

Financial Statements

TOWN OF CUMBERLAND GAP, TENNESSEE

Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>Page Nos.</u>
INDEPENDENT ACCOUNTANTS' AUDIT REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-10
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Position	11-12
Statement of Activities	13-16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	19-20
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	21
Statement of Revenue, Expenditures and Changes in Fund Balance - Actual and Budget - General Fund	22-26
Statement of Revenue, Expenditures and Changes in Fund Balance - Actual and Budget - Drug Fund	27
Statement of Net Position - Water and Sewer Fund	28
Statement of Revenue, Expenses and Change in Net Position - Water and Sewer Fund	29-30
Statement of Cash Flows - Water and Sewer Fund	31-32
Notes to the Financial Statements	33-45

TABLE OF CONTENTS
(continued)

	<u>Page Nos.</u>
SUPPLEMENTARY INFORMATION	
Investments	46
Property Taxes Receivable	47-48
Long-Term Debt Requirements	49-50
Expenditures of Federal Awards	51
Utility Rates and Metered Customers	52
Water Utility Reporting Worksheet	53
Water Utility Performance Indicators	54
Principal Officials	55
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 <i>Government Auditing Standards</i>	56-57
Finding, Recommendation and Management Response	58
Corrective Action Plan	59
Prior Year Findings and Questioned Costs	60

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, 2018, 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, 2018, 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 January 25, 2019, 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.

January 25, 2019

Historic Town of Cumberland Gap

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Management's Discussion and Analysis For the Year Ended June 30, 2018

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, 2018. 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, 2018 by \$3,269,948 (\$3,087,735 in 2017).
- The Town's net position increased by \$182,213 (\$45,495 in 2017) or 5.9 percent during the year ended June 30, 2018 (1.5 percent during 2017).
- At June 30, 2018 the Town's governmental funds reported combined ending fund balances of \$207,568, an increase of \$32,068 for the year ended June 30, 2018. 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. As of June 30, 2018, \$205,562 (\$173,229 in 2017) of governmental fund balances is unassigned and available for ongoing operations.
- At June 30, 2018 the unassigned general fund balance was \$205,562 (\$173,229 in 2017) or 117 percent (61 percent in 2017) 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, 2018 the Town's net position was \$3,269,948 (\$3,087,735 in 2017).

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>2018</u>	<u>2017</u>
ASSETS		
Current assets	\$ 523,746	\$ 422,506
Capital assets, net of accumulated depreciation	<u>3,132,981</u>	<u>3,068,515</u>
	<u>\$ 3,656,727</u>	<u>\$ 3,491,021</u>
LIABILITIES		
Current liabilities	\$ 26,218	\$ 42,684
Noncurrent liabilities	<u>312,505</u>	<u>312,600</u>
	338,723	355,284
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	48,056	48,002
NET POSITION		
Net investment in capital assets	2,820,476	2,747,122
Restricted	2,006	2,271
Unrestricted	<u>447,467</u>	<u>338,341</u>
	<u>3,269,948</u>	<u>3,087,735</u>
	<u>\$ 3,656,727</u>	<u>\$ 3,491,021</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>2018</u>	<u>2017</u>
REVENUE		
Program Revenue:		
Fees, fines and charges for services	\$ 314,960	\$ 331,053
Operating grants and contributions	36,126	153,646
Capital grants and contributions	166,993	0
General Revenue:		
Local taxes	89,911	83,500
Intergovernmental	56,815	47,913
Investment earnings	<u>361</u>	<u>276</u>
	665,166	616,388

	<u>2018</u>	<u>2017</u>
EXPENSES		
General government	52,278	47,211
Public safety	45,423	45,638
Highways and streets	59,574	48,915
Sanitation	22,737	20,736
Public welfare	29,031	140,767
Water and sewer	<u>273,910</u>	<u>267,628</u>
	<u>482,952</u>	<u>570,894</u>
Increase in net position	182,213	45,495
Net position at the beginning of the year	<u>3,087,735</u>	<u>3,042,241</u>
Net position at the end of the year	<u>\$ 3,269,949</u>	<u>\$ 3,087,735</u>

Governmental Activities - For the year ended June 30, 2018, governmental activities increased the Town's net position by \$1,514 (\$5,988 in 2017).

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, 2018, business-type activities increased the Town's net position by \$180,699 (\$39,507 in 2017).

Capital Assets

The Town's investment in capital assets as of June 30, 2018 was \$3,132,981 (\$3,068,515 in 2017) net of accumulated depreciation.

	<u>2018</u>	<u>2017</u>
Land	\$ 79,998	\$ 79,998
Construction in process	0	17,825
Machinery and equipment	240,561	222,137
Buildings	900,382	900,382
Plant	3,581,978	3,382,986
Vehicles	237,633	237,633
Accumulated depreciation	<u>(1,907,571)</u>	<u>(1,772,446)</u>
	<u>\$ 3,132,981</u>	<u>\$ 3,068,515</u>

The major capital asset additions during the year ended June 30, 2018 were as follows:

Construction in process	\$ 181,168
Machinery and equipment	<u>18,424</u>
	<u>\$ 199,592</u>

During the year ended June 30, 2018 a waterline project of \$198,993 was completed and placed in service.

Debt Administration

At June 30, 2018 the Town's governmental funds had outstanding debt of \$6,700 (\$9,900 in 2017) consisting of the following:

	<u>2018</u>	<u>2017</u>
Note payable	\$ 6,700	\$ 9,900
Less: current portion due	<u>(3,300)</u>	<u>(3,200)</u>
Total long-term debt-principal	<u>\$ 3,400</u>	<u>\$ 6,700</u>

During the year ended June 30, 2018, the Town retired \$3,200 of its governmental funds debt.

At June 30, 2018 the Town's proprietary funds had outstanding debt of \$305,805 (\$311,493 in 2017) consisting of the following:

	<u>2018</u>	<u>2017</u>
Rural Development loan	\$ 305,805	\$ 311,493
Less: current portion due	<u>(5,835)</u>	<u>(5,593)</u>
Total long-term debt-principal	<u>\$ 299,970</u>	<u>\$ 305,900</u>

During the year ended June 30, 2018, the Town retired \$5,688 (\$13,160 in 2017) 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 \$32,334 during the year ended June 30, 2018 (\$23,965 in 2017).

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, 2018 was \$230,277 (\$157,285 in 2017), which is 9 percent (7.1 percent in 2017) of total net position of the water and sewer fund.

General Fund Budgetary Highlights

During the year ended June 30, 2018, original budgeted revenue was increased due to higher than anticipated local and state shared tax revenue and contributions. Appropriations for expenditures were increased to allow for additional equipment purchases and repairs and maintenance.

Economic Factors and Next Year's Budgets and Rates

The Board of Mayor and Aldermen approved the budget for the year ending June 30, 2019. The estimated revenue and appropriations did not vary significantly from the budget for the year ended June 30, 2018.

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, 2018

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash	\$ 137,700	\$ 211,175	\$ 348,875
Certificates of deposit	73,634	0	73,634
Accounts receivable, net of allowance for uncollectible accounts	1,313	29,999	31,312
Property taxes receivable, net of allowance for uncollectible accounts	50,917	0	50,917
Other taxes receivable	6,794	0	6,794
Due from other governments	11,913	0	11,913
Inventory	301	0	301
Capital assets not being depreciated	79,998	0	79,998
Capital assets being depreciated, net of accumulated depreciation	<u>589,501</u>	<u>2,463,483</u>	<u>3,052,983</u>
	<u>\$ 952,071</u>	<u>\$ 2,704,657</u>	<u>\$ 3,656,727</u>

See the accompanying notes to the financial statements.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
LIABILITIES			
Accounts payable	\$ 14,018	\$ 10,252	\$ 24,272
Accrued salaries	1,301	0	1,301
Sales tax payable	0	644	644
Current portion of long-term debt	3,300	5,835	9,135
Long-term debt, net of current portion	<u>3,400</u>	<u>299,970</u>	<u>303,370</u>
	22,021	316,702	338,723
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	48,056	0	48,056
NET POSITION			
Net investment in capital assets	662,799	2,157,678	2,820,476
Restricted for drug enforcement	2,006	0	2,006
Unrestricted	<u>217,190</u>	<u>230,277</u>	<u>447,467</u>
	<u>881,994</u>	<u>2,387,954</u>	<u>3,269,948</u>
	<u>\$ 952,071</u>	<u>\$ 2,704,657</u>	<u>\$ 3,656,727</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2018

	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental Activities:				
General government	\$ 52,008	\$ 7,944	\$ 0	\$ 0
Public safety	45,423	851	19,560	0
Public welfare	29,031	0	0	0
Streets and highways	59,574	0	16,566	0
Solid waste management	22,737	18,644	0	0
Interest on long-term debt	<u>270</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total governmental activities	209,042	27,439	36,126	0
Business-Type Activities:				
Water and sewer	<u>273,910</u>	<u>287,521</u>	<u>0</u>	<u>166,993</u>
	<u>\$ 482,952</u>	<u>\$ 314,960</u>	<u>\$ 36,126</u>	<u>\$ 166,993</u>

See the accompanying notes to the financial statements.

Net (Expense)Revenue and
Changes In Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (44,064)	\$ 0	\$ (44,064)
(25,012)	0	(25,012)
(29,031)	0	(29,031)
(43,008)	0	(43,008)
(4,093)	0	(4,093)
(270)	0	(270)
(145,477)	0	(145,478)
0	180,603	180,603
\$ (145,477)	\$ 180,603	\$ 35,126

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF ACTIVITIES

(continued)

Year Ended June 30, 2018

**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
\$ (145,477)	\$ 180,603	\$ 35,126
47,125	0	47,125
183	0	183
31,324	0	31,324
11,279	0	11,279
56,815	0	56,815
265	96	361
<u>146,991</u>	<u>96</u>	<u>147,087</u>
1,514	180,699	182,213
<u>880,480</u>	<u>2,207,255</u>	<u>3,087,735</u>
<u>\$ 881,994</u>	<u>\$ 2,387,954</u>	<u>\$ 3,269,949</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2018

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
ASSETS			
Cash	\$ 135,694	\$ 2,006	\$ 137,700
Certificates of deposit	73,634	0	73,634
Property taxes receivable	50,917	0	50,917
Customer accounts receivable	1,313	0	1,313
Other taxes receivable	6,794	0	6,794
Due from other governments	11,913	0	11,913
Inventory	301	0	301
	<u>\$ 280,566</u>	<u>\$ 2,006</u>	<u>\$ 282,572</u>
LIABILITIES			
Accounts payable	\$ 14,019	\$ 0	\$ 14,019
Accrued salaries	1,301	0	1,301
	<u>15,321</u>	<u>0</u>	<u>15,321</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	50,917	0	50,917
Deferred state shared and local taxes	8,766	0	8,766
	<u>59,683</u>	<u>0</u>	<u>59,683</u>
FUND BALANCES			
Nonspendable	301	0	301
Restricted	0	2,006	2,006
Unassigned	205,261	0	205,261
	<u>205,562</u>	<u>2,006</u>	<u>207,568</u>
	<u>\$ 280,566</u>	<u>\$ 2,006</u>	<u>\$ 282,572</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, 2018

Total Fund Balance - Governmental Funds	\$ 207,568
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.	669,499
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.	11,627
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(6,700)</u>
Net Position of Governmental Activities	<u>\$ 881,994</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**

Year Ended June 30, 2018

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
REVENUE			
Taxes:			
Property taxes	\$ 45,186	\$ 0	\$ 45,186
Interest and penalty	183	0	183
Local sales tax	30,362	0	30,362
Wholesale beer tax	11,279	0	11,279
Intergovernmental	74,195	0	74,195
Charges for services	19,001	0	19,001
Fines and forfeitures	851	0	851
Licenses, permits and fees	6,465	0	6,465
Contributions	17,846	0	17,846
Interest	265	0	265
Miscellaneous	<u>1,121</u>	<u>0</u>	<u>1,121</u>
TOTAL REVENUE	206,756	0	206,756
EXPENDITURES			
Current:			
General government	47,312	0	47,312
Public safety	35,376	265	35,641
Streets and highways	58,524	0	58,524
Solid waste management	22,737	0	22,737
Public welfare	7,003	0	7,003
Debt service	<u>3,470</u>	<u>0</u>	<u>3,470</u>
TOTAL EXPENDITURES	<u>174,423</u>	<u>265</u>	<u>174,688</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, 2018

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
EXCESS(DEFICIENCY) OF REVENUE OVER EXPENDITURES	32,334	(265)	32,068
FUND BALANCES AT THE BEGINNING OF THE YEAR	<u>173,229</u>	<u>2,271</u>	<u>175,500</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 205,562</u>	<u>\$ 2,006</u>	<u>\$ 207,568</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, 2018

Excess of Revenue Over Expenditures - Governmental Funds	\$ 32,068
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:	
Depreciation expense	(37,554)
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, 2017	(7,828)
Deferred tax revenue - June 30, 2018	11,627
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities.	<u>3,200</u>
Change in Net Position of Governmental Activities	<u><u>\$ 1,514</u></u>

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, 2018

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
Taxes:				
Property taxes	\$ 46,369	\$ 49,434	\$ 45,186	\$ (4,248)
Interest and penalty	200	365	183	(182)
Local sales tax	25,500	29,450	30,362	912
Wholesale beer tax	10,000	10,490	11,279	789
	<u>82,069</u>	<u>89,739</u>	<u>87,011</u>	<u>(2,728)</u>
Intergovernmental:				
State income tax	646	646	161	(485)
State beer tax	247	252	230	(22)
State sales tax	39,718	41,928	41,978	50
State gasoline and motor fuel tax	16,401	16,401	16,380	(21)
Mixed drink tax	0	0	7,135	7,135
City streets and transportation	1,013	1,013	995	(18)
Volunteer fire assistance grant	0	1,714	1,714	0
TVA In-Lieu of tax payments	5,582	5,607	5,602	(5)
	<u>63,607</u>	<u>67,561</u>	<u>74,195</u>	<u>6,634</u>
Charges for services:				
Garbage collection charges	19,325	19,475	18,644	(831)
Miscellaneous charges	170	370	357	(13)
	<u>19,495</u>	<u>19,845</u>	<u>19,001</u>	<u>(844)</u>
Licenses and permits:				
Building permits	800	800	40	(760)
Business license	1,500	2,585	3,375	790
Beer and liquor licenses	3,900	8,230	3,050	(5,180)
	<u>6,200</u>	<u>11,615</u>	<u>6,465</u>	<u>(5,150)</u>

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, 2018

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fines and forfeitures:				
Court fines	2,000	1,500	851	(649)
Other revenue:				
Contributions	9,000	18,500	17,846	(654)
Interest	250	250	265	15
Miscellaneous	750	1,150	1,121	(29)
	<u>10,000</u>	<u>19,900</u>	<u>19,233</u>	<u>(667)</u>
TOTAL REVENUE	183,371	210,160	206,756	(3,404)

EXPENDITURES

Financial administration:				
Salaries and wages	9,236	9,236	8,945	(291)
Payroll taxes	707	707	682	(25)
Unemployment insurance	139	139	74	(65)
Subscriptions and dues	220	220	220	0
Office supplies	2,000	2,000	2,023	23
Postage	360	375	371	(4)
Utilities	4,984	5,594	5,329	(265)
Insurance	2,400	2,400	2,400	0
Repairs and maintenance	0	100	80	(20)
Training	355	355	300	(55)
Travel	300	305	341	36
	<u>20,701</u>	<u>21,431</u>	<u>20,765</u>	<u>(666)</u>
Police:				
Contract services	12,960	12,960	12,082	(878)
Operations	50	50	0	(50)
	<u>13,010</u>	<u>13,010</u>	<u>12,082</u>	<u>(928)</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, 2018

	Budget		Actual	Variance
	Original	Final		Over (Under)
Fire:				
Salaries and wages	1,200	1,200	1,200	0
Payroll taxes	92	92	92	0
Unemployment insurance	36	36	36	0
Office supplies	110	160	117	(43)
Insurance	7,200	7,200	8,478	1,278
Utilities	1,518	1,598	1,443	(155)
Telephone	1,875	875	791	(84)
Gasoline	600	600	658	58
Training and travel	1,100	1,100	144	(956)
Equipment	0	3,428	3,428	0
Repairs and maintenance	7,200	8,586	6,787	(1,799)
Vehicle repairs and maintenance	1,500	4,400	120	(4,280)
	<u>22,431</u>	<u>29,275</u>	<u>23,294</u>	<u>(5,981)</u>
General government:				
Salaries and wages	800	800	383	(417)
Payroll taxes	62	62	24	(38)
Unemployment insurance	21	21	5	(16)
Insurance	9,316	9,576	8,491	(1,085)
Legal services	8,600	8,600	3,760	(4,840)
Accounting and auditing	3,378	3,379	3,378	(1)
Dues and subscriptions	2,180	2,180	1,616	(564)
Office supplies and postage	1,150	1,735	1,559	(176)
Operating supplies	250	570	457	(113)
Training	250	250	175	(75)
Travel	250	250	151	(99)
Repair and maintenance	1,150	1,150	315	(835)
Small equipment	0	3,000	3,000	0
Miscellaneous	850	3,550	3,234	(316)
	<u>28,257</u>	<u>35,123</u>	<u>26,547</u>	<u>(8,576)</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, 2018

	Budget		Actual	Variance Over (Under)
	Original	Final		
Highways and streets:				
Salaries and wages	15,716	16,206	16,715	509
Payroll taxes	1,202	1,242	1,281	39
Unemployment insurance	297	297	240	(57)
Insurance	2,400	2,400	2,400	0
Utilities	1,518	1,598	1,443	(155)
Uniforms	520	520	520	0
Gasoline	1,250	1,625	1,615	(10)
Repairs and maintenance	22,500	23,215	20,472	(2,743)
Vehicle repairs and maintenance	3,000	3,640	3,317	(323)
	<u>48,403</u>	<u>50,743</u>	<u>48,003</u>	<u>(2,740)</u>
State street aid:				
Street lighting	10,300	10,680	10,522	(158)
Solid waste services:				
Salaries and wages	11,981	11,981	11,659	(322)
Payroll taxes	916	916	888	(28)
Unemployment insurance	157	157	138	(19)
Professional services	1,448	1,449	1,448	(1)
Landfill fees	3,600	3,600	3,679	79
Office supplies	1,171	1,396	1,476	80
Insurance	1,261	1,626	1,420	(206)
Gasoline	750	930	969	39
Repairs and maintenance	500	500	0	(500)
Vehicle repairs and maintenance	500	1,400	1,061	(339)
	<u>22,284</u>	<u>23,955</u>	<u>22,737</u>	<u>(1,218)</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, 2018

	<u>Budget</u>			Variance Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
Parks and recreation:				
Salaries and wages	300	300	0	(300)
Payroll taxes	23	23	0	(23)
Unemployment insurance	9	9	0	(9)
Utilities	2,776	2,776	1,785	(991)
Repairs and maintenance	1,000	4,110	3,668	(442)
Operating supplies	800	1,885	1,550	(335)
	<u>4,908</u>	<u>9,103</u>	<u>7,003</u>	<u>(2,100)</u>
Capital outlay:				
General government	9,550	9,550	0	(9,550)
Debt service:				
Principal	3,200	3,200	3,200	0
Interest	270	270	270	0
	<u>3,470</u>	<u>3,470</u>	<u>3,470</u>	<u>0</u>
TOTAL EXPENDITURES	<u>183,314</u>	<u>206,340</u>	<u>174,423</u>	<u>(31,917)</u>
EXCESS OF REVENUE OVER EXPENDITURES	57	3,820	32,334	28,514
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>0</u>	<u>173,229</u>	<u>173,229</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 57</u>	<u>\$ 3,820</u>	<u>\$ 205,562</u>	<u>\$ 201,742</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

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

Year Ended June 30, 2018

	Budget		Actual	Variance Over (Under)
	Original	Final		
REVENUE				
Drug related fines	\$ 0	\$ 0	\$ 0	\$ 0
EXPENDITURES				
Investigation	<u>200</u>	<u>200</u>	<u>265</u>	<u>65</u>
(DEFICIENCY) OF REVENUE OVER EXPENDITURES	(200)	(200)	(265)	(65)
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>200</u>	<u>200</u>	<u>2,271</u>	<u>2,071</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,006</u>	<u>\$ 2,006</u>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF NET POSITION
WATER AND SEWER FUND

June 30, 2018

CURRENT ASSETS

Cash and cash equivalents		\$ 211,175
Accounts receivable, net of allowance for uncollectible accounts of \$10,000		<u>29,999</u>
		241,174

CAPITAL ASSETS

Equipment	\$ 143,939	
Vehicles	10,536	
Utility plant	<u>3,581,978</u>	
	3,736,453	
Accumulated depreciation	<u>(1,272,971)</u>	<u>2,463,483</u>
		<u>\$ 2,704,657</u>

CURRENT LIABILITIES

Accounts payable		\$ 10,253
Sales tax payable		644
Current portion of long-term debt		<u>5,835</u>
		16,732

LONG-TERM DEBT,
net of current portion

299,970

NET POSITION

Net investment in capital assets	\$ 2,157,678	
Unrestricted	<u>230,277</u>	<u>2,387,954</u>
		<u>\$ 2,704,657</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, 2018

OPERATING REVENUE

Water utility charges	\$ 91,310
Sewer collection charges	186,955
Utility penalties	2,834
Service fees and legal fees	<u>6,423</u>

TOTAL OPERATING REVENUE 287,521

OPERATING EXPENSES

Water lines:

Salaries and wages	\$ 13,092	
Payroll taxes	1,000	
Unemployment insurance	98	
Water purchased for resale	29,862	
Dues and subscriptions	1,197	
Insurance	1,305	
Professional services	2,400	
Accounting and auditing	2,413	
Water testing	555	
Office supplies and postage	2,084	
Operating supplies	427	
Fuel	1,076	
Repairs and maintenance	<u>784</u>	56,293

Sewer system:

Salaries and wages	10,140
Payroll taxes	774
Unemployment insurance	90
Utilities	34,092
Fines and fees	1,730
Dues and subscriptions	1,101
Insurance	6,850
Professional services	38,923
Accounting and auditing	2,413

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, 2018

Chemicals	456	
Office supplies and postage	2,282	
Operating supplies	268	
Fuel	646	
Repairs and maintenance	<u>7,213</u>	106,978
Depreciation		<u>97,572</u>
TOTAL OPERATING EXPENSES		<u>260,842</u>
INCOME FROM OPERATIONS		26,679
NONOPERATING REVENUE(EXPENSE)		
Interest income	96	
Interest expense	<u>(13,068)</u>	<u>(12,972)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS		13,706
Capital contributions		<u>166,993</u>
CHANGE IN NET POSITION		180,699
NET POSITION AT THE BEGINNING OF THE YEAR		<u>2,207,255</u>
NET POSITION AT THE END OF THE YEAR		<u><u>\$ 2,387,954</u></u>

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF CASH FLOWS
WATER AND SEWER FUND

Year Ended June 30, 2018

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

Cash received from customers	\$ 291,293
Cash paid to suppliers	(157,956)
Cash paid to employees	<u>(23,232)</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

110,105

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

Acquisition of capital assets	\$ (199,591)
Capital contributions	166,993
Principal payments on long-term debt	(5,688)
Interest paid on debt	<u>(13,068)</u>

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

(51,354)

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

Interest received	<u>96</u>
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NET INCREASE IN CASH

58,845

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

152,330

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

\$ 211,175

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, 2018

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

Income from operations		\$	26,679
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	\$	97,572	
Decrease in accounts receivable		1,744	
(Decrease)increase in:			
Accounts payable		(15,910)	
Sales tax payable		20	
		<u> </u>	<u>83,426</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			<u> </u>
		\$	<u>110,105</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2018

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, 2018, 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, 2018

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 1st, 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 1st 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, 2018

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, 2018.

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, 2018

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, 2018 has been calculated as follows:

Governmental Activities:

Capital assets	\$ 1,304,099
Accumulated depreciation	(634,600)
Principal balance on long-term debt	<u>(6,700)</u>
	<u>\$ 662,799</u>

Business-Type Activities:

Water and Sewer Fund:	
Capital assets	\$ 3,736,453
Accumulated depreciation	(1,272,971)
Principal balance on long-term debt	<u>(305,805)</u>
	<u>\$ 2,157,678</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

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, 2018

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, 2018

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, 2016⁷ were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Checking and savings accounts	\$ 137,700	\$ 211,175	\$ 348,875
Certificate of deposit	<u>73,634</u>	<u>0</u>	<u>73,634</u>
Total	<u>\$ 211,334</u>	<u>\$ 211,175</u>	<u>\$ 422,509</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, 2018

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, 2018 were entirely insured through the Federal Deposit Insurance Corporation.

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2018 was as follows:

	<u>Balance</u> <u>7/1/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/18</u>
Governmental Activities:				
<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	96,622	0	0	96,622
Vehicles	<u>227,097</u>	<u>0</u>	<u>0</u>	<u>227,097</u>
	1,224,101	0	0	1,224,101
<u>Accumulated depreciation</u>				
Buildings and improvements	(348,877)	(28,006)	0	(376,883)
Machinery and equipment	(78,010)	(2,450)	0	(80,460)
Vehicles	<u>(170,160)</u>	<u>(7,098)</u>	<u>0</u>	<u>(177,258)</u>
	<u>(597,047)</u>	<u>(37,554)</u>	<u>0</u>	<u>(634,600)</u>
	<u>\$ 707,052</u>	<u>\$ (37,554)</u>	<u>\$ 0</u>	<u>\$ 669,499</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

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>22,028</u>
	<u>\$ 37,554</u>

	<u>Balance</u> <u>7/1/17</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/18</u>
Business-Type Activities:				
<u>Capital assets not being depreciated</u>				
Construction in process	\$ 17,825	\$ 181,168	\$ (198,993)	\$ 0
<u>Capital assets being depreciated</u>				
Machinery and equipment	125,515	18,424	0	143,939
Vehicles	10,536	0	0	10,536
Water and sewer plant	<u>3,382,986</u>	<u>198,993</u>	<u>0</u>	<u>3,581,978</u>
	3,519,037	217,417	0	3,736,453
<u>Accumulated depreciation</u>				
Machinery and equipment	(91,495)	(6,667)	0	(98,162)
Vehicles	(10,536)	0	0	(10,536)
Water and sewer plant	<u>(1,073,368)</u>	<u>(90,905)</u>	<u>0</u>	<u>(1,164,273)</u>
	<u>(1,175,399)</u>	<u>(97,572)</u>	<u>0</u>	<u>(1,272,971)</u>
	<u>\$ 2,361,463</u>	<u>\$ 301,013</u>	<u>\$ (198,993)</u>	<u>\$ 2,463,483</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

NOTE E - LONG-TERM DEBT

Long-term debt at June 30, 2018 consisted of the following:

Governmental Activities:

Capital outlay note payable in various semiannual installments including interest at 3.25% until maturity in 2020	\$ 6,700
Less current maturities	<u>(3,300)</u>
	<u>\$ 3,400</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	\$ 305,805
Less current maturities	<u>(5,835)</u>
	<u>\$ 299,970</u>

Maturities of long-term debt as of June 30, 2018 are as follows:

Governmental Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2019	\$ 3,300	\$ 164	\$ 3,464
2020	<u>3,400</u>	<u>55</u>	<u>3,455</u>
	<u>\$ 6,700</u>	<u>\$ 219</u>	<u>\$ 6,919</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

Business-Type Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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>17,137</u>	<u>411</u>	<u>17,548</u>
	<u>\$ 305,805</u>	<u>\$ 218,155</u>	<u>\$ 523,960</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

Changes in long-term debt for the year ended June 30, 2018 were as follows:

	<u>Balance</u> <u>7/1/17</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/18</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Note payable	\$ 9,900	\$ 0	\$ 3,200	\$ 6,700	\$ 3,300
<u>Business-Type Activities:</u>					
Sewer Revenue and Tax Bond Series 2005	\$ 311,493	\$ 0	\$ 5,688	\$ 305,805	\$ 5,835

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

General government	\$ 270
Water and sewer services	13,068

NOTE F - EXPENDITURES EXCEEDED APPROPRIATIONS

During the year ended June 30, 2018 expenditures of the Drug Fund exceeded appropriations by \$65.

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2018

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.

SUPPLEMENTARY INFORMATION

TOWN OF CUMBERLAND GAP, TENNESSEE

INVESTMENTS

June 30, 2018

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Certificate of Deposit</u>			
Citizens Bank #32811	0.30%	9/15/18	\$ 73,634

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

PROPERTY TAXES RECEIVABLE

Year Ended June 30, 2018

<u>Year of Levy</u>	<u>Rate</u>	<u>Total Assessment</u>	<u>Levy</u>	<u>Balance June 30, 2017</u>
2018	.9000	\$ 5,339,015	\$ 48,056	\$ 0
2017	.9000	5,333,137	48,000	48,002
2016	.9000	5,056,082	45,506	578
2015	.4500	4,972,126	22,374	61
2014	.4500	4,946,682	22,261	26
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	.2000	5,636,825	14,004	15
				<u>\$ 48,924</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, 2018</u>
\$ 48,056	\$ 0	\$ 0	\$ 48,056
0	(2,645)	(43,345)	2,012
0	0	(62)	516
0	0	(2)	59
0	0	(9)	17
0	0	0	135
0	0	0	54
0	0	0	13
0	0	0	13
0	0	0	27
<u>0</u>	<u>0</u>	<u>0</u>	<u>15</u>
<u>\$ 48,056</u>	<u>\$ (2,645)</u>	<u>\$ (43,418)</u>	<u>\$ 50,917</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

June 30, 2018

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
<u>Governmental Activities:</u>			
Note payable			
Year ending June 30,			
2019	\$ 3,300	\$ 164	\$ 3,464
2020	<u>3,400</u>	<u>55</u>	<u>3,455</u>
	<u>\$ 6,700</u>	<u>\$ 219</u>	<u>\$ 6,919</u>
 <u>Business-Type Activities:</u>			
Sewer Revenue and Tax Bond Series 2005			
Year ending June 30,			
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
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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

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2018

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond			
Series 2005 (continued)			
Year ending June 30,			
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
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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	17,137	411	17,548
	<u>\$ 305,805</u>	<u>\$ 218,155</u>	<u>\$ 523,960</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor	CFDA #	Contract Number	Expenditures
<u>Federal Awards</u>			
U.S. Department of Agriculture/ Tennessee Department of Agriculture Division of Forestry	10.64	N/A	\$ 1,714
U.S. Department of Housing and Urban Development/TN Department of Economic and Community Development	14.228	49405-52984	<u>166,993</u>
			<u>\$ 168,707</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, 2018. 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, 2018.

NOTE 3 - OUTSTANDING LOAN BALANCES

Town of Cumberland Gap, Tennessee had no outstanding federal loan balances at June 30, 2018.

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

UTILITY RATES AND METERED CUSTOMERS

June 30, 2018

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	377

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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Click to access definition
 Click to add a comment

Water Audit Report for: **Cumberland Gap (TN0060747)**
Reporting Year: **2018** **7/2017 - 6/2018**

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.

Master Meter and Supply Error Adjustments

WATER SUPPLIED

←----- Enter grading in column 'E' and 'J' -----→		Pcnt:	Value:	
Volume from own sources:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	<input type="text" value="0.000"/>	<input type="text" value=""/>	MG/Yr
Water imported:	<input type="button" value="+"/> <input type="button" value="?"/> 9	<input type="text" value="7.903"/>	<input type="text" value="1.00%"/>	MG/Yr
Water exported:	<input type="button" value="+"/> <input type="button" value="?"/> n/a	<input type="text" value="0.000"/>	<input type="text" value=""/>	MG/Yr

WATER SUPPLIED: 7.825 MG/Yr

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

AUTHORIZED CONSUMPTION

Billed metered:	<input type="button" value="+"/> <input type="button" value="?"/> 9	<input type="text" value="5.816"/>	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="?"/> 5	<input type="text" value="0.098"/>	MG/Yr

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

AUTHORIZED CONSUMPTION: 5.914 MG/Yr

Click here: for help using option buttons below

Pcnt: Value:

MG/Yr

Use buttons to select percentage of water supplied OR value

Pcnt: Value:

MG/Yr

MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

1.911 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: 0.609 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

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

WATER LOSSES: 1.911 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 2.009 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="?"/> 4	<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="\$83,330"/>	\$/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="\$3,778.56"/>	\$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 85 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.
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Water Audit Report for: **Cumberland Gap (TN0060747)**
Reporting Year: **2018** | **7/2017 - 6/2018**

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 85 out of 100 *****

System Attributes:

Apparent Losses:	<input type="text" value="0.609"/>	MG/Yr
+ Real Losses:	<input type="text" value="1.302"/>	MG/Yr
= Water Losses:	<input type="text" value="1.911"/>	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, 2018

Neal Pucciarelli, Mayor
Susan Bain, Alderwoman
John Douglas, Alderman
Teresa Fuson, Alderwoman
Katy Maxwell, 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, 2018, and the related notes to the financial statements, which collectively comprise Town of Cumberland Gap, Tennessee's basic financial statements, and have issued our report thereon dated January 25, 2019.

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.

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

January 25, 2019

TOWN OF CUMBERLAND GAP, TENNESSEE

FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE

Year Ended June 30, 2018

Finding Number 2018-001 - Segregation of Duties (uncorrected from prior year)

Condition: A lack of segregation of duties exists in the areas of issuing cash receipts, preparing bank deposits, posting accounting transactions, and preparing bank reconciliations.

Cause: This condition is as a result of the limited number of personnel available.

Criteria: Sound internal controls include the division of accounting responsibilities to help mitigate the possibility of fraud, misappropriation of assets and improper financial reporting.

Effect or potential effect: A lack of segregation of duties could result in misappropriation of assets or fraudulent financial reporting.

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. We have a limited number of personnel and do not have the resources to hire additional staff. An Alderman reviews monthly bank statements and bank reconciliations to provide some oversight over the cash receipts process. We will continue to look for opportunities to strengthen internal controls and oversight over financial reporting and cash receipts.

Historic Town of Cumberland Gap

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

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

MANAGEMENT'S CORRECTIVE ACTION PLAN

Town of Cumberland Gap, Tennessee submits the following corrective action plan for the year ended June 30, 2018. The finding from the June 30, 2018 schedule of finding, recommendation and management response is discussed below. Questions concerning the information provided in this corrective action plan or requests for additional information should be addressed to Town of Cumberland Gap, Tennessee.

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

Finding Number 2018-001 - 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 concur and will divide the duties among the existing personnel as best we can. We have a limited number of personnel and do not have the resources to hire additional staff. An Alderman reviews monthly bank statements and bank reconciliations to provide some oversight over the cash receipts process. We will continue to look for opportunities to strengthen internal controls and oversight over financial reporting and cash receipts.

Signature: Linda Moyers
Title: City Recorder, CMFO

TOWN OF CUMBERLAND GAP, TENNESSEE

PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2018

Financial Statement Findings

<u>Finding Number</u>	<u>Finding Title</u>	<u>Status</u>
2018-001	Segregation of Duties (original finding No. 2013-001)	Repeated