

TOWN OF PENNINGTON GAP, VIRGINIA

AUDIT REPORT

Year Ended June 30, 2015

**TOWN OF PENNINGTON GAP, VIRGINIA
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Year Ended June 30, 2015**

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TOWN OF PENNINGTON GAP, VIRGINIA
TOWN OFFICIALS
June 30, 2015

MAYOR: Larry Holbrook

TOWN COUNCIL: Jill Carson
Gary McElyea
Terry K. Pope
Jeff Martin
Keith Harless

OTHER OFFICIALS: Phil Hensley – Town Manager
Karen Maggard - Treasurer
Angela K. O'Dell - Clerk

ATTORNEY: Charles Slemp, III

THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants
& Consultants*

****BRIAN K. BLANTON, C.P.A.**
***CHARLES F. LAWSON, C.P.A.**

Founded 1948

MONROE B. THROWER, C.P.A.
(1918-2000)
M. BARDIN THROWER, JR., C.P.A.
(1946-2012)

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****Virginia & Tennessee Society of
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612 Trent Street
Norton, Virginia 24273
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INDEPENDENT AUDITOR'S REPORT

The Honorable Members of the Town Council
Town of Pennington Gap
Pennington Gap, Virginia 24277

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2015, 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Industrial Development Authority of Pennington Gap, Virginia, which represent .249 percent, .328 percent, and .015 percent, respectively, of the assets, net position, and revenues of the Town of Pennington Gap. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Industrial Development Authority of Pennington Gap, Virginia, is based solely on the report of the other auditors. 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 general purpose financial statements are free of 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia as of June 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 17 to the financial statements, in fiscal year 2015, the Town adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which provide new accounting guidance that addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employer through pension plans that are administered through trusts. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 50 through 52, the Schedules of Required Supplementary Information, including the Schedule of Changes in the Net Pension liability and Related Ratios, Schedule of Contributions, and Notes to the Required Supplemental Information, on pages 53 through 54, and the Schedules of Funding Progress on page 48 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 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.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2015 on our consideration of the Town of Saint Paul's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.


THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

Norton, Virginia
June 27, 2016

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants
& Consultants

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Members of the Town Council
Town of Pennington Gap
Pennington Gap, Virginia 24277

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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Pennington Gap, Virginia's basic financial statements, and have issued our report thereon dated June 27, 2016. Our report includes a reference to other auditors who audited the financial statements of the Industrial Development Authority of Pennington Gap, Virginia, as described in our report on the Town of Pennington Gap, Virginia's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements for the year ended June 30, 2015, we considered the Town'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 Town's 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.

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 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the separately issued schedule of findings and responses that we consider to be material weaknesses (Ref. 2015-001). We did identify certain deficiencies in internal control, described in the separately issued schedule of findings and responses that we consider to be significant deficiencies (Ref. 2015-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pennington Gap, Virginia'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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Honorable Members of the Town Council
Town of Pennington Gap
Pennington Gap, Virginia 24277
Page 2

*(Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards)*

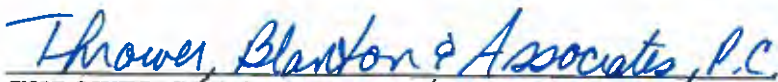
Response to Findings

The Town of Pennington Gap's response to the findings identified in our audit is described in the separately issued schedule of findings and responses. 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.

We noted certain matters that we reported to management of the Town of Pennington Gap, Virginia, in a separate letter dated June 27, 2016.

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 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.



THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

Norton, Virginia
June 27, 2016

TOWN OF PENNINGTON GAP, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2015

As more fully described in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on and Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* we performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

Budget and Appropriation Laws
Cash and Investments Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Personal Property Tax Relief Act

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF PENNINGTON GAP
STATEMENT OF NET POSITION
June 30, 2015

EXHIBIT 1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total Primary Government	Industrial Development Authority
<u>ASSETS</u>				
Cash and cash equivalents	\$ 47,165	\$ 528,506	\$ 575,671	50,000
Receivables, net	85,702	244,327	330,029	-
Internal balances	(33,040)	33,040	-	-
Due from other governmental units	106,219	-	106,219	-
Restricted cash	250,106	1,259,966	1,510,072	-
Loans receivable	-	26,092	26,092	20,000
Prepaid and other	12,737	18,601	31,338	-
Net Pension Asset	33,015	51,640	84,655	-
Capital assets, net	4,297,312	10,531,644	14,828,956	5,000
TOTAL ASSETS	4,799,216	12,693,816	17,493,032	75,000
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Deferred pension-contributions after measurement date	15,205	23,781	38,986	-
Total Deferred Outflows of Resources	15,205	23,781	38,986	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCE	\$ 4,814,421	\$ 12,717,597	\$ 17,532,018	\$ 75,000
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities	\$ 49,680	\$ 38,341	\$ 88,021	1,200
Accrued payroll and related liabilities	14,467	13,776	28,243	-
Accrued interest payable	-	21,143	21,143	-
Customer security deposits	-	58,535	58,535	-
Compensated absences	12,125	50,276	62,401	-
Long-term liabilities				
Due within one year	-	254,178	254,178	-
Due in more than one year	32,316	4,193,986	4,226,302	-
Total Liabilities	108,588	4,630,235	4,738,823	1,200
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred pension related inflows	17,782	27,812	45,594	-
Total Deferred Inflows of Resources	17,782	27,812	45,594	-
<u>NET POSITION</u>				
Net investment in capital assets	4,297,312	6,117,668	10,414,980	-
Restricted	33,015	63,837	96,852	-
Unrestricted	357,724	1,878,045	2,235,769	73,800
Total Net Position	4,688,051	8,059,550	12,747,601	73,800
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 4,814,421	\$ 12,717,597	\$ 17,532,018	\$ 75,000

TOWN OF PENNINGTON GAP
STATEMENT OF ACTIVITIES
June 30, 2015

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Industrial Development Authority	
					Governmental Activities	Business-Type Activities	Total		
Governmental Activities:									
General government	\$ 208,204	\$ 110,364	\$ -	\$ -	\$ (97,840)	\$ -	\$ (97,840)	-	-
Public safety	630,174	10,862	53,471	-	(565,841)	-	(565,841)	-	-
Public works	741,239	79,441	-	-	(661,798)	-	(661,798)	-	-
Parks, recreation, and cultural	62,698	86,026	-	314,339	337,667	-	337,667	-	-
Non-departmental	-	-	-	-	-	-	-	-	-
Total Governmental Activities	1,642,315	286,693	53,471	314,339	(987,812)	-	(987,812)	-	-
Business-Type Activities:									
Water	1,445,109	1,192,586	-	-	-	(252,523)	(252,523)	-	-
Wastewater	651,543	497,930	-	-	-	(153,613)	(153,613)	-	-
Industrial fund	4	-	-	-	-	(4)	(4)	-	-
Total Enterprise Activities	2,096,656	1,690,516	-	-	-	(406,140)	(406,140)	-	-
TOTAL PRIMARY GOVERNMENT	\$ 3,738,971	\$ 1,977,209	\$ 53,471	\$ 314,339	\$ (987,812)	\$ (406,140)	\$ (1,393,952)	-	-
COMPONENT UNIT:									
Industrial Development Authority	\$ 7,991	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(7,991)	
General Revenues:									
Property taxes					185,750	-	185,750	-	-
Other local taxes					667,034	-	667,034	-	-
Unrestricted intergovernmental revenue					10,303	-	10,303	-	-
Unrestricted investment earnings					5,734	16,173	21,907	-	-
Rental of Town property					24,641	-	24,641	-	-
Recovered costs					295,938	-	295,938	-	-
Transfers-Primary Government					-	6,580	6,580	-	40,000
Gain(Loss) from Sale of Property					(10,682)	-	(10,682)	-	-
Other					15,099	-	15,099	-	-
Total general revenues and transfers					1,193,817	22,753	1,216,570	-	40,000
Change in net position					206,005	(383,387)	(177,382)	-	32,009
NET POSITION - JULY 1, AS RESTATED					4,482,046	8,492,937	12,974,983	-	41,791
NET POSITION - JUNE 30					\$ 4,688,051	\$ 8,109,550	\$ 12,797,601	\$	73,800

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

EXHIBIT 3

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 47,165	\$ -	\$ 47,165
Receivables, net:			
Taxes receivable	35,816	-	35,816
Accounts receivable	49,697	-	49,697
Interest	189	-	189
Prepaid Insurance	12,737	-	12,737
Due From other funds	2,403	-	2,403
Due from other governmental units	106,219	-	106,219
Restricted cash	64,160	185,946	250,106
Total Assets	<u>\$ 318,386</u>	<u>\$ 185,946</u>	<u>\$ 504,332</u>
LIABILITIES			
Accounts payable and accrued liabilities	49,680	-	49,680
Accrued payroll and related liabilities	14,467	-	14,467
Due to other funds	35,443	-	35,443
Total Liabilities	<u>99,590</u>	<u>-</u>	<u>99,590</u>
DEFERRED INFLOWS			
Property Taxes Receivable	34,022	-	34,022
Total Deferred Inflows	<u>34,022</u>	<u>-</u>	<u>34,022</u>
FUND BALANCES			
Nonspendable	12,737	-	12,737
Restricted	64,160	185,946	250,106
Committed	-	-	-
Assigned	-	-	-
Unassigned	107,877	-	107,877
Total Fund Balances	<u>184,774</u>	<u>185,946</u>	<u>370,720</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 318,386</u>	<u>\$ 185,946</u>	<u>\$ 504,332</u>
Total Fund Balances	\$ 370,720		

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	4,297,312
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.	67,037
Deferred outflows of resources reported in the Statement of Net Position	15,205
Other liabilities are not required to be paid out of current financial resources and, therefore, are not reported in the governmental funds.	(12,125)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(32,316)
Deferred inflows of resources reported in the Statement of Net Position	<u>(17,782)</u>
Net Position of Governmental Activities	<u>\$ 4,688,051</u>

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL AND DEBT SERVICE FUNDS
Year Ended June 30, 2015

EXHIBIT 4

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
REVENUES:			
General property taxes	\$ 189,993	\$ -	\$ 189,993
Other local taxes	667,034	-	667,034
Permits, Privilege Fees, and Licenses	110,364	-	110,364
Fines and forfeitures	10,862	-	10,862
Revenue from use of money & property	30,179	557	30,736
Charges for services	165,467	-	165,467
Miscellaneous	15,099	-	15,099
Recovered costs	-	-	-
Intergovernmental	378,113	-	378,113
Total Revenues	<u>1,567,111</u>	<u>557</u>	<u>1,567,668</u>
EXPENDITURES:			
Current:			
General government administration	286,130	-	286,130
Public safety	1,066,689	-	1,066,689
Public works	719,745	-	719,745
Parks, recreation and cultural	433,306	-	433,306
Debt Service:			
Principal retirement	-	-	-
Interest	-	-	-
Total Expenditures	<u>2,505,870</u>	<u>-</u>	<u>2,505,870</u>
Excess (Deficiency) of Revenues Over Expenditures	(938,759)	557	(938,202)
OTHER FINANCING SOURCES (USES):			
Sale of surplus	10,580	-	10,580
Insurance Proceeds	295,938	-	295,938
Loan proceeds	-	-	-
Operating transfers in(out)	(6,580)	-	(6,580)
Total Other Financing Sources (Uses)	299,938	-	299,938
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(638,821)	557	(638,264)
Fund Balance at Beginning of Year	<u>823,595</u>	<u>185,389</u>	<u>1,008,984</u>
Fund Balance at End of Year	<u>\$ 184,774</u>	<u>\$ 185,946</u>	<u>\$ 370,720</u>

TOWN OF PENNINGTON GAP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

EXHIBIT 5

	<u>Governmental Funds</u>
Net Change in Fund Balance Governmental Funds:	\$ (638,264)
Amounts reported for governmental activities in the statement of activities are different because:	
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 as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	781,325
Governmental funds report the sale of fixed assets as equal to the proceeds received from the sale. The amount required to adjust for the basis remaining on the date of sale.	44,036
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(4,047)
Some expenses reported in the statement of activities, such as compensated absences, other post employment benefits and accrued interest, do not require the use of current financial resources and, therefore, are not required as expenditures in governmental funds.	<u>22,955</u>
Change in Net Position of Governmental Activities	<u>\$ 206,005</u>

TOWN OF PENNINGTON GAP
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2015

EXHIBIT 6

	Water Fund	Sewer Fund	Industrial Fund	Combined Total 2015
ASSETS				
Cash and cash equivalents	\$ 233,089	\$ 295,417	\$ -	\$ 528,506
Receivables (Net of Allowance for Uncollectibles):				
Accounts	150,939	92,838	-	243,777
Interest	503	29	18	550
Due from other funds	25,663	30,214	-	55,877
Loans receivable	-	-	26,092	26,092
Prepaid and other	12,445	6,156	-	18,601
Restricted cash	1,204,422	17,817	37,727	1,259,966
Net Pension Asset	36,402	15,238	-	51,640
Land	10,600	20,515	6,943	38,058
Capital assets, net	6,950,013	3,543,573	-	10,493,586
Total Assets	\$ 8,624,076	\$ 4,021,797	\$ 70,780	12,716,653
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred pension-contributions after measurement date	16,764	7,017	-	23,781
Total Deferred Outflows of Resources	16,764	7,017	-	23,781
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 8,640,840	\$ 4,028,814	\$ 70,780	12,740,434
LIABILITIES				
Accounts payable and accrued liabilities	\$ 15,501	\$ 22,840	\$ -	\$ 38,341
Accrued payroll and related liabilities	8,961	4,815	-	13,776
Accrued interest payable	15,127	6,016	-	21,143
Customer security deposits	40,682	17,853	-	58,535
Due to other funds	-	22,837	-	22,837
Compensated absences	36,761	13,515	-	50,276
Long-term liabilities:				
Due within one year	204,678	49,500	-	254,178
Due in more than one year	3,630,982	563,004	-	4,193,986
Total Liabilities	3,952,692	700,380	-	4,653,072
DEFERRED INFLOWS OF RESOURCES:				
Deferred pension related inflows	19,605	8,207	-	27,812
Total Deferred Inflows of Resources	19,605	8,207	-	27,812
NET POSITION				
Net investment in capital assets	3,148,137	2,962,588	6,943	6,117,668
Restricted	-	-	63,837	63,837
Unrestricted	1,520,406	357,639	-	1,878,045
Total Net Position	4,668,543	3,320,227	70,780	8,059,550
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 8,640,840	\$ 4,028,814	\$ 70,780	\$ 12,740,434

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2015

EXHIBIT 7

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Industrial Fund</u>	<u>Combined Totals 2015</u>
OPERATING REVENUES:				
Charges for services	\$ 1,161,736	\$ 482,517	\$ -	\$ 1,644,253
Tap fees	1,300	-	-	1,300
Connections	2,054	-	-	2,054
Reconnections	3,100	-	-	3,100
Penalties	15,760	-	-	15,760
Miscellaneous	8,636	15,413	-	24,049
Total Operating Revenues	<u>1,192,586</u>	<u>497,930</u>	<u>-</u>	<u>1,690,516</u>
OPERATING EXPENSES:				
Salaries and wages	433,437	183,867	-	617,304
Payroll taxes	35,465	14,462	-	49,927
Group health and life	127,498	55,745	-	183,243
Pension	10,474	3,778	-	14,252
Utilities	123,763	55,189	-	178,952
Telephone	8,132	1,312	-	9,444
Supplies	77,014	35,095	-	112,109
Vehicle expense	8,477	13,296	-	21,773
Insurance	11,236	16,303	-	27,539
Repair and maintenance	47,583	16,274	-	63,857
Certification, travel, and training	-	420	-	420
Professional services	22,247	17,532	-	39,779
Lab and analysis	4,705	3,988	-	8,693
Dues and subscriptions	4,257	3,150	-	7,407
Depreciation	430,631	173,869	-	604,500
Miscellaneous	4,842	38,193	4	43,039
Total Operating Expenses	<u>1,349,761</u>	<u>632,473</u>	<u>4</u>	<u>1,982,238</u>
Operating Income (Loss)	<u>(157,175)</u>	<u>(134,543)</u>	<u>(4)</u>	<u>(291,722)</u>
NON-OPERATING REVENUES (EXPENSES) :				
Grant income	-	-	-	-
Transfers	6,580	-	-	6,580
Interest expense	(95,348)	(19,070)	-	(114,418)
Interest income	15,616	310	247	16,173
Contribution to other	(50,000)	-	-	(50,000)
Gain/loss on disposition of assets	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(123,152)</u>	<u>(18,760)</u>	<u>247</u>	<u>(141,665)</u>
CHANGE IN NET POSITION	<u>(280,327)</u>	<u>(153,303)</u>	<u>243</u>	<u>(433,387)</u>
NET POSITION AT JULY 1, AS RESTATED	<u>4,948,870</u>	<u>3,473,530</u>	<u>70,537</u>	<u>8,492,937</u>
NET POSITION AT JUNE 30	<u>\$ 4,668,543</u>	<u>\$ 3,320,227</u>	<u>\$ 70,780</u>	<u>\$ 8,059,550</u>

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2015

EXHIBIT 8

	Water Fund	Sanitation Fund	Industrial Fund	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,152,834	\$ 475,726	\$ -	\$ 1,628,560
Cash payments to suppliers for goods and services	(489,241)	(291,606)	(4)	(780,847)
Cash payments to employees for services	(427,723)	(173,040)	-	(600,763)
Other operating income	30,850	15,413	-	46,263
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>266,720</u>	<u>26,493</u>	<u>(4)</u>	<u>293,213</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Increase (decrease) in customer deposits	(450)	(330)	-	(780)
(Increase) decrease in due from other funds	1,795	-	-	1,795
Increase (decrease) in due to other funds	-	333	-	333
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	<u>1,345</u>	<u>3</u>	<u>-</u>	<u>1,348</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(4,192)	-	-	(4,192)
Disposition of capital assets	-	-	-	-
Interfund transfer	-	-	-	-
Proceeds from borrowings	-	-	-	-
Contributed capital - Grant revenue	(50,000)	-	-	(50,000)
Principal paid on revenue bonds	(202,837)	(49,500)	-	(252,337)
Interest paid on revenue bonds and equipment	(93,823)	(19,526)	-	(113,349)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(350,852)</u>	<u>(69,026)</u>	<u>-</u>	<u>(419,878)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments received on community development loans	-	-	-	-
Interest on investments	15,600	310	243	15,910
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>15,600</u>	<u>310</u>	<u>243</u>	<u>15,910</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(67,187)	(42,220)	239	(109,168)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,504,698</u>	<u>355,454</u>	<u>37,488</u>	<u>1,897,640</u>
Cash and Cash Equivalents at June 30, 2015				
Unrestricted	\$ 233,089	\$ 295,417	\$ -	\$ 528,506
Restricted	1,204,422	17,817	37,727	1,259,966
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,437,511</u>	<u>\$ 313,234</u>	<u>\$ 37,727</u>	<u>\$ 1,788,472</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (157,175)	\$ (134,543)	\$ (4)	\$ (291,718)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and amortization	430,631	173,869	-	604,500
Increase (decrease) in accrued compensated absences	3,930	10,103	-	14,033
Net pension obligation	(11,191)	(5,165)	-	(16,356)
Change in Assets, Liabilities, Deferred Inflows/Outflows:				
(Increase) decrease in accounts receivable	(8,902)	(6,791)	-	(15,693)
(Increase) decrease in prepaid expenses	(6,776)	(1,708)	-	(8,484)
Increase (decrease) in accounts payable	7,949	(13,140)	-	(5,191)
Increase (decrease) in accrued wages	1,784	724	-	2,508
Increase (decrease) in accrued liabilities	6,470	3,144	-	9,614
TOTAL ADJUSTMENTS	<u>423,895</u>	<u>161,036</u>	<u>-</u>	<u>584,931</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 266,720</u>	<u>\$ 26,493</u>	<u>\$ (4)</u>	<u>\$ 293,213</u>

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Net Position
June 30, 2015

EXHIBIT 9

ASSETS

Cash and cash equivalents	\$ 50,000
Land	\$ 5,000
Notes Receivable	<u>20,000</u>
Total Assets	<u>\$ 75,000</u>

LIABILITIES

Accounts payable	<u>\$ 1,200</u>
Total Liabilities	<u>1,200</u>

Net Position

Unrestricted	<u>73,800</u>
Total Net Position	<u>\$ 73,800</u>

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Revenues, Expenditures and Changes in Net Position
Year Ended June 30, 2015

EXHIBIT 10

	<u>Total</u>
REVENUES:	
Charges for services	\$ -
Sale of equipment	-
Total Revenues	<u>-</u>
EXPENDITURES:	
Industrial development	-
Professional Services	7,728
Miscellaneous	26
Travel	237
Total Expenditures	<u>7,991</u>
Excess of revenues over expenditures	(7,991)
Capital Contributions	<u>40,000</u>
Net Position at Beginning of Year	<u>41,791</u>
Net Position at End of Year	<u><u>\$ 73,800</u></u>

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Pennington Gap, Virginia is located in extreme Southwestern Virginia, in the central portion of Lee County, and was founded in 1890, and first incorporated in 1892. The Town of Pennington Gap possesses all powers conferred upon or delegated to towns under the Constitution and laws of the Commonwealth of Virginia. By enactment of the General Assembly of Virginia, under the Charter of TOWN OF PENNINGTON GAP, the Town operates under a mayor and six member council form of government elected every four years by municipal election. Legislative procedure for the Town is by council acting only by ordinance or resolution to make such rules as are necessary for the orderly conduct of its business, with the exception of ordinances making appropriations or authorizing the contracting of indebtedness confined to the general subject to vote by referendum. The Town provides a full range of services including public safety, roads, sanitation, water, sewer, planning, boundary adjustment, and general administrative services to its approximately 1,781 residents. The Town's land area is 1.44 square miles (922 acres). The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

A. Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organizations governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the Town of Pennington Gap, Virginia (the primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

As required by generally accepted accounting principles, these financial statements present the Town of Pennington Gap, Virginia (primary government) and its component units. The component units discussed in Note B are included in the Town's reporting entity because of the significance of their operational or financial relationships with the Town of Pennington Gap, Virginia.

B. Individual Component Unit Disclosures

Discretely Presented Component Unit:

The Industrial Development Authority of Pennington Gap, VA (the IDA) was established by ordinance of the Pennington Gap Town Council pursuant to the Industrial Development and Revenue Bond Act, Section 15.2-49-03 of the Code of Virginia, as amended, for the purpose of promoting economic development, commercial enterprise, convenience or prosperity within the Town of Pennington Gap. The Town has a financial accountability for the authority, including the appointment of the Authority's seven-member governing body and the contribution of a material amount of funds to the Authority.

C. Financial Reporting Model

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB 34)*. This statement, known as the "Reporting Model" statement, affects the way the Town prepares and presents financial information. State and local governments traditionally have used a financial reporting model substantially different from the one used to prepare private-sector financial reports. The Town has implemented the requirements of GASB 34, beginning with the year ended June 30, 2004.

June 30, 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Financial Reporting Model (continued)

GASB 34 established requirements and the new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes the following components:

Management's Discussion and Analysis – GAAP requires that financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is comparable to analysis the private sector provides in their annual reports.

Government-wide financial statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities (i.e., reports all of the revenue and cost of providing services each year, not just those received or paid in the current year or soon thereafter). Government-wide financial statements do not provide information by fund or account group, but distinguish between the Town's governmental activities, business-type activities and activities of its discretely presented component units on the Statement of Net Position and Statement of Activities. Significantly, the Town's Statement of Net Position includes both noncurrent assets and noncurrent liabilities of the Town. Depreciation expense on the Town's capital assets, including infrastructure, is reflected in the government-wide Statement of Activities.

Statement of Net Position – The Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its discretely presented component units. The Town reports all capital assets, including infrastructure, in the government-wide Statement of Net Position and reports depreciation expense – the cost of "using up" capital assets – in the Statement of Activities. The net position of the Town is reported in three categories – 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities – The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the Town's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by specific 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. All taxes, and other items not properly included among program revenues, are reported instead as general revenues.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, etc.) which are not otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function (public safety, public works, etc.) or a business-type activity.

Fund Statements – In addition to the government-wide financial statements, the Town reports fund financial statements which use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the Town's Governmental fund types (i.e., General, and Permanent) are similar to that previously presented in the Town's financial statements. See note 1(c) for further discussion.

June 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Measurement Focus, Basis of Accounting, and Basis of Presentation

The government-wide financial statements, as well as the proprietary fund financial statements, report all their activities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In the first type, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the second type, monies are virtually unrestricted as to time of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the accrual criteria are met.

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Reporting Entity considers revenues to be available if they are collected within 45 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.

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 taxes and other charges between the Town's electric, water and wastewater functions 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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Real and personal property taxes are recorded as revenues and receivables when levied, net of allowances for uncollectible amounts. Property tax receivables not collected within 45 days after year-end are reflected as a deferred inflow of resources. Sales and utility taxes, which are collected by the Commonwealth or utility companies by year-end and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the Commonwealth of Virginia or utility company, which is generally in the month preceding receipt by the Town.

Licenses and permits, fines, charges for services and miscellaneous revenues, except interest on temporary investments, are recorded as revenues when received because they are generally not measurable until actually received. Investment earnings are recorded when earned since they are measurable and available. Unbilled accounts receivable are recorded in the Enterprise Funds when earned.

The governmental funds financial statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. A summary reconciliation of the difference between total fund balances as reflected on a governmental funds balance sheet and total net assets (deficit) for governmental activities as shown on the government-wide Statement of Net Position is presented in a schedule accompanying the governmental funds balance sheet date. The assets and liability elements which comprise the reconciliation differences stem from the governmental funds using the current financial

June 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

D. Measurement Focus, Basis of Accounting, and Basis of Presentation (continued)

resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. A summary reconciliation of the differences between net change in total fund balances as reflected on the governmental funds statement of revenues, expenditures and changes in fund balances, and the change in net position for governmental activities as shown on the government-wide Statement of Activities, is presented in a schedule accompanying the governmental funds statement of revenues, expenditures and changes in fund balances. The revenue and expense elements which comprise the reconciliation differences stem from the governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating revenues for the Town's enterprise funds are charges to customers for goods and services. Operating expenses for these funds include the cost of sales and service, administrative expenses and depreciation of capital assets. Any revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The focus of the Reporting Model is on the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information. In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

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

The Town reports the following major governmental funds:

The *General Fund* is the Town's primary operating fund. It is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

Proprietary Fund Types

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Town reports the following proprietary fund types, all of which are considered major funds:

The *Water Fund* accounts for the operations of the Town's water distribution system.

The *Wastewater Fund* accounts for the operations of the Town's wastewater collection system.

The *Industrial Fund* accounts for the operations of the Town's industrial park site. It is also used to manage a community development program which provides loans for rehabilitation projects within the Town of Pennington Gap to qualified recipients.

GASB Statement No. 20 requires proprietary activities to apply all applicable GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. In accordance with GASB No. 20, management has elected not to apply FASB pronouncement issues after November 30, 1989.

June 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **Budgets and Budgetary Accounting**

As set forth in the Town Charter, the Town Council adopts an annual budget for the General Fund and Enterprise Funds. The annual budget for the General Fund is prepared in accordance with the basis of accounting utilized by that fund. The budget for the Enterprise Fund is adopted under a basis consistent with GAAP, except that depreciation is not funded. All annual appropriations lapse at fiscal year-end.

F. **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued. Generally, all unencumbered appropriations lapse at year end, except those for capital projects. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year. Open encumbrances at fiscal year-end are included in restricted, committed, or assigned fund balance, as appropriate.

G. **Capital Assets**

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of \$3,500 or more and an estimated useful life of at least two years. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings/building improvements	40
Utility transmission lines and mains	20-40
Furniture and equipment	10
Vehicles	5-7

H. **Cash Equivalents**

For the purposes of the combined statement of cash flows, the water fund and the sewer fund consider all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

I. **Total Columns on Combined Statements-Overview**

The total columns on the Combined Statements – Overview are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

J. **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town’s Retirement Plan and the additions to/deductions from the Town’s Retirement Plan’s net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

June 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. Deferred Outflows/Inflows of Resources

The Town reports deferred outflows of resources and deferred inflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense) until the applicable period. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until a future period.

Employer pension contributions made after the net pension liability measurement date of June 30, 2014 and prior to the reporting date of June 30, 2015, have been reported as deferred outflows of resources in the Statement of Net Position as of June 30, 2015. Deferred outflows of resources of \$15,205, and \$23,781 have been reported in Governmental Activities, and Business-Type Activities Statement of Net Position as of June 30, 2015, respectively.

Differences between the projected and actual pension earnings as of the actuarial measurement date of June 30, 2014 have been reported as a deferred inflow of resources. Deferred inflows of resources of \$17,782, and \$27,812 have been reported in Governmental Activities, and Business-Type Activities Statement of Net Position as of June 30, 2015, respectively.

L. Fund Equity

Beginning with the fiscal year ended June 30, 2011, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The Town has classified Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Town Council or through the Town Council delegating this responsibility to the Town manager through the budgetary process.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The Unassigned classification amounts are available for any purpose. Only positive Unassigned amounts are reported in the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications.

The Town would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

2. CASH AND CASH EQUIVALENTS

Deposits

All cash of the Town and its component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. seq.* of the *Code of Virginia*, or covered by federal depository insurance.

Investments

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including regulations, the Town permits investments in U.S. Treasury Securities, U.S. agency securities, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker's acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

Credit Risk:

As required by state statute, the Town requires that commercial paper have a short-term debt rating of no less than "A-1" (or equivalent) from a nationally recognized statistical rating organization.

Concentration of Credit Risk:

Deposits and investments held by any single issuer that exceeded 5% are as follows:

Lee Bank and Trust	64%
Farmers and Miners Bank	20%
Powell Valley National Bank	16%

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the Town's investments are held in the Treasurer's office in the Town's name.

The above items are reflected in the financial statements as follows:

	Primary Government	Component Unit
Deposits and investments:		
Cash on hand	\$ 1,100	\$ -0-
Deposits	216,350	23,591
Investments	<u>1,868,293</u>	<u>-0-</u>
	<u>\$2,085,743</u>	<u>\$ 23,591</u>
Statement of net position:		
Cash and cash equivalents	\$ 121,225	\$ 23,591
Restricted cash and cash equivalents	1,510,072	-0-
Investments	<u>454,446</u>	<u>-0-</u>
	<u>\$2,085,743</u>	<u>\$ 23,591</u>

Restricted cash and cash equivalents consist primarily of certificates of deposits with a weighted average maturity of eight months.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

3. DUE FROM OTHER GOVERNMENTAL UNITS

Commonwealth of Virginia:		
Local sales tax	\$ 4,584	
VDOT Grant	93,465	
Communication tax	<u>7,706</u>	
Total Commonwealth of Virginia		\$ 105,755
Lee County:		
Court fines/transfer fees	<u>464</u>	
Total Lee County		<u>464</u>
Total Due from other Governmental Units		<u>\$ 106,219</u>

4. INTERFUND OBLIGATIONS

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Fund	-	7,075
Sewer Fund	2,403	28,368
Water Fund:		
General Fund	7,075	-
Sewer Fund	20,434	1,846
Sewer Fund:		
Water Fund	1,846	20,434
General Fund	<u>28,368</u>	<u>2,403</u>
TOTAL	<u>\$ 61,922</u>	<u>\$ 61,922</u>

5. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town currently has no item that meets this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has deferred inflows totaling \$34,022 in the general fund, comprised of uncollected tax billings not available for funding of current expenditures as of June 30, 2015.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

6. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land	\$ 280,345	\$ 20,000	\$ -	\$ 300,345
Construction in progress	<u>336,057</u>	<u>859,394</u>	<u>462,410</u>	<u>733,041</u>
Total Capital Assets, Non-depreciable	<u>616,402</u>	<u>879,394</u>	<u>462,410</u>	<u>1,033,386</u>
Capital assets, depreciable				
Equipment	1,729,374	130,943	163,106	1,697,211
Buildings and improvements	2,821,124	525,422	128,918	3,217,628
Other improvements	88,674	-	-	88,674
Infrastructure	<u>467,453</u>	<u>-</u>	<u>-</u>	<u>467,453</u>
Total Capital Assets, depreciable	<u>5,106,625</u>	<u>656,365</u>	<u>292,024</u>	<u>5,470,966</u>
Less accumulated depreciation for				
Equipment	1,339,755	104,391	139,095	1,305,051
Buildings and improvements	432,563	78,652	107,894	403,321
Other improvements	88,674	-	-	88,674
Infrastructure	<u>398,308</u>	<u>11,686</u>	<u>-</u>	<u>409,994</u>
Total accumulated depreciation	<u>2,259,300</u>	<u>194,729</u>	<u>246,989</u>	<u>2,207,040</u>
Total Capital Assets, depreciable, net	<u>2,847,325</u>	<u>461,636</u>	<u>45,035</u>	<u>3,263,926</u>
Governmental activities				
Capital assets, net	<u>\$3,463,727</u>	<u>\$ 1,341,030</u>	<u>\$ 507,445</u>	<u>\$4,297,312</u>
Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Constructions in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Non-depreciable	<u>38,058</u>	<u>-</u>	<u>-</u>	<u>38,058</u>
Capital assets, depreciable				
Buildings	9,320,445	-	-	9,320,445
Infrastructure	13,588,262	-	-	13,588,262
Machinery & equipment	<u>612,497</u>	<u>7,000</u>	<u>-</u>	<u>619,497</u>
Total Capital Assets, depreciable	<u>23,521,204</u>	<u>7,000</u>	<u>-</u>	<u>23,528,204</u>
Less accumulated depreciation for				
Buildings	4,349,092	232,761	-	4,581,853
Infrastructure	7,629,840	344,477	-	7,974,317
Machinery & equipment	<u>450,765</u>	<u>27,683</u>	<u>-</u>	<u>478,448</u>
Total accumulated depreciation	<u>12,429,697</u>	<u>604,921</u>	<u>-</u>	<u>13,034,618</u>
Total Capital Assets, depreciable, net	<u>11,091,507</u>	<u>(597,921)</u>	<u>-</u>	<u>10,493,586</u>
Business-Type activities				
Capital assets, net	<u>\$11,129,565</u>	<u>\$ (570,079)</u>	<u>\$ -</u>	<u>\$10,531,644</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

7. CAPITAL ASSETS

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 21,132
Public safety	76,537
Public works	35,954
Parks, recreation and cultural	61,106
Total depreciation expense – governmental activities	<u>\$ 194,729</u>
Business-type activities:	
Water	\$ 430,631
Sanitation	173,869
Total depreciation expense – business-type activities	<u>\$ 604,500</u>

8. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Town provided additions to its allowance for uncollectible taxes, garbage, water, and sewer services based on 25% of the total outstanding balance. The allowance amounted to approximately \$120,316 at June 30, 2015, and is composed of the following:

General Fund:	
Allowance for uncollectible property taxes	\$ 33,730
Allowance for uncollectible garbage fees	5,327
Total General Fund	<u>39,057</u>
Water and Sewer Fund:	
Allowance for uncollectible water and sewer fee billings	81,259
Total Water and Sewer Fund	<u>81,259</u>
TOTAL	<u>\$ 120,316</u>

9. REVENUE BONDS

Water Revenue Bond, Series 1999 was issued on September 20, 1999, in a principal amount equal to the sum of the principal advances made, but not to exceed \$2,003,540. The bonds were issued at an interest rate of 3.25% per year, interest only payable on the first and second anniversary dates of closing, and thereafter, payable in monthly installments of combined principal and interest of \$7,674. The first payment was due November 12, 2001, and on the same day of each month thereafter for a period of thirty-eight years until paid, each payment to be applied first to interest accrued to such payment date and then to principal and such final installment, if not sooner paid, to be due and payable forty years from the date thereof. The balance outstanding at June 30, 2015, was \$1,531,335.

Water Revenue Bond, Series 2004B, issued to the Virginia Revolving Loan Fund on July 25, 2004, in the principal sum of \$1,385,748. The bonds bear interest of 0% for thirty years. Principal installments of \$23,095.80 are due semi-annually on September 1 and March 1 of each year beginning September 1, 2005, with final payment due March 1, 2034. The balance outstanding at June 30, 2015, was \$877,640.

	Water Revenue
	Bonds
Revenue bonds payable at July 1, 2014	\$ 2,496,312
Issuances	-
Retirements	(87,337)
Revenue bonds payable at June 30, 2015	<u>\$ 2,408,975</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

10. GENERAL OBLIGATION BONDS

Water Revenue Refunding bond, Series 2012, issued to Lee Bank and Trust, Powell Valley National Bank, and Farmers and Miners Bank on August 28, 2007 with a principal balance of \$2,500,000 bearing interest of 3.0%. Semiannual payments of interest due on each March 1st and September 1st beginning March 1, 2013 through and including March 1, 2027 with principal payable annually in installments on each March 1st commencing March 1, 2013 through and including the maturity date of March 1, 2027.

\$ 1,403,500

Sewer Revenue Refunding bond, Series 2012, issued to Lee Bank and Trust, Powell Valley National Bank, and Farmers and Miners Bank on August 28, 2007 with a principal balance of \$2,500,000 bearing interest of 3.0%. Semiannual payments of interest due on each March 1st and September 1st beginning March 1, 2013 through and including March 1, 2027 with principal payable annually in installments on each March 1st commencing March 1, 2013 through and including the maturity date of March 1, 2027.

601,500

TOTAL REVENUE REFUNDING BONDS

\$ 2,005,000

	REVENUE REFUNDING BONDS		
	Series 2012 Water Revenue Refunding	Series 2012 Sewer Revenue Refunding	Total Revenue Refunding Bond
Bonds/loans payable at July 01, 2014	\$ 1,519,000	\$ 651,000	\$ 2,170,000
Issuances	-	-	-
Retirements	(115,500)	(49,500)	(165,000)
Bonds/loans payable at June 30, 2015	<u>\$ 1,403,500</u>	<u>\$ 601,500</u>	<u>\$ 2,005,000</u>

The annual requirements to amortize general obligation bonds outstanding as of June 30, 2015, are as follows:

Years Ending June 30,	<u>2012 Sewer Refunding</u>		<u>2012 Water Refunding</u>		<u>Total Revenue Refunding</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2016	49,500	18,045	115,500	42,105	165,000	60,150
2017	46,800	16,560	109,200	38,640	156,000	55,200
2018	48,000	15,156	112,000	35,364	160,000	50,520
2019	49,500	13,716	115,500	32,004	165,000	45,720
2020-2024	267,000	45,495	623,000	106,155	890,000	151,650
2025-2029	<u>140,700</u>	<u>7,812</u>	<u>328,300</u>	<u>18,228</u>	<u>469,000</u>	<u>26,040</u>
Totals	<u>\$601,500</u>	<u>\$116,784</u>	<u>\$1,403,500</u>	<u>\$272,496</u>	<u>\$ 2,005,000</u>	<u>\$ 389,280</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

11. COMPENSATED ABSENCES

Employees of the Town are entitled to paid time off for subsequent use or for payment upon termination, death or retirement, a program of integrating paid vacation, general leave and sick leave, depending on length of service. The estimated amount of compensation for vested future absences has been recorded as a liability in the accompanying financial statements. The Town recognizes the cost of paid time off as a salary expense. The balance of accrued compensated absences at June 30, 2015 was \$57,236. Another type of compensated absence is compensatory time for the overtime worked by some employees. A maximum of five days compensatory leave may be carried over from one fiscal year to the next.

The following is a summary of compensated absences transactions for the year ended June 30, 2015:

	Balance July 1, 2014	Additions/ Proceeds	Payments/ Reductions	Balance June 30, 2015
Governmental Activities				
Accrued Compensated Absences	\$ 20,993	\$ 11,457	\$ (20,325)	\$ 12,125
	<u>20,993</u>	<u>11,457</u>	<u>(20,325)</u>	<u>12,125</u>
Business-Type Activities				
Accrued Compensated Absences	\$ 36,243	\$ 31,907	\$ (17,874)	\$ 50,276
	<u>36,243</u>	<u>31,907</u>	<u>(17,874)</u>	<u>50,276</u>
Totals	<u>\$ 57,236</u>	<u>\$ 43,364</u>	<u>\$ (38,199)</u>	<u>\$ 62,401</u>

12. COMMITMENTS AND CONTINGENCIES

Litigation

In regard to litigation involving the Town of Pennington Gap, Virginia, we are not aware of any material contingent liabilities that could affect the financial statements.

13. DEFINED CONTRIBUTION PENSION PLAN

The Town provides pension benefits for all employees at least 21 years old and who have been employed for a period of at least one year. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The employees are fully vested at all times in the balance of his or her account,

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

14. FUND BALANCE-GOVERNMENTAL FUNDS

As of June 30, 2015, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:			
Prepaid items	\$ 12,737	\$ —	\$ 12,737
Restricted:			
Parks, Recreation & Cultural	64,160	—	64,160
Debt Reserve	—	185,946	185,946
Committed:			
Assigned:	—	—	—
Unassigned	107,877	—	107,877
Total fund balances	\$ 184,774	\$ 185,946	\$370,720

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless Town Council or the finance committee has provided otherwise in its commitment or assignment actions.

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER

A. Plan Description

Name of Plan: Town of Pennington Gap, , Virginia, Virginia Retirement System (VRS)

Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit
Pension Plan

Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of the Town are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer are pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria a defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

<p>to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>employees</p> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

		<p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. <u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law</p>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>until age 70½.</p> <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1 <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable.</p>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

		<p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

**TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS**

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

<p>calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under</p>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. Pension Plan-Agent Multiple-Employer (Continued)

eligible for non-work related disability benefits.	eligible for non-work related disability benefits.	VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

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June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>3</u>
Inactive members:	
Vested inactive members	3
Non-vested Inactive members	9
Inactive members active elsewhere in VRS	<u>8</u>
Total inactive members	20
Active members	<u>18</u>
Total covered employees	<u><u>41</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required contribution rate for the year ended June 30, 2015 was 5.79% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$ 39,349 and \$ 33,843 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females were set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 4.75 percent
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension system investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension system investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
	<u>100.00%</u>		<u>5.83%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>8.33%</u>

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that system member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Town's retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2013	\$ 609,759	\$ 625,252	\$ (15,493)
Changes for the year:			
Service Cost	53,695	-	53,695
Interest	42,053	-	42,053
Differences between expected and actual experience	-	-	-
Contributions - employer	-	33,860	(33,860)
Contributions - employee	-	29,229	(29,229)
Net investment income	-	102,321	(102,321)
Benefit payments, including refunds of employee contributions	(18,015)	(18,015)	-
Administrative expenses	-	(506)	506
Other changes	-	6	(6)
Net changes	77,733	146,895	(69,162)
Balance at June 30, 2014	\$ 687,492	\$ 772,147	\$ (84,655)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Town using the discount rate of 7.00%, as well as what the Town's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Rate Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	\$ 16,798	\$ (84,655)	\$ (166,328)

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

15. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2015, the Town recognized pension expense of \$37,636. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	45,594
Employer contributions subsequent to the measurement date	38,986	-
Total	<u>\$ 38,986</u>	<u>\$ 45,594</u>

\$66,232 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2016	\$ (11,399)
2017	(11,399)
2018	(11,399)
2019	(11,397)
Thereafter	-
	<u>\$ (45,594)</u>

Payables to the Pension Plan

At June 30, 2015, the Town reported a payable of \$8,599 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

June 30, 2015

16. OTHER POST-EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the period in which the cost occurs, rather than in the future years when it will be paid. The Town of Pennington Gap adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2011. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing with the 2011 liability.

The Town meets the requirements to use the alternative measurement method and elects to use the alternative measurement method.

Plan Description

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The Town may change, add or delete coverage as they deem appropriate and with the approval of the Town Council. The plan does not grant retirees vested health benefits. A retiree, eligible for post-retirement medical coverage, is defined as a full-time employee who retires directly from the Town and is eligible to receive an early or regular retirement benefit from the VRS. Employees applying for early or regular retirement are eligible to continue participation in the Retiree Health Plans sponsored by the Town. The Town pays 100% of the employee-only premium based on the following parameters:

- 1) Employees age 65 with 10 to 19 years of continuous service at retirement receive medical and dental insurance coverage for a maximum of one year.
- 2) Employees age 64 with 10 to 19 years of continuous service at retirement receive medical and dental insurance coverage for a maximum of one year but will only pay cost equal to individual at age 65.
- 3) Employees age 65 with 20 years or more of continuous service at retirement receive medical and dental insurance coverage for a maximum of two years.
- 4) Employees age 64 with 20 years or more of continuous service at retirement receive medical and dental insurance coverage for a maximum of one year but will only pay cost equal to individual at age 65.
- 5) There is no coverage for dependents.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purpose are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry-age normal cost method was used to determine liabilities under the alternative measurement method. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. Active employees are presumed to retire at age 65 which is the historical average age of retirement for employees of the Town. Active employees age 65 or older who have qualified postemployment benefits under the plan are assumed to retire in the first projected year. A healthcare plan that includes both retirees and active employees contains a blended rate. The rate used in the calculation is the age-adjusted premium less the contribution from the retiree or blended premium. The actuarial assumptions for the Town included: inflation at 3.0 and an investment rate of return of 3.0%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics. The 2004 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2015 is 26 years.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

16. OTHER POST-EMPLOYMENT BENEFITS (continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2015, the Town's annual OPEB costs of \$5,132 for governmental activities and \$7,595 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	Governmental Activities	Business- Type Activities	Total
Annual required contribution	\$ 5,132	\$ 7,595	\$ 12,727
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	5,132	7,595	12,727
Contributions made (Age Adjusted)	-	-	-
Increase in net OPEB obligation	5,132	7,595	12,727
Net OPEB obligation-beginning of year	27,184	26,594	53,778
Net OPEB obligation-end of year	<u>\$ 32,316</u>	<u>\$ 34,189</u>	<u>\$ 66,505</u>

The Town's annual OPEB cost for governmental activities, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The Town's first year of implementing GASB No. 45 was June 30, 2011.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 5,132	0%	\$ 32,316
June 30, 2014	\$ 4,588	0%	\$ 27,184
June 30, 2013	\$ 7,532	0%	\$ 22,596
June 30, 2012	\$ 7,532	0%	\$ 15,064

The Town's annual cost for business-type activities, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The Town's first year of implementing GASB No. 45 was June 30, 2011.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2015	\$ 7,595	0%	\$ 34,189
June 30, 2014	\$ 7,757	0%	\$ 26,594
June 30, 2013	\$ 6,279	0%	\$ 18,837
June 30, 2012	\$ 6,279	0%	\$ 12,558

Funding Policy

The Town currently funds post-employment health care benefits on a pay-as-you-go basis. During fiscal year 2015, the Town had not designated any funding for the OPEB liability.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

16. OTHER POST-EMPLOYMENT BENEFITS (continued)

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress for the Town of Pennington Gap, Virginia

Activity Type	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Governmental	\$ -	\$ 53,047	\$ 53,047	0.00%	\$ 316,938	16.74%
Business-type	\$ -	\$ 89,705	\$ 89,705	0.00%	\$ 535,964	16.74%

17. NEW ACCOUNTING PRONOUNCEMENTS

The following Governmental Accounting Standards Board (GASB) Statements have been implemented in the current financial statements:

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, Accounting for Pension by State and Local Government Employers, as well as the requirements of Statement No. 50, Pension disclosures. GASB No. 68 requires employers to recognize a net pension liability (Asset) on the statement of net position for the net funded status of pension plans as employees earn their pension benefits and recognize annual pension cost under an “earning” approach rather than a “funding” approach. The provisions of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

Statement No.69 “Government Combinations and Disposals of Government Operations”: The provisions of this statement are effective for financial statements for fiscal years beginning after December 15, 2013.

In November 2013, GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment to GASB No. 68. The objective of this Statement is to resolve an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. It also eliminates a potential source of understatement of restated beginning net position and expense in a government’s first year of implementing GASB 68. The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2015

18. RESTATEMENT OF NET POSITION

The Town implemented the financial reporting provisions of the Statements described in Note 16 for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures relating to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of this Statement will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in the following restatement of net position:

	<u>General Government</u>	<u>Water & Sewer</u>
Net Position as reported at June 30, 2014	\$ 4,462,799	\$ 8,462,831
Implementation of GASB 68	<u>19,247</u>	<u>30,106</u>
Net Position as restated at June 30, 2015	<u>\$ 4,482,046</u>	<u>\$ 8,492,937</u>

19. COMMITMENTS AND CONTINGENCIES

During fiscal year 2014, the Town of Pennington transferred amounts from the Industrial Development Fund for use by other funds. A portion of the original source funds were derived from DHCD funding and subsequently, an inquiry is pending from DHCD as to the eligibility of use of the previously restricted funds. Pending review by DHCD an amount that is undetermined as of the audit release date may be required to be repaid to the restricted Industrial Development Fund.

20. SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 27, 2016, the date which the financial statements were available to be issued.

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2015

SCHEDULE 1
Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
PRIMARY GOVERNMENT				
GENERAL FUND:				
General Property Taxes:				
Real property taxes	\$ 164,000	\$ 164,000	\$ 159,029	\$ (4,971)
Personal property taxes	23,000	23,000	25,588	2,588
Penalties and interest	4,050	4,050	5,376	1,326
Total General Property Taxes	<u>191,050</u>	<u>191,050</u>	<u>189,993</u>	<u>(1,057)</u>
Other Local Taxes:				
Local sales and use tax	52,000	52,000	50,690	(1,310)
Utility taxes	48,000	48,000	45,647	(2,353)
Business license tax	16,000	16,000	14,364	(1,636)
Franchise license tax	50,000	50,000	46,946	(3,054)
Bank stock taxes	165,000	165,000	159,224	(5,776)
Hotel and motel room taxes	4,000	4,000	3,523	(477)
Restaurant food taxes	360,000	360,000	346,640	(13,360)
Other local taxes	-	-	-	-
Total Other Local Taxes	<u>695,000</u>	<u>695,000</u>	<u>667,034</u>	<u>(27,966)</u>
Permits, Privilege Fees, And Regulatory Licenses	<u>140,000</u>	<u>140,000</u>	<u>110,364</u>	<u>(29,636)</u>
Fines and Forfeitures	<u>25,100</u>	<u>25,100</u>	<u>10,862</u>	<u>(14,238)</u>
Revenue From Use Of Money and Property:				
Revenue from use of money	7,000	7,000	5,538	(1,462)
Revenue from use of property	26,784	26,784	24,641	(2,143)
Total Revenue From Use of Money and Property	<u>33,784</u>	<u>33,784</u>	<u>30,179</u>	<u>(3,605)</u>
Miscellaneous Revenue	<u>20,000</u>	<u>20,000</u>	<u>15,099</u>	<u>(4,901)</u>
Charges For Services:				
Garbage collection fees	90,000	90,000	79,441	(10,559)
Other	132,000	132,000	86,026	(45,974)
Total Charges For Services	<u>222,000</u>	<u>222,000</u>	<u>165,467</u>	<u>(56,533)</u>
TOTAL PRIMARY GOVERNMENT	<u>1,326,934</u>	<u>1,326,934</u>	<u>1,188,998</u>	<u>(137,936)</u>
Revenue From The Commonwealth:				
Non-Categorical Aid:				
Rolling stock taxes	8,500	8,500	6,951	(1,549)
DCR	465,224	465,224	-	(465,224)
VDOT	711,220	711,220	264,339	(446,881)
Litter Grant	1,250	1,250	1,112	(138)
Total Non-Categorical Aid	<u>1,186,194</u>	<u>1,186,194</u>	<u>272,402</u>	<u>(913,792)</u>
Categorical Aid:				
State assistance	45,000	45,000	42,168	(2,832)
TVA-Greenway	48,096	48,096	-	(48,096)
COPS grant	22,350	22,350	1,303	(21,047)
Other grant income	-	-	12,240	12,240
Total Categorical Aid	<u>115,446</u>	<u>115,446</u>	<u>55,711</u>	<u>(59,735)</u>
Total Revenue From The Commonwealth	<u>1,301,640</u>	<u>1,301,640</u>	<u>328,113</u>	<u>(973,527)</u>
Revenue From The Federal Government:				
Federal Emergency Management Grant	-	-	-	-
Rural Development	-	50,000	50,000	-
Total Revenue from the Federal Government	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers Out	(239,384)	(239,384)	(6,580)	232,804
Insurance proceeds	-	206,087	295,938	89,851
Sale of property	2,000	2,000	10,580	8,580
Appropriation of prior year surplus	719,640	773,961	-	(773,961)
Total Other Financing Sources	<u>482,256</u>	<u>742,664</u>	<u>299,938</u>	<u>(442,726)</u>
GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS	<u>\$ 3,110,830</u>	<u>\$ 3,421,238</u>	<u>\$ 1,867,049</u>	<u>\$ (1,554,189)</u>

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

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2015

SCHEDULE 2
Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
PRIMARY GOVERNMENT				
GENERAL FUND:				
General Government Administration:				
Salaries	\$ 10,215	\$ 10,215	\$ 14,846	(4,631)
Fringe benefits	21,150	21,150	15,086	6,064
Payroll taxes	5,500	5,500	2,353	3,147
Utilities	14,500	14,500	10,068	4,432
Insurance	7,000	7,000	9,006	(2,006)
Supplies	12,500	12,500	30,333	(17,833)
Repair and maintenance	10,000	19,767	67,259	(47,492)
Training and travel	6,500	6,500	5,098	1,402
Fuel	-	-	79	(79)
Advertising	2,500	2,500	2,449	51
Legal and accounting fees	21,000	21,000	21,195	(195)
Council fees	6,600	6,600	6,600	-
Donations	6,000	6,000	44,000	(38,000)
Capital purchases	20,000	20,000	8,011	11,989
Miscellaneous	5,000	5,000	49,747	(44,747)
Total General Government Administration	<u>148,465</u>	<u>158,232</u>	<u>286,130</u>	<u>(127,898)</u>
Public Safety:				
Salaries	210,000	210,000	217,338	(7,338)
Fringe benefits	79,350	79,350	85,329	(5,979)
Payroll taxes	20,500	20,500	20,064	436
Utilities	17,000	17,000	15,234	1,766
Insurance	32,500	32,500	33,407	(907)
Supplies	13,500	13,500	11,351	2,149
Repair and maintenance	11,500	11,500	7,228	4,272
Training and travel	8,500	8,500	3,515	4,985
Fuel	37,000	37,000	29,013	7,987
Legal and accounting fees	4,000	4,000	2,686	1,314
Capital purchases	534,000	621,892	639,158	(17,266)
Miscellaneous	9,400	9,400	2,366	7,034
Total Public Safety	<u>977,250</u>	<u>1,065,142</u>	<u>1,066,689</u>	<u>(1,547)</u>
Public Works:				
Maintenance of Highways, Streets, Bridges and Sidewalks:				
Salaries	67,641	67,641	61,584	6,057
Fringe benefits	33,250	33,250	20,998	12,252
Payroll taxes	8,200	8,200	6,973	1,227
Utilities	48,300	48,300	51,155	(2,855)
Insurance	10,000	10,000	9,006	994
Supplies	5,000	5,000	3,929	1,071
Repair and maintenance	20,000	20,000	14,229	5,771
Fuel	15,000	15,000	11,587	3,413
Capital purchases	32,500	32,500	3,245	29,255
Miscellaneous	6,500	6,500	4,932	1,568
Highways, streets, bridges and sidewalks	36,350	36,350	20,037	16,313
TVA Greenway	759,316	759,316	335,945	423,371
ATV Trail	465,224	465,224	61,130	404,094
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	<u>1,507,281</u>	<u>1,507,281</u>	<u>604,750</u>	<u>902,531</u>

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2015

SCHEDULE 2
Page 2

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
Sanitation and Waste Removal				
Salaries	\$ 56,784	56,784	\$ 48,703	8,081
Fringe benefits	31,950	31,950	24,255	7,695
Payroll taxes	4,400	4,400	5,032	(632)
Insurance	7,500	7,500	9,006	(1,506)
Supplies	4,000	4,000	237	3,763
Repair and maintenance	1,000	1,000	949	51
Fuel	10,000	10,000	7,707	2,293
Capital purchases	11,000	11,000	3,969	7,031
Miscellaneous	17,500	17,500	15,137	2,363
Total Sanitation and Waste Removal	<u>144,134</u>	<u>144,134</u>	<u>114,995</u>	<u>29,139</u>
Total Public Works	<u>1,651,415</u>	<u>1,651,415</u>	<u>719,745</u>	<u>931,670</u>
 Parks, Recreation and Cultural:				
Salaries	48,000	48,000	53,227	(5,227)
Fringe benefits	4,500	4,500	7,261	(2,761)
Payroll taxes	4,400	4,400	3,687	713
Utilities	54,000	54,000	44,385	9,615
Insurance	10,000	10,000	18,011	(8,011)
Supplies	16,500	16,500	7,368	9,132
Repair and maintenance	12,000	208,320	60,103	148,217
Capital purchases	90,000	106,429	145,184	(38,755)
Miscellaneous	2,000	2,000	1,450	550
Theatre	65,500	65,500	62,001	3,499
Parks and recreation	26,800	26,800	30,629	(3,829)
Total Parks, Recreation and Cultural	<u>333,700</u>	<u>546,449</u>	<u>433,306</u>	<u>113,143</u>
 GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS	 <u><u>\$ 3,110,830</u></u>	 <u><u>\$ 3,421,238</u></u>	 <u><u>\$ 2,505,870</u></u>	 <u><u>\$ 915,368</u></u>
 NET INCREASE (DECREASE) IN GENERAL FUND BALANCE	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ (638,821)</u></u>	 <u><u>\$ (638,821)</u></u>

TOWN OF PENNINGTON GAP
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
JUNE 30, 2015

	<u>2014</u>
Total pension liability	
Service cost	\$ 53,695
Interest	42,053
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions	-
Benefit payments, including refunds of employee contributions	<u>(18,015)</u>
Net change in total pension liability	<u>77,733</u>
Total pension liability - beginning	<u>609,759</u>
Total pension liability - ending	<u><u>\$ 687,492</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 33,860
Contributions - employee	29,229
Net investment income	102,321
Benefit payments, including refunds of employee contributions	(18,015)
Administrative expense	(506)
Other	<u>6</u>
Net change in total pension liability	<u>146,895</u>
Total pension liability - beginning	<u>625,252</u>
Total pension liability - ending	<u><u>\$ 772,147</u></u>
 Political subdivision's net pension liability - ending	 \$ (84,655)
 Plan fiduciary net position as a percentage of the total pension liability	 112.31%
 Covered - employee payroll	 \$ 608,832
 Political subdivision's net pension liability as a percentage of covered-employee payroll	 -13.90%

1) Fiscal year 2015 was the first year of GASB 68 implementation; therefore only one year is shown herein.

**TOWN OF PENNINGTON GAP
SCHEDULE OF EMPLOYER CONTRIBUTIONS
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
JUNE 30, 2015**

Date	Contractually Required Contribution	Contributions Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2015	\$ 39,349	\$ 39,349	\$ -	\$ 608,832	6.46%

1) Fiscal year 2015 was the first year of GASB 68 implementation; therefore only one year is shown herein.
Additional years will be included as they become available

TOWN OF PENNINGTON GAP
Notes to Required Supplemental Information
For the Year Ended June 30, 2015

Change of benefit terms - There have been no significant changes to the Systems benefits provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increases by .25% per year

Largest 10 - LEOS

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increases by .25% per year

All Others (Non 10 Largest) - LEOS

- Update mortality table
- Adjustment to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability