

TOWN OF PENNINGTON GAP, VIRGINIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2022

TOWN OF PENNINGTON GAP, VIRGINIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2022

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INTRODUCTORY SECTION

TOWN OF PENNINGTON GAP, VIRGINIA

TOWN COUNCIL

Larry Holbrook, Mayor
Jill Carson
Gary McElyea
Terry K. Pope
Jeff Martin
Jimmy Warner

OTHER OFFICIALS

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

FINANCIAL SECTION



Independent Auditors' Report

**To the Members of the Town Council
Town of Pennington Gap, Virginia
Pennington Gap, Virginia**

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Pennington Gap, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 16 to the financial statements, in 2022, the Town of Pennington Gap, Virginia adopted new accounting guidance, GASB Statement No. 87, *Leases*. Our opinions are not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 17 to the financial statements, in 2022, the Town restated beginning balances to reflect the requirements of GASB Statement No. 87 *Leases* and to correct prior period errors. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Pennington Gap, Virginia's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Town of Pennington Gap, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Pennington Gap, Virginia's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding as listed in the table of contents 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 to be 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. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pennington Gap, Virginia's basic financial statements. The accompanying schedules and supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules, and supporting schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2023 on our consideration of the Town of Pennington Gap, Virginia's internal control over financial reporting and on our tests 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 Town of Pennington Gap, Virginia'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 of Pennington Gap, Virginia's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Robinson, Famer, Cox Associates". The script is cursive and fluid.

Blacksburg, Virginia
February 14, 2023

Basic Financial Statements

Town of Pennington Gap, Virginia
Statement of Net Position
June 30, 2022

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Industrial Development Authority
ASSETS				
Cash and cash equivalents	\$ 1,501,561	\$ 867,316	\$ 2,368,877	\$ 29,917
Investments	5	26,162	26,167	-
Restricted cash and cash equivalents - customer deposits	-	85,754	85,754	-
Restricted investments	-	92,088	92,088	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	33,717	-	33,717	-
Accounts receivable	85,602	372,490	458,092	-
Loan receivable	-	2,000	34,832	-
Lease receivable	32,832	-	-	-
Internal balances	(20,061)	20,061	-	-
Due from component unit	100,000	-	100,000	-
Due from other governmental units	306,639	10,948	317,587	-
Inventory: Industrial sites held for resale	-	-	-	125,000
Net pension asset	59,374	89,060	148,434	-
Capital assets not being depreciated:				
Land	650,883	38,058	688,941	-
Capital assets, net of accumulated depreciation:				
Buildings and improvements	4,130,949	3,158,319	7,289,268	-
Machinery, equipment, and vehicles	792,527	131,159	923,686	-
Infrastructure	7,524	4,404,979	4,412,503	-
Total Assets	\$ 7,681,552	\$ 9,298,394	\$ 16,979,946	\$ 154,917
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 77,285	\$ 115,329	\$ 192,614	\$ -
OPEB related items	1,577	2,364	3,941	-
Total Deferred Outflows of Resources	\$ 78,862	\$ 117,693	\$ 196,555	\$ -
LIABILITIES				
Accounts payable	\$ 216,274	\$ 89,826	\$ 306,100	\$ 3,000
Accrued wages	38,486	39,219	77,705	-
Customers' deposits	-	89,964	89,964	-
Accrued interest payable	494	11,424	11,918	-
Due to primary government	-	-	-	100,000
Unearned revenues	778,327	4,369	782,696	-
Long-term liabilities:				
Due within one year	133,031	383,417	516,448	-
Due in more than one year	439,294	2,589,670	3,028,964	-
Total Liabilities	\$ 1,605,906	\$ 3,207,889	\$ 4,813,795	\$ 103,000
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 1,458	\$ -	\$ 1,458	\$ -
Lease related items	31,346	-	31,346	-
Pension related items	79,420	119,131	198,551	-
OPEB related items	933	1,403	2,336	-
Total Deferred Inflows of Resources	\$ 113,157	\$ 120,534	\$ 233,691	\$ -
NET POSITION				
Net investment in capital assets	\$ 5,118,697	\$ 4,857,155	\$ 9,975,852	\$ -
Restricted for:				
Future pension costs	59,374	89,060	148,434	-
Debt service and bond covenants	-	92,088	92,088	-
Unrestricted (deficit)	863,280	1,049,361	1,912,641	51,917
Total Net Position	\$ 6,041,351	\$ 6,087,664	\$ 12,129,015	\$ 51,917

The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Activities
For the Year Ended June 30, 2022

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government		Component Unit Indust. Develop. Authority
			Grants and Contributions	Capital Contributions		Business-type Activities	Total	
Governmental activities:								
General government administration	\$ 313,546	\$ 25,476	\$ 76,086	\$ -	\$ (211,984)	\$ (211,984)	\$ (211,984)	\$ -
Public safety	629,962	5,608	71,562	116,996	(435,796)		(435,796)	-
Public works	993,208	132,098	38,984	358,925	(463,201)		(463,201)	-
Parks, recreation, and cultural	561,025	174,956	39,434	42,500	(304,135)		(304,135)	-
Community development	86,331	-	53,139	-	(33,192)		(33,192)	-
Interest on long-term debt	12,391	-	-	-	(12,391)		(12,391)	-
Total governmental activities	\$ 2,596,463	\$ 338,138	\$ 279,205	\$ 518,421	\$ (1,460,699)	\$ (1,460,699)	\$ (1,460,699)	\$ -
Business-type activities:								
Water	\$ 1,471,555	\$ 1,306,139	\$ -	\$ -	\$ (165,416)	\$ (165,416)	\$ (165,416)	\$ -
Sewer	861,092	570,229	-	40,474	(250,389)	(250,389)	(250,389)	-
Total business-type activities	\$ 2,332,647	\$ 1,876,368	\$ -	\$ 40,474	\$ (415,805)	\$ (415,805)	\$ (415,805)	\$ -
Total	\$ 4,929,110	\$ 2,214,506	\$ 279,205	\$ 558,895	\$ (1,460,699)	\$ (415,805)	\$ (1,876,504)	\$ -
COMPONENT UNIT:								
Industrial Development Authority	\$ 24,103	\$ -	\$ 24,004	\$ -	\$ -	\$ -	\$ -	\$ (99)
General revenues:								
General property taxes					\$ 193,484	\$ -	\$ 193,484	\$ -
Other local taxes:								
Local sales and use tax					73,212	-	73,212	-
Business license taxes					109,796	-	109,796	-
Restaurant food taxes					653,953	-	653,953	-
Bank stock taxes					142,588	-	142,588	-
Other local taxes					72,277	-	72,277	-
Unrestricted revenues from use of money					2,051	1,213	3,264	-
Miscellaneous					88,989	26,427	115,416	361
Grants and contributions not restricted to specific programs					51,005	-	51,005	-
Gain on sale of property					44,268	-	44,268	-
Transfers					(16,784)	16,784	-	-
Total general revenues and transfers					\$ 1,414,839	\$ 44,424	\$ 1,459,263	\$ 361
Change in net position					\$ (45,860)	\$ (371,381)	\$ (417,241)	\$ 262
Net position - beginning, as restated					6,087,211	6,459,045	12,546,256	51,655
Net position - ending					\$ 6,041,351	\$ 6,087,664	\$ 12,129,015	\$ 51,917

The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Balance Sheet
Governmental Funds
June 30, 2022

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,501,561
Investments	5
Receivables (net of allowance for uncollectibles):	
Taxes receivable	33,717
Accounts receivable	85,602
Lease receivable	32,832
Due from component unit	100,000
Due from other governmental units	306,639
Total assets	<u>\$ 2,060,356</u>
LIABILITIES	
Accounts payable	\$ 216,274
Accrued wages	38,486
Due to other funds	20,061
Unearned revenue	778,327
Total liabilities	<u>\$ 1,053,148</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 27,773
Lease related items	31,346
Total deferred inflows of resources	<u>\$ 59,119</u>
FUND BALANCES	
Unassigned	\$ 948,089
Total fund balances	<u>\$ 948,089</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,060,356</u>

The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2022

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	948,089
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	650,883	
Buildings and system		4,130,949	
Machinery, equipment, and vehicles		792,527	
Infrastructure		7,524	5,581,883

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

Unavailable revenue-property taxes	\$	26,315	
Net pension asset		59,374	85,689

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Pension related items	\$	77,285	
OPEB related items		1,577	78,862

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable	\$	(443,186)	
Financed purchase		(20,000)	
Accrued interest payable		(494)	
Net OPEB liabilities		(13,147)	
Compensated absences		(95,992)	(572,819)

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

Pension related items	\$	(79,420)	
OPEB related items		(933)	(80,353)

Net position of governmental activities	\$	6,041,351
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The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2022

	<u>General</u>
REVENUES	
General property taxes	\$ 200,819
Other local taxes	1,051,826
Fines and forfeitures	5,608
Revenue from the use of money and property	27,527
Charges for services	307,054
Miscellaneous	88,989
Recovered costs	211,512
Intergovernmental:	
Commonwealth	164,018
Federal	684,613
Total revenues	<u>\$ 2,741,966</u>
EXPENDITURES	
Current:	
General government administration	\$ 488,906
Public safety	616,126
Public works	559,550
Parks, recreation, and cultural	504,971
Community development	86,331
Capital projects	440,787
Debt service:	
Principal	62,918
Interest and other fiscal charges	12,219
Total expenditures	<u>\$ 2,771,808</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (29,842)</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	\$ (16,784)
Issuance of notes payable	54,325
Sale of capital assets	44,268
Total other financing sources (uses)	<u>\$ 81,809</u>
Net change in fund balances	\$ 51,967
Fund balances - beginning, as restated	<u>896,122</u>
Fund balances - ending	<u><u>\$ 948,089</u></u>

The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2022

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

Net change in fund balances - total governmental funds	\$	51,967
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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 and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital asset additions in the current period.

Capital asset additions	\$ 339,161	
Depreciation expense	<u>(349,790)</u>	(10,629)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase (decrease) in unavailable revenue - property taxes		(7,335)
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The issuance of long-term debt (e.g. 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 premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of notes payable	\$ (54,325)	
Principal payments:		
Notes payable	57,918	
Financed purchase	<u>5,000</u>	8,593

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.

(Increase) decrease in compensated absences	\$ (81,890)	
(Increase) decrease in accrued interest payable	(172)	
Changes in net OPEB liabilities and related deferred items	1,219	
Changes in net pension liability and related deferred items	<u>(7,613)</u>	<u>(88,456)</u>

Change in net position of governmental activities	\$	<u><u>(45,860)</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 698,406	\$ 168,910	\$ -	\$ 867,316
Investments	26,162	-	-	26,162
Accounts receivable, net of allowance for uncollectibles	193,582	178,908	-	372,490
Interfund loan receivable	2,000	-	-	2,000
Due from other funds	667,870	-	-	667,870
Due from other governmental units	-	10,948	-	10,948
Total current assets	\$ 1,588,020	\$ 358,766	\$ -	\$ 1,946,786
Noncurrent assets:				
Restricted cash and cash equivalents - customer deposits	\$ 54,604	\$ 31,150	\$ -	\$ 85,754
Restricted investments	92,088	-	-	92,088
Net pension asset	48,983	40,077	-	89,060
Capital assets:				
Land	\$ 10,600	\$ 20,515	\$ 6,943	\$ 38,058
Utility plant in service	12,017,460	2,536,807	-	14,554,267
Buildings and improvements	5,069,675	4,315,283	-	9,384,958
Machinery, equipment, and vehicles	582,917	216,662	-	799,579
Accumulated depreciation	(12,400,634)	(4,643,713)	-	(17,044,347)
Total capital assets	\$ 5,280,018	\$ 2,445,554	\$ 6,943	\$ 7,732,515
Total noncurrent assets	\$ 5,475,693	\$ 2,516,781	\$ 6,943	\$ 7,997,329
Total assets	\$ 7,063,713	\$ 2,875,547	\$ 6,943	\$ 9,854,115
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 63,431	\$ 51,898	\$ -	\$ 115,329
OPEB related items	1,300	1,064	-	2,364
Total deferred outflows of resources	\$ 64,731	\$ 52,962	\$ -	\$ 117,693
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 58,650	\$ 31,176	\$ -	\$ 89,826
Customers' deposits	57,905	32,059	-	89,964
Accrued wages payable	22,135	17,084	-	39,219
Accrued interest payable	8,476	2,948	-	11,424
Unearned revenue	4,369	-	-	4,369
Due to other funds	-	647,809	-	647,809
Compensated absences - current portion	42,860	15,645	-	58,505
Bonds payable - current portion	229,595	55,500	-	285,095
Notes payable - current portion	35,081	4,736	-	39,817
Total current liabilities	\$ 459,071	\$ 806,957	\$ -	\$ 1,266,028
Noncurrent liabilities:				
Compensated absences - net of current portion	\$ 14,287	\$ 5,215	\$ -	\$ 19,502
Notes payable - net of current portion	232,538	11,162	-	243,700
Bonds payable - net of current portion	2,110,548	196,200	-	2,306,748
Net OPEB liabilities	10,846	8,874	-	19,720
Total noncurrent liabilities	\$ 2,368,219	\$ 221,451	\$ -	\$ 2,589,670
Total liabilities	\$ 2,827,290	\$ 1,028,408	\$ -	\$ 3,855,698
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 65,522	\$ 53,609	\$ -	\$ 119,131
OPEB related items	772	631	-	1,403
Total deferred inflows of resources	\$ 66,294	\$ 54,240	\$ -	\$ 120,534
NET POSITION				
Net investment in capital assets	\$ 2,672,256	\$ 2,177,956	\$ 6,943	\$ 4,857,155
Restricted:				
Future pension costs	48,983	40,077	-	89,060
Debt service and bond covenants	92,088	-	-	92,088
Unrestricted (deficit)	1,421,533	(372,172)	-	1,049,361
Total net position	\$ 4,234,860	\$ 1,845,861	\$ 6,943	\$ 6,087,664

The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
OPERATING REVENUES				
Charges for services:				
Water sales	\$ 1,278,819	\$ -	\$ -	\$ 1,278,819
Sewer sales	-	552,793	-	552,793
Tap fees	10,825	-	-	10,825
Penalties	16,495	17,436	-	33,931
Other revenues	682	25,745	-	26,427
Total operating revenues	\$ 1,306,821	\$ 595,974	\$ -	\$ 1,902,795
OPERATING EXPENSES				
Salaries and fringes	\$ 635,509	\$ 472,089	\$ -	\$ 1,107,598
Utilities	144,908	60,013	-	204,921
Vehicle expense	11,330	7,983	-	19,313
Dues and subscriptions	4,282	3,480	-	7,762
Chemicals	71,557	15,976	-	87,533
Supplies	36,429	7,070	-	43,499
Insurance	19,364	22,344	-	41,708
Lab analysis	4,261	4,728	-	8,989
Professional services	22,209	24,493	-	46,702
Maintenance and repairs	132,078	75,820	-	207,898
Miscellaneous	2,361	86	-	2,447
Depreciation	319,277	157,961	-	477,238
Total operating expenses	\$ 1,403,565	\$ 852,043	\$ -	\$ 2,255,608
Operating income (loss)	\$ (96,744)	\$ (256,069)	\$ -	\$ (352,813)
NONOPERATING REVENUES (EXPENSES)				
Investment income	\$ 1,157	\$ 56	\$ -	\$ 1,213
Interest expense	(67,990)	(9,049)	-	(77,039)
Total nonoperating revenues (expenses)	\$ (66,833)	\$ (8,993)	\$ -	\$ (75,826)
Income (loss) before capital contributions and transfers	\$ (163,577)	\$ (265,062)	\$ -	\$ (428,639)
Capital contributions and construction grants	-	40,474	-	40,474
Transfers in (out)	8,663	8,121	-	16,784
Change in net position	\$ (154,914)	\$ (216,467)	\$ -	\$ (371,381)
Net position - beginning, as restated	4,389,774	2,062,328	6,943	6,459,045
Net position - ending	\$ 4,234,860	\$ 1,845,861	\$ 6,943	\$ 6,087,664

The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2022

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,492,831	\$ 862,539	\$ -	\$ 2,355,370
Payments to and for employees	(591,903)	(452,961)	-	(1,044,864)
Payments for goods and services	(414,710)	(237,426)	-	(652,136)
Net cash provided by (used for) operating activities	\$ 486,218	\$ 172,152	\$ -	\$ 658,370
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund borrowings and transfers	\$ 16,658	\$ 8,121	\$ -	\$ 24,779
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (3,322)	\$ (3,323)	\$ -	\$ (6,645)
Principal payments on bonds	(254,231)	(57,106)	-	(311,337)
Contributions in aid of construction	-	29,526	-	29,526
Interest payments	(70,326)	(9,659)	-	(79,985)
Net cash provided by (used for) capital and related financing activities	\$ (327,879)	\$ (40,562)	\$ -	\$ (368,441)
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest income	\$ 934	\$ 56	\$ -	\$ 990
Net increase (decrease) in cash and cash equivalents	\$ 175,931	\$ 139,767	\$ -	\$ 315,698
Cash and cash equivalents - June 30, 2021 (restricted cash and cash equivalents of \$88,202)	577,079	60,293	-	637,372
Cash and cash equivalents - June 30, 2022 (restricted cash and cash equivalents of \$85,754)	\$ 753,010	\$ 200,060	\$ -	\$ 953,070
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (96,744)	\$ (256,069)	\$ -	\$ (352,813)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 319,277	\$ 157,961	\$ -	\$ 477,238
(Increase) decrease in accounts receivable	185,193	266,226	-	451,419
(Increase) decrease in prepaid items	1,200	-	-	1,200
(Increase) decrease in deferred outflows of resources	(27,425)	(22,439)	-	(49,864)
(Increase) decrease in net pension asset	(18,459)	(15,103)	-	(33,562)
Increase (decrease) in customers' deposits	875	339	-	1,214
Increase (decrease) in accounts payable	32,869	(15,433)	-	17,436
Increase (decrease) in accrued wages	19,311	14,987	-	34,298
Increase (decrease) in unearned revenue	(58)	-	-	(58)
Increase (decrease) in compensated absences	19,561	269	-	19,830
Increase (decrease) in net OPEB liability	(2,148)	(1,758)	-	(3,906)
Increase (decrease) in deferred inflows of resources	52,766	43,172	-	95,938
Total adjustments	\$ 582,962	\$ 428,221	\$ -	\$ 1,011,183
Net cash provided by (used for) operating activities	\$ 486,218	\$ 172,152	\$ -	\$ 658,370

The notes to the financial statements are an integral part of this statement.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies:

The financial statements of the Town conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The more significant accounting policies established in GAAP and used by the Town are discussed below.

A. Financial reporting entity:

Town of Pennington Gap, Virginia (Town) is a municipal corporation governed by an elected six-member Town Council that is elected in four year cycles. The Town is located in Lee County, Virginia in the southwestern portion of the State. The Town was founded in 1980 and first incorporated in 1892 and consists of 1.44 square miles. The accompanying financial statements present the Town. Related organizations, if any, are described below.

Blended Component Units - None

Discretely Presented Component Units - Industrial Development Authority of Town of Pennington Gap, Virginia (IDA). The IDA encourages and provides financing for industrial development in the Town. The IDA board members are appointed by the Town Council. The IDA is fiscally dependent upon the Town. The Industrial Development Authority is presented as an enterprise fund type and issues separate financial statements which may be obtained from the Town of Pennington Gap, Virginia Town Manager office.

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide financial statements:

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net position of a government will be broken down into 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 government'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).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation:

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

The government-wide and proprietary fund financial statements are reported 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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they have been earned and they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 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 principal and interest expenditures on general long-term debt, including lease liabilities, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the government the right to use lease assets, are reported as expenditures in the governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the Town.

Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (Continued)

The Town reports the following major governmental funds:

The *general fund* is the primary operating fund of the Town. The fund is used to account for and report all financial resources except those required to be accounted for and reported 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 funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

The Town operates a water distribution system. The activities of the system are accounted for in the water fund.

The Town operates a wastewater collection system. The activities of the system are accounted for in the sewer fund.

The Town operates a community development program which provides loans for rehabilitation projects within the Town. The activities of the system are accounted for in the industrial fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the Town's water and sewer function 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.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:

1. Cash and Cash Equivalents

The Town's cash and cash equivalents include cash on hand, amounts in demand deposits, as well as short-term investments with original maturities of three months or less from the date of acquisition.

2. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable on October 31. Personal property taxes are due and collectible annually on October 31. The Town bills and collects its own property taxes.

3. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$150,806 at June 30, 2022. The allowance consists of delinquent taxes in the amount of \$24,191, delinquent garbage bills of \$7,791, delinquent water bills of \$63,057, and delinquent sewer bills of \$55,767.

4. Use of 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.

5. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, and other nonparticipating investments, and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost (except for intangible right-to-use lease assets (lease assets), the measurement of which is discussed in more detail below), or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Land and construction in progress are not depreciated. The other tangible and intangible property, plant, equipment, lease assets, and infrastructure of the primary government are depreciated/amortized using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 40
Building improvements	20 - 40
Utility plant and equipment	10 - 40
Machinery, equipment, and vehicles	4 - 30
Infrastructure	10 - 40

7. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with current reporting standards, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The Town accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

8. 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 fiduciary net 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.

9. Other Postemployment Benefits (OPEB)

Local Health Insurance

The Town's local health insurance OPEB plan is a single-employer defined benefit OPEB plan administered by the Town. No assts 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 (VLDP)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS VLDP and the additions to/deductions from the VRS OPEB Plan's fiduciary net position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

10. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued and premiums on 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

11. Fund Balance

The Town reports fund balance in accordance current reporting standards. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaids) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;
- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the Town Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;
- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments general only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

Committed Fund Balance Policy:

The Town Council is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by Town Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy:

The Town Council has authorized the Town's manager as the official authorized to assign fund balance to a specific purpose as approved by this fund balance policy.

Resource Flow Policy:

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned and unassigned, as they are needed.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town has one item that qualifies for reporting in this category. It is comprised of certain items related to pension and OPEB. For more detailed information on the pension and OPEB items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has multiple items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected taxes due prior to June 30 and amounts prepaid and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, amounts prepaid are reported as deferred inflows of resources. In addition, certain items related to pension, OPEB, and leases are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

13. Net Position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance:
(Continued)

13. Net Position (Continued)

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

14. Leases

The Town leases various assets requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases.

Lessee

The Town recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of \$5,000, individually or in the aggregate in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 1-Summary of Significant Accounting Policies: (Continued)

14. Leases (Continued)

Lessor

The Town recognizes leases receivable and deferred inflows of resources in the government-wide and governmental fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

Key Estimates and Judgments

Lease accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Town uses the interest rate stated in lease contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Town uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease and certain periods covered by options to extend to reflect how long the lease is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease incentives and certain other payments are included in the measurement of the lease liability (lessee) or lease receivable (lessor).

The Town monitors changes in circumstances that would require a remeasurement or modification of its leases. The Town will remeasure the lease asset and liability (lessee) or the lease receivable and deferred inflows of resources (lessor) if certain changes occur that are expected to significantly affect the amount of the lease liability or lease receivable.

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the Town in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The General, Water and Sewer funds have legally adopted budgets.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level in the General Fund and fund level of other funds. Only the Town Council can revise the appropriation for each fund. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 2-Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary information (Continued)

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units.
8. The accompanying financial statements present the original and revised budgets.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

B. Excess of expenditures over appropriations

The General Office and Administration, Streets, and Theater departments had expenditures that exceeded their appropriations.

C. Deficit fund balance

At June 30, 2022, no funds had deficit fund balance.

Note 3-Deposits and Investments:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board.

Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town's investments at June 30, 2022 were held in the Town's name by the Town's custodial bank.

Credit Risk of Debt Securities: The Town has not adopted an investment policy for credit risk. The Town's rated debt investments as of June 30, 2022 were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor's rating scale.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 3-Deposits and Investments: (Continued)

Interest Rate Risk:

The Town has not adopted an investment policy for interest rate risk. Listed below are the Town's investments subject to investment rate risk and their corresponding maturity dates.

Town's Investment Values			
Investments	Fair Quality Ratings		
	AAAm	Unrated	Total
Certificate of deposit	-	118,250	118,250
VML/VACO Virginia Investment Pool (VIP)	5	-	5
Total	\$ 5	\$ 118,250	\$ 118,255

Investment Type	Investment Maturities (in years)	
	Fair Value	Less than 1 yr
Certificate of deposit	118,250	118,250
VML/VACO Virginia Investment Pool (VIP)	5	5
Total	\$ 118,255	\$ 118,255

External Investment Pool:

Virginia Investment Pool (VIP): Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The County has measured fair value of these investments at the net asset value (NAV). The County is limited to two withdrawals per month.

Note 4-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government	
	Governmental Activities	Business Type Activities
<u>Lee County</u>		
Court fines/transfer fees	\$ 360	\$ -
<u>Commonwealth of Virginia:</u>		
Communications Tax	5,382	-
Local Sales Tax	11,951	-
VRA Clean Water Financing and Assistance	-	10,948
<u>Federal Government:</u>		
Categorical aid	288,946	-
Total	\$ 306,639	\$ 10,948

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 5-Interfund/Component-Unit Activity:

Interfund transfers for the year ended June 30, 2022, consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 16,784
Water Fund	8,663	-
Sewer Fund	8,121	-
Totals	<u>\$ 16,784</u>	<u>\$ 16,784</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
General Fund	\$ -	\$ 20,061
Water Fund	667,870	-
Sewer Fund	-	647,809
Totals	<u>\$ 667,870</u>	<u>\$ 667,870</u>

At year end, due to or due from obligations between the primary government and component unit consisted of the following:

<u>Fund</u>	<u>Due from Primary Government/ Component Unit</u>	<u>Due to Primary Government/ Component Unit</u>
Primary Government:		
General Fund	<u>\$ 100,000</u>	<u>\$ -</u>
Component Unit:		
IDA	<u>\$ -</u>	<u>\$ 100,000</u>

While the Town expects repayment, no official repayment terms have been agreed-upon.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 6-Long-term Obligations:

Governmental Activities Obligations:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2022:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Direct borrowings and direct placements:				
Notes payable	\$ 446,779	\$ 54,325	\$ (57,918)	\$ 443,186
Financed Purchase	25,000	-	(5,000)	20,000
Net OPEB liabilities	14,713	3,908	(5,474)	13,147
Compensated absences	14,102	92,466	(10,577)	95,992
Total	\$ 500,594	\$ 150,699	\$ (78,969)	\$ 572,325

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Direct Borrowings and Direct Placements		Financed Purchase	
	Principal	Interest	Principal	Interest
2023	\$ 56,037	\$ 11,352	\$ 5,000	\$ -
2024	52,341	10,002	5,000	-
2025	53,683	8,659	5,000	-
2026	55,063	7,282	5,000	-
2027	50,237	5,896	-	-
2028-2032	124,355	16,114	-	-
2033-2037	51,470	1,946	-	-
Totals	\$ 443,186	\$ 61,251	\$ 20,000	\$ -

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2022

Note 6-Long-term Obligations: (Continued)

Governmental Activities Obligations: (Continued)

Details of long-term obligations:

	Total Amount	Amount Due Within One Year
<u>Direct Borrowings and Direct Placements:</u>		
<i>Notes Payable:</i>		
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	\$ 74,333	\$ 13,332
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%	84,465	11,536
The Town's Government 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%	2,000	2,000
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%	230,620	15,597
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 loan 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%	3,005	3,005
The Town entered into a collateralized loan agreement with Rural Development on November 17, 2021. The note was to purchase two Tahoes and is collateralized with the asset in the amount of \$21,400.	19,004	4,160
The Town entered into a collateralized loan agreement with Farmers & Miners on December 10, 2021. The note was to purchase a 2021 Kubota RTV and is collateralized with the asset in the amount of \$98,438.	29,759	6,407
Total direct borrowings and direct placements	\$ 443,186	\$ 56,037
<u>Financed Purchase</u>		
The Town entered into a financed purchase of a sweeper truck on July 11, 2019, payable in annual principle installments of \$5000 beginning July 11, 2019 until paid in full on July 11, 2026.	\$ 20,000	\$ 5,000
<u>Other Obligations:</u>		
Net OPEB liabilities	\$ 13,147	\$ -
Compensated absences	95,992	71,994
Total other obligations	\$ 109,139	\$ 71,994
Total long-term obligations	\$ 572,325	\$ 133,031

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 6-Long-term Obligations: (Continued)

Business-type Activities Obligations:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2022:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Direct borrowings and direct placements:				
General obligation bonds	\$ 1,014,000	\$ -	\$ (175,000)	\$ 839,000
Note payable	322,265	-	(38,748)	283,517
Revenue Bond	1,850,432	-	(97,589)	1,752,843
Net OPEB liabilities	23,626	4,927	(8,833)	19,720
Compensated absences	58,177	63,462	(43,632)	78,007
Total	<u>\$ 3,268,500</u>	<u>\$ 68,389</u>	<u>\$ (363,802)</u>	<u>\$ 2,973,087</u>

Annual requirements to amortize long-term obligations and the related interest are as follows:

Year Ending June 30,	Direct Borrowings and Direct Placements					
	General Obligation Bonds		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	\$ 185,000	\$ 25,170	100,095	47,712	\$ 39,817	\$ 7,805
2024	185,000	19,620	101,873	44,743	41,065	6,558
2025	182,000	14,070	103,710	41,822	31,435	5,415
2026	175,000	8,610	105,607	39,155	22,820	4,585
2027	112,000	3,360	107,567	36,655	20,733	3,982
2028-2032	-	-	569,575	140,822	113,085	10,489
2033-2037	-	-	490,655	62,300	14,562	135
2038-2042	-	-	173,761	5,854	-	-
Totals	<u>\$ 839,000</u>	<u>\$ 70,830</u>	<u>\$ 1,752,843</u>	<u>\$ 419,063</u>	<u>283,517</u>	<u>\$ 38,969</u>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2022

Note 6-Long-term Obligations: (Continued)

Business-type Activities Obligations: (Continued)

Details of long-term obligations:

	Total Amount	Amount Due Within One Year
<u>Direct Borrowings and Direct Placements:</u>		
<i>General Obligation Bonds:</i>		
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 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.	\$ 587,300	\$ 129,500
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, 2023 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.	251,700	55,500
<i>Notes Payable</i>		
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%	\$ 225,608	\$ 18,483
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%.	24,362	11,342
The Town entered into a loan agreement with Farmers and Miners Bank on October 1, 2020 for \$23,900. The loan proceeds were for 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%	15,898	4,736
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 \$475 are due beginning October 2, 2020, until maturity at September 2, 2025. The interest rate on the loan is 3.00%	17,649	5,256
<i>Revenue Bonds:</i>		
Water Revenue Bond, Series 1999 was issued on September 20, 1999, in a principal amount equal to the sum of the principal advanced 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.	1,198,543	53,903
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.	554,300	46,192
Total direct borrowings and direct placements	\$ 2,875,360	\$ 324,912
<u>Other Obligations:</u>		
Net OPEB liabilities	19,720	-
Compensated absences	78,007	58,505
Total other obligations	\$ 97,727	\$ 58,505
Total long-term obligations	\$ 2,973,087	383,417

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 6-Long-term Obligations: (Continued)

Business-type Activities Obligations: (Continued)

Details of long-term obligations: (Continued)

The revenue bonds are subject to a pledge of the system generated revenues. The revenues as received by the Town are immediately subject to the lien of this pledge. Further, the Town has agreed to fix and collect rates, fees, and other charges for the services as provided by the system so that each year the net revenues available for debt service will equal at least 115% of the amount required to pay the principal and interest costs of the bonds. The Town agrees to monitor rates and immediately take action to increase its rates or reduce operation expenses if it fails to satisfy such requirements. *For fiscal year 2022, the Town did not meet the 115% rate covenant.*

The Town has a general obligation bond that is split between the water and sewer funds totaling \$839,000 at year-end.

The Town's general obligation bonds are subject to the state aid intercept program. Under terms of the program, the Town's State aid is redirected to bond holders to cure any event(s) of default.

Note 7-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple employer plan 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 as 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.

Benefit Structures

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)

Benefit Structures (continued)

- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service credit equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)***Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits***

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of service credit are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of service credit are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2020 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	7
Inactive members:	
Vested inactive members	4
Non-vested	5
Inactive members active elsewhere in VRS	<u>10</u>
Total inactive members	19
Active members	<u>20</u>
Total covered employees	<u><u>46</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 employer contribution rate for the year ended June 30, 2022 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 \$19,447 and \$17,756 for the years ended June 30, 2022 and June 30, 2021, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)

Net Pension Asset

The net pension liability (NPA) 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 of Pennington Gap, the net pension liability was measured as of June 30, 2021. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2020 rolled forward to the measurement date of June 30, 2021.

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, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

Mortality rates:

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates of males and females set forward 2 years

Mortality Improvement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)**Actuarial Assumptions - General Employees (Continued)**

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, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS 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:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

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, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)**

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

Pre-Retirement:

Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:

Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 year

Beneficiaries and Survivors:

Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years

Mortality Improvements:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

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, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)***Long-Term Expected Rate of Return***

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	100.00%		4.89%
		Inflation	2.50%
		Expected arithmetic nominal return*	7.39%

* The above allocation provides a one-year expected return of 7.39%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate return of 6.75% which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (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; the Town was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2021, 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, 2021 on, participating employers are assumed to continue 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 (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2020	\$ 1,207,526	\$ 1,300,022	\$ (92,496)
Changes for the year:			
Service cost	\$ 58,683	\$ -	\$ 58,683
Interest	78,840	-	78,840
Differences between expected and actual experience	193,554	-	193,554
Assumption changes	17,771	-	17,771
Contributions - employer	-	17,757	(17,757)
Contributions - employee	-	34,164	(34,164)
Net investment income	-	353,713	(353,713)
Benefit payments, including refunds of employee contributions	(79,065)	(79,065)	-
Administrative expenses	-	(881)	881
Other changes	-	33	(33)
Net changes	\$ 269,783	\$ 325,721	\$ (55,938)
Balances at June 30, 2021	\$ 1,477,309	\$ 1,625,743	\$ (148,434)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 7-Pension Plan: (Continued)*****Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate***

The following presents the net pension liability (asset) of the Town using the discount rate of 6.75%, as well as what the Town's net pension liability (asset) 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:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Town of Bluefield's			
Net Pension Liability (Asset)	\$ 52,824	\$ (148,434)	\$ (310,150)

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

For the year ended June 30, 2022, the Town recognized pension expense of \$39,050. At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 150,744	\$ 23,067
Change in assumptions	22,423	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	175,484
Employer contributions subsequent to the measurement date	19,447	-
Total	\$ 192,614	\$ 198,551

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 7-Pension Plan: (Continued)***Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

\$19,447 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 fiscal ending June 30, 2023. 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>		
2023	\$	35,075
2024		16,832
2025		(23,908)
2026		(53,383)
2027		-
Thereafter		-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2021 Annual Comprehensive Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

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TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 8-Capital Assets:

Capital asset activity for the year ended June 30, 2022 was as follows:

	Beginning balance, as reported	Restatement	Increases	Decreases	Ending Balance
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 548,383	\$ -	\$ 102,500	\$ -	\$ 650,883
Construction in progress	88,119	(82,119)	52,798	(58,798)	-
Total capital assets not being depreciated	<u>\$ 636,502</u>	<u>\$ (82,119)</u>	<u>\$ 155,298</u>	<u>\$ (58,798)</u>	<u>\$ 650,883</u>
Capital assets, being depreciated:					
Buildings and improvements	\$ 5,602,087	\$ -	\$ -	\$ -	\$ 5,602,087
Machinery, equipment, and vehicles	2,738,315	(58,978)	242,662	(14,987)	2,907,012
Infrastructure	476,453	-	-	-	476,453
Total capital assets being depreciated	<u>\$ 8,816,855</u>	<u>\$ (58,978)</u>	<u>\$ 242,662</u>	<u>\$ (14,987)</u>	<u>\$ 8,985,552</u>
Accumulated depreciation:					
Buildings and improvements	\$ (1,289,561)	\$ -	\$ (181,577)	\$ -	\$ (1,471,138)
Machinery, equipment, and vehicles	(1,970,712)	9,214	(167,974)	14,987	(2,114,485)
Infrastructure	(468,690)	-	(239)	-	(468,929)
Total accumulated depreciation	<u>\$ (3,728,963)</u>	<u>\$ 9,214</u>	<u>\$ (349,790)</u>	<u>\$ 14,987</u>	<u>\$ (4,054,552)</u>
Total capital assets being depreciated, net	<u>\$ 5,087,892</u>	<u>\$ (49,764)</u>	<u>\$ (107,128)</u>	<u>\$ -</u>	<u>\$ 4,931,000</u>
Governmental activities capital assets, net	<u>\$ 5,724,394</u>	<u>\$ (131,883)</u>	<u>\$ 48,170</u>	<u>\$ (58,798)</u>	<u>\$ 5,581,883</u>

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

Governmental Activities:

General government administration	\$ 20,161
Public safety	145,048
Public works	50,735
Parks, recreation, and cultural	<u>133,846</u>
Total depreciation expense-governmental activities	<u>\$ 349,790</u>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 8-Capital Assets: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>\$ 38,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,058</u>
Capital assets, being depreciated:				
Buildings and Improvements	\$ 9,384,958	\$ -	\$ -	\$ 9,384,958
Utility plant and equipment	14,554,267	-	-	14,554,267
Machinery, equipment, and vehicles	792,934	6,645	-	799,579
Total capital assets being depreciated	<u>\$ 24,732,159</u>	<u>\$ 6,645</u>	<u>\$ -</u>	<u>\$ 24,738,804</u>
Accumulated depreciation:				
Buildings and Improvements	\$ (5,992,433)	\$ (234,206)	\$ -	\$ (6,226,639)
Utility plant and equipment	(9,942,247)	(207,041)	-	(10,149,288)
Machinery, equipment, and vehicles	(632,429)	(35,991)	-	(668,420)
Total accumulated depreciation	<u>\$ (16,567,109)</u>	<u>\$ (477,238)</u>	<u>\$ -</u>	<u>\$ (17,044,347)</u>
Total capital assets being depreciated, net	<u>\$ 8,165,050</u>	<u>\$ (470,593)</u>	<u>\$ -</u>	<u>\$ 7,694,457</u>
Business-type activities capital assets, net	<u>\$ 8,203,108</u>	<u>\$ (470,593)</u>	<u>\$ -</u>	<u>\$ 7,732,515</u>

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

Business-type Activities:

Water	\$ 319,277
Sewer	<u>157,961</u>

Total depreciation expense - business-type activities \$ 477,238

Note 9-Risk Management:

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which the government carries commercial insurance. Claims resulting from losses have not exceeded coverage in any of the prior three fiscal years.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 10-Other Postemployment Benefits - Health Insurance:

Plan Description

In addition to the pension benefits described in Note 7, the Town administers a single-employer defined benefit healthcare plan, The Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the Town's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees to include health insurance. The Plan will provide retiring employees the option to continue health insurance offered by the Town. Employees are eligible for the program at age 50 and 10 years of service to the Town.

Plan Membership

At June 30, 2022 (measurement date), the following employees were covered by the benefit terms:

Total active employees	29
Total retired employees	<u>2</u>
Total	<u><u>31</u></u>

Contributions

The Town Council does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Town Council. The amount paid by the Town for OPEB as the benefits came due during the year ended June 30, 2022, was \$0.00.

Total OPEB Liability

The Town's total OPEB liability was measured as of June 30, 2022. The total OPEB liability was determined by an actuarial valuation as of June 30, 2022.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 10-Other Postemployment Benefits - Health Insurance: (Continued)****Actuarial Assumptions**

The total OPEB liability in the June 30, 2022 actuarial valuation, using the alternative measurement method, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.00%
Average Retirement Age	65
Discount Rate	3.60%

Mortality rates was the Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years.

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is based on the 20-year tax exempt municipal bond yield.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance as of June 30, 2021	\$ 37,301
Changes for the year:	
Service cost	3,027
Interest	867
Effect of Economic/Demographic Gains or Losses	(2,911)
Effect of changes in assumptions	(4,538)
Contributions - employer	-
Balance as of June 30, 2022	<u>\$ 33,746</u>

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

The following presents the total OPEB liability of the Town, as well as what the total OPEB liability would be if it were calculated using discount rates that are one percentage point lower (2.60%) or one percentage point higher (4.60%) than the current discount rate:

1% Decrease (2.60%)	Current Discount (3.60%)	1% Increase (4.60%)
\$ 36,762	\$ 33,746	\$ 31,153

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 10-Other Postemployment Benefits - Health Insurance: (Continued)***Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the total OPEB liability of the Town, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

Healthcare Cost Trend Rates		
1% Decrease	Current	1% Increase
\$ 29,998	\$ 33,746	\$ 38,378

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2022, the Town recognized OPEB expense in the amount of \$(3,555). At June 30, 2022, the Town did not report deferred outflows of resources and deferred inflows of resources related to OPEB.

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan):***Plan Description***

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). This is a multiple-employer, cost-sharing plan 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.

The specific information for the VLDP OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Political Subdivision VLDP was implemented January 1, 2014 to provide disability benefits for non-work-related and work-related disabilities for employees with hybrid plan retirement benefits. 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 VLDP.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Benefit Amounts

The VLDP 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.

The VLDP 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.

VLDP 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 requirements for active hybrid plan 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, 2022 was 0.83% of covered employee compensation for employees in the VRS Political Subdivision VDLP. 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 Town to the VRS Political Subdivision VDLP were \$3,389 and \$2,896 for the years ended June 30, 2022 and June 30, 2021, respectively.

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB

At June 30, 2022, the Town reported an asset of \$(879) for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2021, and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of June 30, 2020, and rolled forward to the measurement date of June 30, 2021. The Town's proportion of the Net VLDP OPEB Liability was based on the Town's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2021 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2021, the Town's proportion of the VLDP was 0.08686 % as compared to 0.10391% at June 30, 2020.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB (Continued)

For the year ended June 30, 2022, the Town recognized VLDP OPEB expense of \$2,348. Since there was a change in proportionate share between measurement dates a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2022, the Town reported deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 522	\$ 1,317
Net difference between projected and actual earnings on VLDP OPEB program investments	-	491
Change in assumptions	30	238
Changes in proportionate share	-	290
Employer contributions subsequent to the measurement date	<u>3,389</u>	<u>-</u>
Total	<u>\$ 3,941</u>	<u>\$ 2,336</u>

\$3,389 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP OPEB Liability in the fiscal year ending June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB will be recognized in the VLDP OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2023	\$ (264)
2024	(262)
2025	(270)
2026	(461)
2027	(161)
Thereafter	(366)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

Actuarial Assumptions

The total VLDP OPEB liability for the VLDP was based on an actuarial valuation as of June 30, 2020, 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, 2021.

Inflation	2.50%
Salary increases, including inflation	3.50%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation

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

Pre-Retirement:

Pub-2010 Amount Weighted General Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:

Pub-2010 Amount Weighted General Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:

Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:

Pub-2010 Amount Weighted General Contingent Annuitant Rates projected generationally

Post-Disablement:

Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022**Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)****Actuarial Assumptions (Continued)**

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, 2016 through June 30, 2020, 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)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision VLDP 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, 2021, NOL amounts for the VRS Political Subdivision VLDP is as follows (amounts expressed in thousands):

		Political Subdivision VLDP OPEB Plan
Total Political Subdivision VLDP OPEB Liability	\$	5,156
Plan Fiduciary Net Position		6,166
Political Subdivision VLDP Net OPEB Liability (Asset)	\$	(1,010)
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability		119.59%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)**Net VLDP OPEB Liability (Continued)**

The total Political Subdivision 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 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.

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:

<u>Asset Class (Strategy)</u>	<u>Long-Term Target Asset Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return*</u>
Public Equity	34.00%	5.00%	1.70%
Fixed Income	15.00%	0.57%	0.09%
Credit Strategies	14.00%	4.49%	0.63%
Real Assets	14.00%	4.76%	0.67%
Private Equity	14.00%	9.94%	1.39%
MAPS - Multi-Asset Public Strategies	6.00%	3.29%	0.20%
PIP - Private Investment Partnership	3.00%	6.84%	0.21%
Total	<u>100.00%</u>		<u>4.89%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.39%</u>

*The above allocation provides a one-year return of 7.39%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.94%, including expected inflation of 2.50%.

*On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 11-Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)***Discount Rate***

The discount rate used to measure the total 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 ended June 30, 2021, the rate contributed by the Town for the VLDP was 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, 2021 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based Town of Pennington Gap, Virginia on those assumptions, the 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 VLDP OPEB liability.

Sensitivity of the County/City/Town/ABC's Proportionate Share of the VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net VLDP OPEB liability using the discount rate of 6.75%, as well as what the Town'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:

		Rate		
		1% Decrease	Current Discount	1% Increase
		(5.75%)	(6.75%)	(7.75%)
Town's				
proportionate share of the				
VLDP Net OPEB Liability (Asset)	\$	(471)	\$ (879)	\$ (1,233)

VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision VLDP's Fiduciary Net Position is available in the separately issued VRS 2021 Annual Comprehensive Annual Financial Report (Annual Report). A copy of the 2021 VRS Annual Report may be downloaded from the VRS website at <https://www.varetire.org/pdf/publications/2021-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 12-OPEB Summary:

	Deferred Outflows	Deferred Inflows	Net OPEB Liability	OPEB Expense
Health Insurance OPEB (Note 10)	\$ -	\$ -	\$ 33,746	\$ (3,555)
VRS OPEB Plan:				
VRS Virginia Local Disability Program (VLDP) Plan (Note 11)	3,941	2,336	(879)	2,348
Totals	\$ <u>3,941</u>	\$ <u>2,336</u>	\$ <u>32,867</u>	\$ <u>(1,207)</u>

Note 13-Deferred/ Unavailable Revenue:

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred. Unavailable revenue is comprised of the following:

	Government-wide Statements Governmental Activities	Balance Sheet Governmental Funds
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures	\$ -	\$ 26,315
Prepaid property taxes due after June 30 but paid in advance by taxpayers	<u>1,458</u>	<u>1,458</u>
	\$ <u>1,458</u>	\$ <u>27,773</u>

Note 14-Litigation:

As of June 30, 2022, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 15-Lease Receivable:

The following is a summary of leases receivable transactions of the County for the year ended June 30, 2022:

	Beginning Balance, as adjusted	Increases / Issuances	Decreases / Retirements	Ending Balance	Interest Revenue
Leases receivable	\$ 46,997	\$ -	\$ (14,165)	\$ 32,832	\$ (4,381)

Lease revenue recognized during the fiscal year was \$14,165.

Details of lease receivable:

Lease Description	Start Date*	End Date	Payment Frequency	Discount Rate	Ending Balance	Amount Due Within One Year
Crown Castle tower lease	7/1/2019	6/30/2024	Monthly	2.40%	\$ 32,832	\$ 17,874

There are no variable payments for the lease receivable above.

*The lease issue dates are from the onset of the lease agreements. The amounts included in the GASB 87 implementation are as of July 1, 2021, the date of implementation. Original information is included for informational purposes only.

Note 16-Adoption of Accounting Principle:

The Town implemented provisions of Governmental Accounting Standards Board Statement No. 87, *Leases* during the fiscal year ended June 30, 2022. 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. No restatement of beginning net position was required as a result of this implementation. Using the facts and circumstances that existed at the beginning of the year of implementation, the following balances were recognized as of July 1, 2021 related to the lease(s):

Primary Government:

	Governmental Activities	General Fund
Lease activity:		
Lease receivable	\$ 46,997	\$ 46,997
Deferred inflows of resources - lease	\$ 46,997	\$ 46,997

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 17-Restatement:

	General Fund	Debt-Service Reserve Fund	Total
Fund balance, July 1, 2021, as previously reported	\$ 886,122	\$ 90,053	\$ 976,175
Correction of prepaid items	10,000	-	10,000
Correction to merge debt service fund with Water fund	-	(90,053)	(90,053)
Fund balance, July 1, 2021, as restated	<u>\$ 896,122</u>	<u>\$ -</u>	<u>\$ 896,122</u>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Net position, July 1, 2021, as previously reported	\$ 6,299,147	\$ 6,368,992	\$12,668,139
Correction of fund balance noted above	(80,053)	-	(80,053)
Correction to merge debt service fund into Water fund	-	90,053	90,053
Correction of capital assets	(131,883)	-	(131,883)
Net position, July 1, 2021, as restated	<u>\$ 6,087,211</u>	<u>\$ 6,459,045</u>	<u>\$12,546,256</u>

Note 18-COVID-19 Pandemic Funding:

ARPA Funding

On March 11, 2021, the American Rescue Plan (ARPA) Act of 2021 was passed by the federal government. A primary component of the ARPA was the establishment of the Coronavirus State and Local Fiscal Recovery Fund (CSLFRF). Local governments are to receive funds in two tranches, with 50% provided beginning in May 2021 and the balance delivered approximately 12 months later.

In June 2021, the Town received its share of the first half of the CSLFRF funds. As a condition of receiving CSLFRF funds, any funds unobligated by December 31, 2024, and unexpended by December 31, 2026, will be returned to the federal government. Unspent funds in the amount of \$778,327 from the initial allocation are reported as unearned revenue as of June 30. On July 22, 2022, the Town received the second half of funding in the amount of \$892,783.

Note 19-Subsequent Events:

On September 26, 2022, the Town provided funds to the Town of Pennington Gap Industrial Development Authority to purchase property, parcel 23E-(8)-71 consisting of land and building, for \$51,500.

Note 20-Upcoming Pronouncements:

Statement No. 91, *Conduit Debt Obligations*, provides 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 this Statement are effective for reporting periods beginning after December 15, 2021.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022

Note 20-Upcoming Pronouncements: (Continued)

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022.

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

Statement No. 100, *Accounting Changes and Error Corrections* - an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

Required Supplementary Information

Town of Pennington Gap, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
General property taxes	\$ 193,500	\$ 193,500	\$ 200,819	\$ 7,319
Other local taxes	933,000	933,000	1,051,826	118,826
Fines and forfeitures	3,000	3,000	5,608	2,608
Revenue from the use of money and property	24,100	24,100	27,527	3,427
Charges for services	242,600	242,600	307,054	64,454
Miscellaneous	52,100	52,100	88,989	36,889
Recovered costs	200,000	200,000	211,512	11,512
Intergovernmental:				
Commonwealth	163,446	163,446	164,018	572
Federal	2,390,820	2,390,820	684,613	(1,706,207)
Total revenues	<u>\$ 4,202,566</u>	<u>\$ 4,202,566</u>	<u>\$ 2,741,966</u>	<u>\$ (1,460,600)</u>
EXPENDITURES				
Current:				
General government administration	\$ 451,818	\$ 451,818	\$ 488,906	\$ (37,088)
Public safety	652,700	652,700	616,126	36,574
Public works	582,036	582,036	559,550	22,486
Parks, recreation, and cultural	490,100	490,100	504,971	(14,871)
Community development	-	-	86,331	(86,331)
Nondepartmental	1,728,912	1,728,912	-	1,728,912
Capital projects	470,000	470,000	440,787	29,213
Debt service:				
Principal	67,381	67,381	62,918	4,463
Interest and other fiscal charges	12,219	12,219	12,219	-
Total expenditures	<u>\$ 4,455,166</u>	<u>\$ 4,455,166</u>	<u>\$ 2,771,808</u>	<u>\$ 1,683,358</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (252,600)</u>	<u>\$ (252,600)</u>	<u>\$ (29,842)</u>	<u>\$ 222,758</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ -	\$ -	\$ (16,784)	\$ (16,784)
Issuance of notes payable	21,400	21,400	54,325	32,925
Sale of capital assets	40,600	40,600	44,268	3,668
Total other financing sources (uses)	<u>\$ 62,000</u>	<u>\$ 62,000</u>	<u>\$ 81,809</u>	<u>\$ 19,809</u>
Net change in fund balances	<u>\$ (190,600)</u>	<u>\$ (190,600)</u>	<u>\$ 51,967</u>	<u>\$ 242,567</u>
Fund balances - beginning, as restated	<u>190,600</u>	<u>190,600</u>	<u>896,122</u>	<u>705,522</u>
Fund balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 948,089</u></u>	<u><u>\$ 948,089</u></u>

Town of Pennington Gap, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Pension Plan

For the Measurement Dates of June 30, 2014 through June 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 58,683	\$ 61,592	\$ 63,373	\$ 61,102	\$ 62,054	\$ 61,248	\$ 58,394	\$ 53,695
Interest	78,840	78,514	69,121	63,273	61,094	54,173	47,463	42,053
Changes in benefit terms	-	-	-	-	-	-	-	-
Differences between expected and actual experience	193,554	(49,733)	62,569	(1,865)	(30,306)	6,619	10,655	-
Changes of assumptions	17,771	-	38,166	-	(22,272)	-	-	-
Benefit payments	(79,065)	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Net change in total pension liability	\$ 269,783	\$ (1,675)	\$ 210,296	\$ 67,508	\$ 46,681	\$ 99,606	\$ 97,618	\$ 77,733
Total pension liability - beginning	1,207,526	1,209,201	998,905	931,397	884,716	785,110	687,492	609,759
Total pension liability - ending (a)	\$ 1,477,309	\$ 1,207,526	\$ 1,209,201	\$ 998,905	\$ 931,397	\$ 884,716	\$ 785,110	\$ 687,492
Plan fiduciary net position								
Contributions - employer	\$ 17,757	\$ 15,395	\$ 19,794	\$ 28,921	\$ 30,656	\$ 41,559	\$ 38,698	\$ 33,860
Contributions - employee	34,164	33,934	39,561	39,185	48,678	35,731	33,368	29,229
Net investment income	353,713	24,478	82,665	82,233	118,475	16,964	36,926	102,321
Benefit payments	(79,065)	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Administrator charges	(881)	(869)	(753)	(685)	(618)	(497)	(445)	(506)
Other	33	(29)	(53)	(75)	(108)	(7)	(7)	6
Net change in plan fiduciary net position	\$ 325,721	\$ (19,139)	\$ 118,281	\$ 94,577	\$ 173,194	\$ 71,316	\$ 89,646	\$ 146,895
Plan fiduciary net position - beginning	1,300,022	1,319,161	1,200,880	1,106,303	933,109	861,793	772,147	625,252
Plan fiduciary net position - ending (b)	\$ 1,625,743	\$ 1,300,022	\$ 1,319,161	\$ 1,200,880	\$ 1,106,303	\$ 933,109	\$ 861,793	\$ 772,147
Town's net pension liability (asset) - ending (a) - (b)	\$ (148,434)	\$ (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 (asset)	110.05%	107.66%	109.09%	120.22%	118.78%	105.47%	109.77%	112.31%
Covered payroll	\$ 753,061	\$ 756,134	\$ 863,203	\$ 840,870	\$ 822,966	\$ 774,106	\$ 674,462	\$ 608,832
Town's net pension liability (asset) as a percentage of covered payroll	-19.71%	-12.23%	-12.74%	-24.02%	-21.25%	-6.25%	-11.37%	-13.90%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Town of Pennington Gap, Virginia
Schedule of Employer Contributions
Pension Plan

For the Years Ended June 30, 2012 through June 30, 2022

Date	Contributions in Relation to			Contributions	
	Contractually Required Contribution (1)*	Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	as a % of Covered Payroll (5)
2022	\$ 19,447	\$ 19,447	\$ -	\$ 848,734	2.29%
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%

*Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

Town of Pennington Gap, Virginia
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2022

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

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, 2016 through June 30, 2020, 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:

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. Increased disability life expectancy. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience and changed final retirement age from 65 to 70
Withdrawal Rates	Decreased rates and changed from rates based on age and service to rates based on service only to better fit experience and to be more consistent with Locals Largest 10 Hazardous Duty
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Town of Pennington Gap, Virginia
Schedule of Changes in Total OPEB Liability and Related Ratios
Town Health Insurance
For the Measurement Dates of June 30, 2018 through June 30, 2021

	2022	2021	2020	2019	2018
Total OPEB liability					
Service cost	\$ 3,027	\$ 3,186	3,088	\$ 4,383	\$ 3,590
Interest	867	912	1,349	2,027	952
Differences between expected and actual experience	(2,911)	(11,574)	2,398	(17,988)	26,943
Changes in assumptions	(4,538)	(1,044)	4,585	1,203	(27,488)
Benefit payments	-	-	(3,216)	-	-
Net change in total OPEB liability	\$ (3,555)	\$ (8,520)	8,204	\$ (10,375)	\$ 3,997
Total OPEB liability - beginning	37,301	45,821	37,617	47,992	43,995
Total OPEB liability - ending	\$ 33,746	\$ 37,301	45,821	\$ 37,617	\$ 47,992
 Covered-employee payroll	 \$ 1,339,561	 \$ 1,054,580	 1,075,405	 \$ 1,108,672	 \$ 1,872,398
 Town's total OPEB liability (asset) as a percentage of covered-employee payroll	 2.52%	 3.54%	 4.26%	 3.39%	 2.56%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Town of Pennington Gap, Virginia
Notes to Required Supplementary Information - Town Health Insurance
For the Year Ended June 30, 2022

Valuation Date: 6/30/2022

Measurement Date: 6/30/2022

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Alternative measurement method (AMM)
Discount Rate	3.60% as of June 30, 2022
Healthcare Trend Rate - Medical	The medical healthcare trend rate assumption starts at 4.70% and before ultimately decreasing to 4.2%
Healthcare Trend Rate - Pharmacy	The pharmacy trend rate assumption starts at 5.20% and ultimately decreasing to 4.20%
Healthcare Trend Rate - Dental	The dental healthcare trend rate assumption starts at 3.50% and decreases after one year to a constant 3.00%
Healthcare Trend Rate - Vision	The vision healthcare trend rate assumption starts at 3.00% remains constant
Salary Increase Rates	3.00% per year as of June 30, 2022
Retirement Age	The average age at retirement is 65
Mortality Rates	Pub-2010 Public Retirement Plans Mortatlity Tables, with mortality improvement projected for 10 years

Town of Pennington Gap, Virginia
Schedule of Town's Share of Net OPEB Liability
Virginia Local Disability Program (VLDP)
For the Measurement Dates of June 30, 2018 through June 30, 2021

Date (1)	Employer's Proportion of the Net VLDP OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2021	0.08686%	\$ (879)	\$ 348,889	-0.25%	119.59%
2020	0.10391%	1,038	387,265	0.27%	76.84%
2019	0.11650%	2,360	359,947	0.66%	49.19%
2018	0.11750%	1,000	285,900	0.35%	51.39%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Town of Pennington Gap, Virginia
 Schedule of Employer Contributions
 Virginia Local Disability Program (VLDP)
 For the Years Ended June 30, 2018 through June 30, 2022

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2022	\$ 3,389	\$ 3,389	\$ -	\$ 408,257	0.83%
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. Information prior to the 2018 valuation is not available. However, additional years will be included as they become available.

Town of Pennington Gap, Virginia
Notes to Required Supplementary Information
Virginia Local Disability Program (VLDP)
For the Year Ended June 30, 2022

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

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, 2016 through June 30, 2020, 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:

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020
Retirement Rates	Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all
Withdrawal Rates	Adjusted rates to better fit experience at each age and service decrement through 9 years of service
Disability Rates	No change
Salary Scale	No change
Line of Duty Disability	No change
Discount Rate	No change

Other Supplementary Information

Town of Pennington Gap, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

Schedule 1
Page 1 of 2

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real Property Tax	\$ 158,000	\$ 158,000	\$ 166,377	\$ 8,377
Real and Personal PSC Tax	18,000	18,000	17,391	(609)
Personal Property Tax	17,500	17,500	17,051	(449)
Total general property taxes	<u>\$ 193,500</u>	<u>\$ 193,500</u>	<u>\$ 200,819</u>	<u>\$ 7,319</u>
Other local taxes:				
Local sales and use taxes	\$ 67,000	\$ 67,000	\$ 73,212	\$ 6,212
Consumers' utility taxes	36,000	36,000	36,037	37
Business license taxes	75,000	75,000	109,796	34,796
Gross receipts taxes	7,000	7,000	7,347	347
Motor vehicle licenses	20,000	20,000	25,216	5,216
Bank stock taxes	140,000	140,000	142,588	2,588
Lodging tax	3,000	3,000	3,677	677
Restaurant food taxes	585,000	585,000	653,953	68,953
Total other local taxes	<u>\$ 933,000</u>	<u>\$ 933,000</u>	<u>\$ 1,051,826</u>	<u>\$ 118,826</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 3,000	\$ 3,000	\$ 5,608	\$ 2,608
Revenue from use of money and property:				
Revenue from use of property	\$ 23,100	\$ 23,100	\$ 25,476	\$ 2,376
Revenue from use of money	1,000	1,000	2,051	1,051
Total revenue from use of money and property	<u>\$ 24,100</u>	<u>\$ 24,100</u>	<u>\$ 27,527</u>	<u>\$ 3,427</u>
Charges for services:				
Charges for recreation user fees	\$ 11,000	\$ 11,000	\$ 13,986	\$ 2,986
Charges for RV park	21,500	21,500	43,020	21,520
Charges for refuse collections	130,000	130,000	132,098	2,098
Charges for theater	63,500	63,500	81,369	17,869
Charges for pool services	16,600	16,600	36,581	19,981
Total charges for services	<u>\$ 242,600</u>	<u>\$ 242,600</u>	<u>\$ 307,054</u>	<u>\$ 64,454</u>
Miscellaneous:				
Lee County contributions	\$ 30,000	\$ 30,000	\$ 50,000	\$ 20,000
Miscellaneous	22,100	22,100	38,989	16,889
Total miscellaneous	<u>\$ 52,100</u>	<u>\$ 52,100</u>	<u>\$ 88,989</u>	<u>\$ 36,889</u>

Town of Pennington Gap, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
VDOT recovered costs	\$ 10,000	\$ 10,000	\$ 21,037	\$ 11,037
Insurance proceeds from vehicle accidents	190,000	190,000	190,475	475
Total revenue from local sources	\$ 1,648,300	\$ 1,648,300	\$ 1,893,335	\$ 245,035
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 6,500	\$ 6,500	\$ 6,533	\$ 33
Mobile home titling tax	-	-	1,950	1,950
Telecommunications Tax	36,000	36,000	33,644	(2,356)
Personal property tax relief funds	-	-	8,878	8,878
Total noncategorical aid	\$ 42,500	\$ 42,500	\$ 51,005	\$ 8,505
Categorical aid:				
Other categorical aid:				
State CJS body camera grant	\$ 23,446	\$ 23,446	\$ 26,397	\$ 2,951
Litter control grant	1,000	1,000	1,396	396
State fire funds	36,000	36,000	17,200	(18,800)
DCJP Law Enforcement Grant	46,000	46,000	46,903	903
VTC marketing grant	10,000	10,000	16,617	6,617
Performing arts grant	4,500	4,500	4,500	-
Total other categorical aid	\$ 120,946	\$ 120,946	\$ 113,013	\$ (7,933)
Total categorical aid	\$ 120,946	\$ 120,946	\$ 113,013	\$ (7,933)
Total revenue from the Commonwealth	\$ 163,446	\$ 163,446	\$ 164,018	\$ 572
Revenue from the Federal Government:				
Categorical aid:				
Police grants	\$ 9,954	\$ 9,954	\$ 7,459	\$ (2,495)
Sidewalk grants	393,000	393,000	358,925	(34,075)
CDBG grant	3,000	3,000	53,139	50,139
ARC grant	100,000	100,000	50,000	(50,000)
USDA rural development grant	64,000	64,000	64,200	200
US SBA Shuttered Venue Operators Grant	35,300	35,300	34,934	(366)
American Rescue Plan Act (ARPA) Funds	1,785,566	1,785,566	114,456	(1,671,110)
Other federal grants	-	-	1,500	1,500
Total categorical aid	\$ 2,390,820	\$ 2,390,820	\$ 684,613	\$ (1,706,207)
Total revenue from the federal government	\$ 2,390,820	\$ 2,390,820	\$ 684,613	\$ (1,706,207)
Total intergovernmental	\$ 2,554,266	\$ 2,554,266	\$ 848,631	\$ (1,705,635)
Total General Fund	\$ 4,202,566	\$ 4,202,566	\$ 2,741,966	\$ (1,460,600)

Town of Pennington Gap, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

<u>Funds, Functions and Departments</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
General government administration	\$ 443,850	\$ 443,850	\$ 480,938	\$ (37,088)
Other general government administration - COVID-19	7,968	7,968	7,968	-
Total general and financial administration	<u>\$ 451,818</u>	<u>\$ 451,818</u>	<u>\$ 488,906</u>	<u>\$ (37,088)</u>
Public safety:				
Law enforcement and traffic control:				
Police	<u>\$ 508,700</u>	<u>\$ 508,700</u>	<u>\$ 483,415</u>	<u>\$ 25,285</u>
Fire and rescue services:				
Fire department	\$ 129,000	\$ 129,000	\$ 132,668	\$ (3,668)
Rescue squad	15,000	15,000	43	\$ 14,957
Total fire and rescue services	<u>\$ 144,000</u>	<u>\$ 144,000</u>	<u>\$ 132,711</u>	<u>\$ 11,289</u>
Total public safety	<u>\$ 652,700</u>	<u>\$ 652,700</u>	<u>\$ 616,126</u>	<u>\$ 36,574</u>
Public works:				
Sanitation and waste removal:				
Refuse collections	\$ 143,400	\$ 143,400	\$ 124,669	\$ 18,731
Other sanitation and waste removal - COVID-19	6,186	6,186	6,186	-
Total sanitation and waste removal	<u>\$ 149,586</u>	<u>\$ 149,586</u>	<u>\$ 130,855</u>	<u>\$ 18,731</u>
Maintenance of general buildings and grounds:				
General properties	<u>\$ 432,450</u>	<u>\$ 432,450</u>	<u>\$ 428,695</u>	<u>\$ 3,755</u>
Total public works	<u>\$ 582,036</u>	<u>\$ 582,036</u>	<u>\$ 559,550</u>	<u>\$ 22,486</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Theater	\$ 196,100	\$ 196,100	\$ 220,634	\$ (24,534)
General parks and recreation	251,500	251,500	241,837	9,663
Land purchase	42,500	42,500	42,500	-
Total parks and recreation	<u>\$ 490,100</u>	<u>\$ 490,100</u>	<u>\$ 504,971</u>	<u>\$ (14,871)</u>
Total parks, recreation, and cultural	<u>\$ 490,100</u>	<u>\$ 490,100</u>	<u>\$ 504,971</u>	<u>\$ (14,871)</u>

Town of Pennington Gap, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2022

<u>Funds, Functions and Departments</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Community development:				
Planning and community development:				
Economic development	\$ -	\$ -	\$ 86,331	\$ (86,331)
Nondepartmental:				
American Rescue Plan Act (ARPA) Funds	\$ 1,728,912	\$ 1,728,912	\$ -	\$ 1,728,912
Capital projects:				
Sidewalk projects	\$ 470,000	\$ 470,000	\$ 440,787	\$ 29,213
Debt service:				
Principal retirement	\$ 67,381	\$ 67,381	\$ 62,918	\$ 4,463
Interest and other fiscal charges	12,219	12,219	12,219	-
Total debt service	\$ 79,600	\$ 79,600	\$ 75,137	\$ 4,463
Total General Fund	\$ 4,455,166	\$ 4,455,166	\$ 2,771,808	\$ 1,683,358

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***

**To the Members of the Town Council
Town of Pennington Gap, Virginia
Pennington Gap, Virginia**

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 discretely presented component unit, and each major fund of the Town of Pennington Gap, Virginia as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Town of Pennington Gap, Virginia's basic financial statements and have issued our report thereon dated February 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Pennington Gap, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pennington Gap, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pennington Gap, Virginia'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 a 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 internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2022-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pennington Gap, Virginia'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 financial statements. 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*.

Town of Pennington Gap, Virginia's Responses to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on Town of Pennington Gap, Virginia's responses to the finding identified in our audit and described in the accompanying schedule of findings and responses. Town of Pennington Gap, Virginia's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Robinson, Famer, Cox Associates". The script is cursive and fluid.

Blacksburg, Virginia
February 14, 2023

Town of Pennington Gap, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2022

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies)?	None reported
Noncompliance material to financial statements noted?	None reported

Section II - Financial Statement Findings

2022-002

Criteria:	Identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness may exist.
Condition:	The Town's financial statements required material adjustments to ensure such statements complied with Generally Accepted Accounting Principles.
Effect:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the Town's internal controls over financial reporting.
Cause:	The Town is working to provide properly adjusted trial balances and related schedules but is still learning some of the nuances of this process.
Recommendation:	The Town should review the auditors' proposed audit adjustments for 2022 and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The Town will review the auditors' proposed audit adjustments for 2022 and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Section III - Summary of Prior Audit Findings

There were no prior audit findings