

*Financial Statements*

TOWN OF CUMBERLAND GAP, TENNESSEE

Year Ended June 30, 2016

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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, the business-type activities and each major fund of Town of Cumberland Gap, Tennessee as of and for the year ended June 30, 2016, 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.

## ***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 and each major fund of Town of Cumberland Gap, Tennessee as of June 30, 2016, the respective changes in its financial position and, where applicable, cash flows thereof and the respective budgetary comparison of the general fund and the drug fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As discussed in Note H to the financial statements, Town of Cumberland Gap, Tennessee has restated its net position and fund balance as of June 30, 2015 to account for water and sewer utilities as business-type activities in the water and sewer fund. Our opinion is not modified with respect to this matter.

## ***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 Supplementary 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 financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedules of investments, property taxes receivable, long-term debt requirements and expenditures of federal awards 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. Such 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 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 investments, property taxes receivable, long-term debt requirements and expenditures of federal awards 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, water utility reporting worksheet, water utility performance indicators, and principal officials 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 February 20, 2017, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Cumberland Gap, Tennessee's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Mitchell Emert + Hill". The signature is written in a cursive, flowing style.

February 20, 2017

# Historic Town of Cumberland Gap

330 Colwyn Ave.  
P.O. Box 78  
Cumberland Gap, TN 37724

Phone: 423-869-3860  
Fax: 423-869-8534  
Email: cumberlandgap1@bellsouth.net

## **Management's Discussion and Analysis For the Year Ended June 30, 2016**

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, 2016. This information should be read in conjunction with the accompanying financial statements. As described in Note H to the financial statements, on July 1, 2015, the Town began accounting for water and sewer utilities through the water and sewer fund, an enterprise fund. Previously, these activities were reported as part of the general fund.

This MD&A also presents an overview of the Town, including the water and sewer fund, known as the primary government. The government-wide financial statements include only the primary government which is the total reporting entity.

### **Financial Highlights**

The following are key financial highlights:

- The assets of the Town were more than its liabilities at June 30, 2016 by \$3,042,241 (\$3,105,657 in 2015).
- The Town's net position decreased by \$63,416 (\$77,682 in 2015) or 2.1 percent during the year ended June 30, 2016 (2.4 percent during 2015).
- At June 30, 2016 the Town's governmental funds reported combined ending fund balances of \$151,535, an increase of \$13,634 for the year ended June 30, 2016. At June 30, 2015 the Town's governmental funds reported combined ending fund balances of \$137,901, an increase of \$17,496 for the year ended June 30, 2015. As of June 30, 2016, \$149,264 (\$135,470 in 2015) of governmental fund balances is unassigned and available for ongoing operations.
- At June 30, 2016 the unassigned general fund balance was \$149,264 (\$135,470 in 2015) or 97 percent (77 percent in 2015) 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.

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 the 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
- Solid waste management

The business-type activities of the Town include water and sewer services provided by the water and sewer fund.

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 can be divided into two categories: governmental funds and proprietary funds.

*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 funds balance sheet and the governmental funds 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 funds balance sheet and in the governmental funds 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 24.

*Proprietary Funds* - Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The Town maintains one type of proprietary fund - enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town has one enterprise fund to account for water distribution and sewer collection.

The Town's enterprise fund, the water and sewer fund, is a major fund and is reported separately in the government-wide and fund financial statements. The proprietary fund financial statements are presented on pages 25 to 29 in the basic financial statements.

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 controls and compliance and a schedule of finding, recommendation and management response.

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At June 30, 2016 the Town's net position was \$3,042,241 (\$3,105,657 in 2015).

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 the Town's statement of net position consisted of the following:

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets	\$ 277,445	\$ 219,661
Capital assets, net of accumulated depreciation	<u>3,165,600</u>	<u>3,287,188</u>
	<u>\$ 3,443,045</u>	<u>\$ 3,506,849</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 33,907	\$ 41,166
Noncurrent liabilities	<u>321,393</u>	<u>337,653</u>
	355,299	378,819
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred property tax revenue	45,506	22,374
<b>NET POSITION</b>		
Net investment in capital assets	2,827,947	2,934,031
Restricted	2,271	2,431
Unrestricted	<u>212,022</u>	<u>169,194</u>
	<u>3,042,241</u>	<u>3,105,657</u>
	<u>\$ 3,443,045</u>	<u>\$ 3,506,849</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:

	<u>2016</u>	<u>2015</u>
<b>REVENUE</b>		
Program Revenue:		
Fees, fines and charges for services	\$ 284,234	\$ 219,473
Operating grants and contributions	42,686	46,571
General Revenue:		
Local taxes	57,040	53,338
Intergovernmental	47,688	44,911
Investment earnings	237	206
Insurance proceeds	<u>593</u>	<u>4,099</u>
	432,478	368,597

	<u>2016</u>	<u>2015</u>
<b>EXPENSES</b>		
General government	69,929	46,208
Public safety	24,686	30,306
Highways and streets	41,958	51,893
Sanitation	21,529	22,041
Parks and recreation	24,988	24,111
Water and sewer	<u>312,804</u>	<u>271,720</u>
	<u>495,895</u>	<u>446,279</u>
<b>Decrease in net position</b>	(63,416)	(77,682)
<b>Net position at the beginning of the year</b>	<u>3,105,657</u>	<u>3,183,339</u>
<b>Net position at the end of the year</b>	<u>\$ 3,042,241</u>	<u>\$ 3,105,657</u>

Governmental Activities - For the year ended June 30, 2016, governmental activities decreased the Town's net position by \$15,725 (\$4,441 in 2015).

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

Business-Type Activities - For the year ended June 30, 2016, business-type activities decreased the Town's net position by \$47,691 (\$73,241 in 2015).

### Capital Assets

The Town's investment in capital assets as of June 30, 2016 was \$3,165,600 (\$3,287,188 in 2015) net of accumulated depreciation.

	<u>2016</u>	<u>2015</u>
Land	\$ 79,998	\$ 79,998
Machinery and equipment	206,597	202,259
Buildings	900,382	895,453
Plant	3,382,986	3,382,986
Vehicles	237,633	237,633
Accumulated depreciation	<u>(1,641,996)</u>	<u>(1,511,141)</u>
	<u>\$ 3,165,600</u>	<u>\$ 3,287,188</u>

The major capital asset additions during the year ended June 30, 2016 were as follows:

Buildings	\$ 4,930
Machinery and equipment	<u>4,338</u>
	<u>\$ 9,268</u>

## Debt Administration

At June 30, 2016 the Town's governmental funds had outstanding debt of \$13,000 (\$15,805 in 2015) consisting of the following:

	<u>2016</u>	<u>2015</u>
Note payable	\$ 13,000	\$ 15,805
Less: current portion due	<u>(3,100)</u>	<u>(2,805)</u>
Total long-term debt-principal	<u>\$ 9,900</u>	<u>\$ 13,000</u>

During the year ended June 30, 2016, the Town retired \$2,805 of its governmental funds debt.

At June 30, 2016 the Town's proprietary funds had outstanding debt of \$324,653 (\$337,351 in 2015) consisting of the following:

	<u>2016</u>	<u>2015</u>
Rural Development loan	\$ 316,853	\$ 321,991
Capital outlay note	<u>7,800</u>	<u>15,360</u>
Total debt - principal	324,653	337,351
Less: current portion due	<u>(13,160)</u>	<u>(12,698)</u>
Total long-term debt-principal	<u>\$ 311,493</u>	<u>\$ 324,653</u>

During the year ended June 30, 2016, the Town retired \$12,698 (\$17,125 in 2015) of its proprietary fund debt.

## 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.

Governmental Funds - 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 increased by \$13,794 during the year ended June 30, 2016 (\$17,512 in 2015).

Proprietary Funds - The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The unrestricted net position for the water and sewer fund for the year ended June 30, 2016 was \$54,888 (\$25,849 in 2015), which is 2.5 percent (1 percent in 2015) of total net position of the water and sewer fund.

## **General Fund Budgetary Highlights**

During the year ended June 30, 2016, original budgeted revenue and expenditures were increased to account for community development home rehabilitation expenses funded by the home rehabilitation grant received from the Tennessee Housing Development Agency (THDA).

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

The Board of Mayor and Aldermen approved the budget for the year ending June 30, 2017. The estimated revenue and appropriations did not vary significantly from the budget for the year ended June 30, 2016.

## **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, 2016

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 74,555	\$ 37,607	\$ 112,162
Certificate of deposit	73,267	0	73,267
Inventory	301	0	301
Accounts receivable, net of allowance for uncollectible accounts of \$5,000	2,640	27,971	30,611
Property taxes receivable	46,270	0	46,270
Due from other governments	10,254	0	10,254
Internal balances	(445)	445	0
Taxes receivable	4,580	0	4,580
Capital assets not being depreciated	79,998	0	79,998
Capital assets being depreciated, net of accumulated depreciation	<u>648,089</u>	<u>2,437,513</u>	<u>3,085,602</u>
	<u>\$ 939,509</u>	<u>\$ 2,503,536</u>	<u>\$ 3,443,045</u>

See the accompanying notes to the financial statements.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 6,512	\$ 10,492	\$ 17,004
Accrued salaries	0	25	25
Sales tax payable	0	618	618
Current portion of long-term debt	3,100	13,160	16,260
Long-term debt, net of current portion	9,900	311,493	321,393
	<u>19,512</u>	<u>335,787</u>	<u>355,299</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue	45,506	0	45,506
<b>NET POSITION</b>			
Net investment in capital assets	715,087	2,112,860	2,827,947
Restricted	2,271	0	2,271
Unrestricted	157,134	54,888	212,022
	<u>874,492</u>	<u>2,167,748</u>	<u>3,042,241</u>
	<u>\$ 939,509</u>	<u>\$ 2,503,536</u>	<u>\$ 3,443,045</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2016

		<u>Program Revenue</u>	
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
General government	\$ 69,929	\$ 2,904	\$ 20,607
Highways and streets	41,958	0	13,670
Sanitation	21,529	16,233	0
Public safety	24,686	0	8,409
Parks and recreation	<u>24,988</u>	<u>0</u>	<u>0</u>
Total governmental activities	183,091	19,137	42,686
<b>Business-Type Activities</b>			
Water and sewer	<u>312,804</u>	<u>265,098</u>	<u>0</u>
	<u>\$ 495,895</u>	<u>\$ 284,234</u>	<u>\$ 42,686</u>
<b>General Revenue:</b>			
Taxes:			
Property taxes			
Local sales tax			
Wholesale beer tax			
Intergovernmental			
Investment earnings			
Insurance proceeds			
Total general revenue			

**CHANGES IN NET POSITION**

**NET POSITION AT THE BEGINNING OF THE YEAR, as restated**

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

See the accompanying notes to the financial statements.

Net (Expense) Revenue and  
Changes in Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (46,418)	\$ 0	\$ (46,418)
(28,288)	0	(28,288)
(5,296)	0	(5,296)
(16,277)	0	(16,277)
<u>(24,988)</u>	<u>0</u>	<u>(24,988)</u>
(121,268)	0	(121,268)
<u>0</u>	<u>(47,707)</u>	<u>(47,707)</u>
(121,268)	(47,707)	(168,975)
22,895	0	22,895
23,807	0	23,807
10,338	0	10,338
47,688	0	47,688
221	15	237
<u>593</u>	<u>0</u>	<u>593</u>
<u>105,543</u>	<u>15</u>	<u>105,558</u>
(15,725)	(47,691)	(63,416)
<u>890,217</u>	<u>2,215,440</u>	<u>3,105,657</u>
<u>\$ 874,492</u>	<u>\$ 2,167,748</u>	<u>\$ 3,042,241</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

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

June 30, 2016

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 72,284	\$ 2,271	\$ 74,555
Certificate of deposit	73,267	0	73,267
Inventory	301	0	301
Customer accounts receivable	2,640	0	2,640
Property taxes receivable	46,270	0	46,270
Due from other governments	10,254	0	10,254
Taxes receivable	4,580	0	4,580
	<u>\$ 209,596</u>	<u>\$ 2,271</u>	<u>\$ 211,868</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 6,512	\$ 0	\$ 6,512
Due to other funds	445	0	445
	<u>6,956</u>	<u>0</u>	<u>6,956</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property taxes	46,270	0	46,270
Deferred state shared and local taxes	7,106	0	7,106
	<u>53,376</u>	<u>0</u>	<u>53,376</u>
<b>FUND BALANCES</b>			
Restricted	0	2,271	2,271
Unassigned	149,264	0	149,264
	<u>149,264</u>	<u>2,271</u>	<u>151,535</u>
	<u>\$ 209,596</u>	<u>\$ 2,271</u>	<u>\$ 211,868</u>

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, 2016

<b>Total Fund Balance - Governmental Funds</b>	\$ 151,535
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.	728,087
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.	7,870
Long-term liabilities are not due in the current period and, therefore, are not reported in the governmental funds balance sheet.	<u>(13,000)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 874,492</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, 2016

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>REVENUE</b>			
Taxes:			
Property taxes	\$ 23,654	\$ 0	\$ 23,654
Local sales tax	23,351	0	23,351
Wholesale beer tax	10,338	0	10,338
Intergovernmental	79,917	0	79,917
Charges for services	16,308	0	16,308
Fines and forfeitures	35	0	35
Licenses and permits	2,837	0	2,837
Contributions	10,116	0	10,116
Interest earnings	221	0	221
Insurance proceeds	593	0	593
	<hr/>	<hr/>	<hr/>
<b>TOTAL REVENUE</b>	167,371	0	167,371
<b>EXPENDITURES</b>			
Current:			
General government	65,541	0	65,541
Highways and streets	40,441	0	40,441
Solid waste services	21,529	0	21,529
Public safety	13,502	160	13,662
Parks and recreation	4,362	0	4,362
Capital outlay	4,930	0	4,930
Debt service	3,273	0	3,273
	<hr/>	<hr/>	<hr/>
<b>TOTAL EXPENDITURES</b>	153,577	160	153,737

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2016

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>EXCESS(DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	13,794	(160)	13,634
<b>FUND BALANCES AT THE BEGINNING OF THE YEAR, as restated</b>	<u>135,470</u>	<u>2,431</u>	<u>137,901</u>
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<u>\$ 149,264</u>	<u>\$ 2,271</u>	<u>\$ 151,535</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, 2016

<b>Excess of Revenue Over Expenditures - Governmental Funds</b>	<b>\$ 13,634</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	4,930
Depreciation expense	(37,089)
 Repayment of long-term debt is an expenditure in the governmental funds, but reduces the long-term liabilities for governmental activities.	
	2,805
 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, 2015	(7,876)
Deferred tax revenue - June 30, 2016	<u>7,870</u>
 <b>Change in Net Position of Governmental Activities</b>	 <b><u><u>\$ (15,725)</u></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, 2016

	Budget		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUE</b>				
Taxes:				
Property tax	\$ 24,225	\$ 24,225	\$ 23,654	\$ (571)
Local sales tax	17,000	22,500	23,351	851
Wholesale beer tax	12,000	12,000	10,338	(1,662)
	<u>53,225</u>	<u>58,725</u>	<u>57,343</u>	<u>(1,382)</u>
Intergovernmental:				
State income tax	30	480	646	166
State beer tax	247	247	241	(6)
State sales tax	37,297	38,897	39,789	892
State gasoline and motor fuel tax	12,968	13,568	13,539	(29)
City streets and transportation	1,013	1,013	1,005	(9)
THDA home grant	0	18,900	18,900	0
TVA-In Lieu of tax	5,656	5,806	5,797	(9)
	<u>57,211</u>	<u>78,911</u>	<u>79,917</u>	<u>1,006</u>
Charges for services:				
Garbage collection charges	17,010	17,010	16,022	(988)
Other charges	1,175	1,310	286	(1,024)
	<u>18,185</u>	<u>18,320</u>	<u>16,308</u>	<u>(2,012)</u>
Fines and forfeitures:				
Garbage penalties	100	100	35	(65)
Licenses and permits:				
Building permits	1,000	1,000	805	(195)
Business license	1,500	1,500	1,082	(418)
Beer and liquor license	700	950	950	0
	<u>3,200</u>	<u>3,450</u>	<u>2,837</u>	<u>(613)</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, 2016

	Budget		Actual	Variance Over (Under)
	Original	Final		
Other revenue:				
Contributions	7,000	11,000	10,116	(884)
Interest earnings	205	205	221	16
Insurance proceeds	500	500	593	93
	<u>7,705</u>	<u>11,705</u>	<u>10,931</u>	<u>(774)</u>
<b>TOTAL REVENUE</b>	139,626	171,211	167,371	(3,840)
<b>EXPENDITURES</b>				
General government:				
Salaries and wages	8,750	8,750	8,269	(481)
Payroll taxes	669	669	633	(37)
Unemployment insurance	133	133	83	(50)
Payroll processing	161	161	9	(152)
Dues and subscriptions	1,830	2,030	2,754	724
Utilities	6,334	6,334	5,495	(839)
Professional services	7,311	7,311	7,071	(240)
Travel	260	510	462	(48)
Office supplies and postage	1,950	8,650	8,926	276
Liability insurance	3,850	3,850	4,905	1,055
Surety bond	180	180	180	0
Workers' compensation	1,300	1,300	923	(377)

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
General government (continued):				
Property insurance	1,360	5,185	5,177	(8)
Repairs and maintenance	550	560	1,285	725
Education and training	300	300	470	170
	<u>34,938</u>	<u>45,923</u>	<u>46,641</u>	<u>718</u>
Highways and streets:				
Salaries and wages	11,500	11,500	12,655	1,155
Payroll taxes	880	880	970	90
Unemployment insurance	140	171	123	(48)
Payroll processing	161	161	9	(152)
Utilities	1,627	1,627	1,552	(75)
Repairs and maintenance	3,450	9,675	9,592	(83)
Fuel	2,450	2,450	1,242	(1,208)
Insurance	2,400	2,400	2,400	0
Uniforms	468	468	488	20
	<u>23,076</u>	<u>29,332</u>	<u>29,031</u>	<u>(301)</u>
State Street Aid:				
Street lighting	11,500	11,500	11,410	(90)
Solid waste services:				
Salaries and wages	10,565	10,565	10,418	(147)
Payroll taxes	808	808	795	(13)
Unemployment insurance	200	200	132	(68)
Office supplies and postage	1,650	1,650	1,090	(560)
Landfill fees	3,000	3,000	3,852	852

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Solid waste services (continued):				
Fuel	1,200	1,200	725	(475)
Liability insurance	714	714	1,168	454
Workers' compensation	525	525	428	(97)
Property insurance	552	552	207	(345)
Professional services	1,376	1,376	1,376	0
Repairs and maintenance	1,750	1,750	1,338	(412)
	<u>22,340</u>	<u>22,340</u>	<u>21,529</u>	<u>(811)</u>
Police department:				
Salaries and wages	0	900	461	(439)
Payroll taxes	0	69	35	(34)
Unemployment insurance	0	27	14	(13)
Fuel	50	200	94	(106)
	<u>50</u>	<u>1,196</u>	<u>604</u>	<u>(592)</u>
Fire department:				
Salaries and wages	1,200	1,200	1,200	0
Payroll taxes	92	92	92	0
Unemployment insurance	36	36	36	0
Dues and subscriptions	10	10	60	50
Utilities	3,202	3,202	3,345	143
Repairs and maintenance	300	300	467	167
Fuel	150	150	313	163
Office supplies and postage	100	100	0	(100)
Training	300	300	126	(174)
Small equipment	8,000	8,000	1,647	(6,353)
Insurance	7,210	7,210	5,613	(1,598)
	<u>20,600</u>	<u>20,600</u>	<u>12,898</u>	<u>(7,702)</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, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Parks and recreation:				
Salaries and wages	750	750	444	(306)
Payroll taxes	58	58	34	(24)
Unemployment insurance	23	23	14	(9)
Utilities	1,876	1,876	1,894	18
Repairs and maintenance	100	1,650	1,677	27
Office supplies and postage	275	275	100	(175)
Operating supplies	100	100	199	99
Miscellaneous	200	200	0	(200)
	<u>3,382</u>	<u>4,932</u>	<u>4,362</u>	<u>(570)</u>
Community development:				
Home rehabilitation	0	18,900	18,900	0
Capital outlay:				
General government	0	5,900	4,930	(970)
Debt service:				
Principal	2,805	2,805	2,805	0
Interest	468	468	468	0
	<u>3,273</u>	<u>3,273</u>	<u>3,273</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<u>119,159</u>	<u>163,896</u>	<u>153,577</u>	<u>(10,319)</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	20,467	7,315	13,794	6,479

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2016

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<b>FUND BALANCE AT THE BEGINNING OF THE YEAR, as restated</b>	<u>0</u>	<u>0</u>	<u>135,470</u>	<u>135,470</u>
<b>FUND BALANCE AT THE END OF THE YEAR</b>	<u>\$ 20,467</u>	<u>\$ 7,315</u>	<u>\$ 149,264</u>	<u>\$ 141,949</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, 2016

	Budget		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUE</b>				
Drug related fines	\$ 0	\$ 0	\$ 0	\$ 0
<b>EXPENDITURES</b>				
Sundry	<u>0</u>	<u>160</u>	<u>160</u>	<u>0</u>
<b>(DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	0	(160)	(160)	0
<b>FUND BALANCE AT THE BEGINNING OF THE YEAR</b>	<u>0</u>	<u>160</u>	<u>2,431</u>	<u>2,271</u>
<b>FUND BALANCE AT THE END OF THE YEAR</b>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,271</u>	<u>\$ 2,271</u>

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF NET POSITION**  
**WATER AND SEWER FUND**

June 30, 2016

**CURRENT ASSETS**

Cash and cash equivalents		\$ 37,607
Accounts receivable, net of allowance for uncollectible accounts of \$5,000		27,971
Due from other funds		445
		<u>66,023</u>

**CAPITAL ASSETS**

Equipment	\$ 125,515	
Vehicles	10,536	
Utility plant	<u>3,382,986</u>	
	3,519,037	
Accumulated depreciation	<u>(1,081,524)</u>	<u>2,437,513</u>
		<u>\$ 2,503,536</u>

**CURRENT LIABILITIES**

Accounts payable		\$ 10,492
Accrued salaries		25
Sales tax payable		618
Current portion of long-term debt		<u>13,160</u>
		24,294

**LONG-TERM DEBT,**  
net of current portion

311,493

**NET POSITION**

Net investment in capital assets	\$ 2,112,860	
Unrestricted	<u>54,888</u>	<u>2,167,748</u>
		<u>\$ 2,503,536</u>

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENSES AND CHANGE**  
**IN NET POSITION - WATER AND SEWER FUND**

Year Ended June 30, 2016

**OPERATING REVENUE**

Water utility charges	\$ 86,679
Sewer collection charges	166,784
Tap fees	1,550
Utility penalties	2,545
Service fees	1,615
Sewer legal fees	925

**TOTAL OPERATING REVENUE** 260,098

**OPERATING EXPENSES**

Water and sewer lines:	
Salaries and wages	\$ 22,014
Payroll taxes	1,910
Utilities	28,476
Dues and subscriptions	954
Water purchased for resale	43,177
Water testing	490
Office supplies and postage	4,337
Operating supplies	7,939
Fuel	1,451
Fines and fees	1,040
Insurance	10,480
Professional services	46,312
Repairs and maintenance	29,314
Depreciation	93,767

**TOTAL OPERATING EXPENSES** 291,660

**(LOSS) FROM OPERATIONS** (31,563)



TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF REVENUE, EXPENSES AND CHANGE**  
**IN NET POSITION - WATER AND SEWER FUND**

(continued)

Year Ended June 30, 2016

**NONOPERATING REVENUE(EXPENSE)**

Interest income	15	
Interest expense	<u>(16,144)</u>	<u>(16,128)</u>

**CHANGE IN NET POSITION** (47,691)

**NET POSITION AT THE BEGINNING OF THE YEAR, as restated** 2,215,440

**NET POSITION AT THE END OF THE YEAR** \$ 2,167,748

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF CASH FLOWS**  
**WATER AND SEWER FUND**

Year Ended June 30, 2016

**CASH PROVIDED(USED) BY  
OPERATING ACTIVITIES**

Cash received from customers	\$ 259,413
Cash paid to employees	(22,014)
Cash paid to suppliers	<u>(181,370)</u>

**NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

56,029

**CASH PROVIDED(USED) BY CAPITAL AND  
RELATED FINANCING ACTIVITIES**

Acquisition of capital assets	\$ (4,338)
Principal payments on long-term debt	(12,698)
Interest paid on debt	<u>(16,144)</u>

**NET CASH (USED) BY CAPITAL AND  
RELATED FINANCING ACTIVITIES**

(33,180)

**CASH PROVIDED(USED) BY  
INVESTING ACTIVITIES**

Interest received	<u>15</u>
-------------------	-----------

**NET INCREASE IN CASH**

22,863

**CASH AT THE BEGINNING OF THE YEAR**

14,744

**CASH AT THE END OF THE YEAR**

\$ 37,607



TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2016

**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. As described in Note H, on July 1, 2015, the Town began accounting for water and sewer utilities through the water and sewer fund, an enterprise fund. Previously, these activities were reported as part of the general fund.

**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 that have been formed under applicable state laws, or separate and distinct units of government apart from the Town. As of June 30, 2016, 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 of the nonfiduciary activities of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

**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, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flow. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

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 of 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 estimated 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, 2016

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 reports the following major proprietary fund:

The *water and sewer fund* accounts for the activities of the water and sewer departments, which operate and maintain a water distribution and sewer collection system for residents and businesses on a user charge basis.

All activities necessary to provide these services are accounted for in such a manner as to show profit or loss similar to comparable private enterprises.

The Town had no internal service funds or fiduciary funds as of or for the year ended June 30, 2016.

Proprietary fund financial statements include a statement of net position, a statement of revenue, expenses and changes in net position and a statement of cash flows for each major proprietary fund. Proprietary funds are accounts for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included in the statement of net position. The statement of revenue, expenses and change in net position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenue is recognized in the period in which it is earned while expenses are recognized in the period in which the liability is incurred.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Town's proprietary funds is charges to customers for sales and services. The Town also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges between the Town's water and sewer function, and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenue reported in the various functions concerned.

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, 2016 has been calculated as follows:

Governmental Activities:

Capital assets	\$ 1,288,559
Accumulated depreciation	(560,472)
Principal balance on long-term debt	<u>(13,000)</u>
	<u>\$ 715,087</u>

Business-Type Activities:

Water and Sewer Fund:	
Capital assets	\$ 3,519,037
Accumulated depreciation	(1,081,524)
Principal balance on long-term debt	<u>(324,653)</u>
	<u>\$ 2,112,860</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

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.

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 Balances

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

Restricted Fund Balances

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.

Assigned Fund Balances

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. This intent is expressed by the Board of Mayor and Aldermen.



TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

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.

Committed Fund Balances

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.

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 or business-type activities columns on the government-wide financial statements. Capital assets are defined by the Town as assets with an initial cost as follows:

Buildings and infrastructure	\$ 10,000
Improvements other than buildings	5,000
Equipment	2,500
Land	500
Construction in process	Tied to asset class

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.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

Compensated Absences

Employees of the Town are granted vacation and sick leave in varying amounts and may accumulate a maximum of 15 vacation days and 30 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.

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 \$5,000 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, 2016, were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Checking and savings accounts	\$ 74,555	\$ 37,607	\$ 112,162
Certificate of deposit	<u>73,267</u>	<u>0</u>	<u>73,267</u>
Total	<u>\$ 147,822</u>	<u>\$ 37,607</u>	<u>\$ 185,429</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 (LGIP). The LGIP contains investments in certificates 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.

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

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, 2016 were entirely insured through the Federal Deposit Insurance Corporation.

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>7/1/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/16</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	4,930	0	900,382
Machinery and equipment	81,082	0	0	81,082
Vehicles	<u>227,097</u>	<u>0</u>	<u>0</u>	<u>227,097</u>
	1,203,631	4,930	0	1,208,561
<u>Accumulated depreciation</u>				
Buildings and improvements	(293,002)	(27,869)	0	(320,871)
Machinery and equipment	(74,418)	(2,121)	0	(76,539)
Vehicles	<u>(155,964)</u>	<u>(7,098)</u>	<u>0</u>	<u>(163,062)</u>
	<u>(523,384)</u>	<u>(37,089)</u>	<u>0</u>	<u>(560,472)</u>
	<u>\$ 760,246</u>	<u>\$ (32,159)</u>	<u>\$ 0</u>	<u>\$ 728,087</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

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

General government	\$ 4,695
Public safety	10,718
Highways and streets	1,049
Parks and recreation	<u>20,626</u>
	<u>\$ 37,089</u>

	<u>Balance</u> <u>7/1/15</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/16</u>
<b>Business-Type Activities:</b>				
<u>Capital assets being depreciated</u>				
Machinery and equipment	\$ 121,177	\$ 4,338	\$ 0	\$ 125,515
Vehicles	10,536	0	0	10,536
Water and sewer plant	<u>3,382,986</u>	<u>0</u>	<u>0</u>	<u>3,382,986</u>
	3,514,699	4,338	0	3,519,037
<u>Accumulated depreciation</u>				
Machinery and equipment	(80,688)	(5,349)	0	(86,037)
Vehicles	(10,536)	0	0	(10,536)
Water and sewer plant	<u>(896,534)</u>	<u>(88,417)</u>	<u>0</u>	<u>(984,951)</u>
	<u>(987,757)</u>	<u>(93,767)</u>	<u>0</u>	<u>(1,081,524)</u>
	<u>\$ 2,526,942</u>	<u>\$ (89,429)</u>	<u>\$ 0</u>	<u>\$ 2,437,513</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

**NOTE E - LONG-TERM DEBT**

Long-term debt at June 30, 2016 consisted of the following:

Governmental Activities:

Capital outlay note payable in various semiannual installments including interest at 3.25% until maturity in 2020	\$ 13,000
Less current maturities	<u>(3,100)</u>
	<u>\$ 9,900</u>

Business-Type Activities:

Sewer Revenue and Tax Bond, Series 2005 payable in monthly installments of \$1,563, including interest at 4.25% until maturity in 2046	\$ 316,853
Note payable in various semiannual installments including interest at 3.31% until maturity in 2017	<u>7,800</u>
	324,653
Less current maturities	<u>(13,160)</u>
	<u>\$ 311,493</u>

Maturities of long-term debt as of June 30, 2016 are as follows:

Governmental Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2017	\$ 3,100	\$ 372	\$ 3,472
2018	3,200	270	3,470
2019	3,300	164	3,464
2020	<u>3,400</u>	<u>55</u>	<u>3,455</u>
	<u>\$ 13,000</u>	<u>\$ 861</u>	<u>\$ 13,861</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

Business-Type Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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
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>17,232</u>	<u>411</u>	<u>17,643</u>
	<u>\$ 324,653</u>	<u>\$ 244,972</u>	<u>\$ 569,625</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

Changes in long-term debt for the year ended June 30, 2016 were as follows:

	<u>Balance</u> <u>7/1/15</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/16</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Note payable	\$ 15,805	\$ 0	\$ 2,805	\$ 13,000	\$ 3,100
	<u>\$ 15,805</u>	<u>\$ 0</u>	<u>\$ 2,805</u>	<u>\$ 13,000</u>	<u>\$ 3,100</u>
<b><u>Business-Type Activities:</u></b>					
Sewer Revenue and Tax Bond Series 2005	\$ 321,991	\$ 0	\$ 5,138	\$ 316,853	\$ 5,360
Capital outlay note	<u>15,360</u>	<u>0</u>	<u>7,560</u>	<u>7,800</u>	<u>7,800</u>
	<u>\$ 337,351</u>	<u>\$ 0</u>	<u>\$ 12,698</u>	<u>\$ 324,653</u>	<u>\$ 13,160</u>

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

General government	\$ 468
Water utilities	494
Sewer services	<u>15,650</u>
	<u>\$ 16,612</u>

**NOTE F - INTERFUND BALANCES**

Amounts due from and due to other funds at June 30, 2016, resulting from short-term advances for shared costs, were as follows:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General fund	Water and sewer fund	\$ 445

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2016

**NOTE G - 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.

**NOTE H - RESTATEMENT**

Net position and fund balance have been restated to account for water and sewer utilities as business-type activities in the water and sewer fund.

	<u>Governmental Activities</u>	<u>General Fund</u>
Balance at June 30, 2015, as originally reported	\$ 3,105,657	\$ 161,319
Net position of Water and Sewer Fund at June 30, 2015	<u>(2,215,440)</u>	<u>(25,849)</u>
Balance at July 1, 2015, as restated	<u>\$ 890,217</u>	<u>\$ 135,470</u>



SUPPLEMENTARY INFORMATION

TOWN OF CUMBERLAND GAP, TENNESSEE

**INVESTMENTS**

June 30, 2016

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Certificate of Deposit</u>			
Citizens Bank #32811	0.30%	9/15/16	\$ 73,267

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**PROPERTY TAXES RECEIVABLE**

Year Ended June 30, 2016

<u>Year of Levy</u>	<u>Rate</u>	<u>Total Assessment</u>	<u>Levy</u>	<u>Balance June 30, 2015</u>
2016	.9000	\$ 5,056,082	\$ 45,506	\$ 0
2015	.4500	4,972,126	22,374	22,374
2014	.4500	4,946,682	22,261	940
2013	.4500	4,599,867	21,356	395
2012	.4500	4,599,867	20,699	54
2011	.4500	4,417,064	19,886	40
2010	.4500	5,134,039	23,114	40
2009	.4500	6,579,384	29,602	27
2008	.2500	5,636,825	14,004	15
2007	.2000	4,101,829	8,205	1
2006	.2000	4,040,785	8,083	1
				<u>\$ 23,887</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, 2016</u>
\$ 45,506	\$ 0	\$ 0	\$ 45,506
0	(1,190)	(20,788)	397
0	0	(831)	109
0	0	(260)	135
0	0	0	54
0	0	(27)	13
0	0	(27)	13
0	0	0	27
0	0	0	15
0	0	0	1
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>\$ 45,506</u>	<u>\$ (1,190)</u>	<u>\$ (21,933)</u>	<u>\$ 46,270</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**LONG-TERM DEBT REQUIREMENTS**

June 30, 2016

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Governmental Activities:</u>			
Note payable			
Year ending June 30,			
2017	\$ 3,100	\$ 372	\$ 3,472
2018	3,200	270	3,470
2019	3,300	164	3,464
2020	<u>3,400</u>	<u>55</u>	<u>3,455</u>
	<u>\$ 13,000</u>	<u>\$ 861</u>	<u>\$ 13,861</u>

Business-Type Activities:

Sewer Revenue and Tax Bond  
Series 2005

Year ending June 30,			
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

TOWN OF CUMBERLAND GAP, TENNESSEE

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2016

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond Series 2005 (continued)			
Year ending June 30,			
2030	9,305	9,451	18,756
2031	9,709	9,048	18,757
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	17,232	411	17,643
	<u>\$ 316,853</u>	<u>\$ 244,714</u>	<u>\$ 561,568</u>
Capital outlay note			
Year ending June 30,			
2017	<u>\$ 7,800</u>	<u>\$ 258</u>	<u>\$ 8,058</u>

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2016

<u>Federal Grantor/ Pass-Through Grantor</u>	<u>CFDA #</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>Federal Awards</u>			
U.S. Department of Housing and Urban Development/TN Housing Development Agency	14.239	HM-13-08	\$ 18,900

**NOTE 1 - BASIS OF PRESENTATION**

This schedule summarizes the expenditures of Town of Cumberland Gap, Tennessee under programs of the federal government for the year ended June 30, 2016. The schedule is presented using the modified accrual basis of accounting.

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**UTILITY RATES AND METERED CUSTOMERS**

June 30, 2016

**WATER**

First 3,000 gallons (minimum billing)	\$ 42.65
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)	33.00
Over 3,000 gallons (per 1,000 gallons)	4.00
In-town small commercial:	
First 3,000 gallons (minimum billing)	33.00
Over 3,000 gallons (per 1,000 gallons)	4.00
In-town large commercial:	
First 3,000 gallons (minimum billing)	73.00
Over 3,000 gallons (per 1,000 gallons)	2.75
Out-of-town residential users:	
First 3,000 gallons (minimum billing)	43.75
Over 3,000 gallons (per 1,000 gallons)	4.50
Out-of-town small commercial:	
First 3,000 gallons (minimum billing)	43.75
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)	173.00
Over 2,000 gallons (per 1,000 gallons)	5.00

Number of metered customers

Water	142
Sewer	338

See the accompanying independent accountants' audit report.



# AWWA Free Water Audit Software:

## Reporting Worksheet

WAS v5.0  
American Water Works Association  
 Copyright © 2014. All Rights Reserved

?

Click to access definition

+

Click to add a comment

**Water Audit Report for: Cumberland Gap (TN0060747)**  
**Reporting Year: 2016 7/2015 - 6/2016**

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 cell 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 here the utility meets or exceeds all criteria for that grade and all grades below it.

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

**WATER SUPPLIED**

Volume from own sources:	+	?	n/a	0.000	MG/Yr
Water imported:	+	?	9	10,499	MG/Yr
Water exported:	+	?	n/a	0.000	MG/Yr

---

**WATER SUPPLIED: 10.395 MG/Yr**

**AUTHORIZED CONSUMPTION**

Billed metered:	+	?	6	5.635	MG/Yr
Billed unmetered:	+	?	n/a	0.000	MG/Yr
Unbilled metered:	+	?	n/a	0.000	MG/Yr
Unbilled unmetered:	+	?	?	0.130	MG/Yr

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

---

**AUTHORIZED CONSUMPTION: 5.765 MG/Yr**

**Master Meter and Supply Error Adjustments**

Pcnt:	Value:
+	?
+	?
+	?

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

---

Click here: ? for help using option buttons below

Pcnt:	Value:
+	?
+	?
+	?

Use buttons to select percentage of water supplied OR value

Pcnt:	Value:
+	?
+	?
+	?

Use buttons to select percentage of water supplied OR value

Pcnt:	Value:
+	?
+	?
+	?

**WATER LOSSES (Water Supplied - Authorized Consumption) 4.630 MG/Yr**

**Apparent Losses**

Unauthorized consumption:	+	?	?	0.026	MG/Yr
---------------------------	---	---	---	-------	-------

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

Customer metering inaccuracies:	+	?	5	0.557	MG/Yr
Systematic data handling errors:	+	?	?	0.014	MG/Yr

Default option selected for Systematic data handling errors - a grading of 5 is applied but not displayed

**Apparent Losses: 0.597 MG/Yr**

---

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

Real Losses = Water Losses - Apparent Losses:	?	?	?	4.033	MG/Yr
---	---	---	---	-------	-------

---

**WATER LOSSES: 4.630 MG/Yr**

---

**NON-REVENUE WATER**

NON-REVENUE WATER:	?	?	?	4.760	MG/Yr
--------------------	---	---	---	-------	-------

= Water Losses + Unbilled Metered + Unbilled Unmetered

---

**SYSTEM DATA**

Length of mains:	+	?	5	3.5	miles
Number of <u>active AND inactive</u> service connections:	+	?	8	161	
Service connection density:	?	?	?	46	conn./mile main

Are customer meters typically located at the curbstops or property line? Yes (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:	+	?	7	80.0	psi
-----------------------------	---	---	---	------	-----

---

**COST DATA**

Total annual cost of operating water system:	+	?	10	\$112,845	\$/Year
Customer retail unit cost (applied to Apparent Losses):	+	?	10	\$10.50	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	+	?	10	\$4,112.49	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

---

**WATER AUDIT DATA VALIDITY SCORE:**

\*\*\* YOUR SCORE IS: 79 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.

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Water Audit Report for: **Cumberland Gap (TN0060747)**  
Reporting Year: **2016** | **7/2015 - 6/2016**

**\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 79 out of 100 \*\*\***

**System Attributes:**

Apparent Losses:	<input type="text" value="0.597"/>	MG/Yr
+ Real Losses:	<input type="text" value="4.033"/>	MG/Yr
= <b>Water Losses:</b>	<input type="text" value="4.630"/>	MG/Yr

? Unavoidable Annual Real Losses (UARL):  MG/Yr

Annual cost of Apparent Losses:

Annual cost of Real Losses:

Valued at **Variable Production Cost**  
Return to Reporting Worksheet to change this assumption

**Performance Indicators:**

Financial:	{	Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="45.8%"/>	
		Non-revenue water as percent by cost of operating system:	<input type="text" value="20.7%"/>	Real Losses valued at Variable Production Cost

Operational Efficiency:	{	Apparent Losses per service connection per day:	<input type="text" value="10.17"/>	gallons/connection/day
		Real Losses per service connection per day:	<input type="text" value="68.62"/>	gallons/connection/day
		Real Losses per length of main per day*:	<input type="text" value="N/A"/>	
		Real Losses per service connection per day per psi pressure:	<input type="text" value="0.86"/>	gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL):  million gallons/year

? 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, 2016

Neal Pucciarelli, 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, the business-type activities and each major fund of Town of Cumberland Gap, Tennessee as of and for the year ended June 30, 2016, 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 February 20, 2017.

**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 a 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 2016-001 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 the 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.

A handwritten signature in black ink that reads "Mitchell Emert + Hill". The signature is written in a cursive, flowing style.

February 20, 2017

TOWN OF CUMBERLAND GAP, TENNESSEE

**FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE**

Year Ended June 30, 2016

Finding Number 2016-001 - Segregation of Duties

*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, 2016

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2016-001	Segregation of Duties (original finding No. 2013-001)	Repeated