

TOWN OF PENNINGTON GAP, VIRGINIA
Financial Statements and Supplementary Information
Year Ended June 30, 2019

TOWN OF PENNINGTON GAP, VIRGINIA
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Year Ended June 30, 2019

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TOWN OF PENNINGTON GAP, VIRGINIA

Town Officials

June 30, 2019

MAYOR

Larry Holbrook

TOWN COUNCIL

Jill Carson

Gary McElyea

Terry K. Pope

Jeff Martin

Jimmy Warner

OTHER OFFICIALS

Keith Harless – Town Manager

Tina Rowe - Treasurer

Karen Maggard - Clerk

ATTORNEY

Gregory Edwards

Independent Auditors' 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, 2019, 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 .313 percent, .420 percent, and .002 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, 2019, 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, and required pension schedules 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 February 18, 2020 on our consideration of the Town of Pennington Gap's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Rodger Moss & Co, PLLC

Norton, Virginia
February 18, 2020

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, 2019, and the related notes to the financial statements, which collectively comprise the Town of Pennington Gap, Virginia's basic financial statements, and have issued our report thereon dated February 18, 2020. 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, 2019, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Town's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Response to Findings

The Town of Pennington Gap's response to the findings identified in our audit is described in the separately issued schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Town of Pennington Gap, Virginia, in a separate letter dated February 18, 2020.

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 and 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.

Rodger Moss & Co, PLLC

Norton, Virginia
February 18, 2020

TOWN OF PENNINGTON GAP, VIRGINIA
Summary of Compliance Matters
June 30, 2019

As more fully described in the Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an 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
- Local Retirement Systems
- Debt Provisions
- Procurement Laws
- Uniform Disposition of Unclaimed Property Act
- Personal Property Tax Relief Act

LOCAL COMPLIANCE MATTERS

Town Charter

TOWN OF PENNINGTON GAP
Statement of Net Position
June 30, 2019

	Primary Government Unit			
	Governmental Activities	Business Type Activities	Total Primary Government	Industrial Development Authority
ASSETS				
Cash and cash equivalents	\$ 527,847	\$ 704,776	\$ 1,232,623	\$ 33,835
Receivables, net	118,343	508,208	626,551	-
Internal balances	(20,056)	20,056	-	-
Due from other governmental units	25,694	-	25,694	-
Restricted cash	92,298	187,133	279,431	-
Notes and loans receivable	-	58,093	58,093	20,000
Prepaid and other	-	1,200	1,200	-
Net pension asset	86,849	115,126	201,975	-
Capital assets, net	5,578,617	9,163,950	14,742,567	-
Total assets	6,409,592	10,758,542	17,168,134	53,835
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to OPEB	892	1,340	2,232	-
Deferred outflows related to pensions	10,331	15,329	25,660	-
Total deferred outflows of resources	11,223	16,669	27,892	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 6,420,815	\$ 10,775,211	\$ 17,196,026	\$ 53,835
LIABILITIES				
Accounts payable and accrued liabilities	\$ 67,170	\$ 190,460	\$ 257,630	\$ -
Accrued payroll and related liabilities	19,905	25,106	45,011	-
Accrued interest payable	45	16,616	16,661	-
Customer security deposits	-	77,539	77,539	-
Compensated absences	21,799	61,925	83,724	-
Long-term liabilities:				
OPEB Liability	15,447	23,170	38,617	-
Due within one year	56,064	292,260	348,324	-
Due in more than one year	59,328	3,443,468	3,502,796	-
Total Liabilities	239,758	4,130,544	4,370,302	-
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to OPEB	-	-	-	-
Deferred inflows related to pensions	17,795	23,588	41,383	-
Total deferred inflows of resources	17,795	23,588	41,383	-
NET POSITION				
Net investment in capital assets	5,463,225	5,428,222	10,891,447	-
Restricted	86,849	141,219	228,068	-
Unrestricted	613,188	1,071,638	1,684,826	53,835
Total Net Position	6,163,262	6,641,079	12,804,341	53,835
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 6,420,815	\$ 10,795,211	\$ 17,216,026	\$ 53,835

TOWN OF PENNINGTON GAP
Statement of Activities
June 30, 2019

FUNCTIONS/PROGRAMS	Program Revenues					Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Total	Component Unit
						Business-Type Activities	Industrial Development Authority		
Governmental Activities:									
General government	\$ 340,229	\$ 21,611	\$ -	\$ -	\$ (318,618)	\$ -	-	\$ (318,618)	-
Public safety	586,938	10,378	125,195	50,000	(401,365)	-	-	(401,365)	-
Public works	377,715	95,644	-	-	(282,071)	-	-	(282,071)	-
Parks, recreation, and cultural	473,823	107,878	5,976	102,125	(257,844)	-	-	(257,844)	-
Non-departmental	2,709	-	-	-	(2,709)	-	-	(2,709)	-
Total Governmental Activities	1,781,414	235,511	131,171	152,125	(1,262,607)	-	-	(1,262,607)	-
Business-Type Activities:									
Water	1,472,145	1,325,419	-	497,576	-	350,850	-	350,850	-
Wastewater	871,194	704,023	-	-	-	(167,171)	-	(167,171)	-
Industrial fund	12	-	-	-	-	(12)	-	(12)	-
Total Enterprise Activities	2,343,351	2,029,442	-	497,576	-	183,667	-	183,667	-
TOTAL PRIMARY GOVERNMENT	\$ 4,124,765	\$ 2,264,953	\$ 131,171	\$ 649,701	\$ (1,262,607)	\$ 183,667	-	\$ (1,078,940)	-
COMPONENT UNIT:									
Industrial Development Authority	\$ 1,601	\$ -	\$ -	\$ -	\$ -	\$ -	-	\$ -	(1,601)
General Revenues									
Property taxes					207,546	-	-	207,546	-
Other local taxes					916,135	-	-	916,135	-
Unrestricted intergovernmental revenue					7,597	-	-	7,597	-
Unrestricted investment earnings					5,764	13,207	-	18,971	-
Rental of Town property					29,608	-	-	29,608	-
Recovered costs					8,787	-	-	8,787	-
Transfers-Primary Government					-	-	-	-	-
Gain(Loss) from Sale of Property					23,409	-	-	23,409	(989)
Other					46,875	-	-	46,875	-
Total general revenues and transfers					1,245,721	13,207	-	1,258,928	(989)
Change in net position					(16,886)	196,874	-	179,988	(2,590)
NET POSITION - JULY 1, AS RESTATED					6,180,148	6,444,205	-	12,624,353	56,425
NET POSITION - JUNE 30					\$ 6,163,262	\$ 6,641,079	-	\$ 12,804,341	\$ 53,835

See notes to financial statements.

TOWN OF PENNINGTON GAP
Balance Sheet - Governmental Funds
June 30, 2019

	General Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$ 527,847	\$ -	\$ 527,847
Receivables, net			
Taxes receivable	45,372	-	45,372
Accounts receivable, net	72,971	-	72,971
Interest	-	-	-
Prepaid insurance	-	-	-
Due from other funds	15,386	-	15,386
Due from other governmental units	25,694	-	25,694
Restricted cash	4,255	88,043	92,298
Total assets	<u>\$ 691,525</u>	<u>\$ 88,043</u>	<u>\$ 779,568</u>
LIABILITIES			
Accounts payable and accrued liabilities	67,170	-	67,170
Accrued payroll and related liabilities	19,907	-	19,907
Due to other funds	35,443	-	35,443
Total liabilities	<u>122,520</u>	<u>-</u>	<u>122,520</u>
DEFERRED INFLOWS			
Property taxes receivable	45,671	-	45,671
Total deferred inflows	<u>45,671</u>	<u>-</u>	<u>45,671</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	88,043	88,043
Committed	-	-	-
Assigned	4,255	-	4,255
Unassigned	519,079	-	519,079
Total fund balances	<u>523,334</u>	<u>88,043</u>	<u>611,377</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 691,525</u>	<u>\$ 88,043</u>	<u>\$ 779,568</u>

TOWN OF PENNINGTON GAP
Reconciliation to the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2019

Total Fund Balances per Balance Sheet-Governmental Funds	\$ 611,377
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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.	5,578,617
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	45,671
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable, net of premiums and discounts	-
Notes payable	(115,392)
Accrued liabilities and wages	3
Accrued interest payable	(45)
Capital leases payable	-
Compensated Absences	(21,799)
Financial statement elements related to other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources for 2019 employer contributions	892
Deferred outflows of resources related to other postemployment benefits	-
Deferred inflows of resources related to other postemployment benefits	-
Net other postemployment benefit liability	<u>(15,447)</u>
Financial statement elements related to pensions are applicable to future periods, and therefore, are not reported in the funds.	
Deferred outflows of resources for 2019 employer contributions	9,165
Deferred outflows of resources for the net difference between projected and actual earnings on pension plan investments	1,166
Net pension Asset	86,849
Deferred outflows (inflows) of resources for the net difference between projected and actual earnings on pension plan investments	<u>(17,795)</u>
Net Position of Governmental Activities	<u>\$ 6,163,262</u>

TOWN OF PENNINGTON GAP
Combined Statement of Revenues, Expenditures and Changes in Fund Balances
General and Debt Service Funds
June 30, 2019

	General Fund	Debt Service Fund	Total
REVENUES			
General property taxes	\$ 202,914	\$ -	\$ 202,914
Other local taxes	916,135	-	916,135
Permits, Privilege Fees, and Licenses	21,611	-	21,611
Fines and forfeitures	5,068	-	5,068
Revenue from use of money & property	34,503	869	35,372
Charges for services	208,832	-	208,832
Miscellaneous	48,351	-	48,351
Recovered costs	-	-	-
Intergovernmental	289,417	-	289,417
Total Revenues	<u>1,726,831</u>	<u>869</u>	<u>1,727,700</u>
EXPENDITURES			
Current			
General government administration	332,713	-	332,713
Public safety	598,844	-	598,844
Public works	371,609	-	371,609
Parks, recreation and cultural	345,013	-	345,013
Debt Service			
Principal retirement	55,167	-	55,167
Interest	2,814	-	2,814
Total Expenditures	<u>1,706,160</u>	<u>-</u>	<u>1,706,160</u>
Excess (Deficiency) of Revenues Over Expenditures	20,671	869	21,540
OTHER FINANCING SOURCES (USES)			
Sale of surplus	23,409	-	23,409
Insurance Proceeds	8,787	-	8,787
Loan proceeds	21,500	-	21,500
Operating transfers in(out)	-	-	-
Total Other Financing Sources (Uses)	53,696	-	53,696
Net Change in Fund Balance	74,367	869	75,236
Fund Balance at Beginning of Year	<u>448,967</u>	<u>87,174</u>	<u>536,141</u>
Fund Balance at End of Year	<u>\$ 523,334</u>	<u>\$ 88,043</u>	<u>\$ 611,377</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
June 30, 2019

	Governmental Funds
Net Change in Fund Balance Governmental Funds	\$ 75,236
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.	
Capital outlay	160,844
Depreciation expense	<u>(311,276)</u>
	<u>(150,432)</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,631
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
Principal repayments:	
General obligation debt	55,167
Capital lease	-
Proceeds from debt	(21,500)
Proceeds from capital lease	<u>-</u>
	<u>33,667</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest	105
Compensated absences	(1,488)
Other post-employment benefits	<u>3,096</u>
	<u>1,713</u>
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense	
Pension expense	<u>18,299</u>
	<u>18,299</u>
Change in Net Position of Governmental Activities	<u>\$ (16,886)</u>

TOWN OF PENNINGTON GAP
Statement of Net Position Proprietary Funds
June 30, 2019

	Water Fund	Sewer Fund	Industrial Fund	Combined Total
ASSETS				
Cash and cash equivalents	\$ 647,887	\$ 56,889	\$ -	\$ 704,776
Receivables (Net of Allowance for Uncollectibles)				
Accounts	219,938	261,684	-	481,622
Interest	30	-	-	30
Grants	26,556	-	-	26,556
Due from other funds	457,865	30,214	-	488,079
Notes and Loans receivable	32,000	-	26,093	58,093
Prepaid and other	1,200	-	-	1,200
Restricted cash	162,822	24,311	-	187,133
Net Pension Asset	66,652	48,474	-	115,126
Land	10,600	20,515	6,943	38,058
Capital assets, net	6,253,999	2,871,893	-	9,125,892
Total Assets	\$ 7,879,549	\$ 3,313,980	\$ 33,036	11,226,565
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows related to OPEB	747	593	-	1,340
Deferred Outflows related to Pensions	8,573	6,756	-	15,329
Total Deferred Outflows of Resources	9,320	7,349	-	16,669
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,888,869	\$ 3,321,329	\$ 33,036	11,243,234
LIABILITIES				
Accounts payable and accrued liabilities	\$ 80,467	\$ 109,993	\$ -	\$ 190,460
Accrued payroll and related liabilities	14,517	10,589	-	25,106
Accrued interest payable	12,456	4,160	-	16,616
Customer security deposits	52,292	25,247	-	77,539
Due to other funds	-	468,023	-	468,023
Compensated absences	39,050	22,875	-	61,925
Long-term liabilities				
OPEB Liability	12,518	10,652	-	23,170
Due within one year	241,260	51,000	-	292,260
Due in more than one year	3,086,768	356,700	-	3,443,468
Total Liabilities	3,539,328	1,059,239	-	4,598,567
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows related to Pensions	13,656	9,932	-	23,588
Total Deferred Inflows of Resources	13,656	9,932	-	23,588
NET POSITION				
Net investment in capital assets	2,936,571	2,484,708	6,943	5,428,222
Restricted	66,652	48,474	26,093	141,219
Unrestricted	1,332,662	(261,024)	-	1,071,638
Total Net Position	4,335,885	2,272,158	33,036	6,641,079
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 7,888,869	\$ 3,341,329	\$ 33,036	\$ 11,263,234

See notes to financial statements.

TOWN OF PENNINGTON GAP
Combined Statement of Revenues, Expenditures, and Changes in
Net Position Proprietary Funds
For the Year Ended June 30, 2019

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Industrial Fund</u>	<u>Combined Total</u>
OPERATING REVENUES				
Charges for services	\$ 1,224,195	\$ 630,595	\$ -	\$ 1,854,790
Tap fees	-	-	-	-
Connections	7,930	-	-	7,930
Reconnections	2,050	-	-	2,050
Penalties	90,411	64,692	-	155,103
Miscellaneous	<u>833</u>	<u>8,736</u>	<u>-</u>	<u>9,569</u>
Total operating revenues	<u>1,325,419</u>	<u>704,023</u>	<u>-</u>	<u>2,029,442</u>
OPERATING EXPENSES				
Salaries and wages	379,897	302,470	-	682,367
Payroll taxes	27,511	22,556	-	50,067
Group health and life	133,461	113,889	-	247,350
Pension	(2,973)	783	-	(2,190)
Utilities	129,828	51,153	-	180,981
Telephone	6,043	2,552	-	8,595
Supplies	126,505	26,892	-	153,397
Vehicle expense	12,665	5,660	-	18,325
Insurance	22,434	21,184	-	43,618
Repair and maintenance	71,252	19,236	-	90,488
Certification, travel, and training	1,524	3,408	-	4,932
Professional services	15,935	104,669	-	120,604
Lab and analysis	12,573	4,199	-	16,772
Contract services	-	-	-	-
Dues and subscriptions	9,543	2,331	-	11,874
Depreciation	436,966	176,002	-	612,968
Miscellaneous	<u>3,099</u>	<u>800</u>	<u>12</u>	<u>3,911</u>
Total Operating Expenses	<u>1,386,263</u>	<u>857,784</u>	<u>12</u>	<u>2,244,059</u>
Operating Income (Loss)	<u>(60,844)</u>	<u>(153,761)</u>	<u>(12)</u>	<u>(214,617)</u>
NON-OPERATING REVENUES (EXPENSES)				
Grant income	497,576	-	-	497,576
Transfers	-	-	-	-
Interest expense	(85,882)	(13,410)	-	(99,292)
Interest income	12,738	469	-	13,207
Contribution to other	-	-	-	-
Gain/loss on disposition of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Non-Operating Revenue (Expenses)	<u>424,432</u>	<u>(12,941)</u>	<u>-</u>	<u>411,491</u>
CHANGE IN NET POSITION	363,588	(166,702)	(12)	196,874
NET POSITION AT JULY 1	<u>3,972,297</u>	<u>2,438,860</u>	<u>33,048</u>	<u>6,444,205</u>
NET POSITION AT JUNE 30	<u>\$ 4,335,885</u>	<u>\$ 2,272,158</u>	<u>\$ 33,036</u>	<u>\$ 6,641,079</u>

See notes to financial statements.

TOWN OF PENNINGTON GAP
Combined Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2019

	Water Fund	Sewer Fund	Industrial Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 1,171,189	\$ 434,881	\$ -	\$ 1,606,070
Cash payments to suppliers for goods and services	(607,237)	(283,699)	(12)	(890,948)
Cash payments to employees for services	(380,974)	(302,713)	-	(683,687)
Other operating income	101,224	73,428	-	174,652
NET CASH PROVIDED BY OPERATING ACTIVITIES	284,202	(78,103)	(12)	206,087
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES				
Increase (decrease) in customer deposits	2,773	1,610	-	4,383
(Increase) decrease in due from other funds	(138,000)	-	-	(138,000)
Increase (decrease) in due to other funds	-	150,000	-	150,000
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	(135,227)	151,610	-	16,383
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(764,761)	(5,073)	-	(769,834)
Disposition of capital assets	-	-	-	-
Interfund transfer	-	-	-	-
Proceeds from borrowings	65,000	-	-	65,000
Contributed capital - Grant revenue	471,020	-	-	471,020
Principal paid on revenue bonds	(233,686)	(54,500)	-	(288,186)
Interest paid on revenue bonds and equipment	(87,031)	(13,393)	-	(100,424)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(549,458)	(72,966)	-	(622,424)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments received on community development loans	-	-	-	-
Interest on investments	12,778	435	-	13,213
NET CASH PROVIDED BY INVESTING ACTIVITIES	12,778	435	-	13,213
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(387,705)	976	(12)	(386,741)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,198,414	80,224	12	1,278,650
Cash and Cash Equivalents at June 30, 2019				
Unrestricted	\$ 647,887	\$ 56,889	\$ -	\$ 704,776
Restricted	162,822	24,311	-	187,133
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 810,709	\$ 81,200	\$ -	\$ 891,909
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ (60,844)	\$ (153,761)	\$ (12)	\$ (214,617)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation and amortization	436,966	176,002	-	612,968
Increase (decrease) in accrued compensated absences	(2,060)	1,076	-	(984)
Net pension and OPEB obligation	(15,335)	(8,564)	-	(23,899)
Change in Assets, Liabilities, Deferred Inflows/Outflows:				
(Increase) decrease in accounts receivable	(53,006)	(195,714)	-	(248,720)
(Increase) decrease in prepaid expenses	12,056	10,199	-	22,255
Increase (decrease) in accounts payable	(34,558)	93,978	-	59,420
Increase (decrease) in accrued wages	983	(1,319)	-	(336)
Increase (decrease) in accrued liabilities	-	-	-	-
TOTAL ADJUSTMENTS	345,046	75,658	-	420,704
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 284,202	\$ (78,103)	\$ (12)	\$ 206,087

See notes to financial statements.

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Net Position
June 30, 2019

ASSETS

Cash and cash equivalents	\$ 33,835
Land	-
Notes Receivable	<u>20,000</u>
Total assets	<u>\$ 53,835</u>

LIABILITIES

Accounts payable	\$ <u>-</u>
Total liabilities	<u>-</u>

Net Position

Unrestricted	<u>53,835</u>
Total net position	<u>\$ 53,835</u>

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Activities
Year Ended June 30, 2019

	<u>Total</u>
REVENUES	
Charges for services	\$ -
Gain (loss) on property sale	<u>(989)</u>
Total revenues	<u>(989)</u>
EXPENDITURES	
Professional Services	1,273
Interest	262
Miscellaneous	<u>66</u>
Total expenditures	<u>1,601</u>
Excess of revenues over expenditures	(2,590)
Capital contributions	<u>-</u>
Net position at beginning of year	<u>56,425</u>
Net position at end of year	<u>\$ 53,835</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements
June 30, 2019

NOTE 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 fund, 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.

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 organization's 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.

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.

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.

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:

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Model (continued) - *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.

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.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measureable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Reporting Entity considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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.

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.

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:

Buildings and building improvements	40 years
Utility transmission lines and mains	20 to 40 years
Furniture and fixtures	10 years
Vehicles	5 to 7 years

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.

Interfund Receivables and Payables - Activity between the funds is representative of lending/borrowing arrangements outstanding at the end of the fiscal year and are referred to as either "due to/from other funds" (i.e. current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Postemployment Benefits (OPEB)

Local Health

The Town's local health insurance OPEB plan is a single-employer defined benefit OPEB plan administered by the Town. No assets are accumulated in a trust that meets the criteria under the provisions of Governmental Accounting Standards Board (GASB) Statement 75.

Political Subdivision Employee Virginia Local Disability Program

The Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program is a multiple-employer, cost sharing plan. For purposes of measuring the net Political Subdivision Employee Virginia Local Disability Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee Virginia Local Disability Program OPEB, and the Political Subdivision Employee Virginia Local Disability Program OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision Employee Virginia Local Disability Program; and the additions to/deductions from the VRS Political Subdivision Employee Virginia Local Disability Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Employer pension and other postemployment benefit (OPEB) contributions made after the net pension liability measurement date of June 30, 2017 and prior to the reporting date of June 30, 2018, have been reported as deferred outflows of resources in the Statement of Net Position as of June 30, 2018. This will be applied to the net pension and OPEB liabilities in the next fiscal year.

Differences between the projected and actual pension earnings and OPEB earnings as of the actuarial measurement date of June 30, 2017 have been reported as a deferred inflow of resources. This difference will be recognized in pension expense and OPEB expense over a closed five-year period.

The Town additionally reports unavailable/unearned revenue from property taxes and other receivables not collected within 45 day of year-end and property taxes levied to fund future years. Unavailable/unearned revenue may also represent revenue that has been received, but the earnings process is not yet complete. These amounts are deferred and recognized as an inflow of resources in the period they become available.

Compensated Absences - The Town has a policy to allow the accumulation and vesting of limited amounts of paid leave and sick leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds when the amounts are due for payment.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-term Obligations - In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the period incurred. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fund Balances - Fund balance is divided into five classifications based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources in the governmental funds. 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.

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances – (Continued)

Resource Flow Policy

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.

Net Position - Net position is the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is divided into three components:

- Net investment in capital assets- consist of historical cost of capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, constructions or improvement of those assets.
- Restricted-consist of assets that are restricted by the Town's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on share revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted-all other net position is reported in this category.
-

Date of Management Review - Management has evaluated events and transactions occurring subsequent to the statement of net position date for items that should potentially be recognized or disclosed in these financial statements. The evaluation was conducted through the date of the report, which is the date these financial statements were available to be issued.

NOTE 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). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the Town's position in the pools is the same as the value of the pool shares.

Fair Value Measurement

The Town categorized the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards (GASB) Statements require or permit in the statement of net position at the end of each reporting period. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Town does not have any investments at June 30, 2018 that are measured using Level 1, 2, or 3 inputs.

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.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Concentration of Credit Risk:

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

Lee Bank and Trust	90%
Powell Valley National 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:

	<u>Primary Government</u>	<u>Component Unit</u>
Deposits and investments		
Cash on hand	\$ 1,570	\$ -
Deposits	1,252,723	33,835
Investments	257,761	-
	<u>\$ 1,512,054</u>	<u>\$ 33,835</u>
Statement of net position		
Cash and cash equivalents	\$ 1,232,623	\$ 33,835
Restricted cash and cash equivalents	<u>279,431</u>	<u>-</u>
	<u>\$ 1,512,054</u>	<u>\$ 33,835</u>

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

NOTE 3 - DUE FROM OTHER GOVERNMENTAL UNITS

Commonwealth of Virginia		
Local sales tax	\$ 5,125	
Mobile home tax	450	
Communication tax	<u>6,374</u>	
Total Commonwealth of Virginia		\$ 11,949
Lee County		
Court fines / transfer fees	183	
Fire department contributions	13,562	
Total Lee County		13,745
Total due from other Governmental Units		<u>\$ 25,694</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 4 - NOTES RECEIVABLE

The Town's Governmental Fund borrowed \$44,000 from the Town's Water Fund on January 17, 2018. The loan was to purchase radios for the police department. Monthly installments of principal and interest in the amount of \$1,000 are due beginning July 1, 2018 until maturity at February 1, 2022.

The interest rate on the loan is 0.00%	\$ 44,000
Total notes receivable at June 30, 2019	\$ <u>44,000</u>

NOTE 5 - INTERFUND OBLIGATIONS

	Due From	Due To
General Fund		
Water Fund	\$ 14,779	\$ 7,075
Sewer Fund	<u>608</u>	<u>28,368</u>
Water Fund		
General Fund	7,075	14,779
Sewer Fund	<u>467,415</u>	<u>1,846</u>
Sewer Fund		
Water Fund	1,846	467,415
General Fund	<u>28,368</u>	<u>608</u>
Total	<u>\$ 520,091</u>	<u>\$ 520,091</u>

NOTE 6 - 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 \$204,616 at June 30, 2019, and is composed of the following:

General Fund	
Allowance for uncollectable property taxes	\$ 31,026
Allowance for uncollectable garbage fees	<u>6,471</u>
Total General Fund	<u>37,497</u>
Water and Sewer Fund	
Allowance for uncollectable water and sewer fee billings	<u>167,119</u>
Total Water and Sewer Fund	<u>167,119</u>
Total	<u>\$ 204,616</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 7 - CAPITAL ASSETS

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

Governmental activities	
General government	\$ 28,383
Public safety	103,822
Public works	42,404
Parks, recreation and cultural	<u>136,667</u>
Total depreciation expense - governmental activities	<u>\$ 311,276</u>
Business-type activities	
Water	436,966
Sewer	<u>176,002</u>
Total depreciation expense - business-type activities	<u>\$ 612,968</u>

NOTE 8 - CHANGES IN CAPITAL ASSETS

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land, restated	\$ 548,383	\$ -	\$ -	\$ 548,383
Construction in progress	<u>1,220,458</u>	<u>-</u>	<u>(1,220,458)</u>	<u>-</u>
Total capital assets, non-depreciable	<u>1,768,841</u>	<u>-</u>	<u>(1,220,458)</u>	<u>548,383</u>
Capital assets, depreciable				
Equipment	2,110,211	113,780	(80,088)	2,143,903
Buildings and improvements, restated	4,200,354	1,267,523	-	5,467,877
Other improvements	88,674	-	-	88,674
Infrastructure	<u>476,453</u>	<u>-</u>	<u>-</u>	<u>476,453</u>
Total Capital assets, depreciable	<u>6,875,692</u>	<u>1,381,303</u>	<u>(80,088)</u>	<u>8,176,907</u>
Less accumulated depreciation for				
Equipment	1,673,321	156,864	(80,088)	1,750,097
Buildings and improvements, restated	707,873	142,501	-	850,374
Other improvements	88,674	-	-	88,674
Infrastructure	<u>445,617</u>	<u>11,911</u>	<u>-</u>	<u>457,528</u>
Total accumulated depreciation	<u>2,915,485</u>	<u>311,276</u>	<u>(80,088)</u>	<u>3,146,673</u>
Total capital assets, depreciable net	<u>3,960,207</u>	<u>1,070,027</u>	<u>-</u>	<u>5,030,234</u>
Governmental activities				
Capital assets, net	<u>\$ 5,729,048</u>	<u>\$ 1,070,027</u>	<u>\$ (1,220,458)</u>	<u>\$ 5,578,617</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 8 - CHANGES IN CAPITAL ASSETS (Continued)

The following is a summary of changes in capital assets:

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Construction in progress	184,983	192,655	(184,983)	192,655
Total capital assets, non-depreciable	223,041	192,655	(184,983)	230,713
Capital assets, depreciable				
Buildings	9,379,886	5,073	-	9,384,959
Infrastructure	13,588,262	692,089	-	14,280,351
Machinery equipment	657,507	65,000	-	722,507
Total Capital assets, depreciable	23,625,655	762,162	-	24,387,817
Less accumulated depreciation for				
Buildings	5,284,605	235,900	-	5,520,505
Infrastructure	9,007,748	353,128	-	9,360,876
Machinery equipment	549,259	23,940	-	573,199
Total accumulated depreciation	14,841,612	612,968	-	15,454,580
Total capital assets, depreciable net	8,784,043	149,194	-	8,933,237
Governmental activities				
Capital assets, net	\$ 9,007,084	\$ 341,849	\$ (184,983)	\$ 9,163,950

NOTE 9 - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES:

NOTES PAYABLE:

The Town entered into a collateralized loan agreement with Lee Bank and Trust on June 1, 2016. The note was to purchase a 2016 Kawasaki and is collateralized with the asset in the amount of \$19,336. Monthly installments of principal and interest in the amount of \$346.57 are due beginning July 16, 2016 until maturity at June 16, 2021. The interest rate on the loan is 2.85%.

\$ 8,061

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

The Town entered into a collateralized loan agreement with Farmers and Miners on June 2, 2016. The note was to purchase a John Deere Tractor and is collateralized with the asset in the amount of \$78,116. Monthly installments of principal and interest in the amount of \$1,401.30 are due beginning July 15, 2016 until maturity at June 15, 2021. The interest rate on the loan is 2.85%. 32,491

The Town entered into a collateralized loan agreement with Powell Valley National Bank on June 5, 2017. The note was to purchase a 2017 Ford F250 and is collateralized with the asset in the amount of \$37,100. Annual installments of principal and interest in the amount of \$9,988.01 are due beginning June 1, 2018 until maturity at June 1, 2021. The interest rate on the loan is 3.00%. 19,084

The Town entered into a collateralized loan agreement with Rural Development on November 11, 2017. The note was to purchase a Polaris ranger ATV and is collateralized with the asset in the amount of \$17,500. Monthly installments of principal and interest in the amount of \$505 are due beginning December 17, 2017 until maturity at November 17, 2019. The interest rate on the loan is 2.375%. 2,472

The Town entered into a collateralized loan agreement with Rural Development on September 6, 2018. The note was to purchase a police vehicles and is collateralized with the assets in the amount of \$21,500. Monthly installments of principal and interest in the amount of \$634 are due beginning October 6, 2018 until maturity 3 years from date of note. The interest rate on the loan is 3.875%. 16,284

The Town's Governmental Fund borrowed \$44,000 from the Town's Water Fund on January 17, 2018. The loan was to purchase radios for the police department. Monthly installments of principal and interest in the amount of \$1,000 are due beginning July 1, 2018 until maturity at February 1, 2022. The interest rate on the loan is 0.00%. 32,000

Total notes payable - Governmental Activities \$ 110,392

The annual requirements to amortize governmental debt outstanding as of June 30, 2019, are as follows:

Governmental Activities		
Year Ending June 30,	Notes	
	Principal	Interest
2020	\$ 51,064	\$ 1,993
2021	49,524	836
2022	9,804	12
2023	-	-
Totals	<u>\$ 110,392</u>	<u>\$ 2,841</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

NOTES PAYABLE:

The Town entered into a loan agreement with Powell Valley National Bank on August 8, 2017. Monthly installments of principal and interest in the amount of \$2,059.55 are due beginning March 9 2018, until maturity at February 9, 2033. The interest rate on the loan is 2.875%. \$ 277,738

The Town entered into a loan agreement with Lee Bank & Trust on August 23, 2018 for \$65,000. The loan proceeds were for the purchase of an Excavator but loan is not collateralized by asset. Monthly installments of principal and interest in the amount of \$1,004.64 are due beginning September 23, 2018, until maturity at August 23, 2024. The interest rate on the loan is 3.58%. 56,654

Total notes payable - Business-Type Activities \$ 334,392

The annual requirements to amortize business-type notes payable outstanding as of June 30, 2019, are as follows:

Business-Type Activities		
Year Ending June 30,	Notes	
	Principal	Interest
2020	\$ 27,157	\$ 9,624
2021	28,012	8,759
2022	28,954	7,867
2023	29,825	6,945
2024	112,568	23,061
2025-2029	<u>107,876</u>	<u>7,262</u>
Totals	<u>\$ 334,392</u>	<u>\$ 63,518</u>

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. \$ 1,349,461

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. 692,875

Total revenue bonds payable \$ 2,042,336

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

REVENUE BONDS: (Continued)

	Water Revenue Bonds
Revenue bonds payable at July 1, 2018	\$ 2,135,917
Issuances	-
Retirements	<u>(93,581)</u>
Revenue bonds payable at June 30, 2019	<u>\$ 2,042,336</u>

REVENUE REFUNDING 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.

\$ 951,300

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.

407,700

Total revenue refunding bonds payable

\$ 1,359,000

	Revenue Refunding Bonds		
	Series 2012 Water Revenue Refundings	Series 2012 Sewer Revenue Refundings	Total Revenue Refundings Bond
Bonds/loans payable at July 1, 2018	\$ 1,066,800	\$ 457,200	\$ 1,524,000
Issuances	-	-	-
Retirements	<u>(115,500)</u>	<u>(49,500)</u>	<u>(165,000)</u>
Bonds/loans payable at June 30, 2019	<u>\$ 951,300</u>	<u>\$ 407,700</u>	<u>\$ 1,359,000</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 9 - LONG-TERM DEBT (Continued)

REVENUE REFUNDING BONDS – (Continued)

The annual requirements to amortize revenue refunding bonds outstanding as of June 30, 2019, are as follows:

Years Ending June 30,	2012 Sewer Refunding		2012 Water Refunding		Total Revenue Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 51,000	\$ 12,231	\$ 119,000	\$ 28,539	\$ 170,000	\$ 40,770
2021	52,500	10,701	122,500	24,969	175,000	35,670
2022	52,500	9,126	122,500	21,294	175,000	30,420
2023	55,500	7,551	129,500	17,619	185,000	25,170
2024	55,500	5,866	129,500	13,734	185,000	19,600
2025-2029	140,700	7,812	328,300	18,228	469,000	26,040
Totals	<u>\$ 407,700</u>	<u>\$ 53,287</u>	<u>\$ 951,300</u>	<u>\$ 124,383</u>	<u>\$ 1,359,000</u>	<u>\$ 177,670</u>

CAPITAL LEASES:

The Town entered into a collateralized lease purchase agreement with Glass Machinery during fiscal year 2016. The agreement was to purchase a Kubota Tractor and is collateralized with the asset in the amount of \$25,000. Principal installments of \$5,000 are due annually until maturity in 2021. The interest rate on the lease is 0%.

\$ 5,000

The annual requirements to amortize governmental capital leases outstanding as of June 30, 2019, are as follows:

Year Ending June 30,	Governmental Activities	
	Capital Leases	
	Principal	Interest
2020	\$ 5,000	\$ -
2021	-	-
2022	-	-
2023	-	-
2024	-	-
2025-2029	-	-
Totals	<u>\$ 5,000</u>	<u>\$ -</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 10 - COMPENSATED ABSENCES

Employees of the Town are entitled to paid time off for subsequent use, or for payment upon termination, death or retirement, under 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, 2019 was \$83,220. 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, 2019:

	Balance July 1, 2018	Additions / Proceeds	Payments / Reductions	Balance June 30, 2019
Governmental Activities				
Accrued compensated absences	\$ 20,311	\$ 18,567	\$ (17,079)	\$ 21,799
	<u>20,311</u>	<u>18,567</u>	<u>(17,079)</u>	<u>21,799</u>
Business-Type Activities				
Accrued compensated absences	\$ 62,909	\$ 47,616	\$ (48,600)	\$ 61,925
	<u>62,909</u>	<u>47,616</u>	<u>(48,600)</u>	<u>61,925</u>
Totals	<u>\$ 83,220</u>	<u>\$ 66,183</u>	<u>\$ (65,679)</u>	<u>\$ 83,724</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Litigation

The Lee County Public Service Authority has been granted a temporary injunction against the town. The town is defending this action and is currently seeking a monetary judgement against the Lee County Public Service Authority. There is no monetary request for damages against the town by the Lee County PSA.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 12 - FUND BALANCE-GOVERNMENTAL FUNDS

As of June 30, 2019, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable			
Prepaid items	\$ -	\$ -	\$ -
Restricted			
Debt reserve	-	88,043	88,043
Committed	-	-	-
Assigned			
Public Safety	4,255	-	4,255
Unassigned	<u>519,079</u>	<u>-</u>	<u>519,079</u>
Total fund balances	<u>\$ 523,334</u>	<u>\$ 88,043</u>	<u>\$ 611,377</u>

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.

NOTE 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 (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

A. Plan Description

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

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

Administering Entity: Virginia Retirement System (System)

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

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

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TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

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

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

Retirement Plan and remain as Plan 1 or ORP.	or ORP.	the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contributions component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

<p>have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions</u></p> <p><u>Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contributions 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"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit</p> <p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u></p> <p>See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u></p> <p>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>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

		<p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

<ul style="list-style-type: none"> • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.</p>

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TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>3</u>
Inactive members	
Vested inactive members	4
Non-vested Inactive members	9
Active elsewhere in VRS	<u>10</u>
Total inactive members	23
Active members	<u>24</u>
Total covered employees	<u>50</u>

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2019 was 3.81% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$ 22,948 and \$ 28,921 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

The Town's net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

Mortality rates:

Largest 10 – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020: males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020: males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) – Non-Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020: males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020: males set forward 2 years, 110% of rates; females 125% of rates.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Actuarial Assumptions – General Employees – (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

All Others (Non 10 Largest) -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Actuarial Assumptions – Public Safety Employees – (Continued)

Mortality rates:

Largest 10 – Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; Unisex using 100% male.

All Others (Non 10 Largest) – Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; Unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Actuarial Assumptions – Public Safety Employees – (Continued)

All Others (Non 10 Largest) -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that system member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from June 30, 2015, actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		Net Pension
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Liability (a) - (b)
Balance at June 30, 2017	\$ 931,397	\$ 1,106,303	\$ (174,906)
Changes for the year			
Service Cost	61,102	-	61,102
Interest	63,273	-	63,273
Changes in benefit terms	-	-	-
Changes in assumptions	(1,865)	-	-
Differences between expected and actual experience	-	-	-
Contributions - employer	-	28,921	(28,921)
Contributions - employee	-	39,185	(39,185)
Net investment income	-	82,233	(82,233)
Benefit payments, including refunds of employee contributions	(55,002)	(55,002)	-
Administrative expenses	-	(685)	685
Other changes	-	(75)	75
Net changes	67,508	94,577	(27,069)
Balance at June 30, 2018	\$ 998,905	\$ 1,200,880	\$ (201,975)

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

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

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

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	\$ (47,888)	\$ (201,975)	\$ (326,271)

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

For the year ended June 30, 2019, the Town recognized pension expense of \$(10,535). At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,712	\$ 17,331
Change in assumptions	-	11,716
Net difference between projected and actual earnings on pension plan investments	-	12,336
Employer contributions subsequent to the measurement date	22,948	-
Total	<u>\$ 25,660</u>	<u>\$ 41,383</u>

\$22,948 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2020	\$ (9,461)
2021	(14,041)
2022	(14,297)
2023	(872)
2024	-
Thereafter	-
	<u>\$ (38,671)</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan's is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the Pension Plan

At June 30, 2019, the Town reported a payable of \$4,867 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2019.

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-LOCALITY PLAN

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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

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.

Employees Covered by Benefit Terms

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Active members	28
Retired memebers	<u>0</u>
Total covered employees	<u><u>28</u></u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-LOCALITY PLAN (Continued)

Total OPEB Liability

The Town's Total OPEB Liability of \$37,617 was measured as of June 30, 2019, and was determined by an actuarial valuation as of June 30, 2017.

There are no assets accumulated in a trust, therefore, the Net Fiduciary Position is \$0, and the Net OPEB Liability is equal to the Total OPEB Liability.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent per year
Discount rate	3.45 percent per year
Healthcare cost trend rates	4.60 percent for 2016, 4.80 percent in 2017, then graded to 4.70% over 82 years
Retirees' share of benefit - related costs	0% of projected health insurance premiums for retirees

The discount was based on the Getzen Trend Model, Milliman's Health Cost Guidelines and actuarial judgment.

Mortality rates:

RP-2000 Employee Mortality Tables for Males and Females Projected 18 years; this assumption does not include a margin for future improvements in longevity

Changes in Total OPEB Liability

	Total OPEB Liability
Balances at June 30, 2018	\$ 47,992
Changes for the year	
Service cost	4,383
Interest	2,027
Changes of assumptions	1,203
Difference between expected and actual experience	(17,988)
Benefit payments, including refunds of employee contributions	-
Net changes	(10,375)
Balances at June 30, 2019	\$ 37,617

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-LOCALITY PLAN (Continued)

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

The following presents the total pension liability of the Town using the discount rate of 3.87%, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current rate:

	<u>1.00% Decrease (2.87%)</u>	<u>Current Discount Rate (3.87%)</u>	<u>1.00% Increase (4.87%)</u>
Total OPEB Liability	\$ 40,787	\$ 37,617	\$ 34,863

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the Town's total OPEB liability using the current healthcare cost trend rates. It also presents what the Town's Total OPEB liability would be if it were calculated using healthcare trend rates that are one percentage point lower or one percentage point higher than the current rates:

	<u>1.00% Decrease in Trend Rate</u>	<u>Current Trend Rate</u>	<u>1.00% Increase in Trend Rate</u>
Total OPEB Liability	\$ 33,696	\$ 37,617	\$ 42,439

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$(10,375). At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes in assumptions or other inputs	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-LOCALITY PLAN (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30</u>	
2020	\$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	-
	<u>\$ -</u>

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TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS(OPEB)-VRS VLDP PLAN (Continued)

Plan Description

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This plan is administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

<p style="text-align: center;">POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM (VLDP) PLAN PROVISIONS</p>
<p>Eligible Employees The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits</p> <p>Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:</p> <ul style="list-style-type: none"> • Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.
<p>Benefit Amounts The Political Subdivision Employee Virginia Disability Local Program (VLDP) provides the following benefits for eligible employees:</p> <p><u>Short-Term Disability –</u></p> <ul style="list-style-type: none"> • The program provides a short-term disability benefit beginning after a seven- calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. • During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related of work-related disability. • Once the eligibility period is satisfied, employees are eligible for higher income replacement levels

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

Long-Term Disability –

- The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.
- Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

Virginia Local Disability Program Notes:

- Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.
- VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee Virginia Local Disability Program were \$2,232 and \$1,715 for the years ended June 30, 2019 and June 30, 2018, respectively.

Political Subdivision Employee Virginia Local Disability Program OPEB Liabilities, Political Subdivision Employee Virginia Local Disability Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Political Subdivision Employee Virginia Local Disability Program OPEB

At June 30, 2019, the political subdivision reported a liability of \$1,000 for its proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2018 and the total VRS Political Subdivision Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of that date. The political subdivision's proportion of the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the political subdivision's proportion of the VRS Political Subdivision Employee Virginia Local Disability Program was .11650% as compared to 0.14235% at June 30, 2017.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

For the year ended June 30, 2019, the political subdivision recognized VRS Political Subdivision Employee Virginia Local Disability Program OPEB expense of \$ 2,000. Since there was a change in proportionate share between dates a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on VLDP OPEB program investments	-	-
Changes in assumptions	-	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>\$ 2,232</u>	<u>-</u>
Total	<u>\$ 2,232</u>	<u>\$ -</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

\$2,232 reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB will be recognized in the Political Subdivision Employee VLDP OPEB expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Increase (Reduction) to OPEB Expense</u>
2020	\$ -
2021	-
2022	-
2023	-
2024	-
Thereafter	-
	<u>\$ -</u>

Actuarial Assumptions

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5 percent
Salary increases, including inflation	
Political Subdivision Employees	3.5 to 5.35 percent
Investment rate of return	7.0 percent, net of plan investment expenses, including inflation*

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

Mortality rates – Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.

Mortality rates – Largest Ten Locality Employers - General and Non-Hazardous Duty Employees (Continued)

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

Mortality rates – Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

Net Political Subdivision Employee VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee Virginia Local Disability Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Political Subdivision Employee Virginia Local Disability Program is as follows (amounts expressed in thousands):

	Political Subdivision Employee VLDP OPEB Plan
Total Political Subdivision VLDP OPEB Liability	\$ 1,588
Plan Fiduciary Net Position	<u>(816)</u>
Political Subdivision net VLDP OPEB Liability (Asset)	<u>\$ 772</u>
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability	51.39%

The total Political Subdivision Employee VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Political Subdivision Employee VLDP OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long- Term Expected Rate of Return	Weighted Average Long- Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

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

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 15 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)-VRS VLDP PLAN (Continued)

Sensitivity of the Political Subdivision's Proportionate Share of the Political Subdivision Employee VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the political subdivision's proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 7.00%, as well as what the political subdivision's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Rate (7.00%)	1% Increase (8.00%)
Political Subdivision's proportionate share of the VRS Political Subdivision VLDP OPEB Plan Net VLDP OPEB Liability	\$ 1,000	\$ 1,000	\$ 1,000

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Political Subdivision Employee Virginia Local Disability Program OPEB Plan

At June 30, 2019, the Town reported a payable of \$154 for the outstanding amount of contributions to the Virginia Local Disability Program plan required for the year ended June 30, 2019.

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TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 16 - SUMMARY OF PENSION AND OTHER POSTEMPLOYMENT BENEFIT ELEMENTS

A summary of pension and other postemployment benefit (OPEB) related financial elements is as follows:

	Governmental Activities	Business-Type Activities	Total Primary Government
Net pension asset			
VRS-Defined Benefit Pension Plan	\$ 86,849	\$ 115,126	\$ 201,975
Total net pension liability	<u>\$ 86,849</u>	<u>\$ 115,126</u>	<u>\$ 201,975</u>
Deferred outflows of resources - Related to Pensions			
Deferred outflow-Differences in expected/actual and assumptions			
VRS-Defined Benefit Pension Plan	\$ 1,166	\$ 1,546	\$ 2,712
Deferred outflow-Contributions after the measurement date			
VRS-Defined Benefit Pension Plan	<u>9,165</u>	<u>13,783</u>	<u>22,948</u>
Total deferred outflow of resources - Pensions	<u>\$ 10,331</u>	<u>\$ 15,329</u>	<u>\$ 25,660</u>
Deferred outflows of resources - OPEB			
Deferred outflow-Differences in expected/actual and assumptions			
Local Health-Single Agent-Defined benefit	\$ -	\$ -	\$ -
Deferred outflow-Contributions after the measurement date			
VRS-VLDP-OPEB Proram	<u>892</u>	<u>1,340</u>	<u>2,232</u>
Total deferred outflow of resources - OPEB	<u>\$ 892</u>	<u>\$ 1,340</u>	<u>\$ 2,232</u>
Net OPEB liability			
Local Health	\$ 15,047	\$ 22,570	\$ 37,617
VRS-VLDP	<u>400</u>	<u>600</u>	<u>1,000</u>
Total net OPEB liability	<u>\$ 15,447</u>	<u>\$ 23,170</u>	<u>\$ 38,617</u>
Deferred inflows of resources - Related to Pensions			
Deferred inflow-Differences in expected/ actual and assumptions			
VRS-Defined Benefit Pension Plan	\$ 17,795	\$ 23,588	\$ 41,383
Total deferred inflow of resources - Pensions	<u>\$ 17,795</u>	<u>\$ 23,588</u>	<u>\$ 41,383</u>
Deferred inflows of resources - OPEB			
Deferred inflow-Differences in expected/actual and assumptions			
Local Health-Single Agent-Defined benefit	<u>-</u>	<u>-</u>	<u>-</u>
Total deferred inflow of resources - OPEB	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 17 - RESTATEMENT OF NET POSITION

Restatement of Net Position

The Town identified a donated asset from prior years that was not recorded on the Town's books. An adjustment to beginning Net Position was made to reflect the land, building and applicable depreciation in the net amount of \$289,256. The Town further identified a debt payment in the amount of \$5,000 from the prior year that had not been reflected against the outstanding debt balance. An adjustment to beginning net position was made to correct the debt balance for the fiscal year ended June 30, 2019. The implementation of these items resulted in the following restatement of net position:

	General Government	Total
Net Position as reported at June 30, 2018	\$ 5,885,892	\$ 5,885,892
Capital asset, net	289,256	289,256
Debt payment reclassification	<u>5,000</u>	<u>5,000</u>
Net Position as restated at June 30, 2018	<u>\$ 6,180,148</u>	<u>\$ 6,180,148</u>

NOTE 18 - DEFICIT UNRESTRICTED NET POSITION

The Sewer Enterprise Fund has a deficit unrestricted net position of \$261,024 at June 30, 2019. However, after considering the net investment in capital assets, the Sewer Enterprise Fund has a positive net position of \$2,272,158.

NOTE 20 - NEW ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant acceleration clauses. This Statement will improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. This Statement is effective for the year ending June 30, 2019.

TOWN OF PENNINGTON GAP, VIRGINIA
Notes to Financial Statements (Continued)

NOTE 22- FUTURE ACCOUNTING PRONOUNCEMENTS

Statement No. 83, *Certain Asset Retirement Obligations*, establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The requirements of this statement should be applied prospectively.

Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*, defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Revenues - Budget and Actual
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
PRIMARY GOVERNMENT				
GENERAL FUND				
General Property Taxes				
Real property taxes	\$ 168,000	\$ 172,500	\$ 177,138	\$ 4,638
Personal property taxes	17,000	17,500	19,213	1,713
Penalties and interest	4,000	4,000	6,563	2,563
Total General Property Taxes	189,000	194,000	202,914	8,914
Other Local Taxes				
Local sales and use tax	44,500	44,500	50,945	6,445
Utility taxes	44,500	44,500	43,954	(546)
Business license tax	84,000	84,000	82,468	(1,532)
Communications tax	43,500	43,500	39,935	(3,565)
Bank stock taxes	140,000	140,000	145,864	5,864
Hotel and motel room taxes	2,300	2,300	2,269	(31)
Restaurant food taxes	526,600	526,600	550,700	24,100
Total Other Local Taxes	885,400	885,400	916,135	30,735
Permits, Privilege Fees, And Regulatory Licenses	20,000	20,000	21,611	1,611
Fines and Forfeitures	6,000	6,000	5,068	(932)
Revenue From Use Of Money and Property				
Revenue from use of money	2,500	2,500	4,895	2,395
Revenue from use of property	27,450	28,850	29,608	758
Total Revenue From Use of Money and Property	29,950	31,350	34,503	3,153
Miscellaneous Revenue	10,500	55,350	48,351	(6,999)
Charges For Services				
Garbage collection fees	82,500	82,500	95,644	13,144
Other	70,000	95,000	113,188	18,188
Total Charges For Services	152,500	177,500	208,832	31,332
TOTAL PRIMARY GOVERNMENT	1,293,350	1,369,600	1,437,414	67,814
Revenue From Local Government				
Lee County Contributions-SRO	-	-	8,268	8,268
Lee County Contributions-Fire Dept	-	-	10,000	10,000
Lee County Contributions-Joint Projects	4,500	4,500	-	(4,500)
Total Revenue from Local Government	4,500	4,500	18,268	13,768

See independent auditors' report on supplementary information.

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Revenues - Budget and Actual
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenue From The Commonwealth				
Non-Categorical Aid				
Rolling stock taxes	6,300	6,300	6,511	211
VDOT	15,000	15,000	9,412	(5,588)
Litter Grant	1,000	1,000	1,086	86
Total Non-Categorical Aid	<u>22,300</u>	<u>22,300</u>	<u>17,009</u>	<u>(5,291)</u>
Categorical Aid				
State assistance	42,170	42,170	45,136	2,966
COPS grant	27,000	27,000	6,963	(20,037)
DCJS Grant	-	-	-	-
TEA Grant	-	-	-	-
VDOT	-	-	-	-
Other grant income	139,800	141,600	144,541	2,941
Total Categorical Aid	<u>208,970</u>	<u>210,770</u>	<u>196,640</u>	<u>(14,130)</u>
Total Revenue From The Commonwealth	<u>231,270</u>	<u>233,070</u>	<u>213,649</u>	<u>(19,421)</u>
Revenue From The Federal Government				
ARC Grant	445,000	445,000	7,500	(437,500)
Rural Development	50,000	100,000	50,000	(50,000)
Total Revenue from the Federal Government	<u>495,000</u>	<u>545,000</u>	<u>57,500</u>	<u>(487,500)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	-
Loan proceeds	55,000	314,000	21,500	(292,500)
Insurance proceeds	-	6,500	8,787	2,287
Sale of property	-	11,000	23,409	12,409
Appropriation of prior year surplus	81,440	107,440	-	(107,440)
Total Other Financing Sources	<u>136,440</u>	<u>438,940</u>	<u>53,696</u>	<u>(385,244)</u>
GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS	<u>\$ 2,160,560</u>	<u>\$ 2,591,110</u>	<u>\$ 1,780,527</u>	<u>\$ (810,583)</u>

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Expenditures - Budget and Actual
Year Ended June 30, 2019

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
PRIMARY GOVERNMENT				
GENERAL FUND				
General Government Administration				
Salaries	\$ 72,000	\$ 81,500	\$ 86,757	\$ (5,257)
Fringe benefits	33,650	34,550	34,624	(74)
Payroll taxes	5,950	5,950	6,070	(120)
Utilities	27,000	27,000	16,445	10,555
Insurance	12,000	12,000	6,048	5,952
Supplies	14,500	22,000	26,562	(4,562)
Repair and maintenance	14,500	14,500	17,276	(2,776)
Training and travel	14,000	16,000	20,095	(4,095)
Fuel	1,000	1,000	1,087	(87)
Advertising	27,500	28,500	33,273	(4,773)
Legal and accounting fees	10,500	10,500	9,758	742
Council fees	6,600	12,000	12,000	-
Donations	11,000	11,000	10,800	200
Capital purchases	1,000	8,500	22,029	(13,529)
Miscellaneous	25,600	36,600	29,889	6,711
Total General Government Administration	276,800	321,600	332,713	(11,113)
Public Safety				
Salaries	246,000	246,000	241,118	4,882
Fringe benefits	92,800	92,800	73,449	19,351
Payroll taxes	20,000	20,000	18,368	1,632
Utilities	14,700	14,700	14,952	(252)
Insurance	42,600	42,600	25,609	16,991
Supplies	18,000	18,000	29,607	(11,607)
Repair and maintenance	30,100	31,600	21,398	10,202
Training and travel	11,500	11,500	18,131	(6,631)
Fuel	23,500	23,500	23,440	60
Legal and accounting fees	1,500	1,500	1,170	330
Capital purchases	88,700	440,200	126,863	313,337
Miscellaneous	7,500	7,500	4,739	2,761
Total Public Safety	596,900	949,900	598,844	351,056
Public Works				
Maintenance of Highways, Streets, Bridges and Sidewalks				
Salaries	60,000	60,000	59,973	27
Fringe benefits	16,100	16,100	8,268	7,832
Payroll taxes	4,850	4,850	4,180	670
Utilities	62,000	62,000	62,516	(516)
Insurance	11,000	11,000	8,667	2,333
Supplies	5,000	5,000	9,357	(4,357)
Repair and maintenance	15,000	18,000	17,567	433
Fuel	8,000	8,000	10,595	(2,595)
Capital purchases	-	-	22,119	(22,119)
Miscellaneous	13,600	24,600	9,348	15,252
Highways, streets, bridges and sidewalks	586,350	586,350	11,019	575,331
TVA Greenway	10,000	17,000	60,569	(43,569)
ATV Trail	-	-	1,252	(1,252)
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	791,900	812,900	285,430	527,470

See independent auditors' report on supplementary information.

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Expenditures - Budget and Actual
Year Ended June 30, 2019

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Sanitation and Waste Removal				
Salaries	\$ 21,000	\$ 21,000	\$ 19,299	\$ 1,701
Fringe benefits	14,650	14,650	14,785	(135)
Payroll taxes	1,550	1,550	1,350	200
Utilities	400	400	-	400
Insurance	11,100	11,100	7,705	3,395
Supplies	2,000	2,000	875	1,125
Repair and maintenance	10,500	10,500	13,989	(3,489)
Fuel	9,000	9,000	7,912	1,088
Capital purchases	-	-	-	-
Miscellaneous	18,000	18,000	20,264	(2,264)
Total Sanitation and Waste Removal	88,200	88,200	86,179	2,021
Total Public Works	880,100	901,100	371,609	529,491
Parks, Recreation and Cultural				
Salaries	83,500	83,500	77,245	6,255
Fringe benefits	8,200	8,200	8,616	(416)
Payroll taxes	6,650	6,650	6,661	(11)
Utilities	55,300	55,300	50,507	4,793
Insurance	20,100	20,100	13,022	7,078
Supplies	18,500	23,500	24,338	(838)
Repair and maintenance	21,500	26,500	31,088	(4,588)
Capital purchases	20,000	15,000	12,629	2,371
Miscellaneous	-	3,450	8,474	(5,024)
Theatre	39,500	39,500	48,223	(8,723)
Parks and recreation	79,500	82,800	64,210	18,590
Total Parks, Recreation and Cultural	352,750	364,500	345,013	19,487
Debt Service				
Principal retirement	54,010	54,010	55,167	(1,157)
Interest	-	-	2,814	(2,814)
Total Debt Service	54,010	54,010	57,981	(3,971)
GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS	\$ 2,160,560	\$ 2,591,110	\$ 1,706,160	\$ 884,950
NET INCREASE (DECREASE) IN GENERAL FUND BALANCE	\$ -	\$ -	\$ 74,367	\$ 74,367

TOWN OF PENNINGTON GAP
Schedule of Changes in the Net Pension Liability and Related Ratios
Governmental and Business-Type Activities
June 30, 2019

	2018	2017	2016	2015	2014
Total pension liability:					
Service cost	\$ 61,102	\$ 62,054	\$ 61,248	\$ 58,394	\$ 53,695
Interest	63,273	61,094	54,173	47,463	42,053
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	(1,865)	(30,306)	6,619	10,655	-
Changes in assumptions	-	(22,272)	-	-	-
Benefit payments, including refunds of employee contributions	<u>(55,002)</u>	<u>(23,889)</u>	<u>(22,434)</u>	<u>(18,894)</u>	<u>(18,015)</u>
Net change in total pension liability	67,508	46,681	99,606	97,618	77,733
Total pension liability - beginning	<u>931,397</u>	<u>884,716</u>	<u>785,110</u>	<u>687,492</u>	<u>609,759</u>
Total pension liability - ending	<u>\$ 998,905</u>	<u>\$ 931,397</u>	<u>\$ 884,716</u>	<u>\$ 785,110</u>	<u>\$ 687,492</u>
Plan fiduciary net position					
Contributions - employer	\$ 28,921	\$ 30,656	\$ 41,559	\$ 38,698	\$ 33,860
Contributions - employee	39,185	48,678	35,731	33,368	29,229
Net investment income	82,233	118,475	16,964	36,926	102,321
Benefit payments, including refunds of employee contributions	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Administrative expense	(685)	(618)	(497)	(445)	(506)
Other	<u>(75)</u>	<u>(108)</u>	<u>(7)</u>	<u>(7)</u>	<u>6</u>
Net change in total pension liability	94,577	173,194	71,316	89,646	146,895
Total pension liability - beginning	<u>1,106,303</u>	<u>933,109</u>	<u>861,793</u>	<u>772,147</u>	<u>625,252</u>
Total pension liability - ending	<u>\$ 1,200,880</u>	<u>\$ 1,106,303</u>	<u>\$ 933,109</u>	<u>\$ 861,793</u>	<u>\$ 772,147</u>
Political subdivision's net pension liability - ending	\$ (201,975)	\$ (174,906)	\$ (48,393)	\$ (76,683)	\$ (84,655)
Plan fiduciary net position as a percentage of the total pension liability	120.22%	118.78%	105.47%	109.77%	112.31%
Covered - employee payroll	\$ 840,708	\$ 822,966	\$ 774,106	\$ 674,462	\$ 608,832
Political subdivision's net pension liability as a percentage of covered-employee payroll	-24.02%	-21.25%	-6.25%	-11.37%	-13.90%

1) Fiscal year 2015 was the first year of GASB 68 implementation, therefore only five years are shown herein.

TOWN OF PENNINGTON GAP
Schedule of Employer Contributions
Governmental and Business-Type Activities
June 30, 2019

Date	Contributions Relation to			Contributions as a % of	
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Covered Employee Payroll
2019	\$ 22,948	\$ 22,948	\$ -	\$ 863,203	2.66%
2018	\$ 28,921	\$ 28,921	\$ -	\$ 840,870	3.44%
2017	\$ 30,344	\$ 30,344	\$ -	\$ 822,966	3.69%
2016	\$ 39,051	\$ 39,051	\$ -	\$ 774,106	5.04%
2015	\$ 39,349	\$ 39,349	\$ -	\$ 674,462	5.83%
2014	\$ 63,135	\$ 63,135	\$ -	\$ 608,832	10.37%
2013	\$ 56,107	\$ 56,107	\$ -	\$ 554,126	10.13%
2012	\$ 54,356	\$ 54,356	\$ -	\$ 453,453	11.99%
2011	\$ 47,908	\$ 47,908	\$ -	\$ 501,019	9.56%
2010	\$ 46,468	\$ 46,468	\$ -	\$ 413,299	11.24%

TOWN OF PENNINGTON GAP
Schedule of Changes in the Net OPEB Liability and Related Ratios
June 30, 2019

	2019	2018
	Local Plan	Local Plan
Total OPEB liability		
Service cost	\$ 4,383	\$ 3,590
Interest	2,027	952
Changes of benefit terms	-	-
Differences between expected and actual experience	(17,988)	26,943
Changes in assumptions	1,203	(27,488)
Benefit payments, including refunds of employee contributions	-	-
Net change in total OPEB liability	(10,375)	3,997
Total OPEB liability - beginning	47,992	43,995
Total OPEB liability - ending	<u>\$ 37,617</u>	<u>\$ 47,992</u>
Covered - employee payroll	\$ 1,108,672	\$ 1,872,398
Total OPEB liability as a percentage of covered-employee payroll	3.39%	2.56%

1) Fiscal year 2018 was the first year of GASB 75 implementation; therefore only two years are shown herein.

Notes to Schedule:

Changes to assumptions: Changes to assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2019 - 3.450%

2018 - 3.870%

2017 - 2.000%

TOWN OF PENNINGTON GAP
Schedule of Employer Share of Net OPEB Liability
June 30, 2019

* Fiscal Year Ended 30 June	Employer's Portion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of Net OPEB Liability (Asset) as % of its Covered Payroll	Plan Fiduciary Net Position as a % of the Total OPEB Liability
VRS- Virginia Local Disability Program-General Employees					
2019	0.11650%	\$ 1,000	\$ 359,947	0.28%	38.40%
2018	0.14235%	\$ 1,000	\$ 285,900	0.35%	38.40%

*The amounts presented have a measurement date of the previous fiscal year end.

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

TOWN OF PENNINGTON GAP
Schedule of Employer OPEB Contributions
June 30, 2019

Fiscal Year	Contractually Required Contribution	Contributions Related to	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of
		Contractually Required Contribution			Covered Employee Payroll
VRS- Virginia Local Disability Program-General Employees					
2019	\$ 2,232	\$ 2,232	\$ -	\$ 359,947	0.62%
2018	\$ 1,715	\$ 1,715	\$ -	\$ 285,900	0.60%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year-i.e. the covered payroll on which required contributions were based for the same year.

TOWN OF PENNINGTON GAP
Notes to Required Supplemental Information
For the Year Ended June 30, 2019

NOTE 1 - CHANGE OF BENEFIT TERMS

Pension

There have been no actuarially material changes to the town's benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System of benefit provisions since the prior actuarial valuation.

NOTE 2 - CHANGES OF ASSUMPTIONS

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages and changed final retirement 70 to 75
Withdrawal Rates		Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates		Lowered rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 14% to 20%
Applicable to:		Pension, VLDP OPEB

All Others (Non 10 Largest) -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages and changed final retirement 70 to 75
Withdrawal Rates		Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates		Lowered rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 14% to 15%
Applicable to:		Pension, VLDP OPEB

Largest 10 -- Hazardous Duty/Public Safety Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages
Withdrawal Rates		Adjusted rates to better fit experience
Disability Rates		Increased rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 60% to 70%
Applicable to:		Pension

All Others (Non 10 Largest) -- Hazardous Duty/Public Safety Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates		Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates		Adjusted rates to better fit experience
Salary Scale		No change
Line of Duty Disability		Decrease rate from 60% to 45%
Applicable to:		Pension