

***TOWN OF PENNINGTON GAP, VIRGINIA***

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**AUDIT REPORT**

**Year Ended June 30, 2014**

**Draft**

**TOWN OF PENNINGTON GAP, VIRGINIA  
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Year Ended June 30, 2014**

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**TOWN OF PENNINGTON GAP, VIRGINIA**  
**TOWN OFFICIALS**  
**June 30, 2014**

**MAYOR:**

D.R. Carter

**TOWN COUNCIL:**

Larry Holbrook  
Gary McElyea  
Terry K. Pope  
Jimmy Smallwood  
Keith Harless

**OTHER OFFICIALS:**

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

**ATTORNEY:**

Gregory Kallen

Draft

# 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)**

**\*Member of American Institute of  
Certified Public Accountants  
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**612 Trent Street  
Norton, Virginia 24273  
Phone: (276) 679-2780  
Fax: (276) 679-7445**

## **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, 2014, 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 .287 percent, .391 percent, and .163 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, 2014, 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.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 44 through 46 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 the 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.

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

Norton, Virginia  
June 3, 2015

# THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants  
& Consultants

\*\*BRIAN K. BLANTON, C.P.A.  
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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, 2014, and the related notes to the financial statements, which collectively comprise the Town of Saint Paul, Virginia's basic financial statements, and have issued our report thereon dated June 3, 2015. 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, 2014, 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. We consider the deficiencies described in the *Schedule of Findings* issued separately to management as 2014-4 and 2014-5 to be material weaknesses.

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

### **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)*

We noted certain matters that we reported to management of the Town of Pennington Gap, Virginia, in a separate letter dated June 3, 2015.

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.

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***THROWER, BLANTON & ASSOCIATES, P.C.***

Certified Public Accountants

Norton, Virginia  
June 3, 2015

Draft

**TOWN OF PENNINGTON GAP, VIRGINIA**

***SUMMARY OF COMPLIANCE MATTERS***

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**June 30, 2014**

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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

Draft



**TOWN OF PENNINGTON GAP**  
**STATEMENT OF NET POSITION**  
June 30, 2014

EXHIBIT 1

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental Activities</b>	<b>Business Type Activities</b>	<b>Total Primary Government</b>	<b>Industrial Development Authority</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 670,866	\$ 711,626	\$ 1,382,492	23,591
Receivables, net	93,275	228,613	321,888	-
Due from other funds	275	189,359	189,634	-
Due from other governmental units	130,550	-	130,550	-
Restricted cash	349,135	1,186,014	1,535,149	-
Loans receivable	-	26,092	26,092	20,000
Prepaid and other	11,598	10,117	21,715	-
Capital assets, net	3,463,727	11,129,565	14,593,292	-
<b>TOTAL ASSETS</b>	<b>\$ 4,719,426</b>	<b>\$ 13,481,386</b>	<b>\$ 18,200,812</b>	<b>\$ 43,591</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 160,891	\$ 43,532	\$ 204,423	1,800
Accrued payroll and related liabilities	12,116	9,247	21,363	-
Accrued interest payable	-	23,121	23,121	-
Customer security deposits	-	59,315	59,315	-
Due to other funds	167,130	22,504	189,634	-
Compensated absences	20,993	36,241	57,236	-
Long-term liabilities:				
Due within one year	-	252,805	252,805	-
Due in more than one year	27,184	4,446,107	4,467,285	-
<b>Total Liabilities</b>	<b>388,314</b>	<b>4,886,867</b>	<b>5,275,182</b>	<b>1,800</b>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	3,436,543	6,463,253	9,899,796	-
Restricted	-	195,281	195,281	-
Unrestricted	894,569	1,935,984	2,830,553	41,791
<b>Total Net Position</b>	<b>\$ 4,331,112</b>	<b>\$ 8,594,518</b>	<b>\$ 12,925,630</b>	<b>\$ 41,791</b>

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF ACTIVITIES**  
June 30, 2014

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General government	\$ 168,938	\$ 107,221	\$ -	\$ -	\$ (61,717)	\$ -	(61,717)
Public safety	498,947	13,846	55,345	-	(429,756)	-	(429,756)
Public works	421,285	81,252	-	-	(340,033)	-	(340,033)
Parks, recreation, and cultural	280,870	68,785	-	511,204	299,119	-	299,119
Non-departmental	-	-	-	-	-	-	-
Total Governmental Activities	1,370,040	271,104	55,345	511,204	(532,387)	-	(532,387)
<b>Business-Type Activities:</b>							
Water	1,419,888	1,223,713	-	-	-	(196,175)	(196,175)
Wastewater	634,364	508,263	-	-	-	(126,101)	(126,101)
Industrial fund	-	-	-	-	-	-	-
Total Enterprise Activities	2,054,252	1,731,976	-	-	-	(322,276)	(322,276)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,424,292</b>	<b>\$ 2,003,080</b>	<b>\$ 55,345</b>	<b>\$ 511,204</b>	<b>\$ (532,387)</b>	<b>\$ (322,276)</b>	<b>\$ (854,663)</b>
<b>COMPONENT UNIT:</b>							
Industrial Development Authority	\$ 9,145	\$ 650	\$ -	\$ -	\$ -	\$ -	(8,495)
<b>General Revenues:</b>							
Property taxes					173,500	-	173,500
Other local taxes					672,465	-	672,465
Unrestricted intergovernmental revenue					10,385	-	10,385
Unrestricted investment earnings					8,338	16,662	25,000
Rental of Town property					25,404	-	25,404
Recovered costs					-	-	-
Transfers-Primary Government					157,283	(157,283)	-
Gain from Sale of Property					-	-	-
Other					24,555	-	24,555
Total general revenues and transfers					1,071,930	(140,621)	931,309
Change in net position					539,543	(462,897)	76,646
<b>NET POSITION - JULY 1</b>					3,791,569	9,057,415	12,848,984
<b>NET POSITION - JUNE 30</b>					\$ 4,331,112	\$ 8,594,518	\$ 12,925,630

The accompanying notes are an integral part of the financial statements

**TOWN OF PENNINGTON GAP**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2014

EXHIBIT 3

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 670,866	\$ -	\$ 670,866
Receivables, net:			
Taxes receivable	40,889	-	40,889
Accounts receivable	52,001	-	52,001
Interest	385	-	385
Prepaid Insurance	11,598	-	11,598
Due From other funds	275	-	275
Due from other governmental units	130,550	-	130,550
Restricted cash	163,746	185,389	349,135
Total Assets	<u>\$ 1,070,310</u>	<u>\$ 185,389</u>	<u>\$ 1,255,699</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	160,891	-	160,891
Accrued payroll and related liabilities	12,116	-	12,116
Due to other funds	167,130	-	167,130
Total Liabilities	<u>340,137</u>	<u>-</u>	<u>340,137</u>
<b>DEFERRED INFLOWS</b>			
Property Taxes Receivable	38,265	-	38,265
Total Deferred Inflows	<u>38,265</u>	<u>-</u>	<u>38,265</u>
<b>FUND BALANCES</b>			
Nonspendable	11,598	-	11,598
Restricted	163,746	185,389	349,135
Committed	-	-	-
Assigned	-	-	-
Unassigned	516,564	-	516,564
Total Fund Balances	<u>691,908</u>	<u>185,389</u>	<u>877,297</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,070,310</u>	<u>\$ 185,389</u>	<u>\$ 1,255,699</u>
Total Fund Balances	<u>\$ 877,297</u>		

**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.	3,463,727
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.	38,265
Other liabilities are not required to be paid out of current financial resources and, therefore, are not reported in the governmental funds.	(20,993)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(27,184)
Net Position of Governmental Activities	<u>\$ 4,331,112</u>

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GENERAL AND DEBT SERVICE FUNDS**  
Year Ended June 30, 2014

EXHIBIT 4

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>REVENUES:</b>			
General property taxes	\$ 176,630	\$ -	\$ 176,630
Other local taxes	672,465	-	672,465
Permits, Privilege Fees, and Licenses	107,221	-	107,221
Fines and forfeitures	13,846	-	13,846
Revenue from use of money & property	33,063	679	33,742
Charges for services	150,037	-	150,037
Miscellaneous	24,561	-	24,561
Recovered costs	-	-	-
Intergovernmental	576,934	-	576,934
Total Revenues	<u>1,754,757</u>	<u>679</u>	<u>1,755,436</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
General government administration	154,082	-	154,082
Public safety	585,678	-	585,678
Public works	422,058	-	422,058
Parks, recreation and cultural	1,050,473	-	1,050,473
<b>Debt Service:</b>			
Principal retirement	-	-	-
Interest	-	-	-
Total Expenditures	<u>2,212,291</u>	<u>-</u>	<u>2,212,291</u>
Excess (Deficiency) of Revenues Over Expenditures	(457,534)	679	(456,855)
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of surplus	-	-	-
Loan proceeds	-	-	-
Operating transfers in(out)	157,283	-	157,283
Total Other Financing Sources ( Uses )	157,283	-	157,283
Excess (Deficiency of Revenues and Other Sources Over Expenditures and Other Uses	(300,251)	679	(299,572)
<b>Fund Balance at Beginning of Year</b>	<u>992,159</u>	<u>184,710</u>	<u>1,176,869</u>
<b>Fund Balance at End of Year</b>	<u>\$ 691,908</u>	<u>\$ 185,389</u>	<u>\$ 877,297</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, 2014

EXHIBIT 5

	<u><b>Governmental Funds</b></u>
<b>Net Change in Fund Balance Governmental Funds:</b>	
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.	849,043
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(3,136)
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and, therefore, are not required as expenditures in governmental funds.	<u>(6,792)</u>
<b>Change in Net Position of Governmental Activities</b>	<u><b>\$ 422,243</b></u>

Draft

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2014

EXHIBIT 6

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Industrial Fund</b>	<b>Combined Total 2014</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 356,172	\$ 355,454	\$ -	\$ 711,626
Receivables (Net of Allowance for Uncollectibles):				
Accounts	142,037	86,047	-	228,084
Interest	487	28	14	529
Due from other funds	27,458	30,214	131,687	189,359
Loans receivable	-	-	26,092	26,092
Prepaid and other	5,669	4,448	-	10,117
Restricted cash	1,148,526	-	37,488	1,186,014
Land	10,600	20,515	6,943	38,058
Capital assets, net	7,374,064	3,717,443	-	11,091,507
 Total Assets	 <u>\$ 9,065,013</u>	 <u>\$ 4,214,149</u>	 <u>\$ 202,224</u>	 <u>13,481,386</u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 7,552	\$ 35,980	\$ -	\$ 43,532
Accrued payroll and related liabilities	5,980	3,267	-	9,247
Accrued interest payable	16,647	6,474	-	23,121
Customer security deposits	41,132	18,183	-	59,315
Due to other funds	-	2,504	-	22,504
Compensated absences	32,831	3,412	-	36,243
Long-term liabilities:				
Due within one year	203,305	49,500	-	252,805
Due in more than one year	3,829,918	610,183	-	4,440,101
 Total Liabilities	 <u>4,137,365</u>	 <u>749,503</u>	 <u>-</u>	 <u>4,886,868</u>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	3,369,352	3,086,958	6,943	6,463,253
Restricted	-	-	195,281	195,281
Unrestricted	1,558,296	377,688	-	1,935,984
 Total Net Position	 <u>4,927,648</u>	 <u>3,464,646</u>	 <u>202,224</u>	 <u>8,594,518</u>
 Total Liabilities and Net Position	 <u>\$ 9,065,013</u>	 <u>\$ 4,214,149</u>	 <u>\$ 202,224</u>	 <u>\$ 13,481,386</u>

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2014

EXHIBIT 7

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Industrial Fund</u>	<u>Combined Totals 2014</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,195,803	\$ 503,135	\$ -	\$ 1,698,938
Tap fees	3,783	-	-	3,783
Connections	3,125	-	-	3,125
Reconnections	3,200	-	-	3,200
Penalties	16,756	-	-	16,756
Miscellaneous	1,046	5,128	-	6,174
Total Operating Revenues	<u>1,223,713</u>	<u>508,263</u>	<u>-</u>	<u>1,731,976</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	415,897	176,644	-	592,541
Payroll taxes	33,963	14,258	-	48,221
Group health and life	126,696	50,346	-	177,042
Pension	19,028	7,929	-	26,957
Utilities	118,714	51,436	-	170,150
Telephone	7,155	1,430	-	8,585
Supplies	71,068	16,439	-	87,507
Vehicle expense	19,427	11,107	-	21,533
Insurance	16,919	12,300	-	29,219
Repair and maintenance	43,514	46,047	-	89,561
Certification, travel, and training	125	100	-	225
Professional services	8,435	7,771	-	16,206
Lab and analysis	2,514	4,895	-	7,409
Dues and subscriptions	7,417	425	-	7,842
Depreciation	434,430	173,668	-	608,098
Miscellaneous	11,508	39,027	-	50,535
Total Operating Expenses	<u>1,327,809</u>	<u>613,822</u>	<u>-</u>	<u>1,941,631</u>
Operating Income (Loss)	<u>(104,096)</u>	<u>(105,559)</u>	<u>-</u>	<u>(209,655)</u>
<b>NON-OPERATING REVENUES (EXPENSES) :</b>				
Grant income	-	-	-	-
Transfers	-	-	(157,283)	(157,283)
Interest expense	(92,079)	(20,542)	-	(112,621)
Interest income	15,254	740	668	16,662
Gain/loss on disposition of assets	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(76,825)</u>	<u>(19,802)</u>	<u>(156,615)</u>	<u>(253,242)</u>
<b>CHANGE IN NET POSITION</b>	<u>(180,921)</u>	<u>(125,361)</u>	<u>(156,615)</u>	<u>(462,897)</u>
<b>NET POSITION AT JULY 1, AS RESTATED</b>	<u>5,108,569</u>	<u>3,590,007</u>	<u>358,839</u>	<u>9,057,415</u>
<b>NET POSITION AT JUNE 30</b>	<u>\$ 4,927,648</u>	<u>\$ 3,464,646</u>	<u>\$ 202,224</u>	<u>\$ 8,594,518</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, 2014

EXHIBIT 8

	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Industrial Fund</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,224,459	\$ 513,817	\$ -	\$ 1,738,276
Cash payments to suppliers for goods and services	(305,406)	(203,437)	-	(508,843)
Cash payments to employees for services	(585,911)	(246,239)	-	(832,150)
Other operating income	-	-	-	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>333,142</u>	<u>64,141</u>	<u>-</u>	<u>397,283</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Increase ( decrease ) in customer deposits	(1,745)	(1,015)	-	(2,760)
(Increase) decrease in due from other funds	1,846	(1,846)	-	-
Increase (decrease) in due to other funds	-	-	-	-
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>101</u>	<u>(2,861)</u>	<u>-</u>	<u>(2,760)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of capital assets	-	(38,018)	-	(38,018)
Disposition of capital assets	-	-	-	-
Interfund transfer	-	-	(157,284)	-
Proceeds from borrowings	-	-	-	-
Contributed capital - Grant revenue	-	-	-	-
Principal paid on revenue bonds	(203,403)	(49,500)	-	(252,903)
Interest paid on revenue bonds and equipment	(97,132)	(21,034)	-	(118,166)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(302,860)</u>	<u>(108,552)</u>	<u>(157,284)</u>	<u>(411,412)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments received on community development loans	-	-	6,768	-
Interest on investments	15,282	759	722	16,041
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>15,282</u>	<u>759</u>	<u>7,490</u>	<u>16,041</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	45,665	(46,513)	(149,794)	(150,642)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,459,033</u>	<u>401,967</u>	<u>187,282</u>	<u>2,048,282</u>
Cash and Cash Equivalents at June 30, 2014				
Unrestricted	\$ 356,172	\$ 355,454	\$ -	\$ 711,626
Restricted	1,148,526	-	37,488	1,186,014
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,504,698</u>	<u>\$ 355,454</u>	<u>\$ 37,488</u>	<u>\$ 1,897,640</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (104,096)	\$ (105,559)	\$ -	\$ (209,655)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation and amortization	434,430	173,668	-	608,098
Increase (decrease) in accrued compensated absences	6,581	1,391	-	7,972
<b>Change in Assets, Liabilities, Deferred Inflows/Outflows:</b>				
(Increase) decrease in accounts receivable	746	5,554	-	6,300
(Increase) decrease in prepaid expenses	(4,469)	(4,448)	-	(8,917)
Increase (decrease) in accounts payable	(3,142)	(8,012)	-	(11,154)
Increase (decrease) in accrued liabilities	3,092	1,547	-	4,639
<b>TOTAL ADJUSTMENTS</b>	<u>437,238</u>	<u>169,700</u>	<u>-</u>	<u>606,938</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 333,142</u>	<u>\$ 64,141</u>	<u>\$ -</u>	<u>\$ 397,283</u>



**TOWN OF PENNINGTON GAP**  
Discretely Presented Component Unit-Industrial Development Authority  
Balance Sheet  
June 30, 2014

EXHIBIT 9

**ASSETS**

Cash and cash equivalents	\$ 23,591
Notes Receivable	<u>20,000</u>
Total Assets	<u>\$ 43,591</u>

**LIABILITIES**

Accounts payable	\$ 1,800
Total Liabilities	<u>1,800</u>

**FUND BALANCES**

Assigned	-
Unassigned	<u>41,791</u>
Total fund balances	<u>41,791</u>
Total liabilities and fund balances	<u>\$ 43,591</u>

Draft

**TOWN OF PENNINGTON GAP**  
Discretely Presented Component Unit-Industrial Development Authority  
Statement of Revenues, Expenditures and Changes in Net Position  
Year Ended June 30, 2014

EXHIBIT 10

	<u><b>Total</b></u>
<b>REVENUES:</b>	
Charges for services	\$ -
Sale of equipment	650
Total Revenues	<u>650</u>
<b>EXPENDITURES:</b>	
Industrial development	-
Professional Services	8,450
Cost of Equipment Sold	650
Travel	45
Total Expenditures	<u>9,145</u>
Excess of revenues over expenditures	(8,495)
<b>Net Position at Beginning of Year</b>	<u>50,286</u>
<b>Net Position at End of Year</b>	<u><u>\$ 41,791</u></u>

Draft

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

**June 30, 2014**

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**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, 2014

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, 2014

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 measurable 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, 2014

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.

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

**June 30, 2014**

**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.

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

**June 30, 2014**

---

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

**J. Defined Benefit Pension Plans**

Defined benefit pension plan contributions are actuarially determined and consist of current service costs and amortization of past service costs over a 10-year period for the Virginia Retirement System (VRS) Plans. The Town's policy is to fund pension cost as it accrues.

**K. 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, 2014**

**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	2%
Farmers and Miners Bank	18%
Powell Valley National Bank	11%
New Peoples Bank	9%

**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	293,551	23,591
Investments	2,622,990	-0-
	<u>\$2,917,641</u>	<u>\$ 23,591</u>
Statement of net position:		
Cash and cash equivalents	\$ 197,885	\$ 23,591
Restricted cash and cash equivalents	1,533,888	-0-
Investments	1,185,868	-0-
	<u>\$2,917,641</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, 2014**

**3. DUE FROM OTHER GOVERNMENTAL UNITS**

Commonwealth of Virginia:		
Local sales tax	\$ 4,089	
VDOT Grant	117,300	
Fire Programs	1,000	
Communication tax	<u>7,980</u>	
Total Commonwealth of Virginia		\$ 130,369
Lee County:		
Court fines/transfer fees	<u>181</u>	
Total Lee County		<u>181</u>
Total Due from other Governmental Units		<u>\$ 130,550</u>

**4. INTERFUND OBLIGATIONS**

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Fund	-	7,076
Sewer Fund	275	28,368
Industrial Fund	-	131,687
Water Fund:		
General Fund	7,076	-
Sewer Fund	22,229	1,846
Sewer Fund:		
Water Fund	1,846	22,229
General Fund	28,368	275
Industrial Fund:		
General Fund	<u>131,687</u>	<u>-</u>
TOTAL	<u>\$ 191,481</u>	<u>\$ 191,481</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 \$38,265 in the general fund, comprised of uncollected tax billings not available for funding of current expenditures as of June 30, 2014.

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

**June 30, 2014**

**6. CHANGES IN CAPITAL ASSETS**

The following is a summary of changes in capital assets:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable</b>				
Land	\$ 160,345	\$ 120,000	\$ -	\$ 280,345
Construction in progress	<u>1,294,687</u>	<u>715,201</u>	<u>1,673,831</u>	<u>336,057</u>
Total Capital Assets, Non-depreciable	<u>1,455,032</u>	<u>835,201</u>	<u>1,673,831</u>	<u>616,402</u>
<b>Capital assets, depreciable</b>				
Equipment	1,548,617	180,757	-	1,729,374
Buildings and improvements	1,147,293	1,673,831	-	2,821,124
Other improvements	88,674	-	-	88,674
Infrastructure	<u>467,453</u>	<u>-</u>	<u>-</u>	<u>467,453</u>
Total Capital Assets, depreciable	<u>3,252,037</u>	<u>1,854,588</u>	<u>-</u>	<u>5,106,625</u>
<b>Less accumulated depreciation for</b>				
Equipment	1,236,601	103,154	-	1,339,755
Buildings and improvements	377,207	55,356	-	432,563
Other improvements	91,955	(3,281)	-	88,674
Infrastructure	<u>386,622</u>	<u>11,686</u>	<u>-</u>	<u>398,308</u>
Total accumulated depreciation	<u>2,092,385</u>	<u>166,915</u>	<u>-</u>	<u>2,259,300</u>
Total Capital Assets, depreciable, net	<u>1,159,652</u>	<u>1,687,673</u>	<u>-</u>	<u>2,847,325</u>
Governmental activities Capital assets, net	<u>\$2,614,684</u>	<u>\$ 2,522,874</u>	<u>\$ 1,673,831</u>	<u>\$3,463,727</u>
<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable</b>				
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>
<b>Capital assets, depreciable</b>				
Buildings	9,320,445	-	-	9,320,445
Infrastructure	13,550,242	38,020	-	13,588,262
Machinery & equipment	<u>612,497</u>	<u>-</u>	<u>-</u>	<u>612,497</u>
Total Capital Assets, depreciable	<u>23,483,184</u>	<u>38,020</u>	<u>-</u>	<u>23,521,204</u>
<b>Less accumulated depreciation for</b>				
Buildings	4,116,330	232,762	-	4,349,092
Infrastructure	7,285,838	344,002	-	7,629,840
Machinery & equipment	<u>419,430</u>	<u>31,335</u>	<u>-</u>	<u>450,765</u>
Total accumulated depreciation	<u>11,821,598</u>	<u>608,099</u>	<u>-</u>	<u>12,429,697</u>
Total Capital Assets, depreciable, net	<u>11,661,586</u>	<u>(570,079)</u>	<u>-</u>	<u>11,091,507</u>
Business-Type activities Capital assets, net	<u>\$11,699,644</u>	<u>\$ (570,079)</u>	<u>\$ -</u>	<u>\$11,129,565</u>

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

**June 30, 2014**

**7. CAPITAL ASSETS**

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

Governmental activities:	
General government	\$ 13,688
Public safety	78,760
Public works	36,451
Parks, recreation and cultural	<u>38,016</u>
Total depreciation expense – governmental activities	<u>\$ 166,915</u>
Business-type activities:	
Water	\$ 432,501
Sanitation	<u>173,711</u>
Total depreciation expense – business-type activities	<u>\$ 606,212</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 \$119,488 at June 30, 2014, and is composed of the following:

<b>General Fund:</b>	
Allowance for uncollectible property taxes	\$ 38,507
Allowance for uncollectible garbage fees	<u>4,953</u>
Total General Fund	<u>43,460</u>
<b>Water and Sewer Fund:</b>	
Allowance for uncollectible water and sewer fee billings	<u>76,028</u>
Total Water and Sewer Fund	<u>76,028</u>
<b>TOTAL</b>	<u><b>\$ 119,488</b></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, 2014, was \$1,572,480.

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, 2014, was \$923,832.

	<b>Water Revenue</b>
	<b>Bonds</b>
Revenue bonds payable at July 1, 2013	\$ 2,586,515
Issuances	-
Retirements	<u>( 90,203)</u>
Revenue bonds payable at June 30, 2014	<u><b>\$ 2,496,312</b></u>

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

**June 30, 2014**

**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.

\$ 1,519,000

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.

651,000

**TOTAL REVENUE REFUNDING BONDS**

**\$ 2,170,000**

	<b>REVENUE REFUNDING BONDS</b>		
	<b>Series 2012 Water Revenue Refunding</b>	<b>Series 2012 Sewer Revenue Refunding</b>	<b>Total Revenue Refunding Bond</b>
Bonds/loans payable at July 01, 2013	\$ 1,634,500	\$ 700,500	\$ 2,335,000
Issuances	-	-	-
Retirements	<u>(115,500)</u>	<u>(49,500)</u>	<u>(165,000)</u>
Bonds/loans payable at June 30, 2014	<u>\$ 1,519,000</u>	<u>\$ 651,000</u>	<u>\$ 2,170,000</u>

The annual requirements to amortize general obligation bonds outstanding as of June 30, 2014, 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>
2015	\$ 49,500	19,530	115,500	45,570	165,000	65,100
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>\$651,000</u>	<u>\$136,314</u>	<u>\$1,519,000</u>	<u>\$318,066</u>	<u>\$ 2,170,000</u>	<u>\$ 454,380</u>

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

**June 30, 2014**

**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, 2014 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, 2014:

	Balance July 1, 2012	Additions/ Proceeds	Payments/ Reductions	Balance June 30, 2013
<b>Governmental Activities</b>				
Accrued Compensated Absences	\$ 18,789	\$ 20,880	\$ (18,676)	\$ 20,993
	<u>18,789</u>	<u>20,880</u>	<u>(18,676)</u>	<u>20,993</u>
<b>Business-Type Activities</b>				
Accrued Compensated Absences	\$ 28,271	\$ 31,367	\$ (23,395)	\$ 36,243
	<u>28,271</u>	<u>31,367</u>	<u>(23,395)</u>	<u>36,243</u>
<b>Totals</b>	<u>\$ 47,060</u>	<u>\$ 52,247</u>	<u>\$ (42,071)</u>	<u>\$ 57,236</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, 2014**

**14. FUND BALANCE-GOVERNMENTAL FUNDS**

As of June 30, 2014, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:			
Prepaid items	\$ 11,598	\$ —	\$ 11,598
Restricted:			
Parks, Recreation & Cultural	163,746	—	163,746
Debt Reserve	—	185,389	185,389
Committed:			
Assigned:	—	—	—
Unassigned	516,564	—	516,564
Total fund balances	\$ 691,908	\$ 185,389	\$ 877,297

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. DEFINED BENEFIT PENSION PLAN**

**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 (professional) employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has different eligibility and benefit structures as set out in the table below:

**TOWN OF PENNINGTON GAP, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**15. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**A. Plan Description (Continued)**

<b>VRS PLAN 1</b>	<b>VRS PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>About VRS Plan 1</b> VRS 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 VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About VRS Plan 2</b> VRS 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 VRS 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><b>About the Hybrid Retirement Plan</b> 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 VRS Plan 1 and VRS 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"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> <li>• 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.</li> </ul>
<p><b>Eligible Members</b> Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>Eligible Members</b> Employees are in VRS 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><b>Eligible Members</b> 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"> <li>• State employees*</li> <li>• School division employees</li> <li>• Political subdivision employees*</li> <li>• Judges appointed or elected to an original term on or after January 1,</li> </ul>



**TOWN OF PENNINGTON GAP, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**15. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**A. Plan Description (Continued)**

<p><b>Hybrid Opt-In Election</b> 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned 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 VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election</b> VRS 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.</p> <p>The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned 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 VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.</p>	<p><b>Eligible Members (continued) 2014</b></p> <ul style="list-style-type: none"> <li>• Members in VRS Plan 1 or VRS 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</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Members of the State Police Officers' Retirement System (SPORS)</li> <li>• Members of the Virginia Law Officers' Retirement System (VaLORS)</li> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; 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</p>	<p><b>Retirement Contributions</b> Same as VRS Plan 1.</p>	<p><b>Retirement Contributions</b> 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,</p>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p><b>Retirement Contributions (continued)</b> 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><b>Retirement Contributions (continued)</b> 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><b>Creditable Service</b> 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><b>Creditable Service</b> Same as VRS Plan 1.</p>	<p><b>Creditable Service</b> <b><u>Defined Benefit Component:</u></b> 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 e</p> <p><b><u>Defined Contributions Component:</u></b> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p><b>Vesting</b> 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</p>	<p><b>Vesting</b> Same as VRS Plan 1.</p>	<p><b>Vesting</b> <b><u>Defined Benefit Component:</u></b> 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</p>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p><b><u>Vesting (continued)</u></b> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p><b><u>Vesting Defined Benefit Component (continued)</u></b> months) of creditable service. VRS Plan 1 or VRS 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.</p> <p><b><u>Defined Contributions Component:</u></b> 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>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.</p> <ul style="list-style-type: none"><li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li><li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li><li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li></ul> <p>Distribution is not required by law until age 70½.</p>
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TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p><b>Calculating the Benefit</b> 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><b>Calculating the Benefit</b> See definition under VRS Plan 1.</p>	<p><b>Calculating the Benefit</b> <b>Defined Benefit Component:</b> See definition under VRS Plan 1</p> <p><b>Defined Contribution Component:</b> 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><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> 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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> 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><b>Service Retirement Multiplier</b> The retirement multiplier is 1.0%.</p> <p>For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>
<p><b>Normal Retirement Age</b> Age 65.</p>	<p><b>Normal Retirement Age</b> Normal Social Security retirement age.</p>	<p><b>Normal Retirement Age</b> <b>Defined Benefit Component:</b> Same as VRS Plan 2.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

15. DEFINED BENEFIT PENSION PLAN (CONTINUED)

A. Plan Description (Continued)

<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at 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>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach 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>Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b>Defined Benefit Component:</b> Members are eligible for an unreduced retirement benefit when they reach 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><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as 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><b>Earliest Reduced Retirement Eligibility</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b> <b>Defined Benefit Component:</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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><b>Eligibility:</b> 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><b>Cost-of-Living Adjustment (COLA) in Retirement</b> 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><b>Eligibility:</b> Same as VRS Plan 1</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b>Defined Benefit Component:</b> Same as VRS Plan 2.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p> <p><b>Eligibility:</b> Same as VRS Plan 1 and VRS Plan 2.</p>

**TOWN OF PENNINGTON GAP, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**15. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**A. Plan Description (Continued)**

<p><b><u>Eligibility: (continued)</u></b> 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><b><u>Exceptions to COLA Effective Dates:</u></b> 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"><li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li><li>• The member retires on disability.</li><li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li><li>• 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.</li><li>• 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.</li></ul>	<p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1</p>	<p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as VRS Plan 1 and VRS Plan 2.</p>
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**TOWN OF PENNINGTON GAP, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**15. DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**A. Plan Description (Continued)**

<p><b>Disability Coverage</b> 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>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> 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>Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>State employees (including VRS Plan 1 and VRS Plan2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.</p> <p>Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p><b>Purchase of Prior Service</b> 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.</p>	<p><b>Purchase of Prior Service</b> Same as VRS Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b>Defined Benefit Component:</b> Same as VRS Plan 1.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p>

TOWN OF PENNINGTON GAP, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2014

15. **DEFINED BENEFIT PENSION PLAN (continued)**

**A. Plan Description (continued)**

The System issues a publicly available comprehensive annual report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publication/2013-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the Town of Pennington Gap, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2014 was 5.79% of annual covered payroll.

**C. Annual Pension Cost**

For the fiscal year 2014, the Town of Big Stone Gap's annual pension cost of \$259,244 was equal to the Town's required and actual contributions.

**PRIMARY GOVERNMENT:**

Three Year Trend Information for the Town of Big Stone Gap, Virginia:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$63,135	100%	\$ -0-
June 30, 2013	56,107	100	-0-
June 30, 2012	54,365	100	-0-

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.0% (b) projected salary increases of 3.75% to 5.60% per year for local general government employees and 3.5% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%.

The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2014 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.



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

**June 30, 2014**

**15. DEFINED BENEFIT PENSION PLAN (continued)**

**D. Funded Status and Funding Progress**

The schedule of funding progress, presented as Required Supplementary Information following these notes, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2013	\$ 594,478	\$ 609,759	\$ 15,281	97.49%	\$ 554,126	2.76%
6/30/2012	\$ 533,777	\$ 491,959	\$ (41,818)	108.50%	\$ 453,453	(9.22%)
6/30/2011	\$ 498,323	\$ 576,189	\$ 77,866	86.49%	\$ 501,019	15.54%
6/30/2010	\$ 458,278	\$ 512,130	\$ 53,852	89.48%	\$ 413,299	13.03%
6/30/2009	\$ 409,772	\$ 411,698	\$ 1,925	99.53%	\$ 406,120	0.47%

**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.

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

**June 30, 2014**

**16. OTHER POST-EMPLOYMENT BENEFITS (continued)**

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 4. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2014 is 26 years.

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2014, the Town's annual OPEB costs of \$4,588 for governmental activities and \$7,757 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
Annual required contribution	\$ 4,588	\$ 7,757	\$ 12,345
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	4,588	7,757	12,345
Contributions made (Age Adjusted)	-	-	-
Increase in net OPEB obligation	4,588	7,757	12,345
Net OPEB obligation-beginning of year	22,596	18,837	41,433
Net OPEB obligation-end of year	\$ 27,184	\$ 26,594	\$ 53,778

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

**June 30, 2014**

**16. OTHER POST-EMPLOYMENT BENEFITS (continued)**

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, 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, 2014	\$ 7,757	0%	\$ 36,594
June 30, 2013	\$ 6,279	0%	\$ 18,827
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 2014, the Town had not designated any funding for the OPEB liability.

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%

**TOWN OF PENNINGTON GAP**  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES - BUDGET AND ACTUAL  
Year Ended June 30, 2014

SCHEDULE 1  
Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>PRIMARY GOVERNMENT</b>				
<b>GENERAL FUND:</b>				
<b>General Property Taxes:</b>				
Real property taxes	\$ 151,000	\$ 151,000	\$ 153,306	\$ 2,306
Personal property taxes	20,300	20,300	19,426	(874)
Penalties and interest	2,300	2,300	3,898	1,598
Total General Property Taxes	<u>173,600</u>	<u>173,600</u>	<u>176,630</u>	<u>3,030</u>
<b>Other Local Taxes:</b>				
Local sales and use tax	52,000	52,000	46,228	(5,772)
Utility taxes	48,000	48,000	46,756	(1,244)
Business license tax	16,000	16,000	14,399	(1,601)
Franchise license tax	50,000	50,000	47,360	(2,640)
Bank stock taxes	164,000	164,000	171,127	7,127
Hotel and motel room taxes	5,000	5,000	3,282	(1,718)
Restaurant food taxes	353,000	353,000	343,313	(9,687)
Other local taxes	2,000	2,000	-	(2,000)
Total Other Local Taxes	<u>690,000</u>	<u>690,000</u>	<u>672,465</u>	<u>(17,535)</u>
<b>Permits, Privilege Fees, And Regulatory Licenses</b>	<u>140,000</u>	<u>140,000</u>	<u>107,221</u>	<u>(32,779)</u>
<b>Fines and Forfeitures</b>	<u>7,100</u>	<u>7,100</u>	<u>13,846</u>	<u>6,746</u>
<b>Revenue From Use Of Money and Property:</b>				
Revenue from use of money	7,000	7,000	7,658	658
Revenue from use of property	23,624	35,624	25,405	(10,219)
Total Revenue From Use of Money and Property	<u>30,624</u>	<u>42,624</u>	<u>33,063</u>	<u>(9,561)</u>
<b>Miscellaneous Revenue</b>	<u>35,000</u>	<u>259,709</u>	<u>24,561</u>	<u>(235,148)</u>
<b>Charges For Services:</b>				
Garbage collection fees	83,000	83,000	81,252	(1,748)
Other	52,875	19,000	68,785	49,785
Total Charges For Services	<u>135,875</u>	<u>102,000</u>	<u>150,037</u>	<u>48,037</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>1,212,199</u>	<u>1,415,033</u>	<u>1,177,823</u>	<u>(237,210)</u>
<b>Revenue From The Commonwealth:</b>				
<b>Non-Categorical Aid:</b>				
Rolling stock taxes	6,500	6,500	7,271	771
DCR	395,732	395,732	117,300	(278,432)
TIC	-	-	-	-
Litter Grant	1,000	1,000	1,114	114
Total Non-Categorical Aid	<u>403,232</u>	<u>403,232</u>	<u>125,685</u>	<u>(277,547)</u>
<b>Categorical Aid:</b>				
State assistance	41,000	41,000	42,168	1,168
TVA-Greenway	726,740	765,836	-	(765,836)
COPS grant	12,000	12,000	3,177	(8,823)
Other grant income	9,200	31,907	12,000	(19,907)
Total Categorical Aid	<u>788,940</u>	<u>850,743</u>	<u>57,345</u>	<u>(793,398)</u>
Total Revenue From The Commonwealth	<u>1,192,172</u>	<u>1,253,975</u>	<u>183,030</u>	<u>(1,070,945)</u>
<b>Revenue From The Federal Government:</b>				
Federal Emergency Management Grant	-	-	-	-
Rural Development†	210,000	507,000	393,904	(113,096)
Total Revenue from the Federal Government	<u>210,000</u>	<u>507,000</u>	<u>393,904</u>	<u>(113,096)</u>
<b>Other Financing Sources:</b>				
Transfers	(53,685)	129,315	157,283	27,968
Sale of property	2,500	2,500	-	(2,500)
Appropriation of prior year surplus	128,976	439,076	-	(439,076)
Total Other Financing Sources	<u>77,791</u>	<u>570,891</u>	<u>157,283</u>	<u>(413,608)</u>
<b>GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS</b>	<u>\$ 2,692,162</u>	<u>\$ 3,746,899</u>	<u>\$ 1,912,040</u>	<u>\$ (1,834,859)</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, 2014

SCHEDULE 2

Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>PRIMARY GOVERNMENT</u></b>				
<b><u>GENERAL FUND:</u></b>				
<b>General Government Administration:</b>				
Salaries	\$ 35,000	\$ 35,000	\$ 37,557	(2,557)
Fringe benefits	12,350	12,350	12,425	(75)
Payroll taxes	3,300	3,300	5,325	(2,025)
Utilities	11,500	11,500	13,456	(1,956)
Insurance	9,000	9,000	8,047	953
Supplies	10,000	10,000	11,397	(1,397)
Repair and maintenance	10,000	10,000	13,426	(3,426)
Training and travel	4,200	4,200	8,360	(4,160)
Advertising	2,500	2,500	2,772	(272)
Legal and accounting fees	20,300	20,300	19,680	620
Council fees	6,600	6,600	6,400	200
Donations	54,500	54,500	3,750	50,750
Capital purchases	20,000	20,000	2,061	17,939
Miscellaneous	9,900	9,900	9,426	474
Total General Government Administration	<u>209,150</u>	<u>209,150</u>	<u>154,082</u>	<u>55,068</u>
<b>Public Safety:</b>				
Salaries	205,400	205,400	180,422	24,978
Fringe benefits	75,350	75,350	60,736	14,614
Payroll taxes	19,100	19,100	16,192	2,908
Utilities	16,150	16,150	16,910	(760)
Insurance	23,500	23,500	32,565	(9,065)
Supplies	12,000	12,000	9,582	2,418
Repair and maintenance	11,500	11,500	7,343	4,157
Training and travel	7,500	7,500	4,571	2,929
Fuel	40,000	40,000	35,243	4,757
Legal and accounting fees	3,000	3,000	2,880	120
Capital purchases	55,000	175,000	207,952	(32,952)
Miscellaneous	3,400	3,400	11,282	(7,882)
Total Public Safety	<u>471,900</u>	<u>591,900</u>	<u>585,678</u>	<u>6,222</u>
<b>Public Works:</b>				
<b>Maintenance of Highways, Streets, Bridges and Sidewalks:</b>				
Salaries	67,000	67,000	63,447	3,553
Fringe benefits	29,120	29,120	24,603	4,517
Payroll taxes	6,500	6,500	6,537	(37)
Utilities	45,500	45,500	50,265	(4,765)
Insurance	12,000	12,000	9,031	2,969
Supplies	2,800	2,800	8,611	(5,811)
Repair and maintenance	10,000	10,000	19,341	(9,341)
Fuel	13,000	13,000	13,693	(693)
Capital purchases	14,000	14,000	19,867	(5,867)
Miscellaneous	5,000	5,000	4,591	409
Highways, streets, bridges and sidewalks	51,350	51,350	49,287	2,063
TIC	-	-	-	-
TVA Greenway	726,740	909,316	27,504	881,812
ATV Trail	<u>395,732</u>	<u>474,878</u>	<u>21,105</u>	<u>453,773</u>
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	<u>1,378,742</u>	<u>1,640,464</u>	<u>317,882</u>	<u>1,322,582</u>

**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL**  
Year Ended June 30, 2014

SCHEDULE 2  
Page 2

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Sanitation and Waste Removal</b>				
Salaries	\$ 42,000	42,000	\$ 37,343	4,657
Fringe benefits	25,920	25,920	23,063	2,857
Payroll taxes	4,400	4,400	3,645	755
Insurance	7,600	7,600	8,198	(598)
Supplies	1,000	1,000	3,219	(2,219)
Repair and maintenance	300	300	117	183
Fuel	12,000	12,000	8,285	3,715
Capital purchases	7,600	7,600	5,568	2,032
Miscellaneous	17,400	17,400	14,738	2,662
Total Sanitation and Waste Removal	<u>118,220</u>	<u>118,220</u>	<u>104,176</u>	<u>14,044</u>
<b>Parks, Recreation and Cultural:</b>				
Salaries	49,000	49,000	41,046	7,954
Fringe benefits	-	-	2,522	(2,522)
Payroll taxes	2,000	2,000	3,248	(1,248)
Utilities	36,050	36,050	46,862	(10,812)
Insurance	7,600	7,600	12,075	(4,475)
Supplies	7,000	7,000	23,588	(16,588)
Repair and maintenance	8,500	8,500	7,882	618
Capital purchases	360,000	888,015	808,347	79,668
Miscellaneous	2,000	2,000	907	1,093
Theatre	10,000	35,000	75,636	(40,636)
DCR-Leeman Field	-	120,000	-	120,000
Parks and recreation	32,000	32,000	28,360	3,640
Total Parks, Recreation and Cultural	<u>514,150</u>	<u>1,187,165</u>	<u>1,050,473</u>	<u>136,692</u>
<b>GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS</b>	<u>\$ 2,692,162</u>	<u>\$ 3,746,899</u>	<u>\$ 2,212,291</u>	<u>\$ 1,534,608</u>
<b>NET INCREASE (DECREASE) IN GENERAL FUND BALANCE</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (300,251)</u>	<u>\$ (300,251)</u>