

TOWN OF GATES, TENNESSEE

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

June 30, 2018

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INTRODUCTORY SECTION

TOWN OF GATES, TENNESSEE
SCHEDULE OF OFFICIALS
June 30, 2018

Mayor and Board of Aldermen

Dwayne Dixon, Mayor
Terry Janda
Jennifer Vaughan
Angelia Dixon
Candace Billings

Rachel Isaak, City Recorder/CMFO

FINANCIAL SECTION



Independent Auditor's Report

Mayor and Board of Aldermen
Town of Gates, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Gates, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town'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 these 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.

Auditor's Responsibility

Our responsibility is to express opinions on these 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. 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 auditor's 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 auditor considers internal control relevant to the entity's 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 the entity's 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 opinions.

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, each major fund, and the aggregate remaining fund information of the Town of Gates, Tennessee, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof, and the budgetary comparisons for the general fund and solid waste 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 management's discussion and analysis on pages 5 through 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 required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The introductory section, supplementary information, and other information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Nonmajor Governmental Funds Statements and Schedules, Schedule of Property Taxes, Schedule of Expenditures of Federal Awards, and Schedule of Utility Rates in Force are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Governmental Funds Statements and Schedules, Schedule of Property Taxes, Schedule of Expenditures of Federal Awards, and Schedule of Utility Rates in Force are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Officials, Water Loss Schedules, and Management's 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.

Mayor and Board of Aldermen
Town of Gates, Tennessee

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019, on our consideration of the Town of Gates's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the Town'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 Gates's internal control over financial reporting and compliance.

Alexander Thompson Arnold PLLC

Union City, Tennessee
January 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Gates, Tennessee, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Gates for the fiscal year ended June 30, 2018.

FINANCIAL HIGHLIGHTS

- The assets of the Town of Gates exceeded liabilities at the close of the most recent fiscal year by \$3,555,112. Of this amount, \$490,423 (unrestricted net position) may be used to meet the government's ongoing obligation to citizens and creditors. The Town's total net position increased by \$36,748.
- For the year ended June 30, 2018, net position attributable to governmental activities decreased \$7,984 and net position attributable to business-type activities increased by \$44,732. In the prior year, governmental activities increased net position by \$105,709 and business-type activities decreased by \$17,523. The prior year governmental increase was mainly in government grant proceeds of \$95,271.
- At June 30, 2018, the Town's governmental funds reported a combined ending fund balance of \$356,155, an increase of \$62,924 in comparison with the prior year. The unassigned fund balance of \$245,982 is available for spending at the government's discretion.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the financial statements and supplementary information. The MD&A represents management's examination and analysis of the Town's financial condition and activities. Summary financial statement data, key financial and operational indicators, budgets, and other management tools were used for this analysis. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary and other information, an introductory section, and an internal control and compliance section in addition to the basic financial statements themselves.

Government-Wide Financial Statements

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

The *Statement of Net Position* presents the financial position of the Town on a full accrual, historical cost basis. The statement of net position provides information on all the Town's assets, liabilities, and deferred inflows/outflows, with the difference 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 government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public

works, and solid waste services. The business-type activities of the Town include the operations of the water and sewer utility.

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 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 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 government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund and Solid Waste Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation for these statements and are also presented separately in a Combining Balance Sheet – Nonmajor Governmental Funds and a Combining Statement of Revenues, Expenditures, and Changes in Fund Balance – Nonmajor Governmental Funds.

The Town adopts an annual appropriations budget for its general, solid waste, state street aid, and drug funds. Budgetary comparison statements have been provided to demonstrate compliance with these budgets.

Proprietary funds – The Town uses one type of proprietary fund, an enterprise fund, to account for its Water and Sewer Fund activities. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The Water and Sewer Fund is considered to be a major fund.

Notes to the Financial Statements

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the government-wide and fund financial statements. The notes present information about the Town's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain statistical and other supplementary information. Schedules of grant activity, property taxes, utility rates, and water production and consumption are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Town of Gates, assets exceeded liabilities and deferred inflows of resources by \$3,555,112 at the close of the most recent fiscal year.

Condensed Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 511,638	\$ 432,526	\$ 319,459	\$ 243,910	\$ 831,097	\$ 676,436
Capital assets	1,196,697	1,278,717	1,715,861	1,711,766	2,912,558	2,990,483
Total assets	<u>1,708,335</u>	<u>1,711,243</u>	<u>2,035,320</u>	<u>1,955,676</u>	<u>3,743,655</u>	<u>3,666,919</u>
Current liabilities	16,659	13,857	53,411	18,499	70,070	32,356
Long-term liabilities	-	-	-	-	-	-
Total liabilities	<u>16,659</u>	<u>13,857</u>	<u>53,411</u>	<u>18,499</u>	<u>70,070</u>	<u>32,356</u>
Deferred inflows of resources	<u>118,473</u>	<u>116,199</u>	<u>-</u>	<u>-</u>	<u>118,473</u>	<u>116,199</u>
Net position:						
Investment in capital assets	1,196,697	1,278,717	1,715,861	1,711,766	2,912,558	2,990,483
Restricted	110,173	94,404	41,958	-	152,131	94,404
Unrestricted	<u>266,333</u>	<u>208,066</u>	<u>224,090</u>	<u>225,411</u>	<u>490,423</u>	<u>433,477</u>
Total net position	<u>\$ 1,573,203</u>	<u>\$ 1,581,187</u>	<u>\$ 1,981,909</u>	<u>\$ 1,937,177</u>	<u>\$ 3,555,112</u>	<u>\$ 3,518,364</u>

At June 30, 2018, the Town is able to report positive balances in all three categories of net position, both for the government as a whole and individually for its governmental and business-type activities. By far the largest portion of the Town's net position (82%) reflects its investment in capital assets (e.g., land, buildings, machinery, utility plant, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Restricted net position represents resources that are subject to external restrictions on how they may be used.

Liabilities increased by \$37,714 due to increased payables related to the water system grant project. Unrestricted cash, including certificates of deposit, increased by \$90,383 for the government as a whole.

The following statement of activities summarizes the revenues and expenses of the Town and compares them to the prior year's activities.

Condensed Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 59,838	\$ 61,251	\$ 199,947	\$ 208,130	\$ 259,785	\$ 269,381
Operating grants and contributions	22,999	19,215	-	-	22,999	19,215
Capital grants and contributions	-	95,271	49,078	-	49,078	95,271
General revenues:						
Taxes	228,216	233,515	-	-	228,216	233,515
Other sources	4,178	9,652	1,224	659	5,402	10,311
Total revenues	<u>315,231</u>	<u>418,904</u>	<u>250,249</u>	<u>208,789</u>	<u>565,480</u>	<u>627,693</u>
Expenses:						
General government	93,866	81,431	-	-	93,866	81,431
Public safety	135,023	128,120	-	-	135,023	128,120
Public works, etc.	94,326	103,644	-	-	94,326	103,644
Water and sewer	-	-	205,517	226,312	205,517	226,312
Total expenses	<u>323,215</u>	<u>313,195</u>	<u>205,517</u>	<u>226,312</u>	<u>528,732</u>	<u>539,507</u>
Increase (decrease) in net position	<u>(7,984)</u>	<u>105,709</u>	<u>44,732</u>	<u>(17,523)</u>	<u>36,748</u>	<u>88,186</u>
Net position - beginning	1,581,187	1,475,478	1,937,177	1,956,613	3,518,364	3,432,091
Prior period adjustment	-	-	-	(1,913)	-	(1,913)
Net position, restated	<u>1,581,187</u>	<u>1,475,478</u>	<u>1,937,177</u>	<u>1,954,700</u>	<u>3,518,364</u>	<u>3,430,178</u>
Net position - ending	<u>\$ 1,573,203</u>	<u>\$ 1,581,187</u>	<u>\$ 1,981,909</u>	<u>\$ 1,937,177</u>	<u>\$ 3,555,112</u>	<u>\$ 3,518,364</u>

Business-type activities increased net position by \$44,732 compared to a decrease in net position of \$17,523 in the prior year. This was mainly attributable to capital grant funds received.

Governmental activities decreased net position by \$7,984 during the current year. While the street department decreased expenses significantly, both general government and public safety had increased expenditures. Professional services increased by \$17,900 in general government expenditures, while salaries increased by \$7,348 in the police department. A reduction in grant revenue in the general fund accounts for the majority of the decrease in revenues.

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, 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 and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of \$356,155, an increase of \$62,924 in comparison with the prior year. Of this amount \$245,982 constitutes unassigned fund balance, which is available for spending at the government's discretion. This portion of fund balance increased \$47,155 from the prior year.

The General Fund is responsible for 76% of the Town's governmental revenues. Therefore, the remainder of this discussion will focus on the General Fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$245,982, an increase of \$47,155 from the prior year. As a measure of the General Fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 133% of total General Fund expenditures.

The largest variance in General Fund revenues from the prior year was the decrease in grant revenue as a result of completing the CDBG grant. Grant expenditures had a corresponding decrease from the prior year. There was a \$7 thousand increase in Police salaries and a significant decrease in supplies due to the purchase of two police cars in the prior year. Street department expenses decreased significantly due to large maintenance expenses and purchase of a new backhoe in the prior year.

When comparing General Fund revenues and expenditures to budgeted amounts, the following significant differences were noted:

- Local tax revenues were under budget by \$10,668.
- Police salaries were under budget by \$19,736.
- Street expenditures were \$9,123 less than budgeted, mainly in salaries and repairs.

Proprietary funds

Unrestricted net position of the Water and Sewer fund at the end of the year was \$224,090, which remained steady from the previous year. Significant expenditures in the Water and Sewer fund consist of payroll, chemicals and plant maintenance supplies, wastewater treatment for the Town of Halls, and depreciation. Payroll decreased from the prior year, chemicals and maintenance supplies remained steady, as did depreciation, and Halls wastewater treatment increased \$3,866. All other expenses decreased from the prior year, resulting in a net decrease in expenditures of \$20,795. Revenue outside of the billing for water and sewer services was related to the CDBG grant revenue received for the water treatment plant improvement project.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets

At the end of fiscal year 2018, the Town had \$2,912,558 (net of accumulated depreciation) invested in a broad range of capital assets. This investment includes land and improvements, general infrastructure, buildings, furniture and equipment, vehicles, and utility plant in service. The following table summarizes the Town's capital assets for the years ended June 30, 2018 and 2017.

	2018	2017	Change
Construction in progress	\$ 53,001	\$ -	\$ 53,001
General capital assets	2,542,576	2,542,576	-
Utility capital assets	3,398,143	3,374,467	23,676
Accumulated depreciation	(3,081,162)	(2,926,560)	(154,602)
Net capital assets	<u>\$ 2,912,558</u>	<u>\$ 2,990,483</u>	<u>\$ (77,925)</u>

See Note 4D to the financial statements for additional detailed pertaining to capital assets.

Long-term debt

The Town had no long-term debt for the fiscal years ended June 30, 2018 or 2017.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Factors considered in preparing the Town's budget for the 2019 fiscal year include the following:

1. United Systems is changing their technology system, so an increase could be added.
2. We are spending more on training and education by sending workers to training classes.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any information provided in this report or requests for any additional information should be directed to the Town of Gates, P.O. Box 129, Gates, Tennessee 38037.

TOWN OF GATES, TENNESSEE
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash in bank	\$ 246,414	\$ 23,188	\$ 269,602
Certificates of deposit	111,346	206,596	317,942
Taxes receivable (net)	138,824	-	138,824
Accounts receivable (net)	-	22,889	22,889
Other taxes receivable	18,407	-	18,407
Grant receivable	-	7,120	7,120
Internal balances	(3,353)	3,353	-
Inventory	-	14,075	14,075
Other assets	-	280	280
Total current assets	511,638	277,501	789,139
Noncurrent assets			
Restricted cash	-	41,958	41,958
Capital assets not being depreciated:			
Land and improvements	-	15,000	15,000
Construction in progress	-	53,001	53,001
Capital assets, net of accumulated depreciation:			
General infrastructure	234,331	-	234,331
Buildings	836,078	-	836,078
Machinery and equipment	41,813	696	42,509
Vehicles	84,475	-	84,475
Utility plant in service	-	1,647,164	1,647,164
Total noncurrent assets	1,196,697	1,757,819	2,954,516
Total assets	1,708,335	2,035,320	3,743,655
Liabilities			
Accounts payable	2,323	33,502	35,825
Accrued payroll	14,336	-	14,336
Other accrued liabilities	-	1,811	1,811
Customer deposits	-	18,098	18,098
Total liabilities	16,659	53,411	70,070
Deferred Inflows of Resources			
Deferred property taxes	118,473	-	118,473
Net Position			
Investment in capital assets	1,196,697	1,715,861	2,912,558
Restricted for			
Drug fund	4,245	-	4,245
Solid waste fund	88,444	-	88,444
State street aid	17,484	-	17,484
Water system improvements	-	41,958	41,958
Unrestricted	266,333	224,090	490,423
Total net position	\$ 1,573,203	\$ 1,981,909	\$ 3,555,112

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses)/Revenues and Changes in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 93,866	\$ 7,160	\$ -	\$ -	\$ (86,706)	\$ -	\$ (86,706)
Public safety	135,023	2,850	-	-	(132,173)	-	(132,173)
Public works	<u>94,326</u>	<u>49,828</u>	<u>22,999</u>	-	<u>(21,499)</u>	-	<u>(21,499)</u>
Total governmental activities	323,215	59,838	22,999	-	(240,378)	-	(240,378)
Business-type activities:							
Water and sewer	<u>205,517</u>	<u>199,947</u>	-	<u>49,078</u>	-	<u>43,508</u>	<u>43,508</u>
Total	<u>\$ 528,732</u>	<u>\$ 259,785</u>	<u>\$ 22,999</u>	<u>\$ 49,078</u>	\$ (240,378)	\$ 43,508	\$ (196,870)

General Revenues

Property taxes and interest/penalties	116,386	-	116,386
Payments in lieu of taxes	12,154	-	12,154
Local county sales taxes	12,591	-	12,591
State sales tax	55,140	-	55,140
Wholesale and state beer taxes	19,588	-	19,588
Cable TV franchise taxes	5,626	-	5,626
State income and excise taxes	6,455	-	6,455
Telecommunications sales tax	276	-	276
Interest	774	1,224	1,998
Gain on sale of vehicles	1,950	-	1,950
Miscellaneous	<u>1,454</u>	-	<u>1,454</u>
Total	<u>232,394</u>	<u>1,224</u>	<u>233,618</u>

Change in net position

	(7,984)	44,732	36,748
Net position - beginning	<u>1,581,187</u>	<u>1,937,177</u>	<u>3,518,364</u>
Net position - ending	<u>\$ 1,573,203</u>	<u>\$ 1,981,909</u>	<u>\$ 3,555,112</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2018

	Major Funds		Total	Total
	General Fund	Solid Waste	Nonmajor Funds	Governmental Funds
Assets				
Unrestricted assets				
Cash in banks	\$ 140,276	\$ 88,220	\$ 17,918	\$ 246,414
Certificates of deposit	111,346	-	-	111,346
Property taxes receivable, net	138,824	-	-	138,824
Other taxes receivable	14,596	-	3,811	18,407
Due from other funds	-	224	-	224
Total assets	<u>\$ 405,042</u>	<u>\$ 88,444</u>	<u>\$ 21,729</u>	<u>\$ 515,215</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 2,323	\$ -	\$ -	\$ 2,323
Accrued payroll	14,336	-	-	14,336
Due to other funds	3,577	-	-	3,577
Total liabilities	20,236	-	-	20,236
Deferred Inflows of Resources				
Unavailable property tax revenue	138,824	-		138,824
Fund Balances				
Restricted				
State Street Aid	-	-	17,484	17,484
Drug	-	-	4,245	4,245
Solid Waste	-	88,444	-	88,444
Unassigned	245,982	-	-	245,982
Total fund balances	<u>245,982</u>	<u>88,444</u>	<u>21,729</u>	<u>356,155</u>
Total liabilities and fund balances	<u>\$ 405,042</u>	<u>\$ 88,444</u>	<u>\$ 21,729</u>	<u>\$ 515,215</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
June 30, 2018

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance of governmental funds	\$ 356,155
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,196,697
Revenue from receivables that do not provide current financial resources are deferred in the funds.	<u>20,351</u>
Net position of governmental activities	<u>\$ 1,573,203</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2018

	<u>General Fund</u>	<u>Solid Waste</u>	<u>Nonmajor Funds</u>	<u>Total Governmental Funds</u>
Revenues				
Local taxes	\$ 154,932	\$ -	\$ -	\$ 154,932
Intergovernmental revenue	63,475	-	21,697	85,172
Licenses and permits	760	-	-	760
Charges for services	6,400	49,828	-	56,228
Fines, forfeitures and penalties	2,850	-	-	2,850
Other revenues	4,164	-	14	4,178
Total revenues	<u>232,581</u>	<u>49,828</u>	<u>21,711</u>	<u>304,120</u>
Expenditures				
Current				
General government	79,163	-	-	79,163
Police administration	58,728	-	-	58,728
Fire administration	11,988	-	-	11,988
Public works	<u>35,547</u>	<u>40,525</u>	<u>15,245</u>	<u>91,317</u>
Total expenditures	<u>185,426</u>	<u>40,525</u>	<u>15,245</u>	<u>241,196</u>
Net change in fund balance	47,155	9,303	6,466	62,924
Fund balance - beginning of year	<u>198,827</u>	<u>79,141</u>	<u>15,263</u>	<u>293,231</u>
Fund balance - end of year	<u>\$ 245,982</u>	<u>\$ 88,444</u>	<u>\$ 21,729</u>	<u>\$ 356,155</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances of governmental funds	\$ 62,924
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. This is the amount by which depreciation exceeded capital outlay in the current period.	(82,019)
Revenues in the statement of activities that do not provide current financial resources are deferred in the funds.	<u>11,111</u>
Change in net position of governmental activities	<u><u>\$ (7,984)</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Local taxes				
Property taxes	\$ 110,000	\$ 110,000	\$ 103,444	\$ (6,556)
Interest and penalties	3,500	3,500	1,831	(1,669)
Local utilities in lieu of tax	3,500	3,500	4,817	1,317
TVA in lieu of tax	7,500	7,500	7,337	(163)
Local county sales tax	16,000	16,000	12,591	(3,409)
Wholesale beer tax	20,000	20,000	19,286	(714)
Cable TV franchise tax	<u>5,100</u>	<u>5,100</u>	<u>5,626</u>	<u>526</u>
Total local taxes	165,600	165,600	154,932	(10,668)
Intergovernmental revenues				
State sales tax	51,000	51,000	55,140	4,140
State telecommunications tax	50	50	276	226
State income tax	1,500	1,500	844	(656)
State beer tax	350	350	302	(48)
State excise tax	4,600	4,600	5,611	1,011
Petroleum special	<u>1,300</u>	<u>1,300</u>	<u>1,302</u>	<u>2</u>
Total intergovernmental revenues	58,800	58,800	63,475	4,675
Charges for services				
Fire calls	300	300	-	(300)
Rent income	<u>5,000</u>	<u>5,000</u>	<u>6,400</u>	<u>1,400</u>
Total charges for services	5,300	5,300	6,400	1,100
Fines, forfeitures and penalties				
Police fines	5,000	5,000	2,850	(2,150)
Other revenues				
Building permits	200	200	60	(140)
Beer permits	200	200	700	500
Interest income	200	200	760	560
Miscellaneous income	<u>8,000</u>	<u>8,000</u>	<u>3,404</u>	<u>(4,596)</u>
Total other revenues	<u>8,600</u>	<u>8,600</u>	<u>4,924</u>	<u>(3,676)</u>
Total revenues	<u>243,300</u>	<u>243,300</u>	<u>232,581</u>	<u>(10,719)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Expenditures				
General government				
Salaries and wages	32,800	32,800	30,227	(2,573)
Payroll taxes	2,800	2,800	2,525	(275)
Postage	350	350	625	275
Publicity and advertisements	775	775	735	(40)
Dues and subscriptions	3,425	3,425	3,422	(3)
Office supplies and expense	9,800	9,800	11,251	1,451
Utilities and telephone	5,600	5,600	4,042	(1,558)
Professional services	10,000	10,000	18,150	8,150
Repair and maintenance	5,500	5,500	195	(5,305)
Insurance	4,175	4,175	1,809	(2,366)
Community center	3,700	3,700	3,828	128
Aldermen fees	2,400	2,400	2,350	(50)
Other expense	25	25	4	(21)
Total general government	<u>81,350</u>	<u>81,350</u>	<u>79,163</u>	<u>(2,187)</u>
Police administration				
Salaries and wages	55,000	55,000	35,264	(19,736)
Payroll taxes	4,200	4,200	2,763	(1,437)
Utilities and telephone	500	500	585	85
Gas and oil	3,000	3,000	2,489	(511)
Repair and maintenance	3,000	3,000	515	(2,485)
Insurance	8,000	8,000	6,283	(1,717)
Uniforms and supplies	1,000	1,000	2,363	1,363
Professional services	600	600	966	366
Judge	1,500	1,500	1,500	-
Contracted services	6,000	6,000	6,000	-
Total police administration	<u>82,800</u>	<u>82,800</u>	<u>58,728</u>	<u>(24,072)</u>
Fire administration				
Salaries and wages	3,500	3,500	3,405	(95)
Payroll taxes	300	300	261	(39)
Utilities and telephone	1,200	1,200	1,053	(147)
Gas and oil	1,100	1,100	281	(819)
Repairs and maintenance	1,500	1,500	1,645	145
Insurance	5,000	5,000	4,882	(118)
Supplies	3,000	3,000	461	(2,539)
Total fire administration	<u>15,600</u>	<u>15,600</u>	<u>11,988</u>	<u>(3,612)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Highways, streets and roads				
Salaries and wages	30,000	30,000	23,338	(6,662)
Payroll taxes	1,800	1,800	1,816	16
Supplies	2,100	2,100	2,501	401
Repairs and maintenance	6,120	6,120	2,312	(3,808)
Gas and oil	750	750	1,504	754
Insurance	3,600	3,600	2,816	(784)
Contract labor	300	300	1,260	960
Total highways, streets and roads	<u>44,670</u>	<u>44,670</u>	<u>35,547</u>	<u>(9,123)</u>
 Total expenditures	 <u>224,420</u>	 <u>224,420</u>	 <u>185,426</u>	 <u>(38,994)</u>
 Revenues over expenditures	 18,880	 18,880	 47,155	 28,275
 Fund balance - July 1, 2017	 <u>198,827</u>	 <u>198,827</u>	 <u>198,827</u>	 <u>-</u>
 Fund balance - June 30, 2018	 <u>\$ 217,707</u>	 <u>\$ 217,707</u>	 <u>\$ 245,982</u>	 <u>\$ 28,275</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
SOLID WASTE FUND

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Garbage collection	\$ 51,200	\$ 51,200	\$ 49,828	\$ (1,372)
Expenditures				
Contract services	200	200	-	(200)
Salaries and payroll taxes	18,400	18,400	21,292	2,892
Repair and maintenance	1,000	1,000	3,518	2,518
Gas and oil	5,000	5,000	2,360	(2,640)
Operating supplies	50	50	471	421
Insurance	1,700	1,700	1,797	97
Landfill services	13,000	13,000	11,087	(1,913)
Total expenditures	<u>39,350</u>	<u>39,350</u>	<u>40,525</u>	<u>1,175</u>
Revenues over expenditures	11,850	11,850	9,303	(2,547)
Fund balance - July 1, 2017	<u>79,141</u>	<u>79,141</u>	<u>79,141</u>	<u>-</u>
Fund balance - June 30, 2018	<u>\$ 90,991</u>	<u>\$ 90,991</u>	<u>\$ 88,444</u>	<u>\$ (2,547)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF NET POSITION
WATER AND SEWER FUND
June 30, 2018

Assets

Current assets

Cash in bank	\$	23,188
Certificates of deposit		206,596
Accounts receivable (net)		22,889
Due from other funds		3,353
Grant receivable		7,120
Inventory		14,075
Other assets		<u>280</u>
Total current assets		277,501

Noncurrent assets

Restricted assets

Cash and cash equivalents		41,958
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Capital assets (not being depreciated):

Land and improvements	\$ 15,000	
Construction in process		53,001

Capital assets (net of accumulated depreciation):

Equipment		696
Utility plant and improvements		<u>1,647,164</u>
Total capital assets		<u>1,715,861</u>

Total assets		2,035,320
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Liabilities

Current liabilities

Sales tax payable	1,811	
Accounts payable		33,502
Customer deposits		<u>18,098</u>
Total current liabilities		<u>53,411</u>

Net Position

Investment in capital assets	1,715,861	
Restricted for water system improvements		41,958
Unrestricted		<u>224,090</u>
Total net position		<u>\$ 1,981,909</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
WATER AND SEWER FUND
For the Year Ended June 30, 2018

Operating revenues		
Metered water and sewer sales	\$	189,595
Penalties - water and sewer		5,464
Connection fees		4,675
Miscellaneous		<u>213</u>
Total revenues		199,947
Operating expenses		
Salaries and payroll taxes	\$	59,573
Utilities		9,827
Repair and maintenance		975
Operating supplies		(1,660)
Postage		917
Insurance		8,477
Chemicals and plant maintenance supplies		14,660
Wastewater treatment - Town of Halls		29,827
Water tank maintenance		8,196
Depreciation		72,582
Professional services		1,927
Publicity and advertising		<u>216</u>
Total operating expenses		<u>205,517</u>
Operating income (loss)		(5,570)
Non-operating revenues (expenses)		
Interest income		<u>1,224</u>
Income (loss) before capital contributions		(4,346)
Capital contributions		
Grant income		<u>49,078</u>
Change in net position		44,732
Net position - July 1, 2017		<u>1,937,177</u>
Net position - June 30, 2018		<u>\$ 1,981,909</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
STATEMENT OF CASH FLOWS
WATER AND SEWER FUND
For the Year Ended June 30, 2018

Cash flows from operating activities

Cash received from customers		\$ 205,174
Cash payments to suppliers		(130,077)
Cash payments to employees for services		<u>(59,573)</u>
Net cash provided by operating activities		15,524

Cash flows from capital and related financing activities

Purchase of capital assets	\$ (76,677)	
Capital grant proceeds	<u>41,958</u>	
Net cash used by capital and related financing activities		(34,719)

Cash flows from investing activities

Interest reinvested in certificates of deposit	(1,028)	
Interest received	<u>1,224</u>	
Net cash provided by non-capital financing activities		<u>196</u>

Net increase in cash and cash equivalents

(18,999)

Cash and cash equivalents - July 1, 2017		<u>84,145</u>
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Cash and cash equivalents - June 30, 2018		<u>\$ 65,146</u>
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Cash is reported in the statement of net position as follows:

Cash in bank	\$ 23,188	
Restricted cash	<u>41,958</u>	
	<u>\$ 65,146</u>	

Cash flows from operating activities

Operating income (loss)		\$ (5,570)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	\$ 72,582	
Decrease in accounts receivable	4,707	
Increase in inventory	(5,615)	
Increase in accounts payable and other liabilities	34,392	
Increase in other assets	(280)	
Decrease in due to other funds	(85,212)	
Increase in customer deposits	<u>520</u>	
Total adjustments		<u>21,094</u>
Net cash provided by operating activities		<u>\$ 15,524</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Gates, Tennessee, is a municipal corporation that operates under a Mayor–Board of Aldermen form of government and provides the following services to its citizens: public safety (police and fire), highways and streets, sanitation services, water and sewer services, and general administrative services.

The financial statements of the Town have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Town are described below.

A. Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. There are no component units that should be included in the Town's reporting entity according to the criteria for including organizations as component units as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, 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 revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) 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 revenues are reported instead as general revenues.

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.

C. Measurement Focus, Basis of Accounting, and Financial Statement 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. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In general, taxes, licenses, federal and state grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The General Fund is the government'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 Solid Waste Fund accounts for revenues and expenditures attributable to sanitation services provided to citizens.

The Town reports the following major proprietary fund:

The Water and Sewer Fund accounts for the activities associated with the Town's water distribution system and the collection, transportation, treatment, and disposal of wastewater.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of tax and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations. The principle operating revenue of the water and sewer fund is charges to customers for sales and services. The water and sewer fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the systems. Utility funds recognize income based on cycle billings. This results in recognizing as income the usage through each respective cycle each month, which may not coincide with the last day of the fiscal year. Non-recognition of income from sales as a result of cycle billing is a common industry practice. Operating expenses for the water and sewer fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

D. Assets, Liabilities and Net Position/Fund Balance

Deposits and Investments

The Town's cash and cash equivalents consist of demand deposit accounts and petty cash funds.

State statutes authorize the Town to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. Government or its agencies, repurchase agreements and the State's investment pool.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Accounts receivable result from unpaid billings for water and sewer service to customers. The Water and Sewer Fund records an allowance to account for estimated uncollectible accounts. The allowance had a balance of \$1,384 at June 30, 2018.

The Town's property tax rate as of June 30, 2018, is \$2.0586 per \$100 of assessed valuation. The Town bills and collects its own property taxes, and tax revenues are recognized when levied to the extent that they result in current receivables. The Town reports its property tax receivable net of an allowance for doubtful accounts, which was \$3,272 at June 30, 2018. Property taxes attach as an enforceable lien on property on January 1st and are levied on October 1st of each year. Notices are mailed in October and are due and payable from then until February 28th or 29th of the following year. After this date, taxes are considered delinquent if not paid.

Inventory

The Water and Sewer Fund takes a physical inventory at fiscal year-end, which is recorded at cost using the first-in/first-out (FIFO) method.

Capital Assets

Capital assets, including property, utility plant, vehicles, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) and construction in progress are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. The Town's policy is to define capital assets as items with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. There were no interest costs capitalized during the current year.

Capital assets of the Town are depreciated using the straight-line method over the following useful lives:

Buildings	15 – 40 years	Vehicles	5 – 7 years
Improvements	5 – 15 years	Utility plant	50 years
Furniture and equipment	5 – 20 years	Utility equipment	5 – 10 years

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Compensated Absences

The Town provides paid vacation annually for employees with at least one year of service. Employees who have between one and three years of service are entitled to five working days paid vacation. Employees who have completed three years of service are entitled to ten working days paid vacation. Employees with over 10 years of service are allowed fifteen days paid vacation. The Town's sick leave policy states that employees with one year of service are entitled to five days of sick leave per year to be used within the following year. Unused sick and vacation time cannot be carried over and used in subsequent periods. Therefore, no accrual for compensated absences has been recorded.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applied to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town had no deferred outflows as of June 30, 2018.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Property taxes reported as receivables in the statements of financial position before the period for which they were levied are deferred and recognized as an inflow of resources in the period that the amounts become available. This item is reported as deferred inflows in both the governmental funds balance sheet and the statement of net position. Taxes not collected within the Town's availability period are also deferred in the governmental funds balance sheet.

Fund Balances

In the governmental fund financial statements, fund balances may be classified as follows:

- Nonspendable – amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted – amounts that can be spent only for specific purposes due to limitations imposed by creditors, grantors, or contributors or by enabling legislation or constitutional provisions.
- Committed – amounts that can be used only for specific purposes determined by a formal action of the Board by ordinance; removed by same action.
- Assigned – amounts that are designated by the Board for a particular purpose through a majority vote of board members.
- Unassigned – all amounts in the general fund not included in other spendable classifications.

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Town's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the Town's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications – committed and then assigned fund balances before using unassigned fund balances.

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position

The financial statements include a reconciliation between *fund balances – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The details of the \$1,196,697 difference are as follows:

Governmental funds capital assets	\$ 2,542,576
Less accumulated depreciation	<u>(1,345,879)</u>
Net adjustment	<u>\$ 1,196,697</u>

Another element of that reconciliation states that revenue from receivables that do not provide current financial resources are deferred in the funds. As of June 30, 2018, delinquent property taxes receivable of \$20,351 were not collected within the Town’s availability period and, therefore, were deferred in the General Fund balance sheet.

B. Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

The financial statements include a reconciliation between *net change in fund balances – total governmental funds* and *change in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation states that 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. The details of the \$82,019 difference are as follows:

Capital assets purchased	\$ -
Depreciation expense	<u>(82,019)</u>
Net adjustment	<u>\$ (82,019)</u>

Another element of that reconciliation states that revenues in the statement of activities that do not provide current financial resources are deferred in the fund statements. The details of the \$11,111 difference are as follows:

Deferred property tax revenue in the current year	\$ 20,351
Deferred property tax revenue in the prior year	<u>(9,240)</u>
Net adjustment	<u>\$ 11,111</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Town is required by state law to adopt annual budgets for the general fund and all special revenue funds. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen. The Town’s policy is not to allow expenditures to exceed budgetary amounts at the fund level, which is the legal level of control set by the Board. For the year ended June 30, 2018, the Solid Waste Fund had expenditures of \$1,175 in excess of budget appropriations.

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

NOTE 4 – DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2018, the Town’s only investments were non-negotiable certificates of deposit at local banks, which do not meet the definition of investments for purposes of investment risk disclosures.

Custodial Credit Risk – The Town’s policies limit deposits and investments to those instruments allowed by applicable state laws as described in Note 1. State statute requires that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be insured or collateralized by federal depository insurance, the Tennessee Bank Collateral Pool, or by eligible collateral held by the Town or by the Town’s agent in the Town’s name. As of June 30, 2018, all deposits were adequately insured or collateralized.

B. Interfund Receivables, Payables, and Transfers

As of June 30, 2018, the following amounts were due to/from the Town’s individual funds:

Receivable	Payable	Amount
Water and Sewer Fund	General Fund	\$ 3,353
Solid Waste Fund	General Fund	224
		\$ 3,577

The outstanding balances are the result of shared expenses between funds. The Town expects these balances to be repaid within the next fiscal year.

C. Capital Assets

Changes in capital assets in governmental activities for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, being depreciated				
Buildings	\$ 1,871,206	\$ -	\$ -	\$ 1,871,206
Infrastructure	256,399	-	-	256,399
Equipment, furniture and fixtures	141,338	-	-	141,338
Vehicles	273,633	-	-	273,633
Total capital assets being depreciated	2,542,576	-	-	2,542,576
Less accumulated depreciation for:				
Buildings	1,003,304	31,826	-	1,035,130
Infrastructure	11,810	10,256	-	22,066
Equipment, furniture and fixtures	89,888	9,637	-	99,525
Vehicles	158,858	30,300	-	189,158
Total accumulated depreciation	1,263,860	82,019	-	1,345,879
Net capital assets being depreciated	1,278,716	(82,019)	-	1,196,697
Governmental activities, net	\$ 1,278,716	\$ (82,019)	\$ -	\$ 1,196,697

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

Changes in capital assets in business-type activities is presented below:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated				
Land	\$ 15,000	\$ -	\$ -	\$ 15,000
Construction in progress	-	53,001	-	53,001
Total not being depreciated	<u>15,000</u>	<u>53,001</u>	<u>-</u>	<u>68,001</u>
Capital assets, being depreciated				
Utility plant	3,232,569	23,676	-	3,256,245
Equipment	126,898	-	-	126,898
Total being depreciated	<u>3,359,467</u>	<u>23,676</u>	<u>-</u>	<u>3,383,143</u>
Less accumulated depreciation for:				
Utility plant	1,536,684	72,397	-	1,609,081
Equipment	126,017	185	-	126,202
Total accumulated depreciation	<u>1,662,701</u>	<u>72,582</u>	<u>-</u>	<u>1,735,283</u>
Net capital assets, being depreciated	<u>1,696,766</u>	<u>(48,906)</u>	<u>-</u>	<u>1,647,860</u>
Business-type activities net	<u>\$ 1,711,766</u>	<u>\$ 4,095</u>	<u>\$ -</u>	<u>\$ 1,715,861</u>

Depreciation expense was charged to functions/programs of governmental activities as follows:

General government	\$ 14,703
Public safety	64,307
Public works	3,009
Total	<u>\$ 82,019</u>

D. Wastewater Agreement

The Town of Gates entered into an agreement with the Town of Halls, Tennessee, for wastewater treatment services on March 14, 1978. Gates will pay a treatment charge monthly to Halls, calculated as a pro rata share of the actual total cost of wastewater treatment at Halls' wastewater treatment plant. Total cost shall include all direct costs of operation and maintenance plus indirect or administrative costs calculated at 15% of direct costs. The pro rata share shall be based on gallons of wastewater treated from the Gates system. Gates will make equal monthly payments based on the first month's expenses and at the completion of 12 months of operation, any balance or deficit between actual operation expenses and the equal monthly payments made will be paid or credited. Gates will also pay to Halls a monthly maintenance charge for work done by Halls to the Gates pump station and interceptor. The term of this agreement is contemplated to be perpetual unless terminated by mutual consent.

NOTE 5 – OTHER INFORMATION

Risk Management

The Town is exposed to various risks related to general liability, officers'/director's omissions and public official's liability, automobile liability, property and casualty losses, electronic data processing, employee

TOWN OF GATES, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

fidelity and related risks, and workers' compensation. To cover these risks, the Town has joined the TML Pool, a member owned insurance pool providing insurance services to public entities in Tennessee. Rates are determined based on the pool's membership. Settlements have not exceeded insurance coverage in any of the prior three years.

SUPPLEMENTARY AND OTHER INFORMATION SECTION

TOWN OF GATES, TENNESSEE
COMBINING NONMAJOR GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2018

	<u>State Street Aid</u>	<u>Drug Fund</u>	<u>Total Nonmajor Funds</u>
Assets			
Cash in banks	\$ 13,673	\$ 4,245	\$ 17,918
Other taxes receivable	<u>3,811</u>	<u>-</u>	<u>3,811</u>
Total assets	<u>\$ 17,484</u>	<u>\$ 4,245</u>	<u>\$ 21,729</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ -	\$ -	\$ -
Fund Balances			
Restricted for:			
State Street Aid expenditures	17,484	-	17,484
Drug programs	<u>-</u>	<u>4,245</u>	<u>4,245</u>
Total fund balances	<u>17,484</u>	<u>4,245</u>	<u>21,729</u>
Total liabilities and fund balances	<u>\$ 17,484</u>	<u>\$ 4,245</u>	<u>\$ 21,729</u>

See independent auditor's report

TOWN OF GATES, TENNESSEE
COMBINING STATEMENT OF NONMAJOR GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE
For the Year Ended June 30, 2018

	<u>State Street Aid</u>	<u>Drug Fund</u>	<u>Total Nonmajor Funds</u>
Revenues			
Intergovernmental revenue	\$ 21,697	\$ -	\$ 21,697
Other revenues	<u>10</u>	<u>4</u>	<u>14</u>
Total revenues	21,707	4	21,711
Expenditures			
Public works	<u>15,245</u>	<u>-</u>	<u>15,245</u>
Net change in fund balance	6,462	4	6,466
Fund balance - beginning of year	<u>11,022</u>	<u>4,241</u>	<u>15,263</u>
Fund balance - end of year	<u>\$ 17,484</u>	<u>\$ 4,245</u>	<u>\$ 21,729</u>

See independent auditor's report

TOWN OF GATES, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
STATE STREET AID FUND

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Gasoline and motor fuel tax	\$ 12,000	\$ 12,000	\$ 12,413	\$ 413
Gas 3 Cent	5,500	5,500	3,673	(1,827)
Gas 1989	-	-	1,976	1,976
Gas 2017	-	-	3,635	3,635
Interest income	5	5	10	5
Total revenues	<u>17,505</u>	<u>17,505</u>	<u>21,707</u>	<u>4,202</u>
Expenditures				
Utilities	<u>17,505</u>	<u>17,505</u>	<u>15,245</u>	<u>(2,260)</u>
Revenues over expenditures	-	-	6,462	6,462
Fund balance - July 1, 2017	<u>11,022</u>	<u>11,022</u>	<u>11,022</u>	-
Fund balance - June 30, 2018	<u>\$ 11,022</u>	<u>\$ 11,022</u>	<u>\$ 17,484</u>	<u>\$ 6,462</u>

See independent auditor's report

TOWN OF GATES, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
DRUG FUND

For the Year Ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Over (Under)</u>
Revenues				
Fines, forfeitures and penalties	\$ -	\$ -	\$ -	\$ -
Interest income	-	-	4	4
Total revenues	-	-	4	4
Expenditures				
Operating supplies	-	-	-	-
Revenues over expenditures	-	-	4	4
Fund balance - July 1, 2017	<u>325</u>	<u>325</u>	<u>4,241</u>	<u>3,916</u>
Fund balance - June 30, 2018	<u>\$ 325</u>	<u>\$ 325</u>	<u>\$ 4,245</u>	<u>\$ 3,920</u>

See independent auditor's report

**TOWN OF GATES, TENNESSEE
SCHEDULE OF PROPERTY TAXES**

June 30, 2018

<u>Year of Levy</u>	<u>Balance July 1, 2017</u>	<u>Assessments/ Adjustments</u>	<u>Collections</u>	<u>Balance June 30, 2018</u>
2018	\$ -	\$ 118,473	\$ -	\$ 118,473
2017	116,199	-	95,848	20,351
2016	9,614	-	6,342	3,272
2015	<u>2,037</u>	<u>-</u>	<u>2,037</u>	<u>-</u>
Total	<u>\$ 127,850</u>	<u>\$ 118,473</u>	<u>\$ 104,227</u>	142,096
				Allowance for uncollectible accounts <u>(3,272)</u>
				<u>\$ 138,824</u>

<u>Year of Levy</u>	<u>Assessed Valuation</u>	<u>Tax Rate Per \$100</u>	<u>Ad Valorem Assessment</u>	<u>Total Assessment</u>
2018	\$ 4,987,001	\$2.0586	\$ 15,811	\$118,473
2017	\$ 4,875,985	\$2.0586	\$ 15,822	\$116,199
2016		\$2.06		\$97,068
2015		\$1.87		\$94,982
2014		\$1.87		\$95,327
2013		\$1.87		\$94,952
2012		\$1.87		\$88,495
2011		\$1.85		\$85,153
2010		\$1.85		\$83,806
2009		\$1.85		\$82,583
2008		\$1.85		\$80,672

See independent auditor's report

TOWN OF GATES, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2018

<u>Grantor Agency/ Pass-through Agency/ Program Name</u>	<u>CFDA #</u>	<u>Pass-through Entity Identifying Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development/ Tennessee Department of Economic and Community Development/ CDBG Water System Improvement Grant	14.228	33004-56217	\$ <u>49,078</u>
Total federal awards			\$ <u><u>49,078</u></u>

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Town of Gates under programs of the federal government for the year ended 6/30/18. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Gates, it is not intended to and does not present the net position or fund balance, changes in net position or fund balance, or cash flows, where applicable, of the Town of Gates.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Town of Gates has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

TOWN OF GATES, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE
June 30, 2018

WATER RATES - 266 customers

0 to 2,500 gallons	\$20.55	minimum charge
Over 2,500 gallons	\$0.633	per 100 gallons

SEWER RATES - 253 customers

0 to 2,500 gallons	\$20.55	minimum charge
Over 2,500 gallons	\$0.633	per 100 gallons


SANITATION RATES - 266 customers

\$15.00 per month for residential service
\$16.00 per month for commercial service

TOWN OF GATES, TENNESSEE

WATER LOSS SCHEDULES - UNAUDITED

For the Year Ended June 30, 2018



AWWA Free Water Audit Software:
Reporting Worksheet

WAS v6.0
American Water Works Association.
Copyright © 2014, All Rights Reserved.

? [Click to access definition](#)

+ [Click to add a comment](#)

Water Audit Report for: Gates Water System (0000255)

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.

WATER SUPPLIED

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

Volume from own sources:	+	?	5	18.006	MG/Yr		+	?	7	-1.00%		
Water imported:	+	?	n/a	0.000	MG/Yr		+	?	7	-1.00%		
Water exported:	+	?	n/a	0.000	MG/Yr		+	?	7	-1.00%		

WATER SUPPLIED: 18.188 MG/Yr

Master Meter and Supply Error Adjustments

Pcnt: -1.00% Value: 1.420 MG/Yr

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

AUTHORIZED CONSUMPTION

Billed metered:	+	?	9	12.212	MG/Yr		+	?	7	1.25%		
Billed unmetered:	+	?	n/a	0.000	MG/Yr		+	?	7	1.25%		
Unbilled metered:	+	?	n/a	0.000	MG/Yr		+	?	7	1.25%		
Unbilled unmetered:	+	?	7	0.227	MG/Yr		+	?	7	1.25%		

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

AUTHORIZED CONSUMPTION: 12.439 MG/Yr

Click here: ?
for help using option
buttons below

Pcnt: 1.25% Value: 1.420 MG/Yr

Use buttons to select
percentage of water
supplied
OR
value

WATER LOSSES (Water Supplied - Authorized Consumption)

5.749 MG/Yr

Apparent Losses

Unauthorized consumption:	+	?	10	0.045	MG/Yr		+	?	7	0.25%		
---------------------------	---	---	----	-------	-------	--	---	---	---	-------	--	--

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

Customer metering inaccuracies:	+	?	8	0.249	MG/Yr		+	?	7	2.00%		
Systematic data handling errors:	+	?	5	0.031	MG/Yr		+	?	7	2.00%		

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

Apparent Losses: 0.325 MG/Yr

Pcnt: 0.25% Value: 1.420 MG/Yr

Pcnt: 2.00% Value: 1.420 MG/Yr

Pcnt: 0.25% Value: 1.420 MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: 5.423 MG/Yr

WATER LOSSES: 5.749 MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: 5.976 MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

Length of mains:	+	?	7	5.0	miles		+	?	7	0.25%		
Number of <u>active AND inactive</u> service connections:	+	?	9	300			+	?	7	0.25%		
Service connection density:		?	60	60	conn./mile main				60	60		

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

Average length of customer service line: 0 ft

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

Average operating pressure:	+	?	9	55.0	psi		+	?	9	55.0		
-----------------------------	---	---	---	------	-----	--	---	---	---	------	--	--

COST DATA

Total annual cost of operating water system:	+	?	9	\$116,841	\$/Year		+	?	9	\$12.66	\$/1000 gallons (US)	
Customer retail unit cost (applied to Apparent Losses):	+	?	9	\$12.66			+	?	9	\$1,126.05	\$/Million gallons	
Variable production cost (applied to Real Losses):	+	?	9	\$1,126.05			+	?	9	\$1,126.05		<input type="checkbox"/> Use Customer Retail Unit Cost to value real losses

WATER AUDIT DATA VALIDITY SCORE:

*** YOUR SCORE IS: 70 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: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

See independent auditor's report
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TOWN OF GATES, TENNESSEE

WATER LOSS SCHEDULES - UNAUDITED

For the Year Ended June 30, 2018

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: <input type="text" value="Gates Water System (0000255)"/>														
Reporting Year: <input type="text" value="2018"/> <input type="text" value="7/2017 - 6/2018"/>														
*** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 70 out of 100 ***														
System Attributes:														
	Apparent Losses:	<input type="text" value="0.325"/> MG/Yr												
	+ Real Losses:	<input type="text" value="5.423"/> MG/Yr												
	= Water Losses:	<input type="text" value="5.749"/> MG/Yr												
	? Unavoidable Annual Real Losses (UARL):	<input type="text" value="See limits in definition"/> MG/Yr												
	Annual cost of Apparent Losses:	<input type="text" value="\$4,117"/>												
	Annual cost of Real Losses:	<input type="text" value="\$6,107"/> Valued at Variable Production Cost												
		Return to Reporting Worksheet to change this assumption												
Performance Indicators:														
Financial:	{	<table style="width: 100%;"> <tr> <td style="width: 80%;">Non-revenue water as percent by volume of Water Supplied:</td> <td style="width: 10%;"><input type="text" value="32.9%"/></td> <td style="width: 10%;"></td> </tr> <tr> <td>Non-revenue water as percent by cost of operating system:</td> <td><input type="text" value="9.0%"/></td> <td>Real Losses valued at Variable Production Cost</td> </tr> </table>	Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="32.9%"/>		Non-revenue water as percent by cost of operating system:	<input type="text" value="9.0%"/>	Real Losses valued at Variable Production Cost						
Non-revenue water as percent by volume of Water Supplied:	<input type="text" value="32.9%"/>													
Non-revenue water as percent by cost of operating system:	<input type="text" value="9.0%"/>	Real Losses valued at Variable Production Cost												
Operational Efficiency:	{	<table style="width: 100%;"> <tr> <td style="width: 80%;">Apparent Losses per service connection per day:</td> <td style="width: 10%;"><input type="text" value="2.97"/></td> <td style="width: 10%;">gallons/connection/day</td> </tr> <tr> <td>Real Losses per service connection per day:</td> <td><input type="text" value="49.53"/></td> <td>gallons/connection/day</td> </tr> <tr> <td>Real Losses per length of main per day*:</td> <td><input type="text" value="N/A"/></td> <td></td> </tr> <tr> <td>Real Losses per service connection per day per psi pressure:</td> <td><input type="text" value="0.90"/></td> <td>gallons/connection/day/psi</td> </tr> </table>	Apparent Losses per service connection per day:	<input type="text" value="2.97"/>	gallons/connection/day	Real Losses per service connection per day:	<input type="text" value="49.53"/>	gallons/connection/day	Real Losses per length of main per day*:	<input type="text" value="N/A"/>		Real Losses per service connection per day per psi pressure:	<input type="text" value="0.90"/>	gallons/connection/day/psi
Apparent Losses per service connection per day:	<input type="text" value="2.97"/>	gallons/connection/day												
Real Losses per service connection per day:	<input type="text" value="49.53"/>	gallons/connection/day												
Real Losses per length of main per day*:	<input type="text" value="N/A"/>													
Real Losses per service connection per day per psi pressure:	<input type="text" value="0.90"/>	gallons/connection/day/psi												
		From Above, Real Losses = Current Annual Real Losses (CARL): <input type="text" value="5.42"/> million gallons/year												
		? Infrastructure Leakage Index (ILI) [CARL/UARL]: <input type="text"/>												
* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline														

See independent auditor's report

INTERNAL CONTROL AND COMPLIANCE SECTION



Independent Auditor's Report

Mayor and Board of Aldermen
Town of Gates, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Gates, Tennessee, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated January 15, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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 have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as item 2018-001 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings as item 2018-004 and 2018-005 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Gates'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2018-002, 2018-003, and 2018-006.

Town of Gates's Response to Findings

Town of Gates's response to the findings identified in our audit is described in the accompanying schedule of findings. The Town'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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Alexander Thompson Arnold PLLC

Union City, Tennessee
January 15, 2019

TOWN OF GATES, TENNESSEE
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2018

2018-001 Lack of Internal Controls

Condition: The Town of Gates has not established and documented a system of internal control.

Criteria: TCA Section 9-18-102 requires all local governments to establish and maintain internal controls. The State of Tennessee Audit Manual states that all local governments should currently have their internal control policies and procedures developed, in writing, and in place.

Effect: The Town is operating without the required system of internal controls.

Recommendation: We recommend that the Town develop and document a system of internal controls as required by Tennessee state law. This system should establish adequate controls over all of the Town's activities, including cash receipts, cash disbursements, fuel purchases, credit card usage, and all other areas in which the Town has the responsibility for safeguarding its assets against fraud, waste, and abuse. The *Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee* should be used to assist in developing these controls.

Response: *The mayor for the Town of Gates has contacted MTAS and is going to be working with a financial control consultant to help set up an internal control policy in place, to meet requirements and to develop and document a system in place and to have it adopted and approved, before the board of aldermen as required by Tennessee state law.*

2018-002 Expenditures in Excess of Budget

Condition: For the year ended June 30, 2018, expenditures exceeded appropriations in the following funds:

Solid Waste Fund	\$1,175
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Criteria: Tennessee Code Annotated (TCA), Section 6-56-203 states "The governing body of each municipality shall adopt and operate under an annual budget ordinance. It is the intent of this subdivision (1) that, except for moneys expended pursuant to a project ordinance or accounted for in a proprietary type fund or a fiduciary type fund that are excluded from the budget ordinance, all moneys received and expended by a municipality shall be included in a budget ordinance. Therefore, notwithstanding any other law, no municipality may expend any moneys regardless of their source, including moneys derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments, except in accordance with a budget ordinance adopted under this section or through a proprietary type fund or a fiduciary type fund properly excluded from the budget ordinance."

Effect: Expenditures were made that were not budgeted in accordance with State law.

Recommendation: The Town should compare its expenditures to budgeted amounts on a regular basis and amend the budget when necessary to authorize all expenditures in accordance with State budget requirements.

Response: *The mayor and city recorder will be working together to look at how much is budgeted and how the town can be cost effective. The mayor along with the board of aldermen will look closely at expenditures and the operation of the budget due to any projects or spending. The mayor will set timelines on a regular basis with the city recorder to compare its expenditures, so that the Town of Gates will be in accordance with State budget requirements.*

TOWN OF GATES, TENNESSEE
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2018

2018-003 Failure to Close Books in Accordance with State Requirements

Condition: The Town's books were not closed as defined in the State of Tennessee Audit Manual in accordance with the time frame stipulated by TCA Section 9-2-102.

Criteria: TCA 9-2-102 was amended to require all local governments to close their official accounting records and to have those records available for audit no later than two (2) months after the close of their fiscal year end.

Effect: The Town's books were not closed in accordance with the revised state statute.

Recommendation: We recommend that the Town take steps to ensure their books and records are complete prior to the required deadline.

Response: *The Town of Gates and Board of Aldermen realize that once audits are caught up that moving forward, we as a municipality will take the necessary steps one by one, to ensure that a plan is put in place and books and records are looked at on a constant basis, to make sure that everything is in place at the proper time of closing records in accordance with state requirements.*

2018-004 Failure to Retain Accounts Receivable Subsidiary Records

Condition: During our testing, we noted that the Town did not have a listing of accounts receivable that confirmed the general ledger balance. Also, the Town's computer program does not have the ability to print a listing for a prior date.

Criteria: TCA 10-7-702 provides that the Municipal Technical Advisory Service (MTAS) is authorized to create records retention manuals which shall be used as guides by municipal governments in the state. The MTAS guide *Records Management for Municipal Governments* lists accounts receivable records as documents that should be retained for 10 years.

Effect: The Town did not have a subsidiary record of accounts receivable that agreed to the general ledger as of June 30, 2018.

Recommendation: We recommend that the City print subsidiary listings of all accounts receivable and reconcile to the general ledger accounts on a regular basis. Detail for year-end balances should be retained for audit purposes.

Response: *We had a City Recorder (Rachel Isaak) in place that was not fulfilling her duties as obligated and according to state law as of October 2018. We have a new City Recorder (Jenny Ward) in place to assure these issues are corrected and maintained. The above findings have been corrected and may be requested if needed.*

2018-005 Lack of Internal Controls over Fuel

Condition: There are no controls in place to prevent personal use of Town vehicles or fuel being purchased for personal use.

TOWN OF GATES, TENNESSEE
SCHEDULE OF FINDINGS
For the Year Ended June 30, 2018

Criteria: Component 3 of the *Internal Control and Compliance Manual for Governmental Entities and Other Audited Entities in Tennessee* states that management should design control activities to achieve objectives and respond to risks. Control activities for fuel inventories listed in this section of the Manual include maintaining perpetual inventory records, limiting access to inventory, maintaining usage records by employee, performing physical inventory counts, and reconciling the amount to inventory records.

Effect: A lack of controls over gas usage and purchases could result in unauthorized purchases or usage not for Town purposes.

Recommendation: The Town should reconcile fuel usage to a perpetual inventory record for fuel to verify that it is only being used by authorized individuals for Town purposes.

Response: *Each person with access to purchase fuel has an authorized pin number. We have adopted an internal control policy RE: Fuel Usage. All receipts with mileage and vehicle number must be turned in to the City Recorder to maintain with statement for payment.*

2018-006 Unpaid Payroll Taxes

Condition: During our payroll testing, we noted that payroll taxes due as of June 30, 2018, were not paid until October 2 and 3, 2018.

Criteria: The Internal Revenue Service requires that payroll taxes for June 30 liabilities be deposited monthly and/or paid by the payroll tax return due date, which was July 31, depending on the amount of taxes due.

Effect: The Town did not follow the requirements for remitting Federal payroll taxes and incurred penalties that were required to be paid with Town funds.

Recommendation: We recommend that the Town ensure that all payroll taxes are paid timely and that Town resources are not spent on penalties that result from late payments.

Response: *Former City Recorder (Rachel Isaak) did not pay the payroll taxes as required by law. We have a new City Recorder (Jenny Ward) in place since October 2018 to assure these issues are corrected and maintained.*

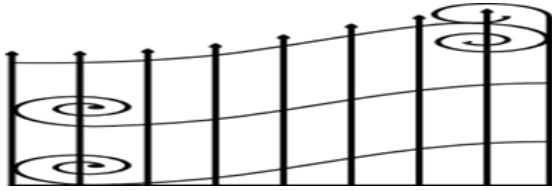
TOWN OF GATES, TENNESSEE
SCHEDULE OF PRIOR FINDINGS
For the Year Ended June 30, 2018

Financial Statement Findings

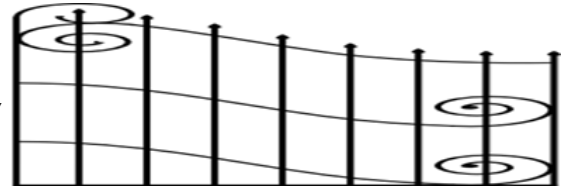
Prior Year Finding No.	Title	Status/Current Year Finding No.
2017-001	Lack of internal controls (original #2014-001)	Repeated/2018-001
2017-002	Budget exceeded (original #2014-002)	Repeated/2018-002
2017-003	Closing of books (original #2016-003)	Repeated/2018-003

Federal Award Programs and Questioned Costs

The Town of Gates did not have a single audit in the prior year.



Town of Gates
 10085 2nd St
 Gates TN 38037
 731-836-7501



MANAGEMENT’S CORRECTIVE ACTION PLAN
 For the Year Ended June 30, 2018

The Town of Gates, Tennessee, respectfully submits the following corrective action plan. The findings reported by our auditors in their audit report dated January 15, 2019 for the year ended June 30, 2018, are discussed below.

FINDINGS – FINANCIAL STATEMENT AUDIT

2018-001 Lack of Internal Controls

Recommendation: We recommend that the Town develop and document a system of internal controls as required by Tennessee state law. This system should establish adequate controls over all of the Town’s activities, including cash receipts, cash disbursements, fuel purchases, credit card usage, and all other areas in which the Town has the responsibility for safeguarding its assets against fraud, waste, and abuse. The *Internal Control Manual for Local Governmental Entities and Other Audited Entities in Tennessee* should be used to assist in developing these controls.

Action taken: The mayor for the Town of Gates has contacted MTAS and is going to be working with a financial control consultant to help set up an internal control policy in place, to meet requirements and to develop and document a system in place and to have it adopted and approved, before the board of aldermen as required by Tennessee state law.

Name of contact person responsible for corrective action: Mayor Dwayne Dixon

Anticipated completion date for the corrective action: Before or by December 31, 2018

2018-002 Expenditures in Excess of Budget

Recommendation: The Town should compare its expenditures to budgeted amounts on a regular basis and amend the budget when necessary to authorize all expenditures in accordance with State budget requirements.

Action taken: The mayor and city recorder will be working together to look at how much is budgeted and how the town can be cost effective. The mayor along with the board of aldermen will look closely at expenditures and the operation of the budget due to any projects or spending. The mayor will set timelines on a regular basis with the city recorder to compare its expenditures, so that the Town of Gates will be in accordance with State budget requirements.

Name of contact person responsible for corrective action: Mayor Dwayne Dixon

Anticipated completion date for the corrective action: Before or by December 31, 2018

2018-003 Failure to Close Books in Accordance with State Requirements

Recommendation: We recommend that the Town take steps to ensure their books and records are complete prior to the required deadline.

Action taken: The Town of Gates and Board of Aldermen realize that once audits are caught up that moving forward, we as a municipality will take the necessary steps one by one, to ensure that a plan is put in place and books and records are looked at on a constant basis, to make sure that everything is in place at the proper time of closing records in accordance with state requirements.

Name of contact person responsible for corrective action: Jenny Ward

Anticipated completion date for the corrective action: August 31, 2019

2018-004 Failure to Retain Accounts Receivable Subsidiary Records

Recommendation: We recommend that the City print subsidiary listings of all accounts receivable and reconcile to the general ledger accounts on a regular basis. Detail for year-end balances should be retained for audit purposes.

Action taken: We had a City Recorder (Rachel Isaak) in place that was not fulfilling her duties as obligated and according to state law as of October 2018. We have a new City Recorder (Jenny Ward) in place to assure these issues are corrected and maintained. The above findings have been corrected and may be requested if needed.

Name of contact person responsible for corrective action: Jenny Ward

Anticipated completion date for the corrective action: June 30, 2019

2018-005 Lack of Internal Controls over Fuel

Recommendation: The Town should reconcile fuel usage to a perpetual inventory record for fuel to verify that it is only being used by authorized individuals for Town purposes.

Action taken: Each person with access to purchase fuel has an authorized pin number. We have adopted an internal control policy RE: Fuel Usage. All receipts with mileage and vehicle number must be turned in to the City Recorder to maintain with statement for payment.

Name of contact person responsible for corrective action: Jenny Ward

Anticipated completion date for the corrective action: June 30, 2019

2018-006 Unpaid Payroll Taxes

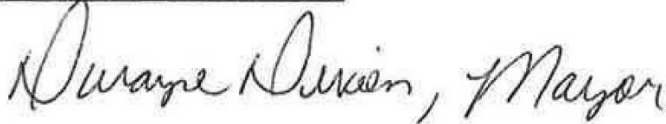
Recommendation: We recommend that the Town ensure that all payroll taxes are paid timely and that Town resources are not spent on penalties that result from late payments.

Action taken: Former City Recorder (Rachel Isaak) did not pay the payroll taxes as required by law. We have a new City Recorder (Jenny Ward) in place since October 2018 to assure these issues are corrected and maintained.

Name of contact person responsible for corrective action: Jenny Ward

Anticipated completion date for the corrective action: October 2018

Respectfully submitted,



Dwayne Dixon, Mayor

Town of Gates, Tennessee