

TOWN OF PENNINGTON GAP, VIRGINIA
Financial Statements and Supplementary Information
Year Ended June 30, 2021

TOWN OF PENNINGTON GAP, VIRGINIA
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Year Ended June 30, 2021

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TOWN OF PENNINGTON GAP, VIRGINIA
Roster of Town Officials
June 30, 2021

MAYOR

Larry Holbrook

TOWN COUNCIL

Jill Carson
Gary McElyea
Terry K. Pope
Jeff Martin
Jimmy Warner

OTHER OFFICIALS

Keith Harless – Town Manager
Brian Skidmore – Assistant Town Manager
Tina Rowe - Treasurer
Karen Maggard - Clerk

ATTORNEY

Gregory Edwards

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia (the "Town"), as of and for the year ended June 30, 2021, 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.

Auditors' 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 .892 percent, .407 percent, and 2.32 percent, respectively, of the assets, net position, and revenues of the Town. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2021, 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 and other supplementary information, as listed on pages 64 through 72, 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The roster of town officials and compliance section information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The roster of town officials and compliance sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 2022 on our consideration of the Town'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Rodger Moss & Co, PLLC

Norton, Virginia
June 21, 2022

BASIC FINANCIAL STATEMENTS

TOWN OF PENNINGTON GAP
Statement of Net Position
June 30, 2021

	Primary Government Unit			
	Governmental Activities	Business Type Activities	Total Primary Government	Industrial Development Authority
ASSETS				
Cash and cash equivalents	\$ 1,768,945	\$ 459,117	\$ 2,228,062	\$ 151,174
Receivables, net	216,838	823,909	1,040,747	-
Internal balances	(20,056)	20,056	-	-
Due from other governmental units	17,215	-	17,215	5,639
Restricted cash	91,724	206,229	297,953	-
Notes and loans receivable	-	10,000	10,000	481
Prepaid and other	-	1,200	1,200	-
Net pension asset	36,998	55,498	92,496	-
Capital assets, net	5,724,395	8,203,108	13,927,503	-
Total assets	7,836,059	9,779,117	17,615,176	157,294
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to OPEB	1,558	2,336	3,894	-
Deferred outflows related to pensions	43,684	65,493	109,177	-
Total deferred outflows of resources	45,242	67,829	113,071	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 7,881,301	\$ 9,846,946	\$ 17,728,247	\$ 157,294
LIABILITIES				
Accounts payable and accrued liabilities	\$ 167,339	\$ 73,373	\$ 240,712	\$ 5,639
Accrued payroll and related liabilities	4,719	4,871	9,590	-
Accrued interest payable	322	14,370	14,692	-
Customer security deposits	-	92,244	92,244	-
Compensated absences	14,102	58,177	72,279	-
Unearned Revenue - American Rescue Plan Act	892,783	-	892,783	-
Long-term liabilities:				
OPEB Liability:				
Due within one year	14,713	23,626	38,339	-
Due in more than one year	59,389	311,602	370,991	-
	412,390	2,875,095	3,287,485	100,000
Total Liabilities	1,565,757	3,453,358	5,019,115	105,639
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to OPEB	567	851	1,418	-
Deferred inflows related to pensions	15,830	23,745	39,575	-
Total deferred inflows of resources	16,397	24,596	40,993	-
NET POSITION				
Net investment in capital assets	5,252,616	5,016,411	10,269,027	-
Restricted	127,051	261,727	388,778	-
Unrestricted	919,480	1,090,854	2,010,334	51,655
Total Net Position	6,299,147	6,368,992	12,668,139	51,655
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 7,881,301	\$ 9,846,946	\$ 17,728,247	\$ 157,294

TOWN OF PENNINGTON GAP
Statement of Activities
June 30, 2021

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	Industrial Development Authority
Governmental Activities:								
General government	\$ 539,314	\$ 27,512	\$ 285,919	\$ -	\$ (225,883)	\$ -	\$ (225,883)	-
Public safety	575,836	5,707	165,834	-	(404,295)	-	(404,295)	-
Public works	296,548	114,421	-	50,000	(132,127)	-	(132,127)	-
Parks, recreation, and cultural	381,753	42,838	31,875	-	(307,040)	-	(307,040)	-
Non-departmental	10,417	-	-	-	(10,417)	-	(10,417)	-
Total Governmental Activities	1,803,868	190,478	483,628	50,000	(1,079,762)	-	(1,079,762)	-
Business-Type Activities:								
Water	1,519,930	1,450,567	-	23,914	-	(45,449)	(45,449)	-
Wastewater	891,387	727,651	10,329	-	-	(153,407)	(153,407)	-
Industrial fund	-	-	-	-	-	-	-	-
Total Enterprise Activities	2,411,317	2,178,218	10,329	23,914	-	(198,856)	(198,856)	-
TOTAL PRIMARY GOVERNMENT	\$ 4,215,185	\$ 2,368,696	\$ 493,957	\$ 73,914	\$ (1,079,762)	\$ (198,856)	\$ (1,278,618)	-
COMPONENT UNIT:								
Industrial Development Authority	\$ 27,675	\$ -	\$ 47,428	\$ -	\$ -	\$ -	\$ -	19,753
General Revenues								
Property taxes					202,903	-	202,903	-
Other local taxes					1,041,065	-	1,041,065	-
Unrestricted intergovernmental revenue					7,433	-	7,433	-
Unrestricted investment earnings					1,879	2,694	4,573	-
Rental of Town property					21,965	-	21,965	-
Recovered costs					7,363	-	7,363	-
Gain(Loss) from Sale of Property					33,888	-	33,888	-
Other					37,398	-	37,398	-
Total general revenues and transfers					1,353,894	2,694	1,356,588	-
Change in net position					274,132	(196,162)	77,970	19,753
NET POSITION - JULY 1					6,025,015	6,565,154	12,590,169	31,902
NET POSITION - JUNE 30					\$ 6,299,147	\$ 6,368,992	\$ 12,668,139	\$ 51,655

See notes to financial statements.

TOWN OF PENNINGTON GAP
Balance Sheet - Governmental Funds
June 30, 2021

	General Fund	Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$ 1,768,945	\$ -	\$ 1,768,945
Receivables, net			
Taxes receivable	35,550	-	35,550
Accounts receivable, net	181,288	-	181,288
Interest	-	-	-
Prepaid insurance	-	-	-
Due from other funds	15,386	-	15,386
Due from other governmental units	17,215	-	17,215
Restricted cash	<u>1,671</u>	<u>90,053</u>	<u>91,724</u>
Total assets	<u>\$ 2,020,055</u>	<u>\$ 90,053</u>	<u>\$ 2,110,108</u>
LIABILITIES			
Accounts payable and accrued liabilities	167,339	-	167,339
Accrued payroll and related liabilities	4,719	-	4,719
Unearned Revenue - American Rescue Plan Act	892,783	-	892,783
Due to other funds	<u>35,442</u>	<u>-</u>	<u>35,442</u>
Total liabilities	<u>1,100,283</u>	<u>-</u>	<u>1,100,283</u>
DEFERRED INFLOWS			
Property taxes receivable	<u>33,650</u>	<u>-</u>	<u>33,650</u>
Total deferred inflows	<u>33,650</u>	<u>-</u>	<u>33,650</u>
FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	90,053	90,053
Committed	-	-	-
Assigned	1,671	-	1,671
Unassigned	<u>884,451</u>	<u>-</u>	<u>884,451</u>
Total fund balances	<u>886,122</u>	<u>90,053</u>	<u>976,175</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 2,020,055</u>	<u>\$ 90,053</u>	<u>\$ 2,110,108</u>

TOWN OF PENNINGTON GAP
Reconciliation to the Balance Sheet of Governmental
Funds to the Statement of Net Position
June 30, 2021

Total Fund Balances per Balance Sheet-Governmental Funds	\$ 976,175
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Amounts reported for governmental activities in the statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	5,724,395
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	33,650
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Notes payable	(446,779)
Accrued interest payable	(322)
Capital leases payable	(25,000)
Compensated Absences	(14,102)

Financial statement elements related to other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources for 2021 employer contributions	400
Deferred outflows of resources related to other postemployment benefits	1,158
Deferred inflows of resources related to other postemployment benefits	(567)
Net other postemployment benefit liability	<u>(14,713)</u>

Financial statement elements related to pensions are applicable to future periods, and therefore, are not reported in the funds.	
Deferred outflows of resources for 2021 employer contributions	7,103
Deferred outflows of resources for the net difference between projected and actual earnings on pension plan investments	36,581
Net pension Asset	36,998
Deferred outflows (inflows) of resources for the net difference between projected and actual earnings on pension plan investments	<u>(15,830)</u>

Net Position of Governmental Activities	<u>\$ 6,299,147</u>
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TOWN OF PENNINGTON GAP
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Year Ended June 30, 2021

	General Fund	Debt Service Fund	Total
REVENUES			
General property taxes	\$ 205,703	\$ -	\$ 205,703
Other local taxes	1,041,065	-	1,041,065
Permits, Privilege Fees, and Licenses	27,512	-	27,512
Fines and forfeitures	5,707	-	5,707
Revenue from use of money & property	23,127	717	23,844
Charges for services	157,259	-	157,259
Miscellaneous	37,400	-	37,400
Intergovernmental	<u>541,011</u>	<u>-</u>	<u>541,011</u>
Total Revenues	<u>2,038,784</u>	<u>717</u>	<u>2,039,501</u>
EXPENDITURES			
Current			
General government administration	548,265	-	548,265
Public safety	603,925	-	603,925
Public works	487,424	-	487,424
Parks, recreation and cultural	275,586	-	275,586
Debt Service			
Principal retirement	82,035	-	82,035
Interest	<u>10,417</u>	<u>-</u>	<u>10,417</u>
Total Expenditures	<u>2,007,652</u>	<u>-</u>	<u>2,007,652</u>
Excess (Deficiency) of Revenues Over Expenditures	31,132	717	31,849
OTHER FINANCING SOURCES (USES)			
Sale of surplus	33,888	-	33,888
Insurance Proceeds	7,363	-	7,363
Loan proceeds	<u>194,438</u>	<u>-</u>	<u>194,438</u>
Total Other Financing Sources (Uses)	<u>235,689</u>	<u>-</u>	<u>235,689</u>
Net Change in Fund Balance	266,821	717	267,538
Fund Balance at Beginning of Year	<u>619,301</u>	<u>89,336</u>	<u>708,637</u>
Fund Balance at End of Year	<u>\$ 886,122</u>	<u>\$ 90,053</u>	<u>\$ 976,175</u>

TOWN OF PENNINGTON GAP
Reconciliation of the Statement of Revenues, Expenditures, and Changes In
Fund Balances of the Governmental Funds to the Statement of Activities
June 30, 2021

	<u>Governmental Funds</u>
Net Change in Fund Balance Governmental Funds	\$ 267,538
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	371,742
Depreciation expense	<u>(251,912)</u>
	119,830
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(2,799)
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	77,035
Capital lease	5,000
Proceeds from debt	(194,438)
Proceeds from capital lease	<u>-</u>
	(112,403)
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	-
Compensated absences	6,244
Other post-employment benefits	<u>3,131</u>
	9,375
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense	
Pension expense	<u>(7,409)</u>
	(7,409)
Change in Net Position of Governmental Activities	<u>\$ 274,132</u>

TOWN OF PENNINGTON GAP

Statement of Net Position

Proprietary Funds

June 30, 2021

	Water Fund	Sewer Fund	Industrial Fund	Combined Total
ASSETS				
Cash and cash equivalents	\$ 430,520	\$ 28,597	\$ -	\$ 459,117
Receivables (Net of Allowance for Uncollectibles)				
Accounts	378,775	445,129	-	823,904
Interest	-	5	-	5
Grants	-	-	-	-
Due from other funds	667,865	30,214	-	698,079
Notes and Loans receivable	10,000	-	-	10,000
Prepaid and other	1,200	-	-	1,200
Restricted cash	174,533	31,696	-	206,229
Net Pension Asset	30,524	24,974	-	55,498
Land	10,600	20,515	6,943	38,058
Capital assets, net	<u>5,585,373</u>	<u>2,579,677</u>	<u>-</u>	<u>8,165,050</u>
Total Assets	<u>7,289,390</u>	<u>3,160,807</u>	<u>6,943</u>	<u>10,457,140</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows related to OPEB	1,285	1,051	-	2,336
Deferred Outflows related to Pensions	<u>36,021</u>	<u>29,472</u>	<u>-</u>	<u>65,493</u>
Total Deferred Outflows of Resources	<u>37,306</u>	<u>30,523</u>	<u>-</u>	<u>67,829</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 7,326,696</u>	<u>\$ 3,191,330</u>	<u>\$ 6,943</u>	<u>10,524,969</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 26,764	\$ 46,609	\$ -	\$ 73,373
Accrued payroll and related liabilities	2,774	2,097	-	4,871
Accrued interest payable	10,812	3,558	-	14,370
Customer security deposits	60,524	31,720	-	92,244
Due to other funds	-	678,023	-	678,023
Compensated absences	37,586	20,591	-	58,177
Long-term liabilities				
OPEB Liability	12,994	10,632	-	23,626
Due within one year	254,877	56,725	-	311,602
Due in more than one year	<u>2,607,116</u>	<u>267,979</u>	<u>-</u>	<u>2,875,095</u>
Total Liabilities	<u>3,013,447</u>	<u>1,117,934</u>	<u>-</u>	<u>4,131,381</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows related to OPEB	468	383	-	851
Deferred Inflows related to Pensions	<u>13,060</u>	<u>10,685</u>	<u>-</u>	<u>23,745</u>
Total Deferred Inflows of Resources	<u>13,528</u>	<u>11,068</u>	<u>-</u>	<u>24,596</u>
NET POSITION				
Net investment in capital assets	2,733,980	2,275,488	6,943	5,016,411
Restricted	205,057	56,670	-	261,727
Unrestricted (deficit)	<u>1,360,684</u>	<u>(269,830)</u>	<u>-</u>	<u>1,090,854</u>
Total Net Position	<u>4,299,721</u>	<u>2,062,328</u>	<u>6,943</u>	<u>6,368,992</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	<u>\$ 7,326,696</u>	<u>\$ 3,191,330</u>	<u>\$ 6,943</u>	<u>\$ 10,524,969</u>

See notes to financial statements.

TOWN OF PENNINGTON GAP
Statement of Revenues, Expenditures, and Changes in Net Position
Proprietary Funds
Year Ended June 30, 2021

	Water Fund	Sewer Fund	Industrial Fund	Combined Total
OPERATING REVENUES				
Charges for services	\$ 1,295,710	\$ 692,441	\$ -	\$ 1,988,151
Tap fees	2,500	500	-	3,000
Connections	8,694	-	-	8,694
Penalties	135,272	6,936	-	142,208
Miscellaneous	8,391	27,774	-	36,165
	<u>1,450,567</u>	<u>727,651</u>	<u>-</u>	<u>2,178,218</u>
Total operating revenues				
OPERATING EXPENSES				
Salaries and wages	360,063	269,997	-	630,060
Payroll taxes	27,397	21,114	-	48,511
Group health and life	138,808	90,309	-	229,117
Pension	15,746	6,771	-	22,517
Utilities	138,825	53,887	-	192,712
Telephone	5,744	2,956	-	8,700
Supplies	94,637	21,851	-	116,488
Vehicle expense	14,235	6,449	-	20,684
Insurance	19,488	21,744	-	41,232
Repair and maintenance	62,428	34,966	-	97,394
Certification, travel, and training	445	553	-	998
Professional services	52,955	12,638	-	65,593
Lab and analysis	3,279	4,473	-	7,752
Dues and subscriptions	7,201	5,324	-	12,525
Depreciation	332,841	161,467	-	494,308
Miscellaneous	169,871	165,728	-	335,599
	<u>1,443,963</u>	<u>880,227</u>	<u>-</u>	<u>2,324,190</u>
Total Operating Expenses				
Operating Income (Loss)	<u>6,604</u>	<u>(152,576)</u>	<u>-</u>	<u>(145,972)</u>
NON-OPERATING REVENUES (EXPENSES)				
Grant income	23,914	10,329	-	34,243
Interest expense	(75,967)	(11,160)	-	(87,127)
Interest income	2,218	476	-	2,694
	<u>(49,835)</u>	<u>(355)</u>	<u>-</u>	<u>(50,190)</u>
Total Non-Operating Revenues (Expenses)				
CHANGE IN NET POSITION	(43,231)	(152,931)	-	(196,162)
NET POSITION AT JULY 1	<u>4,342,952</u>	<u>2,215,259</u>	<u>6,943</u>	<u>6,565,154</u>
NET POSITION AT JUNE 30	<u>\$ 4,299,721</u>	<u>\$ 2,062,328</u>	<u>\$ 6,943</u>	<u>\$ 6,368,992</u>

TOWN OF PENNINGTON GAP
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2021

	Water Fund	Sewer Fund	Industrial Fund	Total
Cash Flows from Operating Activities				
Cash received from customers	\$ 1,298,400	\$ 682,441	\$ -	\$ 1,980,841
Cash payments to suppliers for goods and services	(787,995)	(490,799)	-	(1,278,794)
Cash payments to employees for services	(378,076)	(278,232)	-	(656,308)
Other operating income	154,857	35,210	-	190,067
Net Cash Flows from Operating Activities	287,186	(51,380)	-	235,806
Cash Flows from non-capital financing activities				
Increase (decrease) in customer deposits	2,154	2,924	-	5,078
(Increase) decrease in due from other funds	(90,000)	-	-	(90,000)
Increase (decrease) in due to other funds	-	100,000	-	100,000
Net Cash Flows from non-capital financing Activities	(87,846)	102,924	-	15,078
Cash Flows from Capital and Related Financing Activities				
Purchase of capital assets	(26,500)	(43,927)	-	(70,427)
Proceeds from borrowings	26,500	23,900	-	50,400
Contributed capital - Grant revenue	70,023	10,329	-	80,352
Principal paid on revenue bonds	(251,361)	(55,895)	-	(307,256)
Interest paid on revenue bonds and equipment	(75,967)	(11,160)	-	(87,127)
Net Cash Flows from Capital and Related Financing Activities	(257,305)	(76,753)	-	(334,058)
Cash Flows from Investing Activities				
Interest on investments	2,218	476	-	2,694
Net Cash Flows from Investing Activities	2,218	476	-	2,694
Net Change in Cash and Cash Equivalents	(55,747)	(24,733)	-	(80,480)
Cash and Cash Equivalents at Beginning of Year	660,800	85,026	-	745,826
Cash and Cash Equivalents at End of Year	\$ 605,053	\$ 60,293	\$ -	\$ 665,346
Cash and Cash Equivalents at June 30, 2021 displayed as:				
Unrestricted	\$ 430,520	\$ 28,597	\$ -	\$ 459,117
Restricted	174,533	31,696	-	206,229
	\$ 605,053	\$ 60,293	\$ -	\$ 665,346
Reconciliation of Operating Income to Net Cash Provided by Operating Activities				
Operating income (loss)	\$ 6,604	\$ (152,576)	\$ -	\$ (145,972)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation and amortization	332,841	161,467	-	494,308
Increase (decrease) in accrued compensated absences	(6,089)	376	-	(5,713)
Net pension and OPEB obligation	2,230	(2,542)	-	(312)
Change in Assets, Liabilities, Deferred Inflows/Outflows:				
(Increase) decrease in accounts receivable	2,690	(10,000)	-	(7,310)
(Increase) decrease in prepaid expenses	-	-	-	-
Increase (decrease) in accounts payable	(39,166)	(39,494)	-	(78,660)
Increase (decrease) in accrued wages	(11,924)	(8,611)	-	(20,535)
TOTAL ADJUSTMENTS	280,582	101,196	-	381,778
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 287,186	\$ (51,380)	\$ -	\$ 235,806

See notes to financial statements.

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Net Position
June 30, 2021

ASSETS

Cash and cash equivalents	\$ 151,174
Due from other governments	5,639
Notes receivable	<u>481</u>
Total assets	<u>\$ 157,294</u>

LIABILITIES

Accounts payable	\$ 5,639
Notes payable	<u>100,000</u>
Total liabilities	<u>105,639</u>

Net Position

Unrestricted	<u>51,655</u>
Total net position	<u>\$ 51,655</u>

TOWN OF PENNINGTON GAP
Discretely Presented Component Unit-Industrial Development Authority
Statement of Activities
Year Ended June 30, 2021

	<u>Total</u>
REVENUES	
Grants	\$ 25,000
Contributions	<u>22,428</u>
Total revenues	<u>47,428</u>
EXPENDITURES	
Professional Services	2,312
Economic Development	<u>25,363</u>
Total expenditures	<u>27,675</u>
Excess of revenues over expenditures	19,753
Capital contributions	<u>-</u>
Net position at beginning of year	<u>31,902</u>
Net position at end of year	<u>\$ 51,655</u>

TOWN OF PENNINGTON GAP, VIRGINIA

Notes to Financial Statements

June 30, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Reporting Model (continued)

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

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

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Basis of Presentation (Continued)

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

Governmental fund financial statements are reported using the current financial resource measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both 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.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

The Town reports the following major governmental funds:

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

Proprietary Fund Types

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Other Postemployment Benefits (OPEB)

Local Health

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

Political Subdivision Employee Virginia Local Disability Program

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

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

Employer pension and other postemployment benefit (OPEB) contributions made after the net pension liability measurement date of June 30, 2020 and prior to the reporting date of June 30, 2021, have been reported as deferred outflows of resources in the Statement of Net Position as of June 30, 2021. This will be applied to the net pension and OPEB liabilities in the next fiscal year.

Differences between the projected and actual pension earnings and OPEB earnings as of the actuarial measurement date of June 30, 2020 have been reported as a deferred outflow of resources. This difference will be recognized in pension expense and OPEB expense over a closed five-year period.

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

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

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances – (Continued)

Resource Flow Policy

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

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

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

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

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits

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

Investments

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including regulations, the Town permits investments in U.S. Treasury Securities, U.S. agency securities, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker's acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the Town's position in the pools is the same as the value of the pool shares.

Fair Value Measurement

The Town categorized the fair value measurement of its investments based on the hierarchy established by generally accepted accounting principles. Investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards (GASB) Statements require or permit in the statement of net position at the end of each reporting period. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Town does not have any investments at June 30, 2020 that are measured using Level 1, 2, or 3 inputs.

Credit Risk:

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

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

NOTE 2 - CASH AND CASH EQUIVALENTS (Continued)

Concentration of Credit Risk:

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

Lee Bank and Trust	94%
Powell Valley National Bank	6%

Custodial Credit Risk:

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

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

	<u>Primary Government</u>	<u>Component Unit</u>
Deposits and investments		
Cash on hand	\$ 1,570	\$ -
Deposits	2,260,398	151,174
Investments	264,047	-
	<u>\$ 2,526,015</u>	<u>\$ 151,174</u>
Statement of net position		
Cash and cash equivalents	\$ 2,228,062	\$ 151,174
Restricted cash and cash equivalents	297,953	-
	<u>\$ 2,526,015</u>	<u>\$ 151,174</u>

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

NOTE 3 - DUE FROM OTHER GOVERNMENTAL UNITS

Commonwealth of Virginia		
Local sales tax	\$ 11,237	
Mobile home tax	150	
Communication tax	5,406	
	<u> </u>	
Total Commonwealth of Virginia		\$ 16,793
Lee County		
Court fines / transfer fees	422	
	<u> </u>	
Total Lee County		<u>422</u>
Total due from other Governmental Units		<u>\$ 17,215</u>

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

NOTE 4 - NOTES RECEIVABLE

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

The interest rate on the loan is 0.00%	<u>\$ 10,000</u>
Total notes receivable at June 30, 2021	<u>\$ 10,000</u>

NOTE 5 - INTERFUND OBLIGATIONS

	<u>Due From</u>	<u>Due To</u>
General Fund		
Water Fund	\$ 14,779	\$ 7,075
Sewer Fund	<u>608</u>	<u>28,368</u>
Water Fund		
General Fund	7,075	14,779
Sewer Fund	<u>677,415</u>	<u>1,846</u>
Sewer Fund		
Water Fund	1,846	677,415
General Fund	<u>28,368</u>	<u>608</u>
Total	<u>\$ 730,091</u>	<u>\$ 730,091</u>

NOTE 6 - ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Town provided additions to its allowance for uncollectible taxes, garbage, water, and sewer services based on 25% of the total outstanding balance. The allowance amounted to approximately \$211,783 at June 30, 2021, and is composed of the following:

General Fund	
Allowance for uncollectable property taxes	\$ 24,450
Allowance for uncollectable garbage fees	<u>7,091</u>
Total General Fund	<u>31,541</u>
Water and Sewer Fund	
Allowance for uncollectable water and sewer fee billings	<u>180,242</u>
Total Water and Sewer Fund	<u>180,242</u>
Total	<u>\$ 211,783</u>

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

NOTE 7 - CAPITAL ASSETS

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

Governmental activities	
General government	\$ 19,005
Public safety	144,469
Public works	41,734
Parks, recreation and cultural	<u>148,677</u>
Total depreciation expense - governmental activities	<u>\$ 353,885</u>
Business-type activities	
Water	332,841
Sewer	<u>161,467</u>
Total depreciation expense - business-type activities	<u>\$ 494,308</u>

NOTE 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	\$ 548,383	\$ -	\$ -	\$ 548,383
Construction in progress	<u>-</u>	<u>88,119</u>	<u>-</u>	<u>88,119</u>
Total capital assets, non-depreciable	<u>548,383</u>	<u>88,119</u>	<u>-</u>	<u>636,502</u>
Capital assets, depreciable				
Equipment	2,500,229	340,635	(102,548)	2,738,316
Buildings and improvements, restated	5,467,877	45,536	-	5,513,413
Other improvements	88,674	-	-	88,674
Infrastructure	<u>476,453</u>	<u>-</u>	<u>-</u>	<u>476,453</u>
Total Capital assets, depreciable	<u>8,533,233</u>	<u>386,171</u>	<u>(102,548)</u>	<u>8,816,856</u>
Less accumulated depreciation for				
Equipment	1,895,497	177,188	(101,973)	1,970,712
Buildings and improvements	1,024,415	176,472	-	1,200,887
Other improvements	88,674	-	-	88,674
Infrastructure	<u>468,465</u>	<u>225</u>	<u>-</u>	<u>468,690</u>
Total accumulated depreciation	<u>3,477,051</u>	<u>353,885</u>	<u>(101,973)</u>	<u>3,728,963</u>
Total capital assets, depreciable net	<u>5,056,182</u>	<u>32,286</u>	<u>(575)</u>	<u>5,087,893</u>
Governmental activities				
Capital assets, net	<u>\$ 5,604,565</u>	<u>\$ 120,405</u>	<u>\$ (575)</u>	<u>\$ 5,724,395</u>

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

NOTE 8 - CHANGES IN CAPITAL ASSETS (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Construction in progress	-	-	-	-
Total capital assets, non-depreciable	38,058	-	-	38,058
Capital assets, depreciable				
Buildings	9,384,959	-	-	9,384,959
Infrastructure	14,554,266	-	-	14,554,266
Machinery equipment	722,507	70,427	-	792,934
Total Capital assets, depreciable	24,661,732	70,427	-	24,732,159
Less accumulated depreciation for				
Buildings	5,756,469	235,964	-	5,992,433
Infrastructure	9,714,552	230,243	-	9,944,795
Machinery equipment	601,780	28,101	-	629,881
Total accumulated depreciation	16,072,801	494,308	-	16,567,109
Total capital assets, depreciable net	8,588,931	(423,881)	-	8,165,050
Business-Type activities				
Capital assets, net	\$ 8,626,989	\$ (423,881)	\$ -	\$ 8,203,108

NOTE 9 - LONG-TERM DEBT

Governmental Activities Obligations - Direct Borrowings and Direct Placements:

Notes Payable:

	Total Due	Due within One year
The Town entered into a collateralized loan agreement with Rural Development on October 19, 2020. The note was to purchase a 2021 Kenworth Sanitation Truck and is collateralized with the asset in the amount of \$96,000. Monthly installments of principal and interest in the amount of \$1,232 are due beginning November 19, 2020 until maturity at October 19, 2027. The interest rate on the loan is 2.125%.	\$ 87,386	\$ 13,052
The Town entered into a collateralized loan agreement with Farmers and Miners on March 11, 2021. The note was to purchase a 2019 Chevrolet Fire Truck and is collateralized with the asset in the amount of \$98,437. Monthly installments of principal and interest in the amount of \$1,151 are due beginning April 11, 2021 until maturity at March 11, 2029. The interest rate on the loan is 2.87%.	95,638	11,210

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

NOTE 9 - LONG-TERM DEBT (Continued)

Governmental Activities Obligations - Direct Borrowings and Direct Placements (Continued):

Notes Payable (Continued):

	<u>Total Due</u>	<u>Due within One year</u>
The Town entered into a collateralized loan agreement with Rural Development on September 6, 2018. The note was to purchase Police vehicles and equipment and is collateralized with the assets in the amount of \$21,500. Monthly installments of principal and interest in the amount of \$634 are due beginning October 6, 2018 until maturity at September 6, 2021. The interest rate on the loan is 3.875%.	1,801	1,801
The Town's Governmental Fund borrowed \$44,000 from the Town's Water Fund on January 17, 2018. The loan was to purchase radios for the police department. Monthly installments of principal and interest in the amount of \$1,000 are due beginning July 1, 2018 until maturity at February 1, 2022. The interest rate on the loan is 0.00%.	10,000	10,000
The Town entered into a collateralized loan agreement with Rural Development on November 20, 2019. The note was to purchase a Fire Department pumper truck and is collateralized with the asset in the amount of \$269,000. Monthly installments of principal and interest in the amount of \$1,859 are due beginning December 20, 2019. The interest rate on the loan is 3.00%.	245,760	15,137
The Town entered into a collateralized loan agreement with Lee Bank and Trust on May 1, 2020. The note was to purchase a Kubota mower and is collateralized with the asset in the amount of \$9,545. Interest is to be paid on the outstanding balance beginning May 1, 2020 until May 1, 2023. Additionally, 36 monthly payments in the amount of \$277 are required beginning June 1, 2020. The interest rate on the loan is 2.85%.	<u>6,194</u>	<u>3,189</u>
Total notes payable - Governmental Activities	<u>\$ 446,779</u>	<u>\$ 54,389</u>

The annual requirements to amortize governmental debt outstanding as of June 30, 2021, are as follows:

<u>Governmental Activities</u>	<u>Direct Borrowings and Direct Placements</u>	
Year Ending	<u>Notes Payable</u>	
June 30,	Principal	Interest
2022	\$ 54,389	\$ 11,649
2023	43,470	10,478
2024	41,561	9,340
2025	42,687	8,214
2026	43,845	7,057
2027-2031	148,926	20,098
2032-2036	71,901	3,829
Totals	<u>\$ 446,779</u>	<u>\$ 70,665</u>

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

NOTE 9 - LONG-TERM DEBT (Continued)

Business-Type Activities Obligations -Direct Borrowing and Direct Placements

Notes Payable:

	<u>Total Due</u>	<u>Due within One year</u>
The Town entered into a loan agreement with Powell Valley National Bank on August 8, 2017. Monthly installments of principal and interest in the amount of \$2,059.55 are due beginning March 9, 2018, until maturity at February 9, 2033. The interest rate on the loan is 2.875%.	\$ 243,459	\$ 17,960
The Town entered into a loan agreement with Lee Bank & Trust on August 23, 2018 for \$65,000. The loan proceeds were for the purchase of an Excavator but loan is not collateralized by asset. Monthly installments of principal and interest in the amount of \$1,005 are due beginning September 23, 2018, until maturity at August 23, 2024. The interest rate on the loan is 3.58%.	35,551	10,944
The Town entered into a loan agreement with Farmers and Miners Bank on October 1, 2020 for \$23,900. The loan proceeds were for the purchase of 2011 Ford F250 and are collateralized by the asset. Monthly installments of principal and interest in the amount of \$428 are due beginning November 1, 2020, until maturity at October 1, 2025. The interest rate on the loan is 2.85%.	20,505	4,225
The Town entered into a loan agreement with Lee Bank & Trust on September 2, 2020 for \$26,500. The loan proceeds were for the purchase of a 2016 Dodge Ram and are collateralized by the asset. Monthly installments of principal and interest in the amount of \$476 are due beginning October 2, 2020, until maturity at September 2, 2025. The interest rate on the loan is 3.00%.	<u>22,750</u>	<u>5,100</u>
Total notes payable - Business-Type Activities	<u>\$ 322,265</u>	<u>\$ 38,229</u>

The annual requirements to amortize business-type notes payable outstanding as of June 30, 2021, are as follows:

<u>Business-Type Activities</u>	<u>Direct Borrowings and Direct Placements</u>	
Year Ending	<u>Notes Payable</u>	
June 30,	Principal	Interest
2022	\$ 38,229	\$ 8,966
2023	39,817	7,805
2024	41,065	6,558
2025	31,680	5,415
2026	23,202	4,585
2027-2031	109,884	13,690
2032-2036	<u>38,388</u>	<u>916</u>
Totals	<u>\$ 322,265</u>	<u>\$ 47,935</u>

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

NOTE 9 - LONG-TERM DEBT (Continued)

Business-Type Activities Obligations -Direct Borrowing and Direct Placements (Continued):

Revenue Bonds:

	<u>Total Due</u>	<u>Due within One year</u>
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.	\$ 1,249,940	\$ 52,181
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 \$23,096 are due semi-annually on September 1 and March 1 of each year beginning September 1, 2005, with final payment due March 1, 2034.	<u>600,492</u>	<u>46,192</u>
Total revenue bonds payable	<u><u>\$ 1,850,432</u></u>	<u><u>\$ 98,373</u></u>

The following is a summary of revenue bond transactions of the Business-Type activities for the year ended June 30, 2021:

<u>Business-Type Activities - Revenue Bonds Payable - Direct Borrowing and Direct Placements</u>	<u>Water Revenue Bonds</u>
Revenue bonds payable at July 1, 2020	\$ 1,947,191
Increases/Issuances	-
Decreases/Retirements	<u>(96,759)</u>
Revenue bonds payable at June 30, 2021	<u><u>\$ 1,850,432</u></u>

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

NOTE 9 - LONG-TERM DEBT (Continued)

Business-Type Activities Obligations -Direct Borrowing and Direct Placements (Continued)

Revenue Refunding Bonds

	<u>Total Due</u>	<u>Due within One year</u>
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.	\$ 709,800	\$ 122,500
Sewer Revenue Refunding bond, Series 2012, issued to Lee Bank and Trust, Powell Valley National Bank, and Farmers and Miners Bank on August 28, 2007 with a principal balance of \$2,500,000 bearing interest of 3.0%. Semiannual payments of interest due on each March 1st and September 1st beginning March 1, 2013 through and including March 1, 2027 with principal payable annually in installments on each March 1st commencing March 1, 2013 through and including the maturity date of March 1, 2027.	<u>304,200</u>	<u>52,500</u>
Total revenue refunding bonds payable	<u>\$ 1,014,000</u>	<u>\$ 175,000</u>

	<u>Revenue Refunding Bonds</u>		
	<u>Series 2012 Water Revenue Refunding</u>	<u>Series 2012 Sewer Revenue Refunding</u>	<u>Total Revenue Refunding Bond</u>
Bonds payable at July 1, 2020	\$ 832,300	\$ 356,700	\$ 1,189,000
Increases/Issuances	-	-	-
Decreases/Retirements	<u>(122,500)</u>	<u>(52,500)</u>	<u>(175,000)</u>
Bonds payable at June 30, 2021	<u>\$ 709,800</u>	<u>\$ 304,200</u>	<u>\$ 1,014,000</u>

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

NOTE 9 - LONG-TERM DEBT (Continued)

Revenue Refunding Bonds - (Continued)

The annual requirements to amortize revenue refunding bonds outstanding as of June 30, 2021, are as follows:

Years Ending June 30,	Direct Borrowing and Direct Placements					
	2012 Sewer Refunding		2012 Water Refunding		Total Revenue Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2022	\$ 52,500	\$ 9,126	\$ 122,500	\$ 21,294	\$ 175,000	\$ 30,420
2023	55,500	7,551	129,500	17,619	185,000	25,170
2024	55,500	5,886	129,500	13,734	185,000	19,620
2025	54,600	4,221	127,400	9,849	182,000	14,070
2026	52,500	2,583	122,500	6,027	175,000	8,610
2027-2031	<u>33,600</u>	<u>1,008</u>	<u>78,400</u>	<u>2,352</u>	<u>112,000</u>	<u>3,360</u>
Totals	<u>\$ 304,200</u>	<u>\$ 30,375</u>	<u>\$ 709,800</u>	<u>\$ 70,875</u>	<u>\$ 1,014,000</u>	<u>\$ 101,250</u>

CAPITAL LEASES:

The Town entered into a collateralized lease purchase agreement with Glass Machinery during fiscal year 2020. The agreement was to purchase a Sweeper Truck and is collateralized with the asset in the amount of \$35,000. Principal installments of \$5,000 are due annually until maturity in 2026. The interest rate on the lease is 0%.

\$ 25,000

The annual requirements to amortize governmental capital leases outstanding as of June 30, 2021, are as follows:

Year Ending June 30,	Governmental Activities	
	Capital Leases	
	Principal	Interest
2022	\$ 5,000	\$ -
2023	5,000	-
2024	5,000	-
2025	5,000	-
2026	5,000	-
2027-2031	<u>-</u>	<u>-</u>
Totals	<u>\$ 25,000</u>	<u>\$ -</u>

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

NOTE 10 - COMPENSATED ABSENCES

Employees of the Town are entitled to paid time off for subsequent use, or for payment upon termination, death or retirement, under a program of integrating paid vacation, general leave and sick leave, depending on length of service. The estimated amount of compensation for vested future absences has been recorded as a liability in the accompanying financial statements. The Town recognizes the cost of paid time off as a salary expense. The balance of accrued compensated absences at June 30, 2021 was \$72,279. 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, 2021:

	Balance July 1, 2020	Additions / Proceeds	Payments / Reductions	Balance June 30, 2021
Governmental Activities				
Accrued compensated absences	\$ 20,346	\$ 9,284	\$ (15,528)	\$ 14,102
	<u>20,346</u>	<u>9,284</u>	<u>(15,528)</u>	<u>14,102</u>
Business-Type Activities				
Accrued compensated absences	\$ 63,890	\$ 35,268	\$ (40,981)	\$ 58,177
	<u>63,890</u>	<u>35,268</u>	<u>(40,981)</u>	<u>58,177</u>
Totals	<u>\$ 84,236</u>	<u>\$ 44,552</u>	<u>\$ (56,509)</u>	<u>\$ 72,279</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

Litigation

At June 30, 2021, pending litigation existed between the Town of Pennington Gap, Virginia and the Lee County Public Service Authority in which the Town was seeking monetary judgment against the Lee County PSA. The two parties, in 2020 were involved in litigation surrounding contract disputes. Additionally, see Note 19.

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

NOTE 12 - FUND BALANCE-GOVERNMENTAL FUNDS

As of June 30, 2021, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable			
Prepaid items	\$ -	\$ -	\$ -
Restricted			
Debt reserve	-	90,053	90,053
Assigned			
Public Safety	1,671	-	1,671
Unassigned	<u>884,451</u>	<u>-</u>	<u>884,451</u>
Total fund balances	<u>\$ 886,122</u>	<u>\$ 90,053</u>	<u>\$ 976,175</u>

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

NOTE 13 - DEFINED CONTRIBUTION PENSION PLAN

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

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

A. Plan Description

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

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

Administering Entity: Virginia Retirement System (System)

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

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

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, service credit 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, and they have not taken a refund.</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.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1</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.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect</p>

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

or ORP.	or ORP.	the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pretax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Same as Plan 1.	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.
Service credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit 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.	Service credit Same as Plan 1.	Service credit <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means	Vesting Same as Plan 1.	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

<p>members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>		<p>component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined 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, except as governed by law.</p>
<p>Calculating the Benefit</p> <p>The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u></p> <p>See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u></p> <p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation</p> <p>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</p> <p>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</p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

<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 service credit 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 subdivision hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.</p> <p>Political subdivision hazardous duty employees: Age 60 with at least five years of service credit or age 50 with at least 25 years of service credit.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of service credit or when their age and service equal 90.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of service credit or when their age and service equal 90.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.</p> <p>Political subdivision hazardous duty employees: Age 50 with at least five years of service credit.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of service credit.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of service credit.</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 service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of service credit, 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. • The member is involuntarily separated from employment for causes other than job performance 	<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><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

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

NOTE 14 - PENSION PLAN-AGENT MULTIPLE EMPLOYER

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

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

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

Employees Covered by Benefit Terms

As of the June 30, 2019 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>4</u>
Inactive members	
Vested inactive members	5
Non-vested Inactive members	6
Active elsewhere in VRS	<u>10</u>
Total inactive members	21
Active members	<u>22</u>
Total covered employees	<u><u>47</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.

The Town's contractually required contribution rate for the year ended June 30, 2021 was 3.20% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 \$ 17,756 and \$ 15,598 for the years ended June 30, 2021 and June 30, 2020, respectively.

Net Pension Liability

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Town, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019 rolled forward to the measurement date of June 30, 2020.

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

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Town's retirement plan was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5 percent
Salary increases, including inflation	3.5 to 5.35 percent
Investment rate of return	6.75 percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 – Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Actuarial Assumptions – General Employees – (Continued)

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 -- Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's retirement plan was based on an actuarial valuation as of June 30, 2019, 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, 2020:

Inflation	2.5 percent
Salary increases, including inflation	3.5 to 4.75 percent
Investment rate of return	6.75 percent, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension liabilities.

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

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

Actuarial Assumptions – Public Safety Employees – (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board Action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 -- Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 60% to 70%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

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

Actuarial Assumptions – Public Safety Employees – (Continued)

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decrease rate from 60% to 45%
Discount Rate	Decrease rate from 7.00% to 6.75%

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
	<u>100.00%</u>		<u>4.64%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long -term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations, provide a median return of 6.81%.

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

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

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017, actuarial valuations, whichever was greater. From July 1, 2020 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at June 30, 2019	\$ 1,209,201	\$ 1,319,161	\$ (109,960)
Changes for the year			
Service Cost	61,592	-	61,592
Interest	78,514	-	78,514
Changes in benefit terms	-	-	-
Changes in assumptions	-	-	-
Differences between expected and actual experience	(49,733)	-	(49,733)
Contributions - employer	-	15,395	(15,395)
Contributions - employee	-	33,934	(33,934)
Net investment income	-	24,478	(24,478)
Benefit payments, including refunds of employee contributions	(92,048)	(92,048)	-
Administrative expenses	-	(869)	869
Other changes	-	(29)	29
Net changes	(1,675)	(19,139)	17,464
Balance at June 30, 2020	\$ 1,207,526	\$ 1,300,022	\$ (92,496)

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

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

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

The following presents the net pension liability of the Town using the discount rate of 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

	<u>1% Decrease (5.75%)</u>	<u>Current Rate (6.75%)</u>	<u>1% Increase (7.75%)</u>
Net Pension Liability	\$ 81,056	\$ (92,496)	\$ (232,825)

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

For the year ended June 30, 2021, the Town recognized pension expense of \$ 29,963. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 31,897	\$ 38,415
Change in assumptions	19,458	1,160
Net difference between projected and actual earnings on pension plan investments	40,066	-
Employer contributions subsequent to the measurement date	<u>17,756</u>	<u>-</u>
Total	<u>\$ 109,177</u>	<u>\$ 39,575</u>

\$17,756 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2022	\$ 10,208
2023	23,633
2024	5,388
2025	12,617
2026	-
Thereafter	<u>-</u>
	<u>\$ 51,846</u>

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

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

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan's is also available in the separately issued VRS 2020 *Comprehensive Annual Financial Report* (CAFR). A copy of the 2020 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Payables to the Pension Plan

At June 30, 2021, the Town reported a payable of \$4,454 for the outstanding amount of contributions to the plan required for the year ended June 30, 2021.

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

Plan Description

The Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The Town may change, add or delete coverage as they deem appropriate and with the approval of the Town Council. The plan does not grant retirees vested health benefits. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

A retiree, eligible for post-retirement medical coverage, is defined as a full-time employee who retires directly from the Town and is eligible to receive an early or regular retirement benefit from the VRS. Employees applying for early or regular retirement are eligible to continue participation in the Retiree Health Plans sponsored by the Town. The Town pays 100% of the employee-only premium based on the following parameters:

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

Employees Covered by Benefit Terms

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the Locality Plan:

	<u>Number</u>
Active members	24
Retired members	<u>2</u>
Total covered employees	<u><u>26</u></u>

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

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

Total OPEB Liability

The Town's Total OPEB Liability of \$37,301 was measured as of June 30, 2021, and was determined by an actuarial valuation as of June 30, 2020.

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

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent per year
Discount rate	2.15 percent per year
Healthcare cost trend rates	4.90 percent for 2021, 4.80 percent in 2022, then graded to 4.30% over 10+ years
Retirees' share of benefit - related costs	0% of projected health insurance premiums for retirees

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

Mortality rates:

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

Changes in Total OPEB Liability

	Total OPEB Liability
Balances at June 30, 2020	\$ 45,821
Changes for the year	
Service cost	3,186
Interest	912
Changes of assumptions	(1,044)
Difference between expected and actual experience	(11,574)
Benefit payments, including refunds of employee contributions	-
Net changes	(8,520)
Balances at June 30, 2021	\$ 37,301

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

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

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

The following presents the total OPEB liability of the Town using the discount rate of 2.15%, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.15%) or one percentage point higher (3.15%) than the current rate:

	1.00% Decrease (1.15%)	Current Discount Rate (2.15%)	1.00% Increase (3.15%)
Total OPEB Liability	\$ 41,140	\$ 37,301	\$ 34,072

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

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

	1.00% Decrease in Trend Rate	Current Trend Rate	1.00% Increase in Trend Rate
Total OPEB Liability	\$ 32,301	\$ 37,301	\$ 43,620

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – Locality Plan

For the year ended June 30, 2021, the Town recognized OPEB expense of \$(8,520). At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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

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

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

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

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

Year ended June 30		
2022	\$	-
2023		-
2024		-
2025		-
2026		-
Thereafter		-
	\$	-

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

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

Plan Description

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

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

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

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

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

Long-Term Disability –

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

Virginia Local Disability Program Notes:

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

Contributions

The contribution requirement for active hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2020 was 0.72% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee Virginia Local Disability Program were \$2,896 and \$2,788 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the political subdivision reported a liability of \$1,038 for its proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2020 and the total VRS Political Subdivision Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The political subdivision's proportion of the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the political subdivision's proportion of the VRS Political Subdivision Employee Virginia Local Disability Program was .10391% as compared to 0.11650% at June 30, 2019.

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

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

For the year ended June 30, 2021, the political subdivision recognized VRS Political Subdivision Employee Virginia Local Disability Program OPEB expense of \$ 2,972. Since there was a change in proportionate share between dates a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 840	\$ 1,217
Net difference between projected and actual earnings on VLDP OPEB program investments	110	-
Changes in assumptions	48	69
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	132
Employer contributions subsequent to the measurement date	2,896	-
Total	<u>\$ 3,894</u>	<u>\$ 1,418</u>

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

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

\$2,896 reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB will be recognized in the Political Subdivision Employee VLDP OPEB expense in future reporting periods as follows:

Year ended June 30	Increase (Reduction) to OPEB Expense
2022	\$ 83
2023	81
2024	83
2025	74
2026	(155)
Thereafter	(586)
	<u>\$ (420)</u>

Actuarial Assumptions

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2019, 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, 2020.

Inflation	2.5 percent
Salary increases, including inflation	
Political Subdivision Employees	3.5 to 5.95 percent
Investment rate of return	6.75 percent, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of OPEB liabilities.

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to more current mortality table--RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%
Discount Rate	Decrease rate from 7.00% to 6.75%

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to more current mortality table--RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%
Discount Rate	Decrease rate from 7.00% to 6.75%

Net Political Subdivision Employee VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee Virginia Local Disability Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2020, NOL amounts for the VRS Political Subdivision Employee Virginia Local Disability Program is as follows (amounts expressed in thousands):

	Political Subdivision Employee VLDP OPEB Plan
Total Political Subdivision VLDP OPEB Liability	\$ 4,317
Plan Fiduciary Net Position	(3,317)
Political Subdivision net VLDP OPEB Liability (Asset)	\$ 1,000
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability	76.84%

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

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

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

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	4.65%	1.58%
Fixed Income	15.00%	0.46%	0.07%
Credit Strategies	14.00%	5.38%	0.75%
Real Assets	14.00%	5.01%	0.70%
Private Equity	14.00%	8.34%	1.17%
MAPS - Multi-Asset Public Strategies	6.00%	3.04%	0.18%
PIP - Private Investment Partnership	3.00%	6.49%	0.19%
	<u>100.00%</u>		<u>4.64%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.14%</u>

* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

Discount Rate

The discount rate used to measure the total Political Subdivision Employee VLDP OPEB was 6.75%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2020, the rate contributed by the political subdivision for the VRS Political Subdivision Employee Virginia Local Disability Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2020, on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Political Subdivision Employee VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Political Subdivision Employee VLDP OPEB liability.

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

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

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

The following presents the political subdivision's proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program net VLDP OPEB liability using the discount rate of 6.75%, as well as what the political subdivision's proportionate share of the net VLDP OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Rate (6.75%)	1% Increase (7.75%)
Political Subdivision's proportionate share of the VRS Political Subdivision VLDP OPEB Plan Net OPEB Liability	\$ 1,392	\$ 1,038	\$ 729

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (CAFR). A copy of the 2020 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

At June 30, 2021, the Town reported a payable of \$224 for the outstanding amount of contributions to the Virginia Local Disability Program plan required for the year ended June 30, 2021.

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

NOTE 16 - SUMMARY OF PENSION AND OTHER POSTEMPLOYMENT BENEFIT ELEMENTS

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

	Governmental Activities	Business-Type Activities	Total Primary Government
Net pension asset			
VRS-Defined Benefit Pension Plan	\$ 36,998	\$ 55,498	\$ 92,496
Total net pension asset	<u>\$ 36,998</u>	<u>\$ 55,498</u>	<u>\$ 92,496</u>
Deferred outflows of resources - Related to Pensions			
Deferred outflow-Differences in expected/actual and assumptions			
VRS-Defined Benefit Pension Plan	\$ 36,581	\$ 54,840	\$ 91,421
Deferred outflow-Contributions after the measurement date			
VRS-Defined Benefit Pension Plan	<u>7,103</u>	<u>10,653</u>	<u>17,756</u>
Total deferred outflow of resources - Pensions	<u>\$ 43,684</u>	<u>\$ 65,493</u>	<u>\$ 109,177</u>
Deferred outflows of resources - OPEB			
Deferred outflow-Differences in expected/actual and assumptions			
VRS-VLDP-OPEB Program	\$ 400	\$ 598	\$ 998
Deferred outflow-Contributions after the measurement date			
VRS-VLDP-OPEB Program	<u>1,158</u>	<u>1,738</u>	<u>2,896</u>
Total deferred outflow of resources - OPEB	<u>\$ 1,558</u>	<u>\$ 2,336</u>	<u>\$ 3,894</u>
Net OPEB liability			
Local Health	\$ 14,298	\$ 23,003	\$ 37,301
VRS-VLDP	<u>415</u>	<u>623</u>	<u>1,038</u>
Total net OPEB liability	<u>\$ 14,713</u>	<u>\$ 23,626</u>	<u>\$ 38,339</u>
Deferred inflows of resources - Related to Pensions			
Deferred inflow-Differences in expected/ actual and assumptions			
VRS-Defined Benefit Pension Plan	\$ 15,830	\$ 23,745	\$ 39,575
Total deferred inflow of resources - Pensions	<u>\$ 15,830</u>	<u>\$ 23,745</u>	<u>\$ 39,575</u>
Deferred inflows of resources - OPEB			
Deferred inflow-Differences in expected/actual and assumptions			
VRS-VLDP-OPEB Program	\$ 567	\$ 851	\$ 1,418
Total deferred inflow of resources - OPEB	<u>\$ 567</u>	<u>\$ 851</u>	<u>\$ 1,418</u>

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

NOTE 17 - DEFICIT UNRESTRICTED NET POSITION

The Sewer Enterprise Fund has a deficit unrestricted net position of \$269,830 at June 30, 2021. However, after considering the net investment in capital assets, the Sewer Enterprise Fund has a positive net position of \$2,062,328.

NOTE 18 - RISKS AND UNCERTAINTIES

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (the "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Town's financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, supplier, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and the global responses to curb its spread, the Town is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2022.

NOTE 19 - SUBSEQUENT EVENTS

A Settlement Agreement, dated December 2021, was made and entered by and between the Town of Pennington Gap, Virginia, and the Lee County Public Service Authority in relation to the pending litigation noted in these disclosures (See Note 11). The Parties agreed jointly to move the Circuit Court of Lee County to dismiss the Pending Litigation with prejudice. The Parties agreed to timely execute any release agreement and/or other pleadings or documents necessary to finalize the dismissal with prejudice of that case. There were three cases in the litigation that reached resolution with the last settle agreement in December 2021.

NOTE 21 - FUTURE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The effective dates below are updated based on Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance due to the COVID-19 pandemic.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The requirements of this statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 90, *Majority Equity Interests—An Amendment of GASB Statements No. 14 and No. 61*, defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. The requirements of this statement are effective for reporting periods beginning after December 15, 2020. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

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

NOTE 21 - FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

Statement No. 91, *Conduit Debt Obligations* was issued in May 2019. This Statement provided a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of the statement are effective for reporting periods beginning after December 15, 2021.

Statement No. 92, *Omnibus* issued in January 2020. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Statement No. 92, *Omnibus* issued in January 2020. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. Certain requirements of this Statement are effective immediately and others for reporting periods beginning after June 15, 2021.

Statement No. 96, *Subscription-based Information Technology Arrangements*, defines a subscription-based information technology arrangement, establishes that the arrangements result in a right-to-use intangible asset and related liability, and provides the capitalization criteria for outlays related to the arrangements, as well as setting requirements for note disclosures regarding these arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The requirements of this statement should be applied prospectively.

Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No.84, and a Supersession of GASB Statement No. 32*. This statement provides a more consistent financial reporting of defined contribution pension plans, defined contributions OPEB plans, and other employee benefit plans, while mitigating the costs associated with reporting those plans. Certain requirements of the Statement are effective immediately and other for reporting periods beginning after June 15, 2021.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Revenues - Budgetary Comparison
Year Ended June 30, 2021

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
PRIMARY GOVERNMENT				
GENERAL FUND				
General Property Taxes				
Real property taxes	\$ 172,000	\$ 173,500	\$ 181,689	\$ 8,189
Personal property taxes	17,000	17,000	20,869	3,869
Penalties and interest	3,000	3,000	3,145	145
Total General Property Taxes	192,000	193,500	205,703	12,203
Other Local Taxes				
Local sales and use tax	45,000	65,000	67,302	2,302
Utility taxes	42,500	42,500	43,574	1,074
Business license tax	75,000	75,000	109,892	34,892
Communications tax	39,000	36,000	35,035	(965)
Bank stock taxes	140,000	140,000	152,312	12,312
Hotel and motel room taxes	3,000	3,000	3,308	308
Restaurant food taxes	450,000	550,000	629,642	79,642
Total Other Local Taxes	794,500	911,500	1,041,065	129,565
Permits, Privilege Fees, And Regulatory Licenses	19,000	19,000	27,512	8,512
Fines and Forfeitures	2,000	2,000	5,707	3,707
Revenue From Use Of Money and Property				
Revenue from use of money	3,500	3,500	1,162	(2,338)
Revenue from use of property	25,200	25,200	21,965	(3,235)
Total Revenue From Use of Money and Property	28,700	28,700	23,127	(5,573)
Miscellaneous Revenue	500	29,500	37,400	7,900
Charges For Services				
Garbage collection fees	100,000	118,000	114,421	(3,579)
Other	84,000	79,000	42,838	(36,162)
Total Charges For Services	184,000	197,000	157,259	(39,741)
TOTAL PRIMARY GOVERNMENT	1,220,700	1,381,200	1,497,773	116,573
Revenue From Local Government				
Lee County Contributions-Fire Dept	30,000	30,000	40,000	10,000
Lee County Contributions-Joint Projects	21,000	21,000	51,025	30,025
Total Revenue from Local Government	51,000	51,000	91,025	40,025

See independent auditors' report on supplementary information.

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Revenues - Budgetary Comparison
Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenue From The Commonwealth				
Non-Categorical Aid				
Rolling stock taxes	6,500	6,500	6,452	(48)
VDOT	10,000	10,000	17,375	7,375
Litter Grant	1,000	1,000	981	(19)
Total Non-Categorical Aid	17,500	17,500	24,808	7,308
Categorical Aid				
State assistance	46,000	46,000	50,933	4,933
COPS grant	17,000	17,000	1,450	(15,550)
DCJS Grant	-	-	4,554	4,554
VDOT	393,000	393,000	-	(393,000)
Other grant income	32,600	27,600	37,844	10,244
Total Categorical Aid	488,600	483,600	94,781	(388,819)
Total Revenue From The Commonwealth	506,100	501,100	119,589	(381,511)
Revenue From The Federal Government				
ARC Grant	100,000	100,000	948	(99,052)
Cares Funding	-	300,000	279,449	(20,551)
Rural Development	100,000	100,000	50,000	(50,000)
Total Revenue from the Federal Government	200,000	500,000	330,397	(169,603)
Other Financing Sources (Uses)				
Loan proceeds	126,000	226,000	194,438	(31,562)
Insurance proceeds	-	7,300	7,363	63
Sale of property	-	15,000	33,888	18,888
Appropriation of prior year surplus	146,500	-	-	-
Total Other Financing Sources	272,500	248,300	235,689	(12,611)
GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS	\$ 2,250,300	\$ 2,681,600	\$ 2,274,473	\$ (407,127)

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Expenditures - Budgetary Comparison
Year Ended June 30, 2021

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
PRIMARY GOVERNMENT				
GENERAL FUND				
General Government Administration				
Salaries	\$ 93,000	\$ 93,000	\$ 88,145	\$ 4,855
Fringe benefits	40,150	40,150	38,323	1,827
Payroll taxes	6,650	6,650	6,157	493
Utilities	17,500	17,500	18,478	(978)
Insurance	6,000	6,000	6,231	(231)
Supplies	25,000	25,000	24,292	708
Repair and maintenance	14,000	14,000	9,669	4,331
Training and travel	16,500	16,500	1,866	14,634
Fuel	1,000	1,000	604	396
Advertising	33,500	33,500	37,548	(4,048)
Legal and accounting fees	12,000	12,000	9,904	2,096
Council fees	12,000	12,000	12,000	-
Donations	11,500	11,500	10,700	800
Capital purchases	5,000	5,000	-	5,000
Covid-19	-	231,000	193,974	37,026
Miscellaneous	34,000	94,000	90,374	3,626
Total General Government Administration	327,800	618,800	548,265	70,535
Public Safety				
Salaries	200,000	200,000	194,974	5,026
Fringe benefits	75,750	75,750	68,694	7,056
Payroll taxes	16,000	16,000	14,891	1,109
Utilities	18,000	18,000	22,007	(4,007)
Insurance	28,500	28,500	27,003	1,497
Supplies	14,000	14,000	17,315	(3,315)
Repair and maintenance	24,000	32,000	39,983	(7,983)
Training and travel	13,000	13,000	4,200	8,800
Fuel	19,000	19,000	19,127	(127)
Legal and accounting fees	1,500	1,500	1,765	(265)
Capital purchases	78,600	196,100	180,404	15,696
Miscellaneous	4,500	10,000	13,562	(3,562)
Total Public Safety	492,850	623,850	603,925	19,925
Public Works				
Maintenance of Highways, Streets, Bridges and Sidewalks				
Salaries	50,000	50,000	75,435	(25,435)
Fringe benefits	19,750	19,750	19,551	199
Payroll taxes	4,100	4,100	5,717	(1,617)
Utilities	63,900	63,900	64,582	(682)
Insurance	8,400	8,400	8,325	75
Supplies	7,500	7,500	14,375	(6,875)
Repair and maintenance	22,500	22,500	20,065	2,435
Fuel	10,000	10,000	4,402	5,598
Capital purchases	15,000	15,000	-	15,000
Miscellaneous	21,100	21,100	10,329	10,771
Highways, streets, bridges and sidewalks	515,800	515,800	34,710	481,090
TVA Greenway	-	-	2,606	(2,606)
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	738,050	738,050	260,097	477,953

TOWN OF PENNINGTON GAP
Governmental Funds
Statement of Expenditures - Budgetary Comparison
Year Ended June 30, 2021

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Sanitation and Waste Removal				
Salaries	\$ 22,500	\$ 22,500	\$ 21,937	\$ 563
Fringe benefits	14,950	14,950	15,150	(200)
Payroll taxes	1,500	1,500	1,541	(41)
Utilities	-	-	-	-
Insurance	7,500	7,500	7,534	(34)
Supplies	2,000	2,000	2,039	(39)
Repair and maintenance	2,000	11,300	10,358	942
Fuel	7,000	7,000	5,397	1,603
Capital purchases	150,000	150,000	145,101	4,899
Miscellaneous	20,000	20,000	18,270	1,730
Total Sanitation and Waste Removal	<u>227,450</u>	<u>236,750</u>	<u>227,327</u>	<u>9,423</u>
Total Public Works	<u>965,500</u>	<u>974,800</u>	<u>487,424</u>	<u>487,376</u>
Parks, Recreation and Cultural				
Salaries	77,500	77,500	38,317	39,183
Fringe benefits	8,900	8,900	8,601	299
Payroll taxes	6,600	6,600	2,873	3,727
Utilities	52,900	52,900	46,473	6,427
Insurance	13,300	13,300	13,834	(534)
Supplies	24,500	24,500	16,834	7,666
Repair and maintenance	27,500	27,500	23,985	3,515
Capital purchases	20,000	20,000	47,380	(27,380)
Miscellaneous	2,500	2,500	226	2,274
Theatre	47,200	47,200	22,419	24,781
Parks and recreation	97,100	97,100	54,644	42,456
Total Parks, Recreation and Cultural	<u>378,000</u>	<u>378,000</u>	<u>275,586</u>	<u>102,414</u>
Debt Service				
Principal retirement	86,150	86,150	82,035	4,115
Interest	-	-	10,417	(10,417)
Total Debt Service	<u>86,150</u>	<u>86,150</u>	<u>92,452</u>	<u>(6,302)</u>
GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS	<u>\$ 2,250,300</u>	<u>\$ 2,681,600</u>	<u>\$ 2,007,652</u>	<u>\$ 673,948</u>
NET INCREASE (DECREASE) IN GENERAL FUND BALANCE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 266,821</u>	<u>\$ 266,821</u>

TOWN OF PENNINGTON GAP
Schedule of Changes in the Net Pension Liability and Related Ratios (unaudited)
Governmental and Business-Type Activities
June 30, 2021

	2020	2019	2018	2017	2016	2015	2014
Total pension liability							
Service cost	\$ 61,592	\$ 63,373	\$ 61,102	\$ 62,054	\$ 61,248	\$ 58,394	\$ 53,695
Interest	78,514	69,121	63,273	61,094	54,173	47,463	42,053
Changes of benefit terms	-	-	-	-	-	-	-
Differences between expected and actual experience	(49,733)	62,569	(1,865)	(30,306)	6,619	10,655	-
Changes in assumptions	-	38,166	-	(22,272)	-	-	-
Benefit payments, including refunds of employee contributions	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Net change in total pension liability	(1,675)	210,296	67,508	46,681	99,606	97,618	77,733
Total pension liability - beginning	1,209,201	998,905	931,397	884,716	785,110	687,492	609,759
Total pension liability - ending	\$ 1,207,526	\$ 1,209,201	\$ 998,905	\$ 931,397	\$ 884,716	\$ 785,110	\$ 687,492
Plan fiduciary net position							
Contributions - employer	\$ 15,395	\$ 19,794	\$ 28,921	\$ 30,656	\$ 41,559	\$ 38,698	\$ 33,860
Contributions - employee	33,934	39,561	39,185	48,678	35,731	33,368	29,229
Net investment income	24,478	82,665	82,233	118,475	16,964	36,926	102,321
Benefit payments, including refunds of employee contributions	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Administrative expense	(869)	(753)	(685)	(618)	(497)	(445)	(506)
Other	(29)	(53)	(75)	(108)	(7)	(7)	6
Net change in total pension liability	(19,139)	118,281	94,577	173,194	71,316	89,646	146,895
Total pension liability - beginning	1,319,161	1,200,880	1,106,303	933,109	861,793	772,147	625,252
Total pension liability - ending	\$ 1,300,022	\$ 1,319,161	\$ 1,200,880	\$ 1,106,303	\$ 933,109	\$ 861,793	\$ 772,147
Political subdivision's net pension liability - ending	\$ (92,496)	\$ (109,960)	\$ (201,975)	\$ (174,906)	\$ (48,393)	\$ (76,683)	\$ (84,655)
Plan fiduciary net position as a percentage of the total pension liability	107.66%	109.09%	120.22%	118.78%	105.47%	109.77%	112.31%
Covered - employee payroll	\$ 756,134	\$ 863,203	\$ 840,708	\$ 822,966	\$ 774,106	\$ 674,462	\$ 608,832
Political subdivision's net pension liability as a percentage of covered-employee payroll	-12.23%	-12.74%	-24.02%	-21.25%	-6.25%	-11.37%	-13.90%

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

See independent auditors' report on supplementary information.

TOWN OF PENNINGTON GAP
Schedule of Employer Contributions (unaudited)
Governmental and Business-Type Activities
June 30, 2021

Date	Contributions Relation to			Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)		
2021	\$ 17,756	\$ 17,756	\$ -	\$ 753,061	2.36%
2020	\$ 15,598	\$ 15,598	\$ -	\$ 756,134	2.06%
2019	\$ 19,794	\$ 19,794	\$ -	\$ 863,203	2.29%
2018	\$ 28,921	\$ 28,921	\$ -	\$ 840,870	3.44%
2017	\$ 30,344	\$ 30,344	\$ -	\$ 822,966	3.69%
2016	\$ 39,051	\$ 39,051	\$ -	\$ 774,106	5.04%
2015	\$ 39,349	\$ 39,349	\$ -	\$ 674,462	5.83%
2014	\$ 63,135	\$ 63,135	\$ -	\$ 608,832	10.37%
2013	\$ 56,107	\$ 56,107	\$ -	\$ 554,126	10.13%
2012	\$ 54,356	\$ 54,356	\$ -	\$ 453,453	11.99%
2011	\$ 47,908	\$ 47,908	\$ -	\$ 501,019	9.56%

TOWN OF PENNINGTON GAP
Schedule of Changes in the Net OPEB Liability and Related Ratios (unaudited)
June 30, 2021

	2021	2020	2019	2018
	Local Plan	Local Plan	Local Plan	Local Plan
Total OPEB liability				
Service cost	\$ 3,186	\$ 3,088	\$ 4,383	\$ 3,590
Interest	912	1,349	2,027	952
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(11,574)	2,398	(17,988)	26,943
Changes in assumptions	(1,044)	4,585	1,203	(27,488)
Benefit payments, including refunds of employee contributions	-	(3,216)	-	-
Net change in total OPEB liability	(8,520)	8,204	(10,375)	3,997
Total OPEB liability - beginning	45,821	37,617	47,992	43,995
Total OPEB liability - ending	\$ 37,301	\$ 45,821	\$ 37,617	\$ 47,992
Covered - employee payroll	\$ 1,054,580	\$ 1,075,405	\$ 1,108,672	\$ 1,872,398
Total OPEB liability as a percentage of covered-employee payroll	3.54%	4.26%	3.39%	2.56%

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

Notes to Schedule:

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

2021 - 2.150%
2020 - 1.860%
2019 - 3.450%
2018 - 3.870%
2017 - 2.000%

TOWN OF PENNINGTON GAP
Schedule of Employer Share of Net OPEB Liability (unaudited)
June 30, 2021

* Fiscal Year Ended	Employer's Portion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of Net OPEB Liability (Asset) as % of its Covered Payroll	Plan Fiduciary Net Position as a % of the Total OPEB Liability
30 June					
VRS- Virginia Local Disability Program-General Employees					
2021	0.08686%	\$ 1,038	\$ 348,889	0.30%	76.84%
2020	0.10391%	\$ 2,360	\$ 387,265	0.61%	49.19%
2019	0.11650%	\$ 1,000	\$ 359,947	0.28%	51.39%
2018	0.14235%	\$ 1,000	\$ 285,900	0.35%	38.40%

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

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

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

TOWN OF PENNINGTON GAP
Schedule of Employer OPEB Contributions (unaudited)
June 30, 2021

Fiscal Year	Contributions Related to				Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)			
VRS- Virginia Local Disability Program-General Employees						
2021	\$ 2,896	\$ 2,896	\$ -	\$ 348,889	0.83%	
2020	\$ 2,788	\$ 2,788	\$ -	\$ 387,265	0.72%	
2019	\$ 2,232	\$ 2,232	\$ -	\$ 359,947	0.62%	
2018	\$ 1,715	\$ 1,715	\$ -	\$ 285,900	0.60%	

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

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

TOWN OF PENNINGTON GAP
Notes to Required Supplemental Information (unaudited)
For the Year Ended June 30, 2021

NOTE 1 - CHANGE OF BENEFIT TERMS

Pension

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

Other Postemployment Benefits (OPEB)

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

NOTE 2 - CHANGES OF ASSUMPTIONS

The actuarial assumptions used in the June 30, 2020, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Largest 10 Locality Employers - General and Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates		Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates		Lowered disability rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 14% to 20%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension, VLDP OPEB

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates		Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates		Lowered rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 14% to 15%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension, VLDP OPEB

Largest 10 - Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages
Withdrawal Rates		Adjusted rates to better fit experience
Disability Rates		Increased rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 60% to 70%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates		Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates		Adjusted rates to better fit experience
Salary Scale		No change
Line of Duty Disability		Decrease rate from 60% to 45%
Discount Rate		Decrease rate from 7.00% to 6.75%
Applicable to:		Pension

COMPLIANCE SECTION

Independent Auditors' 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 (the "Town"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated June 21, 2022. 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'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.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Rodger Moss & Co, PLLC

Norton, Virginia
June 21, 2022

TOWN OF PENNINGTON GAP, VIRGINIA
Summary of Compliance Matters
June 30, 2021

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

LOCAL COMPLIANCE MATTERS

Town Charter