2014

**OPERATING REVENUE**

Water utility charges	\$ 47,286
Sewer collection charges	111,786
Utility penalties	3,560
Sewer service fee	1,175
Miscellaneous charges	<u>1,862</u>

**TOTAL OPERATING REVENUE** 165,670

**EXPENDITURES**

Salaries and wages	\$ 23,628
Payroll taxes	2,022
Utilities	30,622
Dues and subscriptions	617
Water purchased for resale	27,912
Water testing	493
Office supplies and postage	4,169
Operating supplies	2,725
Fuel	1,937
Fines and fees	1,423
Professional services	40,029
Depreciation	92,936
Repairs and maintenance	<u>6,046</u>

**TOTAL EXPENDITURES** 234,560

**OPERATING (LOSS)** (68,890)

**NONOPERATING REVENUE(EXPENSE)**

Investment earnings	13
Insurance proceeds	3,438
Interest expense	<u>(15,263)</u> <u>(11,812)</u>

**(DEFICIENCY) OF REVENUE  
OVER EXPENDITURES** \$ (80,702)

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

INVESTMENTS

June 30, 2014

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Certificate of Deposit</u>			
Citizens Bank #32811	0.30%	9/15/14	\$ 72,901

See the accompanying independent accountants' audit report.



TOWN OF CUMBERLAND GAP, TENNESSEE

**PROPERTY TAXES RECEIVABLE**

Year Ended June 30, 2014

<u>Year of Levy</u>	<u>Rate</u>	<u>Total Assessment</u>	<u>Levy</u>	<u>Balance June 30, 2013</u>
2014	.4500	\$ 4,946,682	\$ 22,261	\$ 0
2013	.4500	4,599,867	21,356	21,356
2012	.4500	4,599,867	20,699	2,590
2011	.4500	4,417,064	19,886	168
2010	.4500	5,134,039	23,114	130
2009	.4500	6,579,384	29,602	27
2008	.2500	5,636,825	14,004	15
2007	.2000	4,101,829	8,205	12
2006	.2000	4,040,785	8,083	8
2005	.2000	4,047,965	8,098	8
				<u>\$ 24,314</u>

None of the delinquent property taxes have been filed with the Claiborne County Clerk and Master.

See the accompanying independent accountants' audit report.

<u>Taxes Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Balance June 30, 2014</u>
\$ 22,261	\$ 0	\$ 0	\$ 22,261
	(2,352)	(18,396)	608
0	0	(2,437)	153
0	0	(128)	40
0	0	0	130
0	0	0	27
0	0	0	15
0	0	0	12
0	0	0	8
<u>0</u>	<u>0</u>	<u>0</u>	<u>8</u>
<u>\$ 22,261</u>	<u>\$ (2,352)</u>	<u>\$ (20,961)</u>	<u>\$ 23,262</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**LONG-TERM DEBT REQUIREMENTS**

June 30, 2014

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Governmental Activities:</u>			
Sewer Revenue and Tax Bond			
Series 2005			
Year ending June 30,			
2015	\$ 4,924	\$ 13,832	\$ 18,756
2016	5,138	13,618	18,756
2017	5,360	13,396	18,756
2018	5,593	13,163	18,756
2019	5,835	12,921	18,756
2020	6,088	12,668	18,756
2021	6,352	12,404	18,756
2022	6,627	12,129	18,756
2023	6,914	11,842	18,756
2024	7,214	11,542	18,756
2025	7,527	11,229	18,756
2026	7,853	10,903	18,756
2027	8,193	10,563	18,756
2028	8,548	10,208	18,756
2029	8,919	9,837	18,756
2030	9,305	9,451	18,756
2031	9,709	9,048	18,756
2032	10,129	8,627	18,756
2033	10,568	8,188	18,756
2034	11,026	7,730	18,756
2035	11,504	7,252	18,756
2036	12,003	6,753	18,756
2037	12,523	6,233	18,756
2038	13,066	5,690	18,756
2039	13,632	5,124	18,756
2040	14,223	4,533	18,756

TOWN OF CUMBERLAND GAP, TENNESSEE

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2014

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond Series 2005 (continued)			
Year ending June 30,			
2041	14,839	3,917	18,756
2042	15,482	3,274	18,756
2043	16,153	2,603	18,756
2044	16,853	1,903	18,756
2045	17,583	1,173	18,756
2046	<u>17,446</u>	<u>411</u>	<u>17,857</u>
	<u>\$ 327,129</u>	<u>\$ 272,164</u>	<u>\$ 599,293</u>
Capital outlay note			
Year ending June 30,			
2015	<u>\$ 4,677</u>	<u>\$ 43</u>	<u>\$ 4,720</u>
Capital outlay note			
Year ending June 30,			
2015	\$ 7,310	\$ 750	\$ 8,060
2016	7,560	508	8,068
2017	<u>7,800</u>	<u>258</u>	<u>8,058</u>
	<u>\$ 22,670</u>	<u>\$ 1,516</u>	<u>\$ 24,186</u>

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

UTILITY RATES AND METERED CUSTOMERS

June 30, 2014

**WATER**

First 3,000 gallons (minimum billing)	\$ 24.00
Next 4,000 gallons (per 1,000 gallons)	6.00
Over 7,000 gallons (per 1,000 gallons)	7.00

**SEWER**

In-town residential users:	
First 3,000 gallons (minimum billing)	20.00
Over 3,000 gallons (per 1,000 gallons)	4.00
In-town small commercial:	
First 3,000 gallons (minimum billing)	20.00
Over 3,000 gallons (per 1,000 gallons)	4.00
In-town large commercial:	
First 3,000 gallons (minimum billing)	60.00
Over 3,000 gallons (per 1,000 gallons)	2.75
Out-of-town residential users:	
First 3,000 gallons (minimum billing)	30.75
Over 3,000 gallons (per 1,000 gallons)	4.50
Out-of-town small commercial:	
First 3,000 gallons (minimum billing)	30.75
Over 3,000 gallons (per 1,000 gallons)	5.00
Out-of-town non-residential or not small commercial:	
First 2,000 gallons (minimum billing)	160.00
Over 2,000 gallons (per 1,000 gallons)	5.00

Number of metered customers

Water	139
Sewer	363

See the accompanying independent accountants' audit report.

**AWWA Free Water Audit Software**  
**Reporting Worksheet**

Water Audit Report for: **Cumberland Gap Water Service (0000181)**  
Reporting Year: **2014** | **7/2013 - 6/2014**

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the call to obtain a description of the grades

**All volumes to be entered as: MILLION GALLONS (US) PER YEAR**

To select the correct data grading for each input, determine the highest grade where the utility meets or exceeds all criteria for that grade and all grades below it.

---

**WATER SUPPLIED**

----- Enter grading in column 'E' and 'J' ----->

Volume from own sources:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr	<input type="text" value="0.000"/>	<input type="text" value="0.000"/>	MG/Yr
Water imported:	<input type="text" value="n/a"/>	<input type="text" value="7.352"/>	MG/Yr	<input type="text" value="7.352"/>	<input type="text" value="0.000"/>	MG/Yr
Water exported:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr	<input type="text" value="0.000"/>	<input type="text" value="0.000"/>	MG/Yr

**Master Meter and Supply Error Adjustments**

Pcnt:  Value:  MG/Yr  
Pcnt:  Value:  MG/Yr  
Pcnt:  Value:  MG/Yr

Enter negative % or value for under-registration  
Enter positive % or value for over-registration

---

**WATER SUPPLIED:**  MG/Yr

---

**AUTHORIZED CONSUMPTION**

Billed metered:	<input type="text" value="6"/>	<input type="text" value="5.057"/>	MG/Yr
Billed unmetered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="text" value="n/a"/>	<input type="text" value="0.000"/>	MG/Yr
Unbilled unmetered:	<input type="text" value="10"/>	<input type="text" value="0.018"/>	MG/Yr

Click here:  for help using option buttons below

Pcnt:  Value:  MG/Yr

Use buttons to select percentage of water supplied OR value

---

**AUTHORIZED CONSUMPTION:**  MG/Yr

---

**WATER LOSSES (Water Supplied - Authorized Consumption)**  MG/Yr

**Apparent Losses**

Unauthorized consumption:  MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

Customer metering inaccuracies:	<input type="text" value="5"/>	<input type="text" value="0.561"/>	MG/Yr
Systematic data-handling errors:	<input type="text" value="10"/>	<input type="text" value="0.096"/>	MG/Yr

Pcnt:  Value:  MG/Yr

Pcnt:  Value:  MG/Yr

**Apparent Losses:**  MG/Yr

---

**Real Losses (Current Annual Real Losses or CARL)**

Real Losses = Water Losses - Apparent Losses:  MG/Yr

---

**WATER LOSSES:**  MG/Yr

---

**NON-REVENUE WATER**

**NON-REVENUE WATER:**  MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains:   miles

Number of active AND inactive service connections:

Service connection density:   conn./mile main

Are customer meters typically located at the curbside or property line?  (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line has been set to zero and a data grading score of 10 has been applied

Average operating pressure:   psi

---

**COST DATA**

Total annual cost of operating water system:	<input type="text" value="10"/>	<input type="text" value="\$60,471"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="text" value="8"/>	<input type="text" value="\$18.07"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="text" value="9"/>	<input type="text" value="\$3,796.00"/>	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

---

**WATER AUDIT DATA VALIDITY SCORE:**

**\*\*\* YOUR SCORE IS: 81 out of 100 \*\*\***

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

**PRIORITY AREAS FOR ATTENTION:**

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Billed metered
- 2: Customer metering inaccuracies
- 3: Water Imported

See the accompanying independent accountants' audit report.

**AWWA Free Water Audit Software:  
System Attributes and Performance Indicators**

Water Audit Report for: **Cumberland Gap Water Service (0000181)**  
 Reporting Year: **2014** | **7/2013 - 6/2014**

**\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 81 out of 100 \*\*\***

**System Attributes:**

	Apparent Losses:	0.876	MG/yr	
	+ Real Losses:	1.601	MG/yr	
	= <b>Water Losses:</b>	<b>2.277</b>	<b>MG/yr</b>	
	<input checked="" type="checkbox"/> Unavoidable Annual Real Losses (UARL):	See limits in definition	MG/yr	
	Annual cost of Apparent Losses:	\$12,209		
	Annual cost of Real Losses:	\$6,079	Valued at Variable Production Cost	
			Return to Reporting Worksheet to change this assumption	

**Performance Indicators:**

<b>Financial:</b>	{	Non-revenue water as percent by volume of Water Supplied: <span style="border: 1px solid black; padding: 2px;">31.2%</span>	
		Non-revenue water as percent by cost of operating system: <span style="border: 1px solid black; padding: 2px;">30.4%</span>	Real Losses valued at Variable Production Cost

  

<b>Operational Efficiency:</b>	{	Apparent Losses per service connection per day: <span style="border: 1px solid black; padding: 2px;">12.02</span> gallons/connection/day	
		Real Losses per service connection per day: <span style="border: 1px solid black; padding: 2px;">28.49</span> gallons/connection/day	
		Real Losses per length of main per day*: <span style="border: 1px solid black; padding: 2px;">N/A</span>	
		Real Losses per service connection per day per psi pressure: <span style="border: 1px solid black; padding: 2px;">0.36</span> gallons/connection/day/psi	

  

From Above, Real Losses = Current Annual Real Losses (CARL):	1.60	million gallons/year
<input checked="" type="checkbox"/> Infrastructure Leakage Index (ILI) [CARL/UARL]:		

\* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**PRINCIPAL OFFICIALS**

June 30, 2014

Bill McGaffee, Mayor  
Chuck Coffey, Alderman  
Susan Bain, Alderwoman  
Teresa Fuson, Alderwoman  
Jerry Hopson, Alderman  
John Ravnum, Alderman  
Philip Waller, Alderman  
Linda Moyers, CMFO, City Recorder

See the accompanying independent accountants' audit report.

INTERNAL CONTROL

AND

COMPLIANCE

INDEPENDENT ACCOUNTANTS' 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

Board of Mayor and Aldermen  
Town of Cumberland Gap, Tennessee  
Cumberland Gap, Tennessee

We have audited, in accordance with the 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 of America, the financial statements of the governmental activities and each major fund of Town of Cumberland Gap, Tennessee, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Cumberland Gap, Tennessee's basic financial statements, and have issued our report thereon dated January 12, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Town of Cumberland Gap, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Cumberland Gap, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Cumberland Gap, Tennessee's internal control.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of Town of Cumberland Gap, Tennessee's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding, recommendation and management response as item 2013-001 that we consider to be a significant deficiency.



## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Cumberland Gap, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Cumberland Gap, Tennessee's Response to Finding**

Town of Cumberland Gap, Tennessee's response to the finding identified in our audit is described in the accompanying schedule of finding, recommendation and management response. Town of Cumberland Gap, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Cumberland Gap, Tennessee's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Cumberland Gap, Tennessee's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mitchell Emert + Hill*

January 12, 2015

TOWN OF CUMBERLAND GAP, TENNESSEE

**FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE**

Year Ended June 30, 2014

Finding Number 2013-001 – Segregation of duties (uncorrected from prior year)

*Finding:* Due to the limited number of personnel available, a lack of segregation of duties exists in the areas of issuing cash receipts, preparing bank deposits, posting accounting transactions, and preparing bank reconciliations.

*Recommendation:* Accounting duties should be divided among existing personnel and board members to ensure proper segregation of duties. The Board of Mayor and Aldermen should consider the cost and benefit of adding additional staff members to ensure that proper segregation of duties exists.

*Management Response:* We concur and will divide the duties among the existing personnel as best we can.

TOWN OF CUMBERLAND GAP, TENNESSEE

**PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

Year Ended June 30, 2014

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2013-001	Segregation of Duties	Repeated