

*Financial Statements*

TOWN OF CUMBERLAND GAP, TENNESSEE

Year Ended June 30, 2017

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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, 2017, 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, 2017, 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.

## ***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 7, 2018, 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 solely 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 effectiveness of Town of Cumberland Gap, Tennessee's 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 7, 2018

# Historic Town of Cumberland Gap

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Cumberland Gap, TN 37724

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## **Management's Discussion and Analysis For the Year Ended June 30, 2017**

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, 2017. This information should be read in conjunction with the accompanying financial statements.

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, 2017 by \$3,087,735 (\$3,042,241 in 2016).
- The Town's net position increased by \$45,495 (decreased by \$63,416 in 2016) or 1.5 percent during the year ended June 30, 2017 (2.1 percent during 2016).
- At June 30, 2017 the Town's governmental funds reported combined ending fund balances of \$175,500, an increase of \$23,965 for the year ended June 30, 2017. 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. As of June 30, 2017, \$173,229 (\$149,264 in 2016) of governmental fund balances is unassigned and available for ongoing operations.
- At June 30, 2017 the unassigned general fund balance was \$173,229 (\$149,264 in 2016) or 61 percent (97 percent in 2016) 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 16 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 22 to 27.

*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 28 to 32 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, 2017 the Town's net position was \$3,087,735(\$3,042,241 in 2016).

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>2017</u>	<u>2016</u>
<b>ASSETS</b>		
Current assets	\$ 422,506	\$ 277,445
Capital assets, net of accumulated depreciation	<u>3,068,515</u>	<u>3,165,600</u>
	<u>\$ 3,491,021</u>	<u>\$ 3,443,045</u>
<b>LIABILITIES</b>		
Current liabilities	\$ 42,684	\$ 33,907
Noncurrent liabilities	<u>312,600</u>	<u>321,393</u>
	355,284	355,299
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred property tax revenue	48,002	45,506
<b>NET POSITION</b>		
Net investment in capital assets	2,747,122	2,827,947
Restricted	2,271	2,271
Unrestricted	<u>338,341</u>	<u>212,022</u>
	<u>3,087,735</u>	<u>3,042,241</u>
	<u>\$ 3,491,021</u>	<u>\$ 3,443,045</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>2017</u>	<u>2016</u>
<b>REVENUE</b>		
Program Revenue:		
Fees, fines and charges for services	\$ 331,053	\$ 284,234
Operating grants and contributions	153,646	42,686
General Revenue:		
Local taxes	83,500	57,040
Intergovernmental	47,913	47,688
Investment earnings	276	237
Insurance recoveries	<u>0</u>	<u>593</u>
	616,388	432,478

	<u>2017</u>	<u>2016</u>
<b>EXPENSES</b>		
General government	47,211	69,929
Public safety	45,638	24,686
Highways and streets	48,915	41,958
Sanitation	20,736	21,529
Public welfare	140,767	24,988
Water and sewer	<u>267,628</u>	<u>312,804</u>
	<u>570,894</u>	<u>495,895</u>
<b>Increase(decrease) in net position</b>	45,495	(63,416)
<b>Net position at the beginning of the year</b>	<u>3,042,241</u>	<u>3,105,657</u>
<b>Net position at the end of the year</b>	<u>\$ 3,087,735</u>	<u>\$ 3,042,241</u>

Governmental Activities - For the year ended June 30, 2017, governmental activities increased the Town's net position by \$5,988 (decreased \$15,725 in 2016).

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, 2017, business-type activities increased the Town's net position by \$39,507(decreased by \$47,691 in 2016).

### Capital Assets

The Town's investment in capital assets as of June 30, 2017 was \$3,068,515 (\$3,165,600 in 2016) net of accumulated depreciation.

	<u>2017</u>	<u>2016</u>
Land	\$ 79,998	\$ 79,998
Construction in process	17,825	0
Machinery and equipment	222,137	206,597
Buildings	900,382	900,382
Plant	3,382,986	3,382,986
Vehicles	237,633	237,633
Accumulated depreciation	<u>(1,772,446)</u>	<u>(1,641,996)</u>
	<u>\$ 3,068,515</u>	<u>\$ 3,165,600</u>

The major capital asset additions during the year ended June 30, 2017 were as follows:

Construction in process	\$ 17,825
Machinery and equipment	<u>15,540</u>
	<u>\$ 33,365</u>

## Debt Administration

At June 30, 2017 the Town's governmental funds had outstanding debt of \$9,900 (\$13,000 in 2016) consisting of the following:

	<u>2017</u>	<u>2016</u>
Note payable	\$ 9,900	\$ 13,000
Less: current portion due	<u>(3,200)</u>	<u>(3,100)</u>
Total long-term debt-principal	<u>\$ 6,700</u>	<u>\$ 9,900</u>

During the year ended June 30, 2017, the Town retired \$3,100 of its governmental funds debt.

At June 30, 2017 the Town's proprietary funds had outstanding debt of \$311,493 (\$324,653 in 2016) consisting of the following:

	<u>2017</u>	<u>2016</u>
Rural Development loan	\$ 311,493	\$ 316,853
Capital outlay note	<u>0</u>	<u>7,800</u>
Total debt - principal	311,493	324,653
Less: current portion due	<u>(5,593)</u>	<u>(13,160)</u>
Total long-term debt-principal	<u>\$ 305,900</u>	<u>\$ 311,493</u>

During the year ended June 30, 2017, the Town retired \$13,160 (\$12,698 in 2016) 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 \$23,965 during the year ended June 30, 2017 (\$13,794 in 2016).

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, 2017 was \$157,285 (\$54,888 in 2016), which is 7.1 percent (2.5 percent in 2016) of total net position of the water and sewer fund.

## **General Fund Budgetary Highlights**

During the year ended June 30, 2017, original budgeted revenue was increased due to higher than anticipated local sales tax and garbage collection charges. License revenue and contributions were also higher than originally anticipated. Appropriations for expenditures were increased to allow for additional salaries and wages and repairs and maintenance. Appropriations were added for equipment and fencing for the dog park which were funded primarily with contribution revenue.

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

The Board of Mayor and Aldermen approved the budget for the year ending June 30, 2018. The estimated revenue and appropriations did not vary significantly from the budget for the year ended June 30, 2017.

## **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, 2017

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash	\$ 98,997	\$ 152,330	\$ 251,327
Certificates of deposit	73,450	0	73,450
Accounts receivable, net of allowance for uncollectible accounts	1,094	31,743	32,837
Property taxes receivable, net of allowance for uncollectible accounts	48,924	0	48,924
Other taxes receivable	5,833	0	5,833
Due from other governments	9,833	0	9,833
Inventory	301	0	301
Capital assets not being depreciated	79,998	17,825	97,823
Capital assets being depreciated, net of accumulated depreciation	<u>627,054</u>	<u>2,343,638</u>	<u>2,970,692</u>
	<u>\$ 945,485</u>	<u>\$ 2,545,536</u>	<u>\$ 3,491,021</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	\$ 5,919	\$ 26,162	\$ 32,082
Accrued salaries	1,184	0	1,184
Sales tax payable	0	624	624
Current portion of long-term debt	3,200	5,593	8,793
Long-term debt, net of current portion	<u>6,700</u>	<u>305,900</u>	<u>312,600</u>
	17,003	338,281	355,284
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property tax revenue	48,002	0	48,002
<b>NET POSITION</b>			
Net investment in capital assets	697,152	2,049,970	2,747,122
Restricted for drug enforcement	2,271	0	2,271
Unrestricted	<u>181,056</u>	<u>157,285</u>	<u>338,341</u>
	<u>880,479</u>	<u>2,207,255</u>	<u>3,087,735</u>
	<u>\$ 945,485</u>	<u>\$ 2,545,536</u>	<u>\$ 3,491,021</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF ACTIVITIES**

Year Ended June 30, 2017

	<u>Expenses</u>	<u>Program Revenue</u>	
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Governmental Activities:</b>			
General government	\$ 46,839	\$ 5,848	\$ 0
Public safety	45,638	0	23,996
Public welfare	140,767	0	115,977
Streets and highways	48,915	0	13,673
Solid waste management	20,736	18,117	0
Interest on long-term debt	<u>372</u>	<u>0</u>	<u>0</u>
Total governmental activities	303,266	23,965	153,646
<b>Business-Type Activities:</b>			
Water and sewer	<u>267,628</u>	<u>307,088</u>	<u>0</u>
	<u>\$ 570,894</u>	<u>\$ 331,053</u>	<u>\$ 153,646</u>

See the accompanying notes to the financial statements.

Net (Expense)Revenue and  
Changes In Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (40,991)	\$ 0	\$ (40,991)
(21,643)	0	(21,643)
(24,790)	0	(24,790)
(35,242)	0	(35,242)
(2,619)	0	(2,619)
<u>(372)</u>	<u>0</u>	<u>(372)</u>
(125,656)	0	(125,657)
<u>0</u>	<u>39,460</u>	<u>39,460</u>
<u>\$ (125,656)</u>	<u>\$ 39,460</u>	<u>\$ (86,196)</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**STATEMENT OF ACTIVITIES**

(continued)

Year Ended June 30, 2017

**NET (EXPENSE)REVENUE FROM PROGRAM ACTIVITIES**

**General Revenue:**

Taxes:

Property taxes

Interest and penalty

Local sales tax

Wholesale beer tax

Intergovernmental

Investment earnings

Total general revenue

**CHANGES IN NET POSITION**

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

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

Net (Expense)Revenue and  
Changes In Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (125,656)	\$ 39,460	\$ (86,196)
44,163	0	44,163
163	0	163
28,931	0	28,931
10,243	0	10,243
47,913	0	47,913
229	46	276
<u>131,642</u>	<u>46</u>	<u>131,688</u>
5,988	39,507	45,495
<u>874,492</u>	<u>2,167,748</u>	<u>3,042,240</u>
<u>\$ 880,479</u>	<u>\$ 2,207,255</u>	<u>\$ 3,087,735</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

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

June 30, 2017

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash	\$ 96,726	\$ 2,271	\$ 98,997
Certificates of deposit	73,450	0	73,450
Property taxes receivable	48,924	0	48,924
Customer accounts receivable	1,094	0	1,094
Other taxes receivable	5,833	0	5,833
Due from other governments	9,833	0	9,833
Inventory	301	0	301
	<u>\$ 236,162</u>	<u>\$ 2,271</u>	<u>\$ 238,433</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 5,920	\$ 0	\$ 5,920
Accrued salaries	1,184	0	1,184
	<u>7,103</u>	<u>0</u>	<u>7,103</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred property taxes	48,924	0	48,924
Deferred state shared and local taxes	6,906	0	6,906
	<u>55,830</u>	<u>0</u>	<u>55,830</u>
<b>FUND BALANCES</b>			
Restricted	0	2,271	2,271
Unassigned	173,229	0	173,229
	<u>173,229</u>	<u>2,271</u>	<u>175,500</u>
	<u>\$ 236,162</u>	<u>\$ 2,271</u>	<u>\$ 238,433</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, 2017

<b>Total Fund Balance - Governmental Funds</b>	\$ 175,500
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.	707,052
Some of the Town's taxes will be collected after year-end, but are not available soon enough to pay for the current year's expenditures; therefore, they are reported as deferred revenue in the governmental funds balance sheet.	7,828
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(9,900)</u>
<b>Net Position of Governmental Activities</b>	<b><u>\$ 880,479</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, 2017

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>REVENUE</b>			
Taxes:			
Property taxes	\$ 44,005	\$ 0	\$ 44,005
Interest and penalty	163	0	163
Local sales tax	29,068	0	29,068
Wholesale beer tax	10,243	0	10,243
Intergovernmental	177,626	0	177,626
Charges for services	18,208	0	18,208
Licenses, permits and fees	5,060	0	5,060
Contributions	23,996	0	23,996
Interest	229	0	229
Miscellaneous	<u>696</u>	<u>0</u>	<u>696</u>
<b>TOTAL REVENUE</b>	309,296	0	309,296
<b>EXPENDITURES</b>			
Current:			
General government	42,143	0	42,143
Public safety	35,856	0	35,856
Streets and highways	47,866	0	47,866
Solid waste management	20,736	0	20,736
Public welfare	119,718	0	119,718
Capital outlay	15,540	0	15,540
Debt service	<u>3,472</u>	<u>0</u>	<u>3,472</u>
<b>TOTAL EXPENDITURES</b>	<u>285,331</u>	<u>0</u>	<u>285,331</u>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2017

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	23,965	0	23,965
<b>FUND BALANCES AT THE BEGINNING OF THE YEAR</b>	<u>149,264</u>	<u>2,271</u>	<u>151,535</u>
<b>FUND BALANCES AT THE END OF THE YEAR</b>	<u>\$ 173,229</u>	<u>\$ 2,271</u>	<u>\$ 175,500</u>



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, 2017

<b>Excess of Revenue Over Expenditures - Governmental Funds</b>	<b>\$ 23,965</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	15,540
Depreciation expense	(36,575)
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, 2016	(7,870)
Deferred tax revenue - June 30, 2017	7,828
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities.	<u>3,100</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u><u>\$ 5,988</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, 2017

	Budget		Actual	Variance Over (Under)
	Original	Final		
<b>REVENUE</b>				
Taxes:				
Property taxes	\$ 43,270	\$ 45,370	\$ 44,005	\$ (1,365)
Interest and penalty	900	900	163	(737)
Local sales tax	20,000	28,225	29,068	843
Wholesale beer tax	<u>10,600</u>	<u>10,600</u>	<u>10,243</u>	<u>(357)</u>
	74,770	85,095	83,479	(1,616)
Intergovernmental:				
State income tax	479	646	124	(522)
State beer tax	247	247	239	(8)
State sales tax	40,014	40,014	40,997	983
State gasoline and motor fuel tax	13,832	13,832	13,717	(115)
City streets and transportation	1,013	1,013	998	(15)
THDA home grant	248,500	248,500	115,977	(132,523)
FEMA fire grant	17,453	17,453	0	(17,453)
TVA In-Lieu of tax payments	<u>5,805</u>	<u>5,805</u>	<u>5,574</u>	<u>(231)</u>
	327,343	327,510	177,626	(149,884)
Charges for services:				
Garbage collection charges	17,210	19,310	18,117	(1,193)
Miscellaneous charges	<u>135</u>	<u>191</u>	<u>92</u>	<u>(99)</u>
	17,345	19,501	18,208	(1,293)
Licenses and permits:				
Building permits	1,000	1,000	670	(330)
Business license	1,000	1,575	1,661	86
Beer and liquor licenses	<u>950</u>	<u>3,150</u>	<u>2,730</u>	<u>(420)</u>
	2,950	5,725	5,060	(665)

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**

(continued)

Year Ended June 30, 2017

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fines and forfeitures:				
Court fines	3,500	3,500	0	(3,500)
Other revenue:				
Contributions	8,600	25,825	23,996	(1,829)
Interest	225	225	229	4
Miscellaneous	1,300	1,300	696	(604)
	<u>10,125</u>	<u>27,350</u>	<u>24,922</u>	<u>(2,428)</u>
<b>TOTAL REVENUE</b>	436,033	468,681	309,296	(159,385)

**EXPENDITURES**

Financial administration:				
Salaries and wages	8,372	9,147	9,085	(62)
Payroll taxes	640	640	695	55
Unemployment insurance	126	126	87	(39)
Subscriptions and dues	215	215	220	5
Office supplies	1,900	1,900	2,032	132
Postage	352	352	352	0
Utilities	5,649	5,649	5,079	(570)
Insurance	2,400	2,400	2,400	0
Repairs and maintenance	100	100	0	(100)
Training	320	320	335	15
Travel	125	480	571	91
	<u>20,199</u>	<u>21,329</u>	<u>20,857</u>	<u>(472)</u>
Police:				
Contract services	10,400	10,400	12,330	1,930
Operations	6,765	6,765	0	(6,765)
	<u>17,165</u>	<u>17,165</u>	<u>12,330</u>	<u>(4,835)</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, 2017

	Budget		Actual	Variance Over (Under)
	Original	Final		
Fire:				
Salaries and wages	1,200	1,200	1,100	(100)
Payroll taxes	92	92	84	(8)
Unemployment insurance	36	36	33	(3)
Office supplies	160	160	34	(126)
Insurance	7,221	7,221	7,078	(143)
Utilities	1,857	1,857	1,309	(548)
Telephone	1,875	1,875	1,879	4
Gasoline	300	300	648	348
Training and travel	1,100	1,100	120	(980)
Equipment	18,325	18,325	0	(18,325)
Repairs and maintenance	7,800	10,525	10,231	(294)
Vehicle repairs and maintenance	400	400	1,010	610
	<u>40,366</u>	<u>43,091</u>	<u>23,526</u>	<u>(19,565)</u>
General government:				
Salaries and wages	444	709	450	(259)
Payroll taxes	34	34	34	0
Unemployment insurance	14	14	14	0
Insurance	9,211	9,211	8,878	(333)
Legal services	3,800	3,800	3,760	(40)
Accounting and auditing	3,308	3,308	3,308	0
Dues and subscriptions	1,810	1,810	1,869	59
Office supplies and postage	1,382	1,382	1,091	(291)
Operating supplies	200	200	638	438
Training	250	250	224	(26)
Travel	400	400	246	(154)
Repair and maintenance	900	1,140	636	(504)
Miscellaneous	650	1,000	140	(860)
	<u>22,403</u>	<u>23,258</u>	<u>21,286</u>	<u>(1,972)</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, 2017

	Budget		Actual	Variance
	Original	Final		Over (Under)
Highways and streets:				
Salaries and wages	12,232	15,032	15,127	95
Payroll taxes	936	936	1,157	221
Unemployment insurance	138	138	191	53
Insurance	2,400	2,400	2,400	0
Utilities	1,830	1,830	1,288	(542)
Uniforms	520	520	510	(10)
Gasoline	1,500	1,500	1,287	(213)
Repairs and maintenance	21,100	25,000	6,838	(18,162)
Vehicle repairs and maintenance	<u>2,000</u>	<u>9,000</u>	<u>8,783</u>	<u>(217)</u>
	42,656	56,356	37,580	(18,776)
State street aid:				
Street lighting	11,500	11,500	10,285	(1,215)
Solid waste services:				
Salaries and wages	11,466	11,466	11,275	(191)
Payroll taxes	877	877	859	(18)
Unemployment insurance	175	175	150	(25)
Professional services	1,418	1,418	1,418	0
Landfill fees	3,800	3,800	3,697	(103)
Office supplies	1,050	1,117	1,049	(68)
Insurance	2,138	2,138	1,201	(937)
Gasoline	750	750	772	22
Repairs and maintenance	300	300	0	(300)
Vehicle repairs and maintenance	<u>1,000</u>	<u>1,000</u>	<u>314</u>	<u>(686)</u>
	22,974	23,041	20,736	(2,305)

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2017

	Budget		Actual	Variance Over (Under)
	Original	Final		
Parks and recreation:				
Salaries and wages	450	450	192	(258)
Payroll taxes	35	35	15	(20)
Unemployment insurance	14	14	6	(8)
Utilities	1,717	2,117	1,916	(201)
Repairs and maintenance	250	250	521	271
Operating supplies	1,250	1,450	1,092	(358)
	<u>3,716</u>	<u>4,316</u>	<u>3,742</u>	<u>(574)</u>
Community development:				
Home rehabilitation	248,500	248,500	115,977	(132,523)
Capital outlay:				
Parks and recreation	0	16,300	15,540	(760)
Debt service:				
Principal	3,100	3,100	3,100	0
Interest	372	372	372	0
	<u>3,472</u>	<u>3,472</u>	<u>3,472</u>	<u>0</u>
<b>TOTAL EXPENDITURES</b>	<u>432,951</u>	<u>468,328</u>	<u>285,331</u>	<u>(182,997)</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	3,082	353	23,965	23,612
<b>FUND BALANCE AT THE BEGINNING OF THE YEAR</b>	<u>0</u>	<u>0</u>	<u>149,264</u>	<u>149,264</u>
<b>FUND BALANCE AT THE END OF THE YEAR</b>	<u>\$ 3,082</u>	<u>\$ 353</u>	<u>\$ 173,229</u>	<u>\$ 172,876</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

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

Year Ended June 30, 2017

	Budget			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>				
Investigation	<u>250</u>	<u>250</u>	<u>0</u>	<u>(250)</u>
<b>TOTAL EXPENDITURES</b>	<u>250</u>	<u>250</u>	<u>0</u>	<u>(250)</u>
<b>EXCESS OF REVENUE OVER EXPENDITURES</b>	250	250	0	(250)
<b>FUND BALANCE AT THE BEGINNING OF THE YEAR</b>	<u>0</u>	<u>0</u>	<u>2,271</u>	<u>2,271</u>
<b>FUND BALANCE AT THE END OF THE YEAR</b>	<u>\$ 250</u>	<u>\$ 250</u>	<u>\$ 2,271</u>	<u>\$ 2,021</u>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

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

June 30, 2017

**CURRENT ASSETS**

Cash and cash equivalents		\$ 152,330
Accounts receivable, net of allowance for uncollectible accounts of \$10,000		<u>31,743</u>
		184,073

**CAPITAL ASSETS**

Construction in process	\$ 17,825	
Equipment	125,515	
Vehicles	10,536	
Utility plant	<u>3,382,986</u>	
	3,536,862	
Accumulated depreciation	<u>(1,175,399)</u>	<u>2,361,463</u>
		<u>\$ 2,545,536</u>

**CURRENT LIABILITIES**

Accounts payable		\$ 26,163
Sales tax payable		624
Current portion of long-term debt		<u>5,593</u>
		32,381

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

305,900

**NET POSITION**

Net investment in capital assets	\$ 2,049,970	
Unrestricted	<u>157,285</u>	<u>2,207,255</u>
		<u>\$ 2,545,536</u>

See the accompanying notes to the financial statements.



TOWN OF CUMBERLAND GAP, TENNESSEE

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

Year Ended June 30, 2017

**OPERATING REVENUE**

Water utility charges	\$	88,163	
Sewer collection charges		211,065	
Tap fees		450	
Utility penalties		2,975	
Service fees and legal fees		<u>4,436</u>	

**TOTAL OPERATING REVENUE** 307,088

**OPERATING EXPENSES**

Water lines:

Salaries and wages	\$	12,369	
Payroll taxes		946	
Unemployment insurance		113	
Water purchased for resale		31,279	
Dues and subscriptions		1,355	
Insurance		1,367	
Professional services		2,400	
Accounting and auditing		2,613	
Water testing		535	
Office supplies and postage		1,643	
Operating supplies		2,115	
Fuel		858	
Repairs and maintenance		<u>1,284</u>	58,877

Sewer system:

Salaries and wages	9,827	
Payroll taxes	752	
Unemployment insurance	91	
Utilities	29,007	
Fines and fees	1,730	
Dues and subscriptions	582	
Insurance	7,538	
Professional services	36,379	
Accounting and auditing	2,613	

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2017

Chemicals	414	
Office supplies and postage	1,816	
Operating supplies	1,462	
Fuel	515	
Repairs and maintenance	<u>8,952</u>	101,678
Depreciation		<u>93,875</u>
<b>TOTAL OPERATING EXPENSES</b>		<u>254,428</u>
<b>INCOME FROM OPERATIONS</b>		52,660
<b>NONOPERATING REVENUE(EXPENSE)</b>		
Interest income	46	
Interest expense	<u>(13,200)</u>	<u>(13,153)</u>
<b>CHANGE IN NET POSITION</b>		39,507
<b>NET POSITION AT THE BEGINNING OF THE YEAR</b>		<u>2,167,748</u>
<b>NET POSITION AT THE END OF THE YEAR</b>		<u>\$ 2,207,255</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

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

Year Ended June 30, 2017

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

Cash received from customers	\$ 337,257
Cash paid to suppliers	(156,198)
Cash paid to employees	<u>(22,197)</u>

**NET CASH PROVIDED BY  
OPERATING ACTIVITIES**

158,862

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

Acquisition of capital assets	\$ (17,825)
Principal payments on long-term debt	(13,160)
Interest paid on debt	<u>(13,200)</u>

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

(44,185)

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

Interest received	<u>46</u>
-------------------	-----------

**NET INCREASE IN CASH**

114,723

**CASH AND CASH EQUIVALENTS  
AT THE BEGINNING OF THE YEAR**

37,607

**CASH AND CASH EQUIVALENTS  
AT THE END OF THE YEAR**

\$ 152,330

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

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

(continued)

Year Ended June 30, 2017

**RECONCILIATION OF INCOME  
FROM OPERATIONS TO NET CASH  
PROVIDED(USED) BY OPERATING ACTIVITIES**

Income from operations		\$	52,660
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	\$	93,875	
(Increase)decrease in:			
Accounts receivable		(3,772)	
Due from other funds		445	
Increase in:			
Accounts payable		15,647	
Sales tax payable		7	
			<u>106,202</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		\$	<u><u>158,862</u></u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

June 30, 2017

**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 that have been formed under applicable state laws, or separate and distinct units of government apart from the Town. As of June 30, 2017, 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, 2017

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, 2017

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, 2017.

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, 2017

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, 2017 has been calculated as follows:

Governmental Activities:

Capital assets	\$ 1,304,099
Accumulated depreciation	(597,047)
Principal balance on long-term debt	<u>(9,900)</u>
	<u>\$ 697,152</u>

Business-Type Activities:

Water and Sewer Fund:	
Capital assets	\$ 3,536,862
Accumulated depreciation	(1,175,399)
Principal balance on long-term debt	<u>(311,493)</u>
	<u>\$ 2,049,970</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

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, 2017

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, 2017

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 \$10,000 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	\$ 98,997	\$ 152,330	\$ 251,327
Certificate of deposit	<u>73,450</u>	<u>0</u>	<u>73,450</u>
Total	<u>\$ 172,447</u>	<u>\$ 152,330</u>	<u>\$ 324,777</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, 2017

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, 2017 were entirely insured through the Federal Deposit Insurance Corporation.

**NOTE D - CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2017 was as follows:

	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/17</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	900,382	0	0	900,382
Machinery and equipment	81,082	15,540	0	96,622
Vehicles	<u>227,097</u>	<u>0</u>	<u>0</u>	<u>227,097</u>
	1,208,561	15,540	0	1,224,101
<u>Accumulated depreciation</u>				
Buildings and improvements	(320,871)	(28,006)	0	(348,877)
Machinery and equipment	(76,539)	(1,470)	0	(78,010)
Vehicles	<u>(163,062)</u>	<u>(7,098)</u>	<u>0</u>	<u>(170,160)</u>
	<u>(560,472)</u>	<u>(36,575)</u>	<u>0</u>	<u>(597,047)</u>
	<u>\$ 728,087</u>	<u>\$ (21,035)</u>	<u>\$ 0</u>	<u>\$ 707,052</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

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

General government	\$ 4,695
Public safety	9,782
Highways and streets	1,049
Parks and recreation	<u>21,049</u>
	<u>\$ 36,575</u>

	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/17</u>
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated</u>				
Construction in process	\$ 0	\$ 17,825	\$ 0	\$ 17,825
<u>Capital assets being depreciated</u>				
Machinery and equipment	125,515	0	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>
	3,519,037	0	0	3,519,037
<u>Accumulated depreciation</u>				
Machinery and equipment	(86,037)	(5,458)	0	(91,495)
Vehicles	(10,536)	0	0	(10,536)
Water and sewer plant	<u>(984,951)</u>	<u>(88,417)</u>	<u>0</u>	<u>(1,073,368)</u>
	<u>(1,081,524)</u>	<u>(93,875)</u>	<u>0</u>	<u>(1,175,399)</u>
	<u>\$ 2,437,513</u>	<u>\$ (76,050)</u>	<u>\$ 0</u>	<u>\$ 2,361,463</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**NOTE E - LONG-TERM DEBT**

Long-term debt at June 30, 2017 consisted of the following:

Governmental Activities:

Capital outlay note payable in various semiannual installments including interest at 3.25% until maturity in 2020	\$ 9,900
Less current maturities	<u>(3,200)</u>
	<u>\$ 6,700</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	\$ 311,493
Less current maturities	<u>(5,593)</u>
	<u>\$ 305,900</u>

Maturities of long-term debt as of June 30, 2017 are as follows:

Governmental Activities:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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>\$ 9,900</u>	<u>\$ 489</u>	<u>\$ 10,389</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Business-Type Activities:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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	9,047	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>\$ 311,493</u>	<u>\$ 231,317</u>	<u>\$ 542,810</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

Changes in long-term debt for the year ended June 30, 2017 were as follows:

	<u>Balance</u> <u>7/1/16</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/17</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Note payable	\$ 13,000	\$ 0	\$ 3,100	\$ 9,900	\$ 3,200
<u>Business-Type Activities:</u>					
Sewer Revenue and Tax Bond Series 2005	\$ 316,853	\$ 0	\$ 5,360	\$ 311,493	\$ 5,593
Capital outlay note	7,800	0	7,800	0	0
	<u>\$ 324,653</u>	<u>\$ 0</u>	<u>\$ 13,160</u>	<u>\$ 311,493</u>	<u>\$ 5,593</u>

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

General government	\$ 372
Water and sewer services	<u>13,200</u>
	<u>\$ 13,572</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**NOTES TO THE FINANCIAL STATEMENTS**

(continued)

June 30, 2017

**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.

**NOTE G - COMMITMENTS**

During the year ended June 30, 2017, the Town entered into contracts related to the Community Development Block Grant water system improvement project totaling \$200,000. As of June 30, 2017 expenditures of \$17,825 had been made on this contract.

SUPPLEMENTARY INFORMATION

TOWN OF CUMBERLAND GAP, TENNESSEE

**INVESTMENTS**

June 30, 2017

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Certificate of Deposit</u>			
Citizens Bank #32811	0.30%	9/15/17	\$ 73,450

See the accompanying independent accountants' audit report.



TOWN OF CUMBERLAND GAP, TENNESSEE

**PROPERTY TAXES RECEIVABLE**

Year Ended June 30, 2017

<u>Year of Levy</u>	<u>Rate</u>	<u>Total Assessment</u>	<u>Levy</u>	<u>Balance June 30, 2016</u>
2017	.9000	\$ 5,333,137	\$ 48,002	\$ 0
2016	.9000	5,056,082	45,506	45,506
2015	.4500	4,972,126	22,374	397
2014	.4500	4,946,682	22,261	109
2013	.4500	4,599,867	21,356	135
2012	.4500	4,599,867	20,699	54
2011	.4500	4,417,064	19,886	13
2010	.4500	5,134,039	23,114	13
2009	.4500	6,579,384	29,602	27
2008	.2500	5,636,825	14,004	15
2007	.2000	4,101,829	8,205	1
				<u>\$ 46,270</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, 2017</u>
\$ 48,002	\$ 0	\$ 0	\$ 48,002
0	(4,391)	(40,537)	578
0	0	(336)	61
0	0	(83)	26
0	0	0	135
0	0	0	54
0	0	0	13
0	0	0	13
0	0	0	27
0	(1)	0	15
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<u>\$ 48,002</u>	<u>\$ (4,392)</u>	<u>\$ (40,956)</u>	<u>\$ 48,924</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

**LONG-TERM DEBT REQUIREMENTS**

June 30, 2017

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Governmental Activities:</u>			
Note payable			
Year ending June 30,			
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>\$ 9,900</u>	<u>\$ 489</u>	<u>\$ 10,389</u>
 <u>Business-Type Activities:</u>			
Sewer Revenue and Tax Bond			
Series 2005			
Year ending June 30,			
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

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**LONG-TERM DEBT REQUIREMENTS**

(continued)

June 30, 2017

	<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	9,047	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
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2039	13,632	5,124	18,756
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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>\$ 311,493</u>	<u>\$ 231,317</u>	<u>\$ 542,810</u>



TOWN OF CUMBERLAND GAP, TENNESSEE

**EXPENDITURES OF FEDERAL AWARDS**

Year Ended June 30, 2017

<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	\$ 115,977
U.S. Department of Housing and Urban Development/TN Department of Economic and Community Development	14.228	49405-52984	<u>17,825</u>
			<u>\$ 133,802</u>

**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, 2017. The schedule is presented using the modified accrual basis of accounting.

**NOTE 2 - INDIRECT COST ALLOCATION**

Town of Cumberland Gap, Tennessee did not elect to use the 10 percent de minimis indirect cost rate; however, no indirect costs were allocated to the federal awards during the year ended June 30, 2017.

**NOTE 3 - OUTSTANDING LOAN BALANCES**

Town of Cumberland Gap, Tennessee had no outstanding federal loan balances at June 30, 2017.

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

**UTILITY RATES AND METERED CUSTOMERS**

June 30, 2017

**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	143
Sewer	321

See the accompanying independent accountants' audit report.



# AWWA Free Water Audit Software: Reporting Worksheet

WAS v5.0  
American Water Works Association  
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Water Audit Report for: **Cumberland Gap (TN0060747)**  
Reporting Year: **2016** **7/2016 - 6/2017**

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 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="button" value="+"/> <input type="button" value="?"/> n/a	<input type="text" value="0.000"/>	MG/Yr
Water imported:	<input type="button" value="+"/> <input type="button" value="?"/> 9	<input type="text" value="7.732"/>	MG/Yr
Water exported:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	<input type="text" value="0.000"/>	MG/Yr

### Master Meter and Supply Error Adjustments

Pcnt:	<input type="button" value="+"/> <input type="button" value="?"/> 2	<input type="text" value="1.00%"/>	<input type="button" value="O"/>	<input type="button" value="C"/>	<input type="text" value=""/>	MG/Yr
Value:	<input type="button" value="+"/> <input type="button" value="?"/> 2	<input type="text" value="1.00%"/>	<input type="button" value="O"/>	<input type="button" value="C"/>	<input type="text" 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="button" value="+"/> <input type="button" value="?"/> 8	<input type="text" value="5.461"/>	MG/Yr
Billed unmetered:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	<input type="text" value="0.000"/>	MG/Yr
Unbilled metered:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	<input type="text" value="0.000"/>	MG/Yr
Unbilled unmetered:	<input type="button" value="+"/> <input type="button" value="?"/> 7	<input type="text" value="0.096"/>	MG/Yr

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

**AUTHORIZED CONSUMPTION:**   MG/Yr

Click here:  for help using option buttons below

Pcnt:	<input type="button" value="+"/> <input type="button" value="?"/> 1	<input type="text" value="1.25%"/>	<input type="button" value="O"/>	<input type="button" value="C"/>	<input type="text" value=""/>	MG/Yr
-------	---	------------------------------------	----------------------------------	----------------------------------	-------------------------------	-------

Use buttons to select percentage of water supplied **OR** value

Pcnt:	<input type="button" value="+"/> <input type="button" value="?"/> 1	<input type="text" value="0.25%"/>	<input type="button" value="O"/>	<input type="button" value="C"/>	<input type="text" value=""/>	MG/Yr
-------	---	------------------------------------	----------------------------------	----------------------------------	-------------------------------	-------

Pcnt:	<input type="button" value="+"/> <input type="button" value="?"/> 8	<input type="text" value="9.00%"/>	<input type="button" value="O"/>	<input type="button" value="C"/>	<input type="text" value=""/>	MG/Yr
Pcnt:	<input type="button" value="+"/> <input type="button" value="?"/> 1	<input type="text" value="0.25%"/>	<input type="button" value="O"/>	<input type="button" value="C"/>	<input type="text" value=""/>	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:   8  MG/Yr

Systematic data handling errors:    MG/Yr

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

**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:	<input type="button" value="+"/> <input type="button" value="?"/> 5	<input type="text" value="3.5"/>	miles
Number of active AND inactive service connections:	<input type="button" value="+"/> <input type="button" value="?"/> 8	<input type="text" value="154"/>	
Service connection density:	<input type="button" value="+"/> <input type="button" value="?"/> 7	<input type="text" value="44"/>	conn./mile main

Are customer meters typically located at the curbstop or property line?

Average length of customer service 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:   7  psi

### COST DATA

Total annual cost of operating water system:	<input type="button" value="+"/> <input type="button" value="?"/> 10	<input type="text" value="\$93,518"/>	\$/Year
Customer retail unit cost (applied to Apparent Losses):	<input type="button" value="+"/> <input type="button" value="?"/> 10	<input type="text" value="\$14.21"/>	\$/1000 gallons (US)
Variable production cost (applied to Real Losses):	<input type="button" value="+"/> <input type="button" value="?"/> 10	<input type="text" value="\$4,045.30"/>	\$/Million gallons

Use Customer Retail Unit Cost to value real losses

### WATER AUDIT DATA VALIDITY SCORE:

**\*\*\* YOUR SCORE IS: 84 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: Water imported**

**2: Unauthorized consumption**

**3: Systematic data handling errors**

See the accompanying independent accountants' audit report.



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

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

Water Audit Report for:   
Reporting Year:

**\*\*\* YOUR WATER AUDIT DATA VALIDITY SCORE IS: 84 out of 100 \*\*\***

**System Attributes:**

Apparent Losses:	<input type="text" value="0.573"/>	MG/Yr
+ Real Losses:	<input type="text" value="1.526"/>	MG/Yr
= <b>Water Losses:</b>	<input type="text" value="2.099"/>	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:   
Non-revenue water as percent by cost of operating system:  Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day:  gallons/connection/day  
Real Losses per service connection per day:  gallons/connection/day  
Real Losses per length of main per day\*:   
Real Losses per service connection per day per psi pressure:  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, 2017

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, 2017, 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 7, 2018.

**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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of finding, recommendation and management response as item 2017-001 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.



February 7, 2018



TOWN OF CUMBERLAND GAP, TENNESSEE

**FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE**

Year Ended June 30, 2017

Finding Number 2017-001 - 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.

# Historic Town of Cumberland Gap

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P.O. Box 78  
Cumberland Gap, TN 37724

Phone: 423-869-3860  
Fax: 423-869-8534  
Email: [cumberlandgap1@bellsouth.net](mailto:cumberlandgap1@bellsouth.net)

## CORRECTIVE ACTION PLAN

Town of Cumberland Gap, Tennessee submits the following corrective action plan for the year ended June 30, 2017. The finding from the June 30, 2017 schedule of finding, recommendation and management response is discussed below.

### Finding Number 2017-001 - Segregation of Duties

*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 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, 2017

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2017-001	Segregation of Duties (original finding No. 2013-001)	Repeated