

Financial Statements

TOWN OF CUMBERLAND GAP, TENNESSEE

Year Ended June 30, 2019

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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, 2019, 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, 2019, 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, changes in long-term debt by individual issue and expenditures of state financial assistance 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 state financial assistance 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, principal officials and corrective action plan 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 March 20, 2020, 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 cursive script that reads "Mitchell Emert & Hill".

March 20, 2020

Historic Town of Cumberland Gap

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Management's Discussion and Analysis For the Year Ended June 30, 2019

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, 2019. 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, 2019 by \$3,267,129 (\$3,269,948 in 2018).
- The Town's net position decreased by \$2,819 (increased by \$182,213 in 2018) or .08 percent during the year ended June 30, 2019 (5.9 percent during 2018).
- At June 30, 2019 the Town's governmental funds reported combined ending fund balances of \$245,132, an increase of \$37,564 for the year ended June 30, 2019. 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. As of June 30, 2019, \$243,398 (\$205,562 in 2018) of governmental fund balances is unassigned and available for ongoing operations.
- At June 30, 2019 the unassigned general fund balance was \$243,398 (\$205,562 in 2018) or 112 percent (117 percent in 2018) 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, 2019 the Town's net position was \$3,267,129 (\$3,269,948 in 2018).

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>2019</u>	<u>2018</u>
ASSETS		
Current assets	\$ 628,020	\$ 523,746
Capital assets, net of accumulated depreciation	<u>3,018,870</u>	<u>3,132,981</u>
	<u>\$ 3,646,890</u>	<u>\$ 3,656,727</u>
LIABILITIES		
Current liabilities	\$ 29,171	\$ 26,218
Noncurrent liabilities	<u>303,270</u>	<u>312,505</u>
	332,441	338,723
DEFERRED INFLOWS OF RESOURCES		
Deferred property tax revenue	47,320	48,056
NET POSITION		
Net investment in capital assets	2,715,600	2,820,476
Restricted	1,733	2,006
Unrestricted	<u>549,796</u>	<u>447,467</u>
	<u>3,267,129</u>	<u>3,269,948</u>
	<u>\$ 3,646,890</u>	<u>\$ 3,656,727</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>2019</u>	<u>2018</u>
REVENUE		
Program Revenue:		
Fees, fines and charges for services	\$ 298,643	\$ 314,960
Operating grants and contributions	71,686	36,126
Capital grants and contributions	0	166,993
General Revenue:		
Local taxes	96,070	89,911
Intergovernmental	60,713	56,815
Investment earnings	<u>822</u>	<u>361</u>
	527,934	665,166

	<u>2019</u>	<u>2018</u>
EXPENSES		
General government	96,666	52,278
Public safety	44,342	45,423
Highways and streets	60,054	59,574
Sanitation	23,557	22,737
Public welfare	27,780	29,031
Water and sewer	<u>278,355</u>	<u>273,910</u>
	<u>530,752</u>	<u>482,952</u>
(Decrease)increase in net position	(2,819)	182,213
Net position at the beginning of the year	<u>3,269,948</u>	<u>3,087,735</u>
Net position at the end of the year	<u>\$ 3,267,129</u>	<u>\$ 3,269,948</u>

Governmental Activities - For the year ended June 30, 2019, governmental activities increased the Town's net position by \$6,369 (\$1,514 in 2018).

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, 2019, business-type activities decreased the Town's net position by \$9,188 (increased by \$180,699 in 2018).

Capital Assets

The Town's investment in capital assets as of June 30, 2019 was \$3,018,870 (\$3,132,981 in 2018) net of accumulated depreciation.

	<u>2019</u>	<u>2018</u>
Land	\$ 79,998	\$ 79,998
Construction in process	11,461	0
Machinery and equipment	253,454	240,561
Buildings	900,382	900,382
Plant	3,581,978	3,581,978
Vehicles	237,633	237,633
Accumulated depreciation	<u>(2,046,036)</u>	<u>(1,907,571)</u>
	<u>\$ 3,018,870</u>	<u>\$ 3,132,981</u>

The major capital asset additions during the year ended June 30, 2019 were as follows:

Construction in process	\$ 11,461
Machinery and equipment	<u>12,893</u>
	<u>\$ 24,354</u>

Debt Administration

At June 30, 2019 the Town’s governmental funds had outstanding debt of \$3,400 (\$6,700 in 2018) consisting of the following:

	<u>2019</u>	<u>2018</u>
Note payable	\$ 3,400	\$ 6,700
Less: current portion due	<u>(3,400)</u>	<u>(3,300)</u>
Total long-term debt-principal	<u>\$ 0</u>	<u>\$ 3,400</u>

During the year ended June 30, 2019, the Town retired \$3,300 of its governmental funds debt.

At June 30, 2019 the Town’s proprietary funds had outstanding debt of \$299,870 (\$305,805 in 2018) consisting of the following:

	<u>2019</u>	<u>2018</u>
Rural Development loan	\$ 299,870	\$ 305,805
Less: current portion due	<u>(6,088)</u>	<u>(5,835)</u>
Total long-term debt-principal	<u>\$ 293,782</u>	<u>\$ 299,970</u>

During the year ended June 30, 2019, the Town retired \$5,935 (\$5,688 in 2018) 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 \$37,837 during the year ended June 30, 2019 (\$32,334 in 2018).

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, 2019 was \$291,711 (\$230,277 in 2018), which is 12 percent (9 percent in 2018) of total net position of the water and sewer fund.

General Fund Budgetary Highlights

During the year ended June 30, 2019, 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 contract services 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, 2020. The estimated revenue and appropriations did not vary significantly from the budget for the year ended June 30, 2019.

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, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
ASSETS			
Cash	\$ 158,297	\$ 277,691	\$ 435,987
Certificates of deposit	73,946	0	73,946
Accounts receivable, net of allowance for uncollectible accounts	1,320	23,259	24,579
Property taxes receivable, net of allowance for uncollectible accounts	53,484	0	53,484
Other taxes receivable	6,649	0	6,649
Due from other governments	12,503	0	12,503
Grant receivable	20,570	0	20,570
Inventory	301	0	301
Capital assets not being depreciated	79,998	11,461	91,459
Capital assets being depreciated, net of accumulated depreciation	<u>551,947</u>	<u>2,375,464</u>	<u>2,927,411</u>
	<u>\$ 959,015</u>	<u>\$ 2,687,875</u>	<u>\$ 3,646,890</u>

See the accompanying notes to the financial statements.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
LIABILITIES			
Accounts payable	\$ 19,930	\$ 8,626	\$ 28,557
Accrued salaries	1	0	1
Sales tax payable	0	612	612
Current portion of long-term debt	3,400	6,088	9,488
Long-term debt, net of current portion	<u>0</u>	<u>293,782</u>	<u>293,782</u>
	23,332	309,109	332,441
DEFERRED INFLOWS OF RESOURCES			
Deferred property tax revenue	47,320	0	47,320
NET POSITION			
Net investment in capital assets	628,545	2,087,055	2,715,600
Restricted for drug enforcement	1,733	0	1,733
Unrestricted	<u>258,085</u>	<u>291,711</u>	<u>549,796</u>
	<u>888,363</u>	<u>2,378,766</u>	<u>3,267,129</u>
	<u>\$ 959,015</u>	<u>\$ 2,687,875</u>	<u>\$ 3,646,890</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF ACTIVITIES

Year Ended June 30, 2019

		<u>Program Revenue</u>	
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>
Governmental Activities:			
General government	\$ 96,502	\$ 8,613	\$ 0
Public safety	44,342	3,152	54,337
Public welfare	27,780	0	0
Streets and highways	60,054	0	17,349
Solid waste management	23,557	18,048	0
Interest on long-term debt	<u>164</u>	<u>0</u>	<u>0</u>
Total governmental activities	252,397	29,813	71,686
Business-Type Activities:			
Water and sewer	<u>278,355</u>	<u>268,830</u>	<u>0</u>
	<u>\$ 530,752</u>	<u>\$ 298,643</u>	<u>\$ 71,686</u>

See the accompanying notes to the financial statements.

Net (Expense)Revenue and
Changes In Net Position

Governmental Activities	Business-Type Activities	Totals
\$ (87,889)	\$ 0	\$ (87,889)
13,147	0	13,147
(27,780)	0	(27,780)
(42,705)	0	(42,705)
(5,509)	0	(5,509)
(164)	0	(164)
(150,898)	0	(150,898)
0	(9,525)	(9,525)
\$ (150,898)	\$ (9,525)	\$ (160,423)

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF ACTIVITIES

(continued)

Year Ended June 30, 2019

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
\$ (150,898)	\$ (9,525)	\$ (160,423)
52,722	0	52,722
332	0	332
32,365	0	32,365
10,651	0	10,651
60,713	0	60,713
486	336	822
157,269	336	157,605
6,369	(9,188)	(2,819)
881,994	2,387,954	3,269,948
\$ 888,363	\$ 2,378,766	\$ 3,267,129

TOWN OF CUMBERLAND GAP, TENNESSEE

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2019

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
ASSETS			
Cash	\$ 156,564	\$ 1,733	\$ 158,297
Certificates of deposit	73,946	0	73,946
Property taxes receivable	53,484	0	53,484
Customer accounts receivable	1,320	0	1,320
Other taxes receivable	6,649	0	6,649
Due from other governments	12,503	0	12,503
Grants receivable	20,570	0	20,570
Inventory	301	0	301
	<u>\$ 325,337</u>	<u>\$ 1,733</u>	<u>\$ 327,069</u>
LIABILITIES			
Accounts payable	\$ 19,931	\$ 0	\$ 19,931
Accrued salaries	1	0	1
	<u>19,932</u>	<u>0</u>	<u>19,932</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred property taxes	53,484	0	53,484
Deferred state shared and local taxes	8,522	0	8,522
	<u>62,006</u>	<u>0</u>	<u>62,006</u>
FUND BALANCES			
Nonspendable	301	0	301
Restricted	0	1,733	1,733
Unassigned	243,097	0	243,097
	<u>243,399</u>	<u>1,733</u>	<u>245,132</u>
	<u>\$ 325,337</u>	<u>\$ 1,733</u>	<u>\$ 327,069</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, 2019

Total Fund Balance - Governmental Funds	\$ 245,132
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.	631,945
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.	14,686
Long-term liabilities are not due in the current period; therefore, they are not reported in the governmental funds balance sheet.	<u>(3,400)</u>
Net Position of Governmental Activities	<u>\$ 888,363</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, 2019

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
REVENUE			
Taxes:			
Property taxes	\$ 49,419	\$ 0	\$ 49,419
Interest and penalty	332	0	332
Local sales tax	32,705	0	32,705
Wholesale beer tax	10,651	0	10,651
Intergovernmental	121,148	0	121,148
Charges for services	18,539	0	18,539
Fines and forfeitures	3,152	0	3,152
Licenses, permits and fees	6,166	0	6,166
Contributions	11,154	0	11,154
Interest	486	0	486
Miscellaneous	<u>1,956</u>	<u>0</u>	<u>1,956</u>
TOTAL REVENUE	255,707	0	255,707
EXPENDITURES			
Current:			
General government	91,807	0	91,807
Public safety	34,287	273	34,560
Streets and highways	59,004	0	59,004
Solid waste management	23,557	0	23,557
Public welfare	5,752	0	5,752
Debt service	<u>3,464</u>	<u>0</u>	<u>3,464</u>
TOTAL EXPENDITURES	<u>217,871</u>	<u>273</u>	<u>218,143</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, 2019

	<u>General Fund</u>	<u>Drug Fund</u>	<u>Totals</u>
EXCESS(DEFICIENCY) OF REVENUE OVER EXPENDITURES	37,837	(273)	37,564
FUND BALANCES AT THE BEGINNING OF THE YEAR	<u>205,562</u>	<u>2,006</u>	<u>207,568</u>
FUND BALANCES AT THE END OF THE YEAR	<u>\$ 243,399</u>	<u>\$ 1,733</u>	<u>\$ 245,132</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, 2019

Excess of Revenue Over Expenditures - Governmental Funds	\$ 37,564
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, 2018	(11,627)
Deferred tax revenue - June 30, 2019	14,686
Repayment of long-term debt is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities.	<u>3,300</u>
Change in Net Position of Governmental Activities	<u><u>\$ 6,369</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, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Taxes:				
Property taxes	\$ 48,354	\$ 51,774	\$ 49,419	\$ (2,355)
Interest and penalty	450	450	332	(118)
Local sales tax	30,000	32,100	32,705	605
Wholesale beer tax	<u>10,500</u>	<u>10,500</u>	<u>10,651</u>	<u>151</u>
	89,304	94,824	93,106	(1,718)
Intergovernmental:				
State income tax	124	164	425	261
State beer tax	250	250	229	(21)
State sales tax	42,500	43,475	43,743	268
State gasoline and motor fuel tax	17,290	17,790	17,296	(494)
Mixed drink tax	5,100	9,400	9,442	42
City streets and transportation	996	996	981	(15)
Access to Health grant	50,000	50,000	43,183	(6,817)
TVA In-Lieu of tax payments	<u>5,632</u>	<u>5,857</u>	<u>5,850</u>	<u>(7)</u>
	121,892	127,932	121,148	(6,784)
Charges for services:				
Garbage collection charges	18,390	19,190	18,048	(1,142)
Miscellaneous charges	<u>375</u>	<u>505</u>	<u>491</u>	<u>(14)</u>
	18,765	19,695	18,539	(1,156)
Licenses and permits:				
Building permits	500	500	103	(397)
Business license	2,500	3,000	3,014	14
Beer and liquor licenses	<u>3,050</u>	<u>3,050</u>	<u>3,050</u>	<u>0</u>
	6,050	6,550	6,166	(384)

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, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fines and forfeitures:				
Court fines	3,650	3,650	3,152	(498)
Other revenue:				
Contributions	11,500	11,500	11,154	(346)
Interest	250	350	486	136
Miscellaneous	850	2,100	1,956	(144)
	<u>12,600</u>	<u>13,950</u>	<u>13,596</u>	<u>(354)</u>
TOTAL REVENUE	252,261	266,601	255,707	(10,894)

EXPENDITURES

Financial administration:				
Salaries and wages	9,100	9,250	9,208	(42)
Payroll taxes	695	708	705	(3)
Unemployment insurance	137	137	74	(63)
Subscriptions and dues	220	230	230	0
Office supplies	2,000	2,300	2,160	(140)
Postage	400	400	352	(48)
Utilities	5,357	5,787	5,339	(448)
Insurance	2,400	2,400	2,400	0
Repairs and maintenance	100	100	0	(100)
Training	250	300	185	(115)
Travel	350	350	247	(103)
	<u>21,009</u>	<u>21,962</u>	<u>20,901</u>	<u>(1,061)</u>
Police:				
Contract services	12,960	15,360	15,542	182
Equipment	2,000	2,000	1,170	(830)
	<u>14,960</u>	<u>17,360</u>	<u>16,712</u>	<u>(648)</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, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Fire:				
Salaries and wages	1,200	1,200	1,200	0
Payroll taxes	92	92	92	0
Unemployment insurance	36	36	36	0
Operating supplies	2,000	2,000	240	(1,760)
Office supplies	160	210	85	(125)
Insurance	7,100	7,100	6,973	(127)
Utilities	1,617	1,717	1,499	(218)
Telephone	864	941	941	0
Gasoline	600	750	722	(28)
Training and travel	400	620	370	(250)
Equipment	4,000	4,000	2,587	(1,413)
Repairs and maintenance	1,500	6,500	550	(5,950)
Vehicle repairs and maintenance	4,000	4,000	2,831	(1,169)
	<u>23,569</u>	<u>29,166</u>	<u>18,125</u>	<u>(11,041)</u>
General government:				
Salaries and wages	1,700	1,700	1,150	(550)
Payroll taxes	53	137	92	(45)
Insurance	8,930	8,963	7,515	(1,448)
Legal services	3,760	3,760	3,600	(160)
Consulting fees	50,000	50,000	43,634	(6,366)
Accounting and auditing	3,483	3,483	3,483	0
Dues and subscriptions	2,135	2,135	1,369	(766)
Office supplies and postage	700	2,750	2,688	(62)
Operating supplies	550	2,000	1,669	(331)
Training	250	250	150	(100)
Travel	250	250	76	(174)
Repair and maintenance	650	650	212	(438)
Miscellaneous	2,700	4,825	4,718	(107)
	<u>75,161</u>	<u>80,903</u>	<u>70,356</u>	<u>(10,547)</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, 2019

	Budget		Actual	Variance Over (Under)
	Original	Final		
Highways and streets:				
Salaries and wages	19,389	19,389	17,461	(1,928)
Payroll taxes	1,483	1,483	1,334	(149)
Unemployment insurance	370	370	241	(129)
Insurance	2,400	2,400	2,400	0
Utilities	1,617	1,717	1,499	(218)
Uniforms	520	520	520	0
Gasoline	1,500	1,620	1,670	50
Repairs and maintenance	24,500	24,500	20,617	(3,883)
Vehicle repairs and maintenance	5,000	5,000	2,446	(2,554)
	<u>56,779</u>	<u>56,999</u>	<u>48,189</u>	<u>(8,810)</u>
State street aid:				
Street lighting	11,000	11,000	10,816	(184)
Solid waste services:				
Salaries and wages	12,246	12,251	12,089	(162)
Payroll taxes	937	937	926	(11)
Unemployment insurance	218	218	138	(80)
Professional services	1,493	1,493	1,493	0
Landfill fees	3,000	3,000	2,961	(39)
Office supplies	1,369	1,784	1,712	(72)
Insurance	1,750	1,750	1,266	(484)
Gasoline	950	1,100	1,002	(98)
Repairs and maintenance	250	250	0	(250)
Vehicle repairs and maintenance	2,000	2,000	1,972	(28)
	<u>24,213</u>	<u>24,783</u>	<u>23,557</u>	<u>(1,226)</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, 2019

	<u>Budget</u>			Variance Over (Under)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>(Under)</u>
Parks and recreation:				
Utilities	1,902	2,007	1,918	(89)
Repairs and maintenance	2,000	2,500	2,189	(311)
Operating supplies	700	1,700	1,645	(55)
	<u>4,602</u>	<u>6,207</u>	<u>5,752</u>	<u>(455)</u>
Debt service:				
Principal	3,300	3,300	3,300	0
Interest	164	164	164	0
	<u>3,464</u>	<u>3,464</u>	<u>3,464</u>	<u>0</u>
TOTAL EXPENDITURES	<u>234,757</u>	<u>251,844</u>	<u>217,871</u>	<u>(33,973)</u>
EXCESS OF REVENUE OVER EXPENDITURES	17,504	14,757	37,837	23,080
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>0</u>	<u>0</u>	<u>205,562</u>	<u>205,562</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 17,504</u>	<u>\$ 14,757</u>	<u>\$ 243,399</u>	<u>\$ 228,642</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

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

Year Ended June 30, 2019

	<u>Budget</u>		<u>Actual</u>	<u>Variance Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
REVENUE				
Drug related fines	\$ 0	\$ 0	\$ 0	\$ 0
EXPENDITURES				
Investigation	<u>300</u>	<u>300</u>	<u>273</u>	<u>(27)</u>
(DEFICIENCY) OF REVENUE OVER EXPENDITURES	(300)	(300)	(273)	27
FUND BALANCE AT THE BEGINNING OF THE YEAR	<u>300</u>	<u>300</u>	<u>2,006</u>	<u>1,706</u>
FUND BALANCE AT THE END OF THE YEAR	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,733</u>	<u>\$ 1,733</u>

See the accompanying notes to the financial statements.

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF NET POSITION
WATER AND SEWER FUND

June 30, 2019

CURRENT ASSETS

Cash and cash equivalents		\$ 277,691
Accounts receivable, net of allowance for uncollectible accounts of \$10,000		<u>23,259</u>
		300,950

CAPITAL ASSETS

Construction in process	\$ 11,461	
Equipment	156,832	
Vehicles	10,536	
Utility plant	<u>3,581,978</u>	
	3,760,807	
Accumulated depreciation	<u>(1,373,882)</u>	<u>2,386,925</u>
		<u>\$ 2,687,875</u>

CURRENT LIABILITIES

Accounts payable		\$ 8,627
Sales tax payable		612
Current portion of long-term debt		<u>6,088</u>
		15,327

LONG-TERM DEBT,
net of current portion

293,782

NET POSITION

Net investment in capital assets	\$ 2,087,055	
Unrestricted	<u>291,711</u>	<u>2,378,766</u>
		<u>\$ 2,687,875</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, 2019

OPERATING REVENUE

Water utility charges	\$	90,958	
Sewer collection charges		171,437	
Tap fees		500	
Utility penalties		1,827	
Service fees and legal fees		<u>4,108</u>	

TOTAL OPERATING REVENUE 268,830

OPERATING EXPENSES

Water lines:			
Salaries and wages	\$	13,338	
Payroll taxes		1,020	
Unemployment insurance		104	
Water purchased for resale		33,362	
Dues and subscriptions		1,314	
Insurance		1,407	
Professional services		2,400	
Accounting and auditing		2,488	
Water testing		870	
Office supplies and postage		1,703	
Operating supplies		396	
Fuel		1,113	
Repairs and maintenance		<u>390</u>	59,905

Sewer system:

Salaries and wages	10,616
Payroll taxes	812
Unemployment insurance	85
Utilities	28,927
Fines and fees	1,040
Dues and subscriptions	997
Insurance	7,661
Professional services	43,497
Accounting and auditing	2,488

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, 2019

Chemicals	415	
Office supplies and postage	2,058	
Operating supplies	1,407	
Fuel	668	
Repairs and maintenance	<u>4,047</u>	104,718
Depreciation		<u>100,911</u>
TOTAL OPERATING EXPENSES		<u>265,533</u>
INCOME FROM OPERATIONS		3,297
NONOPERATING REVENUE(EXPENSE)		
Interest income	336	
Interest expense	<u>(12,821)</u>	<u>(12,485)</u>
CHANGE IN NET POSITION		(9,188)
NET POSITION AT THE BEGINNING OF THE YEAR		<u>2,387,954</u>
NET POSITION AT THE END OF THE YEAR		<u>\$ 2,378,766</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

STATEMENT OF CASH FLOWS
WATER AND SEWER FUND

Year Ended June 30, 2019

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

Cash received from customers	\$ 268,830
Cash paid to suppliers	(135,587)
Cash paid to employees	<u>(23,954)</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

109,289

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

Acquisition of capital assets	\$ (24,354)
Principal payments on long-term debt	(5,935)
Interest paid on debt	<u>(12,821)</u>

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

(43,110)

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

Interest received	<u>336</u>
-------------------	------------

NET INCREASE IN CASH

66,516

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

211,175

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

\$ 277,691

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, 2019

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

Income from operations		\$	3,297
Adjustments to reconcile income from operations to net cash provided by operating activities:			
Depreciation	\$	100,911	
Decrease in accounts receivable		6,740	
(Decrease) in:			
Accounts payable		(1,627)	
Sales tax payable		(32)	
		<u> </u>	<u>105,992</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES			<u>\$ 109,289</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2019

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, 2019, 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, 2019

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, 2019

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, 2019.

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, 2019

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, 2019 has been calculated as follows:

Governmental Activities:

Capital assets	\$ 1,304,099
Accumulated depreciation	(672,154)
Principal balance on long-term debt	<u>(3,400)</u>
	<u>\$ 628,545</u>

Business-Type Activities:

Water and Sewer Fund:	
Capital assets	\$ 3,760,808
Accumulated depreciation	(1,373,882)
Principal balance on long-term debt	<u>(299,870)</u>
	<u>\$ 2,087,055</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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, 2019

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, 2019

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, 2019 were as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Totals</u>
Checking and savings accounts	\$ 158,297	\$ 277,691	\$ 435,988
Certificate of deposit	<u>73,946</u>	<u>0</u>	<u>73,946</u>
Total	<u>\$ 232,243</u>	<u>\$ 277,691</u>	<u>\$ 509,934</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, 2019

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, 2019 were entirely insured through the Federal Deposit Insurance Corporation.

NOTE D - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2019 was as follows:

	<u>Balance</u> <u>7/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</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	(376,883)	(28,006)	0	(404,889)
Machinery and equipment	(80,460)	(2,450)	0	(82,909)
Vehicles	<u>(177,258)</u>	<u>(7,098)</u>	<u>0</u>	<u>(184,356)</u>
	<u>(634,600)</u>	<u>(37,554)</u>	<u>0</u>	<u>(672,154)</u>
	<u>\$ 669,499</u>	<u>\$ (37,554)</u>	<u>\$ 0</u>	<u>\$ 631,945</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

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

General government	\$ 46,95
Public safety	9,782
Highways and streets	1,049
Parks and recreation	<u>22,028</u>
	<u>\$ 37,554</u>

	<u>Balance</u> <u>7/1/18</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/19</u>
Business-Type Activities:				
<u>Capital assets not being depreciated</u>				
Construction in process	\$ 0	\$ 11,461	\$ 0	\$ 11,461
<u>Capital assets being depreciated</u>				
Machinery and equipment	143,939	12,893	0	156,832
Vehicles	10,536	0	0	10,536
Water and sewer plant	<u>3,581,978</u>	<u>0</u>	<u>0</u>	<u>3,581,978</u>
	3,736,453	12,893	0	3,749,347
<u>Accumulated depreciation</u>				
Machinery and equipment	(98,162)	(7,863)	0	(106,025)
Vehicles	(10,536)	0	0	(10,536)
Water and sewer plant	<u>(1,164,273)</u>	<u>(93,048)</u>	<u>0</u>	<u>(1,257,321)</u>
	<u>(1,272,971)</u>	<u>(100,911)</u>	<u>0</u>	<u>(1,373,882)</u>
	<u>\$ 2,463,483</u>	<u>\$ (76,557)</u>	<u>\$ 0</u>	<u>\$ 2,386,925</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

NOTE E - LONG-TERM DEBT

Long-term debt at June 30, 2019 consisted of the following:

Governmental Activities:

Capital outlay note payable in various semiannual installments including interest at 3.25% until maturity in 2020	\$ 3,400
Less current maturities	<u>(3,400)</u>
	<u>\$ 0</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	\$ 299,870
Less current maturities	<u>(6,088)</u>
	<u>\$ 293,782</u>

The net revenue of the water and sewer fund and the taxing authority of the City are pledged for the repayment of the principal and interest maturities.

Maturities of long-term debt as of June 30, 2019 are as follows:

Governmental Activities:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 3,400	\$ 55	\$ 3,455

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

Business-Type Activities:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
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>17,037</u>	<u>411</u>	<u>17,548</u>
	<u>\$ 299,870</u>	<u>\$ 205,487</u>	<u>\$ 505,357</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

NOTES TO THE FINANCIAL STATEMENTS

(continued)

June 30, 2019

Changes in long-term debt for the year ended June 30, 2019 were as follows:

	<u>Balance</u> <u>7/1/18</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/19</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Note payable	\$ 6,700	\$ 0	\$ 3,300	\$ 3,400	\$ 3,400
<u>Business-Type Activities:</u>					
Sewer Revenue and Tax Bond Series 2005	\$ 305,805	\$ 0	\$ 5,935	\$ 299,870	\$ 6,088

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

General government	\$ 164
Water and sewer services	12,821

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 Public Entity Partners 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, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount</u>
<u>Certificate of Deposit</u>			
Commercial Bank #32811	0.30%	9/15/20	\$ 73,946

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

PROPERTY TAXES RECEIVABLE

Year Ended June 30, 2019

<u>Year of Levy</u>	<u>Rate</u>	<u>Total Assessment</u>	<u>Levy</u>	<u>Balance June 30, 2019</u>
2019	.9000	\$ 5,257,381	\$ 47,320	\$ 0
2018	.9000	5,339,015	48,056	48,056
2017	.9000	5,333,137	48,000	2,012
2016	.9000	5,056,082	45,506	516
2015	.4500	4,972,126	22,374	59
2014	.4500	4,946,682	22,261	17
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>\$ 50,917</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>
\$ 47,320	\$ 0	\$ 0	\$ 47,320
	1,193	(44,725)	4,524
0	0	(949)	1,063
0	0	(240)	274
0	0	(17)	42
0	0	0	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>(15)</u>	<u>0</u>	<u>0</u>
<u>\$ 47,320</u>	<u>\$ 1,178</u>	<u>\$ (45,931)</u>	<u>\$ 53,484</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

June 30, 2019

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

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

LONG-TERM DEBT REQUIREMENTS

(continued)

June 30, 2019

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
Sewer Revenue and Tax Bond Series 2005 (continued)			
Year ending June 30,			
2036	12,003	6,753	18,756
2037	12,523	6,233	18,756
2038	13,066	5,690	18,756
2039	13,632	5,124	18,756
2040	14,223	4,533	18,756
2041	14,839	3,917	18,756
2042	15,482	3,274	18,756
2043	16,153	2,603	18,756
2044	16,853	1,903	18,756
2045	17,583	1,173	18,756
2046	17,037	411	17,448
	<u>\$ 299,870</u>	<u>\$ 205,234</u>	<u>\$ 505,104</u>

TOWN OF CUMBERLAND GAP, TENNESSEE

EXPENDITURES OF STATE FINANCIAL ASSISTANCE

Year Ended June 30, 2019

<u>State Grantor/ Pass-Through Grantor</u>	<u>Contract Number</u>	<u>Expenditures</u>
<u>State Awards</u>		
State of Tennessee Department of Health	GG-19-59153-00	<u>\$ 43,183</u>

NOTE 1 - BASIS OF PRESENTATION

This schedule summarizes the expenditures of Town of Cumberland Gap, Tennessee under programs of the state government for the year ended June 30, 2019. The schedule is presented using the modified accrual basis of accounting.

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

UTILITY RATES AND METERED CUSTOMERS

June 30, 2019

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	140
Sewer	328

See the accompanying independent accountants' audit report.



AWWA Free Water Audit Software: Reporting Worksheet

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

Water Audit Report for: **Cumberland Gap (TN0060747)**
Reporting Year: **2019** **7/2018 - 6/2019**

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="7.952"/>		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

	<input type="button" value="+"/> <input type="button" value="?"/> <input type="text" value=""/>	<input type="text" value=""/>		MG/Yr	
	<input type="button" value="+"/> <input type="button" value="?"/> 3	<input type="text" value="1.00%"/>		MG/Yr	
	<input type="button" value="+"/> <input type="button" value="?"/> <input type="text" value=""/>	<input type="text" value=""/>		MG/Yr	

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

WATER SUPPLIED: 7.873 MG/Yr

AUTHORIZED CONSUMPTION

Billed metered:	<input type="button" value="+"/> <input type="button" value="?"/> 9	<input type="text" value="5.792"/>	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="?"/> <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: 5.890 MG/Yr

Click here:
for help using option buttons below

	<input type="text" value="1.25%"/>	<input type="radio"/>	<input type="radio"/>		MG/Yr
--	------------------------------------	-----------------------	-----------------------	--	-------

Use buttons to select percentage of water supplied OR value

	<input type="text" value="0.25%"/>	<input checked="" type="radio"/>	<input type="radio"/>		MG/Yr
--	------------------------------------	----------------------------------	-----------------------	--	-------

	<input type="text" value="9.00%"/>	<input checked="" type="radio"/>	<input type="radio"/>		MG/Yr
	<input type="text" value="0.25%"/>	<input checked="" type="radio"/>	<input type="radio"/>		MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

1.983 MG/Yr

Apparent Losses

Unauthorized consumption: 0.020 MG/Yr

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

Customer metering inaccuracies:	<input type="button" value="+"/> <input type="button" value="?"/> 8	<input type="text" value="0.573"/>	MG/Yr
Systematic data handling errors:	<input type="button" value="+"/> <input type="button" value="?"/> <input type="text" value=""/>	0.014	MG/Yr

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

Apparent Losses: 0.607 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 1.376 MG/Yr

WATER LOSSES: 1.983 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 2.081 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="text" value=""/>	44	conn./mile main

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

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

Average operating pressure: 7 psi

COST DATA

Total annual cost of operating water system:	<input type="button" value="+"/> <input type="button" value="?"/> 10	<input type="text" value="\$89,460"/>	\$/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="\$4,402.56"/>	\$/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,
Copyright © 2014, All Rights Reserved.

Water Audit Report for: **Cumberland Gap (TN0060747)**
Reporting Year: **2019** | **7/2018 - 6/2019**

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

System Attributes:

Apparent Losses:	0.607	MG/Yr
+	Real Losses:	1.376
=	Water Losses:	1.983

? Unavoidable Annual Real Losses (UARL): See limits in definition MG/Yr

Annual cost of Apparent Losses: \$8,625

Annual cost of Real Losses: \$6,057 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: 26.4%
Non-revenue water as percent by cost of operating system: 16.9% Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: 10.80 gallons/connection/day
Real Losses per service connection per day: 24.48 gallons/connection/day
Real Losses per length of main per day*: N/A
Real Losses per service connection per day per psi pressure: 0.31 gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): 1.38 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, 2019

Neal Pucciarelli, Mayor
Susan Bain, Alderwoman
John Douglas, Alderman
Teresa Fuson, Alderwoman
Kathy Maxwell, Alderman
John Ravnum, Alderman
Phillip Waller, Alderman
Linda Moyers, CMFO, City Recorder

See the accompanying independent accountants' audit report.

TOWN OF CUMBERLAND GAP, TENNESSEE

CHANGES IN LONG-TERM DEBT BY INDIVIDUAL ISSUE

June 30, 2019

Description of Indebtedness	Original Amount of Issue	Interest Rate	Date of Issue
Governmental Activities			
<u>Notes Payable</u>			
Capital Outlay Note	<u>\$ 15,805</u>	3.250 %	9/30/2014
Business-Type Activities			
<u>Bonds Payable</u>			
Sewer Revenue and Tax Bond Series 2005	<u>\$ 352,600</u>	4.250 %	8/11/2008

See the accompanying independent accountant's audit report.

<u>Last Maturity Date</u>	<u>Outstanding 7/1/2018</u>	<u>Issued During Period</u>	<u>Paid and/or Matured During Period</u>	<u>Refunded During Period</u>	<u>Outstanding 6/30/2019</u>
9/1/2019	<u>\$ 6,700</u>	<u>\$ 0</u>	<u>\$ 3,300</u>	<u>\$ 0</u>	<u>\$ 3,400</u>
7/11/2046	<u>\$ 305,805</u>	<u>\$ 0</u>	<u>\$ 5,935</u>	<u>\$ 0</u>	<u>\$ 299,870</u>

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, 2019, 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 March 20, 2020.

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 2019-001 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.



March 20, 2020

TOWN OF CUMBERLAND GAP, TENNESSEE

FINDING, RECOMMENDATION AND MANAGEMENT RESPONSE

Year Ended June 30, 2019

Finding Number 2019-001 - 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

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Phone: 423-869-3860
Fax: 423-869-8534
Email: cityhall@townofcumberlandgap.com

MANAGEMENT'S CORRECTIVE ACTION PLAN

Town of Cumberland Gap, Tennessee submits the following corrective action plan for the year ended June 30, 2019. The finding from the June 30, 2019 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 2019-001 - 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.


Linda Moyers, City Recorder, CMFO

TOWN OF CUMBERLAND GAP, TENNESSEE

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

Year Ended June 30, 2019

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/ 2019-001