

TOWN OF PENNINGTON GAP, VIRGINIA

AUDIT REPORT

Year Ended June 30, 2017

TOWN OF PENNINGTON GAP, VIRGINIA
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Year Ended June 30, 2017

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TOWN OF PENNINGTON GAP, VIRGINIA
TOWN OFFICIALS
June 30, 2017

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
Angela K. O'Dell - Clerk

ATTORNEY: Gregory Edwards

THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants
& Consultants*

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

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

Founded 1948

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Certified Public Accountants
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Norton, Virginia 24273
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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2017, 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 .342 percent, .464 percent, and 0 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, 2017, 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 March 7, 2018 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.



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

Norton, Virginia
March 7, 2018

THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants
& Consultants*

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2017, 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 March 7, 2018. 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, 2017, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Town's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the separately issued schedule of findings and responses that we consider to be material weaknesses (Ref. 2017-001 and 2017-002).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pennington Gap, Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Honorable Members of the Town Council
Town of Pennington Gap
Pennington Gap, Virginia 24277
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*(Independent Auditor's Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards)*

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 March 7, 2018.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thrower, Blanton & Associates, P.C.

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

Norton, Virginia
March 7, 2018

TOWN OF PENNINGTON GAP, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2017

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

STATE COMPLIANCE MATTERS

Code of Virginia:

Budget and Appropriation Laws
Cash and Investments Laws
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, 2017

EXHIBIT I

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total Primary Government	Industrial Development Authority
<u>ASSETS</u>				
Cash and cash equivalents	\$ 380,541	\$ 306,202	\$ 686,743	37,725
Receivables, net	95,949	253,538	349,487	-
Internal balances	(20,057)	20,057	-	-
Due from other governmental units	12,172	-	12,172	-
Restricted cash	165,565	1,024,182	1,189,747	-
Loans receivable	-	26,092	26,092	20,000
Prepaid and other	15,332	23,816	39,148	-
Net Pension Asset	18,873	29,520	48,393	-
Capital assets, net	5,032,534	9,411,800	14,444,334	-
TOTAL ASSETS	5,700,909	11,095,207	16,796,116	57,725
<u>DEFERRED OUTFLOWS OF RESOURCES</u>				
Items related to measurement of net pension liability	13,844	21,652	35,496	-
Deferred pension-contributions after measurement date	11,834	18,510	30,344	-
Total Deferred Outflows of Resources	25,678	40,162	65,840	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 5,726,587	\$ 11,135,369	\$ 16,861,956	\$ 57,725
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities	\$ 74,601	\$ 61,082	\$ 135,683	-
Accrued payroll and related liabilities	20,419	23,050	43,469	-
Accrued interest payable	194	19,185	19,379	-
Customer security deposits	-	68,230	68,230	-
Compensated absences	28,689	41,347	70,036	-
Long-term liabilities:				
Due within one year	38,624	257,029	295,653	-
Due in more than one year	150,078	3,714,743	3,864,821	-
Total Liabilities	312,605	4,184,666	4,497,271	-
<u>DEFERRED INFLOWS OF RESOURCES</u>				
Deferred pension related inflows	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
<u>NET POSITION</u>				
Net investment in capital assets	4,882,099	5,484,815	10,366,914	-
Restricted	18,873	144,240	163,113	-
Unrestricted	513,010	1,321,648	1,834,658	57,725
Total Net Position	5,413,982	6,950,703	12,364,685	57,725
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 5,726,587	\$ 11,135,369	\$ 16,861,956	\$ 57,725

TOWN OF PENNINGTON GAP
STATEMENT OF ACTIVITIES
June 30, 2017

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit	
					Governmental Activities	Business-Type Activities		Total
Governmental Activities:								
General government	\$ 344,624	\$ 23,206	\$ -	\$ -	\$ (321,418)	\$ -	\$ (321,418)	
Public safety	643,997	26,915	121,923	50,000	(445,159)	-	(445,159)	
Public works	525,391	87,242	-	-	(438,149)	-	(438,149)	
Parks, recreation, and cultural	278,328	86,942	34,000	158,383	997	-	997	
Non-departmental	2,868	-	-	-	(2,868)	-	(2,868)	
Total Governmental Activities	1,795,208	224,305	155,923	208,383	(1,206,597)	-	(1,206,597)	
Business-Type Activities:								
Water	1,405,643	1,171,212	-	-	-	(234,431)	(234,431)	
Wastewater	830,209	504,903	-	-	-	(325,306)	(325,306)	
Industrial fund	-	-	-	-	-	-	-	
Total Enterprise Activities	2,235,852	1,676,115	-	-	-	(559,737)	(559,737)	
TOTAL PRIMARY GOVERNMENT	\$ 4,031,060	\$ 1,900,420	\$ 155,923	\$ 208,383	\$ (1,206,597)	\$ (559,737)	\$ (1,766,334)	
COMPONENT UNIT:								
Industrial Development Authority	\$ 3,505	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,505)	

General Revenues:

Property taxes	205,690	-	-	-	-	-	205,690
Other local taxes	747,307	-	-	-	-	-	747,307
Unrestricted intergovernmental revenue	7,447	-	-	-	-	-	7,447
Unrestricted investment earnings	4,326	-	-	-	12,270	-	16,596
Rental of Town property	28,321	-	-	-	-	-	28,321
Recovered costs	98,837	-	-	-	-	-	98,837
Transfers-Primary Government	(50,376)	-	-	-	50,376	-	-
Gain(Loss) from Sale of Property	-	-	-	-	-	-	-
Other	17,154	-	-	-	-	-	17,154
Total general revenues and transfers	1,058,706	-	-	-	62,646	-	1,121,352
Change in net position	(147,891)	-	-	-	(497,091)	-	(644,982)
NET POSITION - JULY 1, AS RESTATED	5,561,873	-	-	-	7,447,794	-	13,009,667
NET POSITION - JUNE 30	\$ 5,413,982	\$ -	\$ -	\$ -	\$ 6,950,703	\$ -	\$ 12,364,685

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2017

EXHIBIT 3

	General Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$ 380,541	\$ -	\$ 380,541
Receivables, net:			
Taxes receivable	40,433	-	40,433
Accounts receivable	55,328	-	55,328
Interest	188	-	188
Prepaid Insurance	15,332	-	15,332
Due From other funds	15,386	-	15,386
Due from other governmental units	12,172	-	12,172
Restricted cash	78,933	86,632	165,565
Total Assets	<u>\$ 598,313</u>	<u>\$ 86,632</u>	<u>\$ 684,945</u>
LIABILITIES			
Accounts payable and accrued liabilities	74,601	-	74,601
Accrued payroll and related liabilities	20,419	-	20,419
Due to other funds	35,443	-	35,443
Total Liabilities	<u>130,463</u>	<u>-</u>	<u>130,463</u>
DEFERRED INFLOWS			
Property Taxes Receivable	39,055	-	39,055
Total Deferred Inflows	<u>39,055</u>	<u>-</u>	<u>39,055</u>
FUND BALANCES			
Nonspendable	15,332	-	15,332
Restricted	64,546	86,632	151,178
Committed	-	-	-
Assigned	14,387	-	14,387
Unassigned	334,530	-	334,530
Total Fund Balances	<u>428,795</u>	<u>86,632</u>	<u>515,427</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 598,313</u>	<u>\$ 86,632</u>	<u>\$ 684,945</u>
 Total Fund Balances	 \$ 515,427		

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.	5,032,534
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.	57,928
Deferred outflows of resources reported in the Statement of Net Position	25,678
Other liabilities are not required to be paid out of current financial resources and, therefore, are not reported in the governmental funds.	(28,689)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(188,896)
Deferred inflows of resources reported in the Statement of Net Position	-
Net Position of Governmental Activities	<u>\$ 5,413,982</u>

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL AND DEBT SERVICE FUNDS
Year Ended June 30, 2017

EXHIBIT 4

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
REVENUES:			
General property taxes	\$ 205,194	\$ -	\$ 205,194
Other local taxes	747,307	-	747,307
Permits, Privilege Fees, and Licenses	23,206	-	23,206
Fines and forfeitures	13,513	-	13,513
Revenue from use of money & property	32,317	330	32,647
Charges for services	187,586	-	187,586
Miscellaneous	17,154	-	17,154
Recovered costs	-	-	-
Intergovernmental	371,753	-	371,753
Total Revenues	<u>1,598,030</u>	<u>330</u>	<u>1,598,360</u>
EXPENDITURES:			
Current:			
General government administration	312,824	-	312,824
Public safety	671,533	-	671,533
Public works	481,808	-	481,808
Parks, recreation and cultural	346,832	-	346,832
Debt Service:			
Principal retirement	26,616	-	26,616
Interest	2,894	-	2,894
Total Expenditures	<u>1,842,507</u>	<u>-</u>	<u>1,842,507</u>
Excess (Deficiency) of Revenues Over Expenditures	(244,477)	330	(244,147)
OTHER FINANCING SOURCES (USES):			
Sale of surplus	-	-	-
Insurance Proceeds	3,923	-	3,923
Loan proceeds	54,600	-	54,600
Operating transfers in(out)	(50,376)	-	(50,376)
Total Other Financing Sources (Uses)	8,147	-	8,147
Special Item			
Fire-Total Loss Town Municipal Offices	<u>94,914</u>	<u>-</u>	<u>94,914</u>
Net Change in Fund Balance	(141,416)	330	(141,086)
Fund Balance at Beginning of Year	<u>570,211</u>	<u>86,302</u>	<u>656,513</u>
Fund Balance at End of Year	<u>\$ 428,795</u>	<u>\$ 86,632</u>	<u>\$ 515,427</u>

TOWN OF PENNINGTON GAP
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

EXHIBIT 5

	<u>Governmental Funds</u>
Net Change in Fund Balance Governmental Funds:	\$ (141,086)
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	276,719
Depreciation expense	<u>(242,781)</u>
	<u>33,938</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	496
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	26,616
Capital lease	-
Proceeds from debt	(54,600)
Proceeds from capital lease	<u>-</u>
	<u>(27,984)</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	26
Compensated absences	(14,708)
Other post-employment benefits	<u>(1,404)</u>
	<u>(16,086)</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	
Employer pension contributions	9,595
Pension expense	<u>(6,764)</u>
	<u>2,831</u>
Change in Net Position of Governmental Activities	<u>\$ (147,891)</u>

TOWN OF PENNINGTON GAP
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2017

EXHIBIT 6

	Water Fund	Sewer Fund	Industrial Fund	Combined Total 2017
<u>ASSETS</u>				
Cash and cash equivalents	\$ 267,929	\$ 38,273	\$ -	\$ 306,202
Receivables (Net of Allowance for Uncollectibles):				
Accounts	154,603	98,458	-	253,061
Interest	434	17	26	477
Due from other funds	107,865	30,214	-	138,079
Loans receivable	-	-	26,092	26,092
Prepaid and other	13,968	9,848	-	23,816
Restricted cash	913,324	22,256	88,602	1,024,182
Net Pension Asset	20,809	8,711	-	29,520
Land	10,600	20,515	6,943	38,058
Capital assets, net	6,160,855	3,212,887	-	9,373,742
 Total Assets	 <u>\$ 7,650,387</u>	 <u>\$ 3,441,179</u>	 <u>\$ 121,663</u>	 <u>11,213,229</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>				
Items related to measurement of net pension liability	15,263	6,389	-	21,652
Deferred pension-contributions after measurement date	13,048	5,462	-	18,510
Total Deferred Outflows of Resources	28,311	11,851	-	40,162
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 7,678,698</u>	 <u>\$ 3,453,030</u>	 <u>\$ 121,663</u>	 <u>11,253,391</u>
<u>LIABILITIES</u>				
Accounts payable and accrued liabilities	\$ 35,940	\$ 25,142	\$ -	\$ 61,082
Accrued payroll and related liabilities	16,776	6,274	-	23,050
Accrued interest payable	14,123	5,062	-	19,185
Customer security deposits	45,563	22,667	-	68,230
Due to other funds	-	118,022	-	118,022
Compensated absences	26,848	14,499	-	41,347
Long-term liabilities:				
Due within one year	204,029	53,000	-	257,029
Due in more than one year	3,232,635	482,108	-	3,714,743
 Total Liabilities	 <u>3,575,914</u>	 <u>726,774</u>	 <u>-</u>	 <u>4,302,688</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>				
Deferred pension related inflows	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
<u>NET POSITION</u>				
Net investment in capital assets	2,764,670	2,713,202	6,943	5,484,815
Restricted	20,809	8,711	114,720	144,240
Unrestricted	1,317,305	4,343	-	1,321,648
 Total Net Position	 <u>4,102,784</u>	 <u>2,726,256</u>	 <u>121,663</u>	 <u>6,950,703</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	 <u>\$ 7,678,698</u>	 <u>\$ 3,453,030</u>	 <u>\$ 121,663</u>	 <u>\$ 11,253,391</u>

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
For the Year Ended June 30, 2017

EXHIBIT 7

	Water Fund	Sewer Fund	Industrial Fund	Combined Totals 2017
OPERATING REVENUES:				
Charges for services	\$ 1,139,620	\$ 493,653	\$ -	\$ 1,633,273
Tap fees	850	-	-	850
Connections	5,725	-	-	5,725
Reconnections	6,200	-	-	6,200
Penalties	16,502	-	-	16,502
Miscellaneous	2,315	11,250	-	13,565
Total Operating Revenues	<u>1,171,212</u>	<u>504,903</u>	<u>-</u>	<u>1,676,115</u>
OPERATING EXPENSES:				
Salaries and wages	381,736	279,252	-	660,988
Payroll taxes	29,114	20,901	-	50,015
Group health and life	121,697	114,869	-	236,566
Pension	12,541	10,623	-	23,164
Utilities	121,437	52,489	-	173,926
Telephone	8,346	1,803	-	10,149
Supplies	76,466	23,872	-	100,338
Vehicle expense	11,207	8,040	-	19,247
Insurance	25,961	24,309	-	50,270
Repair and maintenance	67,391	31,061	-	98,452
Certification, travel, and training	2,265	1,059	-	3,324
Professional services	27,695	22,294	-	49,989
Lab and analysis	2,048	3,661	-	5,709
Contract services	-	41,286	-	41,286
Dues and subscriptions	7,899	385	-	8,284
Depreciation	428,901	175,794	-	604,695
Miscellaneous	1,229	1,601	-	2,830
Total Operating Expenses	<u>1,325,933</u>	<u>813,299</u>	<u>-</u>	<u>2,139,232</u>
Operating Income (Loss)	<u>(154,721)</u>	<u>(308,396)</u>	<u>-</u>	<u>(463,117)</u>
NON-OPERATING REVENUES (EXPENSES) :				
Grant income	-	-	-	-
Transfers	-	-	50,376	50,376
Interest expense	(79,710)	(16,910)	-	(96,620)
Interest income	11,799	184	287	12,270
Contribution to other	-	-	-	-
Gain/loss on disposition of assets	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(67,911)</u>	<u>(16,726)</u>	<u>50,663</u>	<u>(33,974)</u>
CHANGE IN NET POSITION	<u>(222,632)</u>	<u>(325,122)</u>	<u>50,663</u>	<u>(497,091)</u>
NET POSITION AT JULY 1	<u>4,325,416</u>	<u>3,051,378</u>	<u>71,000</u>	<u>7,447,794</u>
NET POSITION AT JUNE 30	<u>\$ 4,102,784</u>	<u>\$ 2,726,256</u>	<u>\$ 121,663</u>	<u>\$ 6,950,703</u>

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2017

EXHIBIT 8

	Water Fund	Sanitation Fund	Industrial Fund	TOTAL
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 1,129,812	\$ 491,384	\$ -	\$ 1,621,196
Cash payments to suppliers for goods and services	(526,069)	(347,295)	-	(873,364)
Cash payments to employees for services	(390,181)	(281,017)	-	(671,198)
Other operating income	31,592	11,250	-	42,842
NET CASH PROVIDED BY OPERATING ACTIVITIES	245,154	(125,678)	-	119,476
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:				
Increase (decrease) in customer deposit	3,524	3,371	-	6,895
(Increase) decrease in due from other funds	(47,691)	-	-	(47,691)
Increase (decrease) in due to other funds	-	47,691	-	47,691
NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES	(44,167)	51,062	-	6,895
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Purchase of capital assets	(53,641)	-	-	(53,641)
Disposition of capital assets	-	-	-	-
Interfund transfer	-	-	50,376	50,376
Proceeds from borrowings	-	-	-	-
Contributed capital - Grant revenue	-	-	-	-
Principal paid on revenue bonds	(201,738)	(46,800)	-	(248,538)
Interest paid on revenue bonds and equipment	(83,777)	(17,481)	-	(101,258)
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(339,156)	(64,281)	50,376	(353,061)
CASH FLOWS FROM INVESTING ACTIVITIES				
Payments received on community development loans	-	-	-	-
Interest on investments	11,837	183	272	12,020
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,837	183	272	12,020
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(126,332)	(138,714)	50,648	(214,398)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,307,585	199,243	37,954	1,544,782
Cash and Cash Equivalents at June 30, 2017				
Unrestricted	\$ 267,929	\$ 38,273	\$ -	\$ 306,202
Restricted	913,324	22,256	88,602	1,024,182
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,181,253	\$ 60,529	\$ 88,602	\$ 1,330,384
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ (154,721)	\$ (308,396)	\$ -	\$ (463,117)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation and amortization	428,901	175,794	-	604,695
Increase (decrease) in accrued compensated absences	(11,837)	506	-	(11,331)
Net pension and OPEB obligation	(1,877)	(130)	-	(2,007)
Change in Assets, Liabilities, Deferred Inflows/Outflows:				
(Increase) decrease in accounts receivable	(9,808)	(2,269)	-	(12,077)
(Increase) decrease in prepaid expenses	794	1,487	-	2,281
Increase (decrease) in accounts payable	(8,364)	10,162	-	1,798
Increase (decrease) in accrued wages	3,392	(2,271)	-	1,121
Increase (decrease) in accrued liabilities	(1,326)	(561)	-	(1,887)
TOTAL ADJUSTMENTS	399,875	182,718	-	582,593
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 245,154	\$ (125,678)	\$ -	\$ 119,476

The accompanying notes are an integral part of the financial statements

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Net Position
June 30, 2017

EXHIBIT 9

ASSETS

Cash and cash equivalents	\$ 37,725
Land	-
Notes Receivable	<u>20,000</u>
Total Assets	<u>\$ 57,725</u>

LIABILITIES

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

Net Position

Unrestricted	<u>57,725</u>
Total Net Position	<u>\$ 57,725</u>

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Revenues, Expenditures and Changes in Net Position
Year Ended June 30, 2017

EXHIBIT 10

	<u>Total</u>
REVENUES:	
Charges for services	\$ -
Sale of equipment	-
Total Revenues	<u>-</u>
EXPENDITURES:	
Professional Services	3,505
Donation to industry	-
Miscellaneous	-
Total Expenditures	<u>3,505</u>
Excess of revenues over expenditures	(3,505)
Capital Contributions	<u>-</u>
Net Position at Beginning of Year	<u>61,230</u>
Net Position at End of Year	<u><u>\$ 57,725</u></u>

June 30, 2017

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.

A. Reporting Entity

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

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

B. Individual Component Unit Disclosures

Discretely Presented Component Unit:

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

C. Financial Reporting Model

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

June 30, 2017

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

C. **Financial Reporting Model (continued)**

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

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by specific program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, and other items not properly included among program revenues, are reported instead as general revenues.

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide financial statements, as well as the proprietary fund financial statements, report all their activities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

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

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

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

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

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

June 30, 2017

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

Proprietary Fund Types

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

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

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

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

E. Budgets and Budgetary Accounting

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

F. Encumbrances

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

G. Capital Assets

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

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

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

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

H. Cash Equivalents

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

I. 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

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Pensions

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

K. Deferred Outflows/Inflows of Resources

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

Employer pension contributions made after the net pension liability measurement date of June 30, 2016 and prior to the reporting date of June 30, 2017, have been reported as deferred outflows of resources in the Statement of Net Position as of June 30, 2017. This will be applied to the net pension liability in the next fiscal year.

Differences between the projected and actual pension earnings as of the actuarial measurement date of June 30, 2016 have been reported as a deferred inflow of resources. This difference will be recognized in pension 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.

L. 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.

M. 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.

N. 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.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. 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:

- Nondisposable: 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 Nondisposable 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.

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.

P. 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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 establish 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, 2017 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.

Concentration of Credit Risk:

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

Lee Bank and Trust	81%
Farmers and Miners Bank	7%
Powell Valley National Bank	12%

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.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

2. CASH AND CASH EQUIVALENTS (Continued)

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	\$ 1,850	\$ -0-
Deposits	635,868	37,725
Investments	<u>1,238,772</u>	<u>-0-</u>
	<u>\$1,876,490</u>	<u>\$ 37,725</u>
Statement of net position:		
Cash and cash equivalents	\$ 380,654	\$ 37,725
Restricted cash and cash equivalents	1,189,747	-0-
Investments	<u>306,089</u>	<u>-0-</u>
	<u>\$1,876,490</u>	<u>\$ 37,725</u>

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

3. DUE FROM OTHER GOVERNMENTAL UNITS

Commonwealth of Virginia:		
Local sales tax	\$ 4,062	
Communication tax	<u>7,306</u>	
Total Commonwealth of Virginia		\$ 11,368
Lee County:		
Court fines/transfer fees	<u>804</u>	
Total Lee County		<u>804</u>
Total Due from other Governmental Units		<u>\$ 12,172</u>

4. INTERFUND OBLIGATIONS

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Fund	14,779	7,075
Sewer Fund	608	28,368
Water Fund:		
General Fund	7,075	14,779
Sewer Fund	117,415	1,846
Sewer Fund:		
Water Fund	1,846	117,415
General Fund	<u>28,368</u>	<u>608</u>
TOTAL	<u>\$ 170,091</u>	<u>\$ 170,091</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

5. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has deferred outflows of resources in the general fund of \$25,678, and \$40,162 in the proprietary funds comprised of deferred pension contributions after the measurement date and items related to measurement of net pension liability. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has deferred inflows totaling \$39,055 in the general fund, comprised of uncollected tax billings not available for funding of current expenditures as of June 30, 2017. The Town further has deferred inflows related to pensions of \$0 in the general fund, and \$0 in the proprietary funds.

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 \$129,265 at June 30, 2017, and is composed of the following:

General Fund:	
Allowance for uncollectible property taxes	\$ 39,573
Allowance for uncollectible garbage fees	<u>5,429</u>
Total General Fund	<u>45,002</u>
 Water and Sewer Fund:	
Allowance for uncollectible water and sewer fee billings	<u>84,263</u>
Total Water and Sewer Fund	<u>84,263</u>
 TOTAL	 <u>\$ 129,265</u>

7. CAPITAL ASSETS

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

Governmental activities:	
General government	\$ 28,483
Public safety	75,010
Public works	37,530
Parks, recreation and cultural	<u>101,758</u>
Total depreciation expense – governmental activities	<u>\$ 242,781</u>
 Business-type activities:	
Water	\$ 428,901
Sanitation	<u>175,794</u>
Total depreciation expense – business-type activities	<u>\$ 604,695</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

8. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land	\$ 368,509	\$ -	\$ -	\$ 368,509
Construction in progress	803,366	118,097	(249,529)	671,934
Total Capital Assets, Non-depreciable	<u>1,171,875</u>	<u>118,097</u>	<u>(249,529)</u>	<u>1,040,443</u>
Capital assets, depreciable				
Equipment	1,938,039	93,485	-	2,031,524
Buildings and improvements	3,731,562	314,666	-	4,046,228
Other improvements	88,674	-	-	88,674
Infrastructure	476,453	-	-	476,453
Total Capital Assets, depreciable	<u>6,234,728</u>	<u>408,151</u>	<u>-</u>	<u>6,642,879</u>
Less accumulated depreciation for				
Equipment	1,403,800	128,924	-	1,532,724
Buildings and improvements	493,740	101,946	-	595,686
Other improvements	88,674	-	-	88,674
Infrastructure	421,793	11,911	-	433,704
Total accumulated depreciation	<u>2,408,007</u>	<u>242,781</u>	<u>-</u>	<u>2,650,788</u>
Total Capital Assets, depreciable, net	<u>3,826,721</u>	<u>165,370</u>	<u>(249,529)</u>	<u>3,992,091</u>
Governmental activities				
Capital assets, net	<u>\$4,998,596</u>	<u>\$ 283,467</u>	<u>\$ (249,529)</u>	<u>\$5,032,534</u>
Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Constructions in progress	-	-	-	-
Total Capital Assets, Non-depreciable	<u>38,058</u>	<u>-</u>	<u>-</u>	<u>38,058</u>
Capital assets, depreciable				
Buildings	9,320,445	53,641	-	9,374,086
Infrastructure	13,588,262	-	-	13,588,262
Machinery & equipment	652,480	-	-	652,480
Total Capital Assets, depreciable	<u>23,561,187</u>	<u>53,641</u>	<u>-</u>	<u>23,614,828</u>
Less accumulated depreciation for				
Buildings	4,814,614	234,226	-	5,048,840
Infrastructure	8,318,794	344,478	-	8,663,272
Machinery & equipment	502,983	25,991	-	528,974
Total accumulated depreciation	<u>13,636,391</u>	<u>604,695</u>	<u>-</u>	<u>14,241,086</u>
Total Capital Assets, depreciable, net	<u>9,924,796</u>	<u>(551,054)</u>	<u>-</u>	<u>9,373,742</u>
Business-Type activities				
Capital assets, net	<u>\$ 9,962,854</u>	<u>\$ (551,054)</u>	<u>\$ -</u>	<u>\$ 9,411,800</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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%. \$ 15,712

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%. 63,441

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%. 37,100

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%. 14,182

TOTAL NOTES PAYABLE-GOVERNMENTAL ACTIVITIES \$130,435

The annual requirements to amortize governmental debt outstanding as of June 30, 2017, are as follows:

Governmental Activities		
Year Ending June 30,	Notes	
	Principal	Interest
2018	\$ 33,624	\$ 3,399
2019	34,580	2,443
2020	31,963	1,485
2021	<u>30,268</u>	<u>608</u>
Totals	<u>\$ 130,435</u>	<u>\$ 7,935</u>

BUSINESS-TYPE ACTIVITIES:

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. \$1,442,727

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

9. LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES (Continued):

REVENUE BONDS (Continued)

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.

785,258

TOTAL REVENUE BONDS PAYABLE

\$ 2,227,985

	Water Revenue Bonds
Revenue bonds payable at July 1, 2016	\$ 2,320,522
Issuances	-
Retirements	<u>(92,537)</u>
Revenue bonds payable at June 30, 2017	<u>\$ 2,227,985</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.

\$ 1,178,800

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.

505,200

TOTAL REVENUE REFUNDING BONDS PAYABLE

\$ 1,684,000

	REVENUE REFUNDING BONDS		
	Series 2012 Water Revenue Refunding	Series 2012 Sewer Revenue Refunding	Total Revenue Refunding Bond
Bonds/loans payable at			
July 01, 2016	\$ 1,288,000	\$ 552,000	\$ 1,840,000
Issuances	-	-	-
Retirements	<u>(109,200)</u>	<u>(46,800)</u>	<u>(156,000)</u>
Bonds/loans payable at			
June 30, 2017	<u>\$ 1,178,800</u>	<u>\$ 505,200</u>	<u>\$ 1,684,000</u>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

9. LONG-TERM DEBT (Continued)

REVENUE REFUNDING BONDS (Continued)

The annual requirements to amortize revenue refunding bonds outstanding as of June 30, 2017, are as follows:

Years Ending June 30,	<u>2012 Sewer Refunding</u>		<u>2012 Water Refunding</u>		<u>Total Revenue Refunding</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	48,000	15,156	112,000	35,364	160,000	50,520
2019	49,500	13,716	115,500	32,004	165,000	45,720
2020	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	10,593	122,500	21,294	175,000	31,887
2023-2027	<u>251,700</u>	<u>21,249</u>	<u>587,300</u>	<u>49,581</u>	<u>839,000</u>	<u>70,830</u>
Totals	<u>\$505,200</u>	<u>\$ 83,646</u>	<u>\$1,178,800</u>	<u>\$191,751</u>	<u>\$ 1,684,000</u>	<u>\$ 275,397</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 loan is 0%.

\$ 20,000

The annual requirements to amortize governmental capital leases outstanding as of June 30, 2017, are as follows:

Governmental Activities			
Year Ending June 30,	Capital Leases		
	Principal	Interest	
2018	\$ 5,000	\$ -	
2019	5,000	-	
2020	5,000	-	
2021	5,000	-	
Totals	<u>\$ 20,000</u>	<u>\$ -</u>	

The Town entered into a collateralized lease purchase agreement with Estes Brothers during fiscal year 2016. The agreement was to purchase a CAT Loader and is collateralized with the asset in the amount of \$20,000. Principal installments of \$5,000 are due annually beginning April 2016 until maturity in 2020. The interest rate on the loan is 0%.

\$ 15,000

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

9. LONG-TERM DEBT (Continued)

CAPITAL LEASES(Continued):

The annual requirements to amortize governmental capital leases outstanding as of June 30, 2017, are as follows:

Business-Type Activities		
Year Ending June 30,	Capital Leases	
	Principal	Interest
2018	\$ 5,000	\$ -
2019	5,000	-
2020	5,000	-
2021	-	-
2022	-	-
2023-2027	-	-
Totals	\$ 15,000	\$ -

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, 2017 was \$70,036. 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, 2017:

	Balance July 1, 2016	Additions/ Proceeds	Payments/ Reductions	Balance June 30, 2017
Governmental Activities				
Accrued Compensated Absences	\$ 13,981	\$ 40,552	\$ (25,844)	\$ 28,689
	<u>13,981</u>	<u>40,552</u>	<u>(25,844)</u>	<u>28,689</u>
Business-Type Activities				
Accrued Compensated Absences	\$ 52,678	\$ 40,512	\$ (51,843)	\$ 41,347
	<u>52,678</u>	<u>40,512</u>	<u>(51,843)</u>	<u>41,347</u>
Totals	<u>\$ 66,659</u>	<u>\$ 81,064</u>	<u>\$ (77,687)</u>	<u>\$ 70,036</u>

11. COMMITMENTS AND CONTINGENCIES

Litigation

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

12. FUND BALANCE-GOVERNMENTAL FUNDS

As of June 30, 2017, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:			
Prepaid items	\$ 15,332	\$ —	\$ 15,332
Restricted:			
Parks, Recreation & Cultural	64,546	—	64,546
Debt Reserve	—	86,632	86,632
Committed:			
Assigned:			
Public Safety	14,387	—	14,387
Unassigned	334,530	—	334,530
Total fund balances	\$ 428,795	\$ 86,632	\$515,427

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.

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.

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:

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. *Pension Plan-Agent Multiple-Employer (Continued)*

		<p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</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</p>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>until age 70½.</p> <p>Calculating the Benefit Defined Benefit Component: See definition under Plan 1 Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>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>

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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

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

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TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>3</u>
Inactive members:	
Vested inactive members	3
Non-vested Inactive members	8
Inactive members active elsewhere in VRS	<u>7</u>
Total inactive members	18
Active members	<u>21</u>
Total covered employees	<u><u>42</u></u>

Contributions

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

The Town's contractually required contribution rate for the year ended June 30, 2017 was 3.81% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$ 30,344 and \$ 39,051 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Town's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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, 2015, 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, 2016.

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

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

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

Largest 10 – Non-LEOS:

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

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

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

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

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

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

Largest 10 – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Post-Disablement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

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TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2015	\$ 785,110	\$ 861,793	\$ (76,683)
Changes for the year:			
Service Cost	61,248	-	61,248
Interest	54,173	-	54,173
Differences between expected and actual experience	6,619	-	6,619
Contributions - employer	-	41,559	(41,559)
Contributions - employee	-	35,731	(35,731)
Net investment income	-	16,964	(16,964)
Benefit payments, including refunds of employee contributions	(22,434)	(22,434)	-
Administrative expenses	-	(497)	497
Other changes	-	(7)	7
Net changes	99,606	71,316	28,290
Balance at June 30, 2016	\$ 884,716	\$ 933,109	\$ (48,393)

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

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

	1% Decrease (6.00%)	Current Rate Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	\$ 86,521	\$ (48,393)	\$ (157,073)

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)

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

For the year ended June 30, 2017, the Town recognized pension expense of \$23,408. At June 30, 2017, 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	\$ 10,700	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	24,796	-
Employer contributions subsequent to the measurement date	30,344	-
Total	<u>\$ 65,840</u>	<u>\$ -</u>

\$30,244 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, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2017	\$ 5,442
2018	5,444
2019	14,595
2020	10,015
Thereafter	-
	<u>\$ 35,496</u>

Payables to the Pension Plan

At June 30, 2017, the Town reported a payable of \$5,676 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2017.

June 30, 2017

15. OTHER POST-EMPLOYMENT BENEFITS

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

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

Plan Description

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

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

Actuarial Methods and Assumptions

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

The entry-age normal cost method was used to determine liabilities under the alternative measurement method. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. Active employees are presumed to retire at age 65 which is the historical average age of retirement for employees of the Town. Active employees age 65 or older who have qualified postemployment benefits under the plan are assumed to retire in the first projected year. A healthcare plan that includes both retirees and active employees contains a blended rate. The rate used in the calculation is the age-adjusted premium less the contribution from the retiree or blended premium. The actuarial assumptions for the Town included: inflation at 3.0 and an investment rate of return of 3.0%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics. The 2004 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2017 is 24 years.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

15. OTHER POST-EMPLOYMENT BENEFITS (continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2017, the Town's annual OPEB costs of \$1,404 for governmental activities and \$2,420 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	Governmental Activities	Business- Type Activities	Total
Annual required contribution	\$ 1,577	\$ 2,710	\$ 4,287
Interest on net OPEB obligation	401	682	1,083
Adjustment to annual required contribution	(574)	(972)	(1,546)
Annual OPEB cost	1,404	2,420	3,824
Contributions made (Age Adjusted)	-	-	-
Increase in net OPEB obligation	1,404	2,420	3,824
Net OPEB obligation-beginning of year	36,863	42,367	79,230
Net OPEB obligation-end of year	<u>\$ 38,267</u>	<u>\$ 44,787</u>	<u>\$ 83,054</u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 1,404	0%	\$ 38,267
June 30, 2016	\$ 4,547	0%	\$ 36,863
June 30, 2015	\$ 5,132	0%	\$ 32,316
June 30, 2014	\$ 4,588	0%	\$ 27,184
June 30, 2013	\$ 7,532	0%	\$ 22,596

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 2,420	0%	\$ 44,787
June 30, 2016	\$ 8,178	0%	\$ 42,367
June 30, 2015	\$ 7,595	0%	\$ 34,189
June 30, 2014	\$ 7,757	0%	\$ 26,594
June 30, 2013	\$ 6,279	0%	\$ 18,837

Funding Policy

The Town currently funds post-employment health care benefits on a pay-as-you-go basis. During fiscal year 2017, the Town had not designated any funding for the OPEB liability.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

15. OTHER POST-EMPLOYMENT BENEFITS (continued)

Funding Status and Funding Progress

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

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the Town of Pennington Gap , Virginia

Activity	Actuarial	Actuarial	Unfunded			UAAL as a
Type	Value of	Accrued	Accrued	Funded	Covered	Percentage of
	Assets	Liability	Liability	Ratio	Payroll	Covered
		(AAL)	(UAAL)			Payroll
Governmental	\$ -	\$ 53,047	\$ 53,047	0.00%	\$ 338,534	15.60%
Business-type	\$ -	\$ 89,705	\$ 89,705	0.00%	\$ 576,423	15.60%

16. RESTATEMENT OF NET POSITION

Restatement of Net Position

In fiscal year 2017, the reevaluation of purchases for work on the trail system resulted in a reclassification of amounts recorded as construction in progress in the prior year to operating expenses. The implementation of this reclassification resulted in the following restatement of net position:

	General
	Government
Net Position as reported at June 30, 2016	\$ 5,805,840
Reclass of construction in progress to operating expenses	(243,967)
Net Position as restated at June 30, 2017	\$ 5,561,873

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

17. SUBSEQUENT EVENTS

On August 9, 2017, the Town borrowed \$300,000 through Powell Valley National Bank for the purpose of improvements to the town. The loan is to be repaid in 180 monthly installments of \$2,059.55 combined principal and interest beginning September 9, 2017. The interest rate on the loan is 2.875% and it matures on March 9, 2018.

18. NEW ACCOUNTING PRONOUNCEMENTS

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

In June 2016, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Town has not completed the evaluation of the impact that the implementation of this Statement will have on the financial statements. The Town adopted this Statement for fiscal year ending June 30, 2017.

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement became effective for the year ending June 30, 2017.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This statement became effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement became effective for the year ending June 30, 2017.

TOWN OF PENNINGTON GAP, VIRGINIA
NOTES TO FINANCIAL STATEMENTS

June 30, 2017

19. *FUTURE ACCOUNTING PRONOUNCEMENTS*

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

GASB Statement No. 85, *Omnibus 2017*, addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics: (1) blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation, (2) measuring certain money market investments and participating interest-earning investment contracts at amortized cost, (3) timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus, (4) recognizing on-behalf payments for pension or OPEB in employer financial statements, (5) presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, (6) classifying employer-paid member contributions for OPEB, (7) simplifying certain aspects of the alternative measurement method for OPEB, (8) accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement will be effective for the year ending June 30, 2018.

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2017

SCHEDULE 1
Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>PRIMARY GOVERNMENT</u>				
GENERAL FUND:				
General Property Taxes:				
Real property taxes	\$ 161,900	\$ 179,800	\$ 182,881	\$ 3,081
Personal property taxes	18,300	18,300	17,952	(348)
Penalties and interest	1,800	3,800	4,361	561
Total General Property Taxes	<u>182,000</u>	<u>201,900</u>	<u>205,194</u>	<u>3,294</u>
Other Local Taxes:				
Local sales and use tax	47,500	49,300	49,167	(133)
Utility taxes	44,500	44,500	44,699	199
Business license tax	83,000	85,000	85,832	832
Communications tax	46,000	44,800	44,437	(363)
Bank stock taxes	172,000	140,900	140,868	(32)
Hotel and motel room taxes	2,500	2,400	2,424	24
Restaurant food taxes	361,000	377,000	379,880	2,880
Total Other Local Taxes	<u>756,500</u>	<u>743,900</u>	<u>747,307</u>	<u>3,407</u>
Permits, Privilege Fees, And Regulatory Licenses	<u>22,000</u>	<u>23,000</u>	<u>23,206</u>	<u>206</u>
Fines and Forfeitures	<u>9,000</u>	<u>14,050</u>	<u>13,513</u>	<u>(537)</u>
Revenue From Use Of Money and Property:				
Revenue from use of money	5,000	4,000	3,996	(4)
Revenue from use of property	24,058	28,058	28,321	263
Total Revenue From Use of Money and Property	<u>29,058</u>	<u>32,058</u>	<u>32,317</u>	<u>259</u>
Miscellaneous Revenue	<u>2,000</u>	<u>48,600</u>	<u>17,154</u>	<u>(31,446)</u>
Charges For Services:				
Garbage collection fees	85,000	86,800	87,242	442
Other	101,000	73,980	100,344	26,364
Total Charges For Services	<u>186,000</u>	<u>160,780</u>	<u>187,586</u>	<u>26,806</u>
TOTAL PRIMARY GOVERNMENT	<u>1,186,558</u>	<u>1,224,288</u>	<u>1,226,277</u>	<u>1,989</u>
Revenue From Local Government:				
Lee County Contributions-SRO	-	-	4,800	4,800
Lee County Contributions-Fire Dept	-	-	28,500	28,500
Lee County Contributions-Trail Project	-	34,000	34,000	-
Total Revenue from Local Government	<u>-</u>	<u>34,000</u>	<u>67,300</u>	<u>33,300</u>
Revenue From The Commonwealth:				
Non-Categorical Aid:				
Rolling stock taxes	3,000	6,300	6,364	64
VDOT	20,000	7,260	7,760	500
Litter Grant	1,000	1,000	1,083	83
Total Non-Categorical Aid	<u>24,000</u>	<u>14,560</u>	<u>15,207</u>	<u>647</u>
Categorical Aid:				
State assistance	16,000	42,170	44,201	2,031
COPS grant	42,170	3,500	3,540	40
Other grant income	14,300	190,430	191,505	1,075
Total Categorical Aid	<u>72,470</u>	<u>236,100</u>	<u>239,246</u>	<u>3,146</u>
Total Revenue From The Commonwealth	<u>96,470</u>	<u>250,660</u>	<u>254,453</u>	<u>3,793</u>
Revenue From The Federal Government:				
Rural Development	-	50,000	50,000	-
Total Revenue from the Federal Government	<u>-</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Other Financing Sources (Uses):				
Transfers In	-	-	-	-
Transfers Out	-	-	(50,376)	(50,376)
Loan proceeds	-	54,500	54,600	100
Insurance proceeds	-	2,900	3,923	1,023
Sale of property	2,000	-	-	-
Appropriation of prior year surplus	180,720	180,720	-	(180,720)
Total Other Financing Sources	<u>182,720</u>	<u>238,120</u>	<u>8,147</u>	<u>(229,973)</u>
Special Item				
Fire-Total Loss Town Municipal Offices	<u>-</u>	<u>94,900</u>	<u>94,914</u>	<u>14</u>
GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS	<u>\$ 1,465,748</u>	<u>\$ 1,891,968</u>	<u>\$ 1,701,091</u>	<u>\$ (190,877)</u>

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

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

SCHEDULE 2
Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
PRIMARY GOVERNMENT				
GENERAL FUND:				
General Government Administration:				
Salaries	\$ 96,000	\$ 84,000	\$ 81,366	2,634
Fringe benefits	30,132	31,332	25,610	5,722
Payroll taxes	10,000	7,700	6,522	1,178
Utilities	28,500	28,900	29,326	(426)
Insurance	9,000	10,500	10,825	(325)
Supplies	14,500	14,550	22,927	(8,377)
Repair and maintenance	20,000	19,250	18,550	700
Training and travel	8,500	14,000	13,205	795
Fuel	1,200	1,000	1,009	(9)
Advertising	2,500	11,000	11,964	(964)
Legal and accounting fees	24,000	21,000	19,233	1,767
Council fees	6,400	6,200	6,595	(395)
Donations	13,000	12,200	11,450	750
Capital purchases	5,000	11,100	347	10,753
Miscellaneous	15,500	29,300	53,895	(24,595)
Total General Government Administration	<u>284,232</u>	<u>302,032</u>	<u>312,824</u>	<u>(10,792)</u>
Public Safety:				
Salaries	243,000	289,000	276,954	12,046
Fringe benefits	106,600	93,200	95,681	(2,481)
Payroll taxes	22,000	23,500	21,352	2,148
Utilities	11,100	13,400	13,803	(403)
Insurance	35,000	34,000	31,869	2,131
Supplies	11,000	11,000	11,973	(973)
Repair and maintenance	26,000	43,300	45,375	(2,075)
Training and travel	5,500	8,000	10,646	(2,646)
Fuel	30,000	23,500	23,500	-
Legal and accounting fees	4,000	3,000	2,476	524
Capital purchases	48,360	123,600	123,721	(121)
Miscellaneous	11,200	19,285	14,183	5,102
Total Public Safety	<u>553,760</u>	<u>684,785</u>	<u>671,533</u>	<u>13,252</u>
Public Works:				
Maintenance of Highways, Streets, Bridges and Sidewalks:				
Salaries	28,000	31,000	27,040	3,960
Fringe benefits	13,750	15,250	15,639	(389)
Payroll taxes	2,500	3,100	2,265	835
Utilities	55,000	54,200	54,847	(647)
Insurance	10,000	11,050	11,312	(262)
Supplies	5,000	4,700	5,768	(1,068)
Repair and maintenance	22,500	12,800	14,386	(1,586)
Fuel	7,500	3,300	5,326	(2,026)
Capital purchases	10,000	-	-	-
Miscellaneous	7,600	12,600	17,403	(4,803)
Highways, streets, bridges and sidewalks	46,350	16,850	26,508	(9,658)
TVA Greenway	-	107,000	102,683	4,317
ATV Trail	-	136,435	120,039	16,396
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	<u>208,200</u>	<u>408,285</u>	<u>403,216</u>	<u>5,069</u>

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2017

SCHEDULE 2
Page 2

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
Sanitation and Waste Removal				
Salaries	\$ 31,000	30,000	\$ 30,690	(690)
Fringe benefits	8,350	8,700	8,483	217
Payroll taxes	2,800	2,500	2,302	198
Insurance	10,000	10,700	10,992	(292)
Supplies	3,000	1,100	830	270
Repair and maintenance	6,500	3,300	4,278	(978)
Fuel	10,000	8,500	7,441	1,059
Capital purchases	-	-	-	-
Miscellaneous	14,000	13,600	13,576	24
Total Sanitation and Waste Removal	<u>85,650</u>	<u>78,400</u>	<u>78,592</u>	<u>(192)</u>
Total Public Works	<u>293,850</u>	<u>486,685</u>	<u>481,808</u>	<u>4,877</u>
 Parks, Recreation and Cultural:				
Salaries	63,000	71,400	78,565	(7,165)
Fringe benefits	6,700	6,800	7,783	(983)
Payroll taxes	3,000	3,200	3,014	186
Utilities	48,200	46,800	44,599	2,201
Insurance	18,000	16,300	16,771	(471)
Supplies	11,000	9,400	7,833	1,567
Repair and maintenance	20,500	17,500	23,173	(5,673)
Capital purchases	20,000	106,860	63,997	42,863
Miscellaneous	20,000	-	6,178	(6,178)
Theatre	77,000	94,000	43,248	50,752
Parks and recreation	46,506	46,206	51,671	(5,465)
Total Parks, Recreation and Cultural	<u>333,906</u>	<u>418,466</u>	<u>346,832</u>	<u>71,634</u>
 Debt Service				
Principal retirement	-	-	26,616	(26,616)
Interest	-	-	2,894	(2,894)
Total Debt Service	<u>-</u>	<u>-</u>	<u>29,510</u>	<u>(29,510)</u>
 GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS	 <u><u>\$ 1,465,748</u></u>	 <u><u>\$ 1,891,968</u></u>	 <u><u>\$ 1,842,507</u></u>	 <u><u>\$ 49,461</u></u>
 NET INCREASE (DECREASE) IN GENERAL FUND BALANCE	 <u><u>\$ -</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ (141,416)</u></u>	 <u><u>\$ (141,416)</u></u>

TOWN OF PENNINGTON GAP
SCHEDULE OF FUNDING PROGRESS-PENSION AND OTHER POST-EMPLOYMENT BENEFITS
JUNE 30, 2017

PENSION						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2016	951,568	856,393	(95,175)	111.11%	774,106	-12.29%
June 30, 2015	835,739	791,296	(44,443)	105.62%	674,462	-6.59%
June 30, 2014	710,117	697,450	(12,667)	101.82%	608,832	-2.08%
June 30, 2013	594,478	609,759	15,281	97.49%	554,126	2.76%
June 30, 2012	533,777	491,959	(41,818)	108.50%	453,453	-9.22%
June 30, 2011	498,323	576,189	77,866	86.49%	501,019	15.54%
June 30, 2010	458,278	512,130	53,852	89.48%	413,299	13.03%
June 30, 2009	409,772	411,698	1,926	99.53%	406,120	0.47%
June 30, 2008	358,691	360,512	1,821	99.49%	404,433	0.45%
June 30, 2007	283,635	287,497	3,862	98.66%	381,339	1.01%

OTHER POST-EMPLOYMENT BENEFITS						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL as of Percentage of Covered Payroll
June 30, 2017	-	23,699	23,699	0.00%	1,103,484	2.15%
June 30, 2014	-	142,752	142,752	0.00%	852,902	16.74%
June 30, 2011	-	82,661	82,661	0.00%	763,508	10.83%

TOWN OF PENNINGTON GAP
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
JUNE 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 61,248	\$ 58,394	\$ 53,695
Interest	54,173	47,463	42,053
Changes of benefit terms	-	-	-
Differences between expected and actual experience	6,619	10,655	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(22,434)	(18,894)	(18,015)
Net change in total pension liability	99,606	97,618	77,733
Total pension liability - beginning	785,110	687,492	609,759
Total pension liability - ending	\$ 884,716	\$ 785,110	\$ 687,492
Plan fiduciary net position			
Contributions - employer	\$ 41,559	\$ 38,698	\$ 33,860
Contributions - employee	35,731	33,368	29,229
Net investment income	16,964	36,926	102,321
Benefit payments, including refunds of employee contributions	(22,434)	(18,894)	(18,015)
Administrative expense	(497)	(445)	(506)
Other	(7)	(7)	6
Net change in total pension liability	71,316	89,646	146,895
Total pension liability - beginning	861,793	772,147	625,252
Total pension liability - ending	\$ 933,109	\$ 861,793	\$ 772,147
Political subdivision's net pension liability - ending	\$ (48,393)	\$ (76,683)	\$ (84,655)
Plan fiduciary net position as a percentage of the total pension liability	105.47%	109.77%	112.31%
Covered - employee payroll	\$ 774,106	\$ 674,462	\$ 608,832
Political subdivision's net pension liability as a percentage of covered-employee payroll	-6.25%	-11.37%	-13.90%

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

**TOWN OF PENNINGTON GAP
SCHEDULE OF EMPLOYER CONTRIBUTIONS
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
JUNE 30, 2017**

Date	Contractually Required Contribution	Contributions Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2017	\$ 30,344	\$ 30,344	\$ -	\$ 868,323	3.49%
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%
2009	\$ 43,448	\$ 43,448	\$ -	\$ 406,120	10.70%
2008	\$ 42,735	\$ 42,735	\$ -	\$ 404,433	10.57%

TOWN OF PENNINGTON GAP
Notes to Required Supplemental Information
For the Year Ended June 30, 2017

Change of benefit terms - 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, 2016 are not material.

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

Largest 10 - Non-LEOS

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

Largest 10 - LEOS

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS

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

All Others (Non 10 Largest) - LEOS

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