

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

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**AUDIT REPORT**

**Year Ended June 30, 2018**

**TOWN OF PENNINGTON GAP, VIRGINIA  
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Year Ended June 30, 2018**

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**TOWN OF PENNINGTON GAP, VIRGINIA**  
**TOWN OFFICIALS**  
**June 30, 2018**

**MAYOR:** Larry Holbrook

**TOWN COUNCIL:** Jill Carson  
Gary McElyea  
Terry K. Pope  
Jeff Martin  
Jimmy Warner

**OTHER OFFICIALS:** Keith Harless – Town Manager  
Tina Rowe - Treasurer  
Angela K. O'Dell - Clerk

**ATTORNEY:** Gregory Edwards

# THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants*

*& Consultants*

**\*\*BRIAN K. BLANTON, C.P.A.**  
**\*\*CHARLES F. LAWSON, C.P.A.**  
**\*\*TAMARA R. GREER, C.P.A.**

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

*Founded 1948*

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Norton, Virginia 24273  
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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Industrial Development Authority of Pennington Gap, Virginia, which represent .332 percent, .456 percent, and 0 percent, respectively, of the assets, net position, and revenues of the Town of Pennington Gap. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Industrial Development Authority of Pennington Gap, Virginia, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia as of June 30, 2018, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.



#### **Other Matters**

##### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, and required pension schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019 on our consideration of the Town of Pennington Gap's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

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

Norton, Virginia  
January 22, 2019

# THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants*

*& Consultants*

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2018, 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 January 22, 2019. Our report includes a reference to other auditors who audited the financial statements of the Industrial Development Authority of Pennington Gap, Virginia, as described in our report on the Town of Pennington Gap, Virginia's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements for the year ended June 30, 2018, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Town's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the separately issued schedule of findings and responses that we consider to be material weaknesses (Ref. 2018-001).

### **Compliance and Other Matters**

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

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

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*(Independent Auditor's Report on Internal Control Over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards)*

Response to Findings

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

We noted certain matters that we reported to management of the Town of Pennington Gap, Virginia, in a separate letter dated January 22, 2019.

Purpose of this Report

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

*Thrower, Blanton & Associates, P.C.*

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

Certified Public Accountants

Norton, Virginia  
January 22, 2019

**TOWN OF PENNINGTON GAP, VIRGINIA**

***SUMMARY OF COMPLIANCE MATTERS***

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**June 30, 2018**

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

**STATE COMPLIANCE MATTERS**

**Code of Virginia:**

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

**LOCAL COMPLIANCE MATTERS**

Town Charter



**TOWN OF PENNINGTON GAP**  
**STATEMENT OF NET POSITION**  
June 30, 2018

EXHIBIT 1

	Primary Government			Component Unit
	Governmental Activities	Business Type Activities	Total Primary Government	Industrial Development Authority
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 456,492	\$ 1,095,851	\$ 1,552,343	36,425
Receivables, net	102,764	253,009	355,773	-
Internal balances	(20,056)	20,056	-	-
Due from other governmental units	39,134	-	39,134	-
Restricted cash	99,166	182,800	281,966	-
Notes and Loans receivable	-	70,092	70,092	20,000
Prepaid and other	11,326	23,455	34,781	-
Net Pension Asset	69,962	104,944	174,906	-
Capital assets, net	5,439,793	9,007,084	14,446,877	-
<b>TOTAL ASSETS</b>	<b>6,198,581</b>	<b>10,757,291</b>	<b>16,955,872</b>	<b>56,425</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>				
Deferred Outflows related to OPEB	10,122	17,118	27,240	-
Deferred Outflows related to Pensions	14,233	21,394	35,627	-
Total Deferred Outflows of Resources	24,355	38,512	62,867	-
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 6,222,936</b>	<b>\$ 10,795,803</b>	<b>\$ 17,018,739</b>	<b>\$ 56,425</b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 91,465	\$ 131,045	\$ 222,510	-
Accrued payroll and related liabilities	20,180	25,440	45,620	-
Accrued interest payable	149	18,216	18,365	-
Customer security deposits	-	73,156	73,156	-
Compensated absences	20,311	62,909	83,220	-
Long-term liabilities:				
OPEB Liability	18,144	30,848	48,992	-
Due within one year	51,580	263,541	315,121	-
Due in more than one year	102,480	3,695,373	3,797,853	-
Total Liabilities	304,309	4,300,528	4,604,837	-
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>				
Deferred Inflows related to OPEB	9,629	16,412	26,041	-
Deferred Inflows related to Pensions	23,106	34,658	57,764	-
Total Deferred Inflows of Resources	32,735	51,070	83,805	-
<b><u>NET POSITION</u></b>				
Net investment in capital assets	5,285,733	5,073,979	10,359,712	-
Restricted	69,962	125,801	195,763	-
Unrestricted	530,197	1,244,425	1,774,622	56,425
Total Net Position	5,885,892	6,444,205	12,330,097	56,425
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>\$ 6,222,936</b>	<b>\$ 10,795,803</b>	<b>\$ 17,018,739</b>	<b>\$ 56,425</b>

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF ACTIVITIES**  
June 30, 2018

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Industrial Development Authority	
					Governmental Activities	Business-Type Activities	Total		
Governmental Activities:									
General government	\$ 258,593	\$ 21,055	\$ -	\$ -	\$ (237,538)	\$ -	\$ (237,538)	-	-
Public safety	590,986	48,319	198,236	-	(344,431)	-	(344,431)	-	-
Public works	344,626	80,210	-	-	(264,416)	-	(264,416)	-	-
Parks, recreation, and cultural	403,470	89,408	3,900	420,199	110,037	-	110,037	-	-
Non-departmental	3,350	-	-	-	(3,350)	-	(3,350)	-	-
Total Governmental Activities	1,601,025	238,992	202,136	420,199	(739,698)	-	(739,698)	-	-
Business-Type Activities:									
Water	1,385,594	1,227,819	-	-	-	(157,775)	(157,775)	-	-
Wastewater	808,686	518,982	-	-	-	(289,704)	(289,704)	-	-
Industrial fund	88,754	-	-	-	-	(88,754)	(88,754)	-	-
Total Enterprise Activities	2,283,034	1,746,801	-	-	-	(536,233)	(536,233)	-	-
TOTAL PRIMARY GOVERNMENT	\$ 3,884,059	\$ 1,985,793	\$ 202,136	\$ 420,199	\$ (739,698)	\$ (536,233)	\$ (1,275,931)	-	-
COMPONENT UNIT:									
Industrial Development Authority	\$ 1,300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(1,300)	-
General Revenues:									
Property taxes					206,623	-	206,623	-	-
Other local taxes					908,216	-	908,216	-	-
Unrestricted intergovernmental revenue					7,409	-	7,409	-	-
Unrestricted investment earnings					3,792	12,678	16,470	-	-
Rental of Town property					28,509	-	28,509	-	-
Recovered costs					21,080	-	21,080	-	-
Transfers-Primary Government					-	-	-	-	-
Gain(Loss) from Sale of Property					-	-	-	-	-
Other					13,979	-	13,979	-	-
Total general revenues and transfers					1,189,608	12,678	1,202,286	-	-
Change in net position					449,910	(523,555)	(73,645)	(1,300)	-
NET POSITION - JULY 1, AS RESTATED					5,435,982	6,967,760	12,403,742	57,725	-
NET POSITION - JUNE 30					\$ 5,885,892	\$ 6,444,205	\$ 12,330,097	\$ 56,425	\$

The accompanying notes are an integral part of the financial statements

**TOWN OF PENNINGTON GAP**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
June 30, 2018

EXHIBIT 3

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 456,492	\$ -	\$ 456,492
Receivables, net:			
Taxes receivable	44,132	-	44,132
Accounts receivable	58,632	-	58,632
Interest	-	-	-
Prepaid Insurance	11,326	-	11,326
Due From other funds	15,386	-	15,386
Due from other governmental units	39,134	-	39,134
Restricted cash	11,992	87,174	99,166
<b>Total Assets</b>	<b>\$ 637,094</b>	<b>\$ 87,174</b>	<b>\$ 724,268</b>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	91,465	-	91,465
Accrued payroll and related liabilities	20,179	-	20,179
Due to other funds	35,443	-	35,443
<b>Total Liabilities</b>	<b>147,087</b>	<b>-</b>	<b>147,087</b>
<b>DEFERRED INFLOWS</b>			
Property Taxes Receivable	41,040	-	41,040
<b>Total Deferred Inflows</b>	<b>41,040</b>	<b>-</b>	<b>41,040</b>
<b>FUND BALANCES</b>			
Nonspendable	11,326	-	11,326
Restricted	-	87,174	87,174
Committed	-	-	-
Assigned	11,992	-	11,992
Unassigned	425,649	-	425,649
<b>Total Fund Balances</b>	<b>448,967</b>	<b>87,174</b>	<b>536,141</b>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 637,094</b>	<b>\$ 87,174</b>	<b>\$ 724,268</b>

**TOWN OF PENNINGTON GAP**  
**RECONCILIATION TO THE BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
June 30, 2018

**Total Fund Balances per Exhibit 3-Balance Sheet-Governmental Funds** **\$ 536,141**

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	5,439,793
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	41,040
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds payable, net of premiums and discounts	-
Notes payable	(154,060)
Accrued liabilities and wages	0
Accrued interest payable	(149)
Capital leases payable	-
Compensated Absences	(20,311)
Financial statement elements related to other postemployment benefits are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources for 2018 employer contributions	685
Deferred outflows of resources related to other postemployment benefits	9,437
Deferred inflows of resources related to other postemployment benefits	(9,629)
Net other postemployment benefit liability	<u>(18,144)</u>
Financial statement elements related to pensions are applicable to future periods, and therefore, are not reported in the funds.	
Deferred outflows of resources for 2018 employer contributions	11,551
Deferred outflows of resources for the net difference between projected and actual earnings on pension plan investments	2,682
Net pension Asset	69,962
Deferred outflows (inflows) of resources for the net difference between projected and actual earnings on pension plan investments	<u>(23,106)</u>
Net Position of Governmental Activities	<u><u>\$ 5,885,892</u></u>



**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GENERAL AND DEBT SERVICE FUNDS**  
**Year Ended June 30, 2018**

EXHIBIT 5

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>REVENUES:</b>			
General property taxes	\$ 204,638	\$ -	\$ 204,638
Other local taxes	908,216	-	908,216
Permits, Privilege Fees, and Licenses	21,055	-	21,055
Fines and forfeitures	6,508	-	6,508
Revenue from use of money & property	31,759	542	32,301
Charges for services	211,430	-	211,430
Miscellaneous	15,378	-	15,378
Recovered costs	-	-	-
Intergovernmental	628,344	-	628,344
Total Revenues	<u>2,027,328</u>	<u>542</u>	<u>2,027,870</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
General government administration	234,643	-	234,643
Public safety	634,761	-	634,761
Public works	859,409	-	859,409
Parks, recreation and cultural	299,653	-	299,653
<b>Debt Service:</b>			
Principal retirement	40,375	-	40,375
Interest	3,395	-	3,395
Total Expenditures	<u>2,072,236</u>	<u>-</u>	<u>2,072,236</u>
Excess (Deficiency) of Revenues Over Expenditures	(44,908)	542	(44,366)
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of surplus	-	-	-
Insurance Proceeds	21,080	-	21,080
Loan proceeds	44,000	-	44,000
Operating transfers in(out)	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources ( Uses )	65,080	-	65,080
Net Change in Fund Balance	20,172	542	20,714
<b>Fund Balance at Beginning of Year</b>	<u>428,795</u>	<u>86,632</u>	<u>515,427</u>
<b>Fund Balance at End of Year</b>	<u><u>\$ 448,967</u></u>	<u><u>\$ 87,174</u></u>	<u><u>\$ 536,141</u></u>

**TOWN OF PENNINGTON GAP**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2018**

EXHIBIT 6

	<b>Governmental Funds</b>
<b>Net Change in Fund Balance Governmental Funds:</b>	
Amounts reported for governmental activities in the statement of activities are different because:	\$ 20,714
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital Outlay	667,211
Depreciation expense	(259,952)
	<u>407,259</u>
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	1,985
The issuance of long-term debt (i.e. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	
Principal repayments:	
General obligation debt	40,375
Capital lease	-
Proceeds from debt	(44,000)
Proceeds from capital lease	-
	<u>(3,625)</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Accrued interest	45
Compensated absences	8,378
Other post-employment benefits	(1,384)
	<u>7,039</u>
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense	
Employer pension contributions	(11,445)
Pension expense	27,983
	<u>16,538</u>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 449,910</b>

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2018

EXHIBIT 7

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Industrial Fund</b>	<b>Combined Total 2017</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 1,038,453	\$ 57,398	\$ -	\$ 1,095,851
Receivables (Net of Allowance for Uncollectibles):				
Accounts	166,933	85,972	-	252,905
Interest	70	34	-	104
Due from other funds	307,865	30,214	-	338,079
Notes and Loans receivable	44,000	-	26,092	70,092
Prepaid and other	13,256	10,199	-	23,455
Restricted cash	159,961	22,826	13	182,800
Net Pension Asset	57,719	47,225	-	104,944
Land	10,600	20,515	6,943	38,058
Capital assets, net	5,926,204	3,042,822	-	8,969,026
 Total Assets	 <u>\$ 7,725,061</u>	 <u>\$ 3,317,205</u>	 <u>\$ 33,048</u>	 <u>11,075,314</u>
<b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b>				
Deferred Outflows related to OPEB	9,166	7,952	-	17,118
Deferred Outflows related to Pensions	11,889	9,505	-	21,394
Total Deferred Outflows of Resources	21,055	17,457	-	38,512
 <b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	 <u><b>\$ 7,746,116</b></u>	 <u><b>\$ 3,334,662</b></u>	 <u><b>\$ 33,048</b></u>	 <u><b>11,113,826</b></u>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 115,025	\$ 16,020	\$ -	\$ 131,045
Accrued payroll and related liabilities	13,534	11,906	-	25,440
Accrued interest payable	13,606	4,610	-	18,216
Customer security deposits	49,519	23,637	-	73,156
Due to other funds	-	318,023	-	318,023
Compensated absences	41,110	21,799	-	62,909
Long-term liabilities:				
OPEB Liability	16,484	14,364	-	30,848
Due within one year	209,041	54,500	-	263,541
Due in more than one year	3,287,673	407,700	-	3,695,373
 Total Liabilities	 <u>3,745,992</u>	 <u>872,559</u>	 <u>-</u>	 <u>4,618,551</u>
<b><u>DEFERRED INFLOWS OF RESOURCES:</u></b>				
Deferred Inflows related to OPEB	8,765	7,647	-	16,412
Deferred Inflows related to Pensions	19,062	15,596	-	34,658
Total Deferred Inflows of Resources	27,827	23,243	-	51,070
<b><u>NET POSITION</u></b>				
Net investment in capital assets	2,465,899	2,601,137	6,943	5,073,979
Restricted	57,719	41,977	26,105	125,801
Unrestricted	1,448,679	(204,254)	-	1,244,425
 Total Net Position	 <u>3,972,297</u>	 <u>2,438,860</u>	 <u>33,048</u>	 <u>6,444,205</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	 <u><b>\$ 7,746,116</b></u>	 <u><b>\$ 3,334,662</b></u>	 <u><b>\$ 33,048</b></u>	 <u><b>\$ 11,113,826</b></u>

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2018

EXHIBIT 8

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Industrial Fund</u>	<u>Combined Totals 2017</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,184,312	\$ 512,907	\$ -	\$ 1,697,219
Tap fees	1,800	-	-	1,800
Connections	6,490	-	-	6,490
Reconnections	2,500	-	-	2,500
Penalties	32,368	-	-	32,368
Miscellaneous	349	6,075	-	6,424
Total Operating Revenues	<u>1,227,819</u>	<u>518,982</u>	<u>-</u>	<u>1,746,801</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	370,928	294,921	-	665,849
Payroll taxes	29,591	23,407	-	52,998
Group health and life	126,456	105,444	-	231,900
Pension	12,683	(9,228)	-	3,455
Utilities	124,570	52,670	-	177,240
Telephone	6,079	2,236	-	8,315
Supplies	80,007	20,425	-	100,432
Vehicle expense	11,237	8,239	-	19,476
Insurance	29,498	23,436	-	52,934
Repair and maintenance	44,769	15,370	-	60,139
Certification, travel, and training	4,211	2,289	-	6,500
Professional services	15,334	12,809	-	28,143
Lab and analysis	10,454	5,462	-	15,916
Contract services	-	57,611	-	57,611
Dues and subscriptions	8,639	1,117	-	9,756
Depreciation	424,661	175,866	-	600,527
Miscellaneous	2,609	1,909	88,754	93,272
Total Operating Expenses	<u>1,301,726</u>	<u>793,983</u>	<u>88,754</u>	<u>2,184,463</u>
Operating Income (Loss)	<u>(73,907)</u>	<u>(275,001)</u>	<u>(88,754)</u>	<u>(437,662)</u>
<b>NON-OPERATING REVENUES (EXPENSES) :</b>				
Grant income	-	-	-	-
Transfers	-	-	-	-
Interest expense	(83,868)	(14,703)	-	(98,571)
Interest income	12,218	321	139	12,678
Contribution to other	-	-	-	-
Gain/loss on disposition of assets	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(71,650)</u>	<u>(14,382)</u>	<u>139</u>	<u>(85,893)</u>
<b>CHANGE IN NET POSITION</b>	<u>(145,557)</u>	<u>(289,383)</u>	<u>(88,615)</u>	<u>(523,555)</u>
<b>NET POSITION AT JULY 1, as Restated</b>	<u>4,117,854</u>	<u>2,728,243</u>	<u>121,663</u>	<u>6,967,760</u>
<b>NET POSITION AT JUNE 30</b>	<u>\$ 3,972,297</u>	<u>\$ 2,438,860</u>	<u>\$ 33,048</u>	<u>\$ 6,444,205</u>

The accompanying notes are an integral part of the financial statements



**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year Ended June 30, 2018

EXHIBIT 9

	<b>Water Fund</b>	<b>Sanitation Fund</b>	<b>Industrial Fund</b>	<b>TOTAL</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,171,983	\$ 525,392	\$ -	\$ 1,697,375
Cash payments to suppliers for goods and services	(427,581)	(351,668)	(88,754)	(868,003)
Cash payments to employees for services	(358,821)	(282,422)	-	(641,243)
Other operating income	43,507	6,075	-	49,582
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>429,088</u>	<u>(102,623)</u>	<u>(88,754)</u>	<u>237,711</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Increase ( decrease ) in customer deposit	3,956	970	-	4,926
(Increase) decrease in due from other funds	(244,000)	-	-	(244,000)
Increase (decrease) in due to other funds	-	200,000	-	200,000
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>(240,044)</u>	<u>200,970</u>	<u>-</u>	<u>(39,074)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of capital assets	(190,010)	(5,800)	-	(195,810)
Disposition of capital assets	-	-	-	-
Interfund transfer	-	-	-	-
Proceeds from borrowings	300,000	-	-	300,000
Contributed capital - Grant revenue	-	-	-	-
Principal paid on revenue bonds	(210,071)	(58,000)	-	(268,071)
Interest paid on revenue bonds and equipment	(84,386)	(15,154)	-	(99,540)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(184,467)</u>	<u>(78,954)</u>	<u>-</u>	<u>(263,421)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments received on community development loans	-	-	-	-
Interest on investments	12,584	302	165	12,886
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>12,584</u>	<u>302</u>	<u>165</u>	<u>12,886</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	17,161	19,695	(88,589)	(51,733)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,181,253</u>	<u>60,529</u>	<u>88,602</u>	<u>1,330,384</u>
Cash and Cash Equivalents at June 30, 2018				
Unrestricted	\$ 1,038,453	\$ 57,398	\$ -	\$ 1,095,851
Restricted	159,961	22,826	13	182,800
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,198,414</u>	<u>\$ 80,224</u>	<u>\$ 13</u>	<u>\$ 1,278,651</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (73,907)	\$ (275,001)	\$ (88,754)	\$ (437,662)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation and amortization	424,661	175,866	-	600,527
Increase (decrease) in accrued compensated absences	14,262	7,300	-	21,562
Net pension and OPEB obligation	(153)	(19,433)	-	(19,586)
<b>Change in Assets, Liabilities, Deferred Inflows/Outflows:</b>				
(Increase) decrease in accounts receivable	(12,329)	12,485	-	156
(Increase) decrease in prepaid expenses	712	(351)	-	361
Increase (decrease) in accounts payable	79,064	(9,122)	-	69,942
Increase (decrease) in accrued wages	(2,155)	5,199	-	3,044
Increase (decrease) in accrued liabilities	(1,067)	434	-	(633)
<b>TOTAL ADJUSTMENTS</b>	<u>502,995</u>	<u>172,378</u>	<u>-</u>	<u>675,373</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 429,088</u>	<u>\$ (102,623)</u>	<u>\$ (88,754)</u>	<u>\$ 237,711</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF PENNINGTON GAP**  
Discretely Presented Component Unit-Industrial Development Authority  
Statement of Net Position  
June 30, 2018

EXHIBIT 10

**ASSETS**

Cash and cash equivalents	\$ 36,425
Land	-
Notes Receivable	<u>20,000</u>
Total Assets	<u>\$ 56,425</u>

**LIABILITIES**

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

**Net Position**

Unrestricted	<u>56,425</u>
Total Net Position	<u>\$ 56,425</u>

**TOWN OF PENNINGTON GAP**  
Discretely Presented Component Unit-Industrial Development Authority  
Statement of Activities  
Year Ended June 30, 2018

EXHIBIT 11

	<u>Total</u>
<b>REVENUES:</b>	
Charges for services	\$ -
Sale of equipment	-
Total Revenues	<u>-</u>
<b>EXPENDITURES:</b>	
Professional Services	1,300
Donation to industry	-
Miscellaneous	-
Total Expenditures	<u>1,300</u>
Excess of revenues over expenditures	(1,300)
Capital Contributions	<u>-</u>
Net Position at Beginning of Year	<u>57,725</u>
Net Position at End of Year	<u><u>\$ 56,425</u></u>

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June 30, 2018

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Reporting Entity**

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

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

**B. Individual Component Unit Disclosures**

Discretely Presented Component Unit:

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

**C. Financial Reporting Model**

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



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June 30, 2018

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

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

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

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

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

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

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

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

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

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

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June 30, 2018

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

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

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

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

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

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

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

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

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

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

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



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June 30, 2018

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

*Proprietary Fund Types*

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

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

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

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

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

TOWN OF PENNINGTON GAP, VIRGINIA  
NOTES TO FINANCIAL STATEMENTS

June 30, 2018

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

**E. Budgets and Budgetary Accounting**

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

**F. Encumbrances**

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

**G. Capital Assets**

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

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

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

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

**H. Cash Equivalents**

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

**I. Interfund Receivables and Payables**

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



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June 30, 2018

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

**J. Pensions**

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

**K. Other Postemployment Benefits (OPEB)**

Local Health

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

Political Subdivision Employee Virginia Local Disability Program

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

**L. Deferred Outflows/Inflows of Resources**

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

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

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

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

**M. Compensated Absences**

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

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June 30, 2018

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

**N. Long-term Obligations**

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

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

**O. 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.

**P. Fund Balances**

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

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

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June 30, 2018

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

**P. Fund Balances (continued)**

Minimum Unassigned Fund Balance Policy

The Town does not maintain an unassigned fund balance policy.

Resource Flow Policy

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

**Q. Net Position**

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

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

2. **CASH AND CASH EQUIVALENTS**

**Deposits**

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

**Investments**

Investment Policy:

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

Fair Value Measurement

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



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

**June 30, 2018**

**2. CASH AND CASH EQUIVALENTS**

Credit Risk:

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

Concentration of Credit Risk:

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

Lee Bank and Trust	92%
Powell Valley National Bank	8%

Custodial Credit Risk:

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

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

	<u>Primary Government</u>	<u>Component Unit</u>
Deposits and investments:		
Cash on hand	\$ 1,850	\$ -0-
Deposits	1,576,888	36,425
Investments	<u>225,571</u>	<u>-0-</u>
	<u>\$1,834,309</u>	<u>\$ 36,425</u>
Statement of net position:		
Cash and cash equivalents	\$1,552,243	\$ 36,425
Restricted cash and cash equivalents	<u>281,966</u>	<u>-0-</u>
	<u>\$1,834,309</u>	<u>\$ 36,425</u>

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

**3. DUE FROM OTHER GOVERNMENTAL UNITS**

Commonwealth of Virginia:		
Local sales tax	\$ 4,549	
Communication tax	<u>6,913</u>	
Total Commonwealth of Virginia		\$ 11,462
Lee County:		
Court fines/transfer fees	547	
Fire department contributions	<u>27,125</u>	
Total Lee County		<u>27,672</u>
Total Due from other Governmental Units		<u>\$ 39,134</u>

**4. NOTES RECEIVABLE**

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

	<u>44,000</u>
Total Notes Receivable at June 30, 2018	<u>44,000</u>



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

**June 30, 2018**

**5. INTERFUND OBLIGATIONS**

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Fund	14,779	7,075
Sewer Fund	608	28,368
Water Fund:		
General Fund	7,075	14,779
Sewer Fund	317,415	1,846
Sewer Fund:		
Water Fund	1,846	317,415
General Fund	<u>28,368</u>	<u>608</u>
TOTAL	<u>\$ 370,091</u>	<u>\$ 370,091</u>

**6. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

The Town provided additions to its allowance for uncollectible taxes, garbage, water, and sewer services based on 25% of the total outstanding balance. The allowance amounted to approximately \$120,941 at June 30, 2018, and is composed of the following:

<b>General Fund:</b>	
Allowance for uncollectible property taxes	\$ 33,931
Allowance for uncollectible garbage fees	<u>2,910</u>
Total General Fund	<u>36,841</u>
<b>Water and Sewer Fund:</b>	
Allowance for uncollectible water and sewer fee billings	<u>84,100</u>
Total Water and Sewer Fund	<u>84,100</u>
TOTAL	<u>\$ 120,941</u>

**7. CAPITAL ASSETS**

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

<b>Governmental activities:</b>	
General government	\$ 27,142
Public safety	88,922
Public works	37,530
Parks, recreation and cultural	<u>106,358</u>
Total depreciation expense – governmental activities	<u>\$ 259,952</u>
<b>Business-type activities:</b>	
Water	\$ 424,661
Sanitation	<u>175,867</u>
Total depreciation expense – business-type activities	<u>\$ 600,528</u>

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

**June 30, 2018**

**8. CHANGES IN CAPITAL ASSETS**

The following is a summary of changes in capital assets:

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable</b>				
Land	\$ 368,509	\$ 12,376	\$ -	\$ 380,885
Construction in progress	<u>671,934</u>	<u>548,524</u>	<u>-</u>	<u>1,220,458</u>
Total Capital Assets, Non-depreciable	<u>1,040,443</u>	<u>560,900</u>	<u>-</u>	<u>1,601,343</u>
<b>Capital assets, depreciable</b>				
Equipment	2,031,524	78,687	-	2,110,211
Buildings and improvements	4,046,228	27,624	-	4,073,852
Other improvements	88,674	-	-	88,674
Infrastructure	<u>476,453</u>	<u>-</u>	<u>-</u>	<u>476,453</u>
Total Capital Assets, depreciable	<u>6,642,879</u>	<u>106,311</u>	<u>-</u>	<u>6,749,190</u>
<b>Less accumulated depreciation for</b>				
Equipment	1,532,724	140,597	-	1,673,321
Buildings and improvements	595,684	107,444	-	703,128
Other improvements	88,674	-	-	88,674
Infrastructure	<u>433,706</u>	<u>11,911</u>	<u>-</u>	<u>445,617</u>
Total accumulated depreciation	<u>2,650,788</u>	<u>259,952</u>	<u>-</u>	<u>2,910,740</u>
Total Capital Assets, depreciable, net	<u>3,992,091</u>	<u>(153,641)</u>	<u>-</u>	<u>3,838,450</u>
Governmental activities Capital assets, net	<u>\$5,032,534</u>	<u>\$ 407,259</u>	<u>\$ -</u>	<u>\$5,439,793</u>
<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Capital assets, non-depreciable</b>				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Constructions in progress	<u>-</u>	<u>184,983</u>	<u>-</u>	<u>184,983</u>
Total Capital Assets, Non-depreciable	<u>38,058</u>	<u>-</u>	<u>-</u>	<u>223,041</u>
<b>Capital assets, depreciable</b>				
Buildings	9,374,086	5,800	-	9,379,886
Infrastructure	13,588,262	-	-	13,588,262
Machinery & equipment	<u>652,480</u>	<u>5,027</u>	<u>-</u>	<u>657,507</u>
Total Capital Assets, depreciable	<u>23,614,828</u>	<u>10,827</u>	<u>-</u>	<u>23,625,655</u>
<b>Less accumulated depreciation for</b>				
Buildings	5,048,840	235,765	-	5,284,605
Infrastructure	8,663,272	344,476	-	9,007,748
Machinery & equipment	<u>528,974</u>	<u>20,285</u>	<u>-</u>	<u>549,259</u>
Total accumulated depreciation	<u>14,241,086</u>	<u>600,528</u>	<u>-</u>	<u>14,841,612</u>
Total Capital Assets, depreciable, net	<u>9,373,742</u>	<u>(589,701)</u>	<u>-</u>	<u>8,784,043</u>
Business-Type activities Capital assets, net	<u>\$ 9,411,800</u>	<u>\$ (404,718)</u>	<u>\$ -</u>	<u>\$ 9,007,084</u>

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

**June 30, 2018**

**9. LONG-TERM DEBT**

**GOVERNMENTAL ACTIVITIES:**

**NOTES PAYABLE:**

The Town entered into a collateralized loan agreement with Lee Bank and Trust on June 1, 2016. The note was to purchase a 2016 Kawasaki and is collateralized with the asset in the amount of \$19,336. Monthly installments of principal and interest in the amount of \$346.57 are due beginning July 16, 2016 until maturity at June 16, 2021. The interest rate on the loan is 2.85%. \$ 11,610

The Town entered into a collateralized loan agreement with Farmers and Miners on June 2, 2016. The note was to purchase a John Deere Tractor and is collateralized with the asset in the amount of \$78,116. Monthly installments of principal and interest in the amount of \$1,401.30 are due beginning July 15, 2016 until maturity at June 15, 2021. The interest rate on the loan is 2.85%. 46,878

The Town entered into a collateralized loan agreement with Powell Valley National Bank on June 5, 2017. The note was to purchase a 2017 Ford F250 and is collateralized with the asset in the amount of \$37,100. Annual installments of principal and interest in the amount of \$9,988.01 are due beginning June 1, 2018 until maturity at June 1, 2021. The interest rate on the loan is 3.00%. 28,176

The Town entered into a collateralized loan agreement with Rural Development on November 11, 2017. The note was to purchase a Polaris ranger ATV and is collateralized with the asset in the amount of \$17,500. Monthly installments of principal and interest in the amount of \$505 are due beginning December 17, 2017 until maturity at November 17, 2019. The interest rate on the loan is 2.375%. 8,396

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

TOTAL NOTES PAYABLE-GOVERNMENTAL ACTIVITIES \$139,060

The annual requirements to amortize governmental debt outstanding as of June 30, 2018, are as follows:

Governmental Activities		
Year Ending June 30,	Notes	
	Principal	Interest
2019	\$ 46,580	\$ 2,443
2020	43,963	1,485
2021	40,517	608
2022	<u>8,000</u>	<u>-</u>
Totals	\$ 139,060	\$ 4,536

**BUSINESS-TYPE ACTIVITIES**

**NOTES PAYABLE:**

The Town entered into a loan agreement with Powell Valley National Bank on August 8, 2017. Monthly installments of principal and interest in the amount of \$2,059.55 are due beginning March 9 2018, until maturity at February 9, 2033. The interest rate on the loan is 2.875%. \$293,997

TOTAL NOTES PAYABLE-BUSINESS-TYPE ACTIVITIES \$293,997

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

**June 30, 2018**

**9. LONG-TERM DEBT (Continued)**

**BUSINESS-TYPE ACTIVITIES(Continued)**

**NOTES PAYABLE (Continued):**

The annual requirements to amortize business-type notes payable outstanding as of June 30, 2018, are as follows:

Business-Type Activities		
Year Ending June 30,	Notes Payable	
	Principal	Interest
2019	\$ 16,384	\$ 8,331
2020	16,958	7,757
2021	17,452	7,263
2022	17,960	6,755
2023	18,483	6,231
2024-2028	100,813	22,760
2029-2033	105,947	7,246
Totals	\$ 293,997	\$ 66,343

**REVENUE BONDS:**

Water Revenue Bond, Series 1999 was issued on September 20, 1999, in a principal amount equal to the sum of the principal advances made, but not to exceed \$2,003,540. The bonds were issued at an interest rate of 3.25% per year, interest only payable on the first and second anniversary dates of closing, and thereafter, payable in monthly installments of combined principal and interest of \$7,674. The first payment was due November 12, 2001, and on the same day of each month thereafter for a period of thirty-eight years until paid, each payment to be applied first to interest accrued to such payment date and then to principal and such final installment, if not sooner paid, to be due and payable forty years from the date thereof.

\$1,396,851

Water Revenue Bond, Series 2004B, issued to the Virginia Revolving Loan Fund on July 25, 2004, in the principal sum of \$1,385,748. The bonds bear interest of 0% for thirty years. Principal installments of \$23,095.80 are due semi-annually on September 1 and March 1 of each year beginning September 1, 2005, with final payment due March 1, 2034.

739,066

TOTAL REVENUE BONDS PAYABLE

\$ 2,135,917

	Water Revenue Bonds
Revenue bonds payable at July 1, 2017	\$ 2,227,985
Issuances	-
Retirements	( 92,068)
Revenue bonds payable at June 30, 2018	<u>\$ 2,135,917</u>

**REVENUE REFUNDING BONDS**

Water Revenue Refunding bond, Series 2012, issued to Lee Bank and Trust, Powell Valley National Bank, and Farmers and Miners Bank on August 28, 2007 with a principal balance of \$2,500,000 bearing interest of 3.0%. Semiannual payments of interest due on each March 1st and September 1st beginning March 1, 2013 through and including March 1, 2027 with principal payable annually in installments on each March 1st commencing March 1, 2013 through and including the maturity date of March 1, 2027.

\$ 1,066,800



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

**June 30, 2018**

**9. LONG-TERM DEBT (Continued)**

**REVENUE REFUNDING BONDS (Continued)**

Sewer Revenue Refunding bond, Series 2012, issued to Lee Bank and Trust, Powell Valley National Bank, and Farmers and Miners Bank on August 28, 2007 with a principal balance of \$2,500,000 bearing interest of 3.0%. Semiannual payments of interest due on each March 1st and September 1st beginning March 1, 2013 through and including March 1, 2027 with principal payable annually in installments on each March 1st commencing March 1, 2013 through and including the maturity date of March 1, 2027.

457,200

TOTAL REVENUE REFUNDING BONDS PAYABLE

\$ 1,524,000

	REVENUE REFUNDING BONDS		
	Series 2012 Water Revenue Refunding	Series 2012 Sewer Revenue Refunding	Total Revenue Refunding Bond
Bonds/loans payable at July 01, 2017	\$ 1,178,800	\$ 505,200	\$ 1,684,000
Issuances	-	-	-
Retirements	<u>(112,000)</u>	<u>(48,000)</u>	<u>(160,000)</u>
Bonds/loans payable at June 30, 2018	<u>\$ 1,066,800</u>	<u>\$ 457,200</u>	<u>\$ 1,524,000</u>

The annual requirements to amortize revenue refunding bonds outstanding as of June 30, 2018, are as follows:

Years Ending June 30,	2012 Sewer Refunding		2012 Water Refunding		Total Revenue Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	49,500	13,716	115,500	32,004	165,000	45,720
2020	51,000	12,231	119,000	28,539	170,000	40,770
2021	52,500	10,701	122,500	24,969	175,000	35,670
2022	52,500	10,593	122,500	21,294	175,000	31,887
2023	55,500	7,551	129,500	17,619	185,000	25,170
2024-2028	<u>196,200</u>	<u>13,698</u>	<u>457,800</u>	<u>31,962</u>	<u>654,000</u>	<u>45,660</u>
Totals	<u>\$457,200</u>	<u>\$ 68,490</u>	<u>\$1,066,800</u>	<u>\$156,387</u>	<u>\$ 1,524,000</u>	<u>\$ 224,877</u>

**CAPITAL LEASES:**

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

\$ 15,000

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

**June 30, 2018**

**9. LONG-TERM DEBT (Continued)**

**CAPITAL LEASES(Continued):**

The annual requirements to amortize governmental capital leases outstanding as of June 30, 2018, are as follows:

Governmental Activities		
Year Ending June 30,	Capital Leases	
	Principal	Interest
2019	\$ 5,000	\$ -
2020	5,000	-
2021	5,000	-
2022	-	-
2023	-	-
2024-2028	-	-
Totals	\$ 15,000	\$ -

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

\$ 5,000

The annual requirements to amortize governmental capital leases outstanding as of June 30, 2018, are as follows:

Business-Type Activities		
Year Ending June 30,	Capital Leases	
	Principal	Interest
2019	\$ 5,000	\$ -
2020	-	-
2021	-	-
2022	-	-
2023	-	-
2024-2028	-	-
Totals	\$ 5,000	\$ -

**10. COMPENSATED ABSENCES**

Employees of the Town are entitled to paid time off for subsequent use, or for payment upon termination, death or retirement, under a program of integrating paid vacation, general leave and sick leave, depending on length of service. The estimated amount of compensation for vested future absences has been recorded as a liability in the accompanying financial statements. The Town recognizes the cost of paid time off as a salary expense. The balance of accrued compensated absences at June 30, 2018 was \$83,220. Another type of compensated absence is compensatory time for the overtime worked by some employees. A maximum of five days compensatory leave may be carried over from one fiscal year to the next.

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

**June 30, 2018**

**10. COMPENSATED ABSENCES (Continued)**

The following is a summary of compensated absences transactions for the year ended June 30, 2018:

	Balance July 1, 2017	Additions/ Proceeds	Payments/ Reductions	Balance June 30, 2018
<b>Governmental Activities</b>				
Accrued Compensated Absences	\$ 28,689	\$ 19,384	\$ (27,762)	\$ 20,311
	<u>28,689</u>	<u>19,384</u>	<u>(27,762)</u>	<u>20,311</u>
<b>Business-Type Activities</b>				
Accrued Compensated Absences	\$ 41,347	\$ 46,097	\$ (24,535)	\$ 62,909
	<u>41,347</u>	<u>46,097</u>	<u>(24,535)</u>	<u>62,909</u>
<b>Totals</b>	<u>\$ 70,036</u>	<u>\$ 65,481</u>	<u>\$ (52,297)</u>	<u>\$ 83,220</u>

**11. COMMITMENTS AND CONTINGENCIES**

**Litigation**

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

**12. FUND BALANCE-GOVERNMENTAL FUNDS**

As of June 30, 2018, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:			
Prepaid items	\$ 11,326	\$ —	\$ 11,326
Restricted:			
Debt Reserve	—	87,174	87,174
Committed:			
Assigned:			
Public Safety	11,992	—	11,992
Unassigned	425,649	—	425,649
<b>Total fund balances</b>	<u>\$ 448,967</u>	<u>\$ 87,174</u>	<u>\$536,141</u>

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

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June 30, 2018

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**13. DEFINED CONTRIBUTION PENSION PLAN**

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

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

**A. Plan Description**

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

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

Administering Entity: Virginia Retirement System (System)

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

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

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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

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

**TOWN OF PENNINGTON GAP, VIRGINIA**  
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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

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

**TOWN OF PENNINGTON GAP, VIRGINIA**  
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**June 30, 2018**

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

<p><b>Vesting</b>  Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.  Members are always 100% vested in the contributions that they make.</p>	<p><b>Vesting</b>  Same as Plan 1.</p>	<p><b>Vesting</b>  <b><u>Defined Benefit Component:</u></b>  Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.  <b><u>Defined Contributions Component:</u></b>  Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contributions component of the plan.    Members are always 100% vested in the contributions that they make.    Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.  <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b>  The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options</p>	<p><b>Calculating the Benefit</b>  See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b>  <b><u>Defined Benefit Component:</u></b>  See definition under Plan 1.  <b><u>Defined Contribution Component:</u></b>  The benefit is based on contributions made by the member and any matching contributions made by the</p>



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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

available to a member at retirement.  An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.		employer, plus net investment earnings on those contributions.
<b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	<b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
<b>Service Retirement Multiplier</b> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.  <b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%  <b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	<b>Service Retirement Multiplier</b> <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.  <b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.  <b>Political subdivision hazardous duty employees:</b> Same as Plan 1.	<b>Service Retirement Multiplier</b> <b>Defined Benefit Component:</b> <b>VRS:</b> The retirement multiplier for the defined benefit component 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.  <b>Sheriffs and regional jail superintendents:</b> Not applicable.  <b>Political subdivision hazardous duty employees:</b> Not applicable.  <b>Defined Contribution Component:</b> Not applicable.
<b>Normal Retirement Age</b> <b>VRS:</b> Age 65.  <b>Political subdivisions hazardous duty employees:</b> Age 60.	<b>Normal Retirement Age</b> <b>VRS:</b> Normal Social Security retirement age. <b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.	<b>Normal Retirement Age</b> <b>Defined Benefit Component:</b> <b>VRS:</b> Same as Plan 2. <b>Political subdivisions hazardous duty employees:</b> Not applicable.  <b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
<b>Earliest Unreduced Retirement Eligibility</b> <b>VRS:</b> Age 65 with at least five years	<b>Earliest Unreduced Retirement Eligibility</b> <b>VRS:</b> Normal Social Security	<b>Earliest Unreduced Retirement Eligibility</b> <b>Defined Benefit Component:</b>



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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

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

**TOWN OF PENNINGTON GAP, VIRGINIA**  
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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

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

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**June 30, 2018**

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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER**

service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.		<b>Defined Contribution Component:</b> Not applicable.
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**TOWN OF PENNINGTON GAP, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2018**

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

**Employees Covered by Benefit Terms**

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>3</u>
Inactive members:	
Vested inactive members	6
Non-vested Inactive members	8
Inactive members active elsewhere in VRS	<u>6</u>
Total inactive members	20
Active members	<u>23</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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required contribution rate for the year ended June 30, 2018 was 3.81% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$ 28,921 and \$ 30,344 for the years ended June 30, 2018 and June 30, 2017, respectively.

**Net Pension Liability**

The Town's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.



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**NOTES TO FINANCIAL STATEMENTS**

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**June 30, 2018**

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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

**Actuarial Assumptions – General Employees**

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

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

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

**Mortality rates:**

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

**June 30, 2018**

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

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

**Largest 10 -- Non-Hazardous Duty:**

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

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

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

**Actuarial Assumptions – Public Safety Employees**

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

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

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

**TOWN OF PENNINGTON GAP, VIRGINIA**  
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**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

**Largest 10 -- Non-Hazardous Duty:**

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

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

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



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

**June 30, 2018**

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

**Long-Term Expected Rate of Return**

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

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

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

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that system member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Town's retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.



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

**June 30, 2018**

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

**Changes in Net Pension Liability**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balance at June 30, 2016	\$ 884,716	\$ 933,109	\$ (48,393)
Changes for the year:			
Service Cost	62,054	-	62,054
Interest	61,094	-	61,094
Changes in benefit terms			
Changes in assumptions	(22,272)		
Differences between expected and actual experience	(30,306)	-	(30,306)
Contributions - employer	-	30,656	(30,656)
Contributions - employee	-	48,678	(48,678)
Net investment income	-	118,475	(118,475)
Benefit payments, including refunds of employee contributions	(23,889)	(23,889)	-
Administrative expenses	-	(618)	618
Other changes	-	(108)	108
Net changes	46,681	173,194	(126,513)
Balance at June 30, 2017	\$ 931,397	\$ 1,106,303	\$ (174,906)

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

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

	<b>1% Decrease (6.00%)</b>	<b>Current Rate Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Net Pension Liability	\$ (33,796)	\$ (174,906)	\$ (288,311)

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

**June 30, 2018**

**14. PENSION PLAN-AGENT MULTIPLE EMPLOYER (continued)**

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

For the year ended June 30, 2018, the Town recognized pension expense of \$(9,303). At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 6,706	\$ 23,124
Change in assumptions	-	16,994
Net difference between projected and actual earnings on pension plan investments	-	17,646
Employer contributions subsequent to the measurement date	28,921	-
Total	<u>\$ 35,627</u>	<u>\$ 57,764</u>

\$28,921 reported as deferred outflows of resources related to pensions resulting from the Town's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year ended June 30**

2019	\$ (17,264)
2020	(8,113)
2021	(12,693)
2022	(12,988)
2023	-
Thereafter	-
	<u>\$ (51,058)</u>

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plan's is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**Payables to the Pension Plan**

At June 30, 2018, the Town reported a payable of \$5,725 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

**June 30, 2018**

**15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)-LOCALITY PLAN**

**Plan Description**

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

**Benefits Provided**

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

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

**Employees Covered by Benefit Terms**

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

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

**Total OPEB Liability**

The Town's Total OPEB Liability of \$47,992 was measured as of June 30, 2018, and was determined by an actuarial valuation as of June 30, 2016.

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

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent per year
Discount rate	3.87 percent per year
Healthcare cost trend rates	4.60 percent for 2016, 4.80 percent in 2017, then graded to 4.70% over 82 years.

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

**June 30, 2018**

**15. OTHER POST-EMPLOYMENT BENEFITS (OPEB)-LOCALITY PLAN(continued)**

Retirees' share of benefit-  
 Related costs 0% of projected health insurance premiums for retirees

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

Mortality rates:

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

**Changes in Total OPEB Liability**

	Total OPEB Liability
Balances at June 30, 2017	\$ 43,995
Changes for the year:	
Service cost	3,590
Interest	952
Changes of assumptions	(27,488)
Difference between expected and actual experience	26,943
Benefit payments, including refunds of employee contributions	-
Net changes	3,997
Balances at June 30, 2018	\$ 47,992

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

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

	1.00% Decrease (2.87%)	Current Discount Rate (3.87%)	1.00% Increase (4.87%)
Total OPEB Liability	\$ 51,467	\$ 47,992	\$ 44,853

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

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

	1.00 % Decrease in Trend Rate	Current Trend Rate	1.00% Increase in Trend Rate
Total OPEB Liability	\$ 43,812	\$ 47,992	\$ 53,036



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

**June 30, 2018**

**15. OTHER POST-EMPLOYMENT BENEFITS(OPEB)-LOCALITY PLAN (continued)**

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

For the year ended June 30, 2018, the Town recognized OPEB expense of \$4,513. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 25,525	\$ -
Changes in assumptions or other inputs	-	26,041
Total	<u>\$ 25,525</u>	<u>\$ 26,041</u>

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

**Year ended June 30**

2019	\$ (29)
2020	(29)
2021	(29)
2022	(29)
2023	(29)
Thereafter	<u>(371)</u>
	<u>\$ (516)</u>

June 30, 2018

**15. OTHER POST-EMPLOYMENT BENEFITS(OPEB)-VRS VLDP PLAN**

**Plan Description**

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

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

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

June 30, 2018

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

**Long-Term Disability –**

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

**Virginia Local Disability Program Notes:**

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

***Contributions***

The contribution requirement for active Hybrid employees is governed by §51.1-1178(C) of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee Virginia Local Disability Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the political subdivision to the VRS Political Subdivision Employee Virginia Local Disability Program were \$1,715 and \$1,568 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the political subdivision reported a liability of \$1,000 for its proportionate share of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB Liability. The Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was measured as of June 30, 2017 and the total VRS Political Subdivision Employee Virginia Local Disability Program OPEB liability used to calculate the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was determined by an actuarial valuation as of that date. The political subdivision's proportion of the Net VRS Political Subdivision Employee Virginia Local Disability Program OPEB Liability was based on the political subdivision's actuarially determined employer contributions to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the political subdivision's proportion of the VRS Political Subdivision Employee Virginia Local Disability Program was .14235% as compared to 0.09359% at June 30, 2016.

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

**June 30, 2018**

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

For the year ended June 30, 2018, the political subdivision recognized VRS Political Subdivision Employee Virginia Local Disability Program OPEB expense of \$ 1,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VRS Political Subdivision Employee Virginia Local Disability Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to the VRS Political Subdivision Employee Virginia Local Disability Program OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Net difference between projected and actual earnings on VLDP OPEB program investments	-	-
Change in assumptions	-	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	-	-
Employer contributions subsequent to the measurement date	<u>1,715</u>	<u>-</u>
Total	<u>\$ 1,715</u>	<u>\$ -</u>

\$1,715 reported as deferred outflows of resources related to the Political Subdivision Employee VLDP OPEB resulting from the political subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Political Subdivision Employee VLDP OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Political Subdivision Employee VLDP OPEB will be recognized in the Political Subdivision Employee VLDP OPEB expense in future reporting periods as follows:

<b>Year Ending June 30</b>	<b>Increase (Reduction) to OPEB Expense</b>
2019	\$ -
2020	-
2021	-
2022	-
2023	-
Thereafter	-
	<u>\$ -</u>



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June 30, 2018

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

**Actuarial Assumptions**

The total Political Subdivision Employee VLDP OPEB liability for the VRS Political Subdivision Employee Virginia Local Disability Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

**June 30, 2018**

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

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

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

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

June 30, 2018

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

***Net Political Subdivision Employee VLDP OPEB Liability***

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

	<b>Political Subdivision Employee VLDP OPEB Plan</b>
Total Political Subdivision VLDP OPEB Liability	\$ 914
Plan Fiduciary Net Position	<u>351</u>
Political Subdivision net VLDP OPEB Liability (Asset)	<u>\$ 563</u>
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability	38.40%

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

***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:

June 30, 2018

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

<b>Asset Class (Strategy)</b>	<b>Target Allocation</b>	<b>Arithmetic Long-Term Expected Rate of Return</b>	<b>Weighted Average Long-Term Expected Rate of Return</b>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.8%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.30%</u>

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

**Discount Rate**

The discount rate used to measure the total Political Subdivision Employee VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the political subdivision for the VRS Political Subdivision Employee Virginia Local Disability Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Political Subdivision Employee VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total Political Subdivision Employee VLDP OPEB liability.



June 30, 2018

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

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

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

	<b>1.00% Decrease</b>	<b>Current Discount</b>	<b>1.00% Increase</b>
	<b><u>6.00%</u></b>	<b><u>Rate (7.00%)</u></b>	<b><u>8.00%</u></b>
Political subdivision's proportionate share of the VRS Political Subdivision VLDP OPEB Plan Net VLDP OPEB Liability	\$ 1,000	\$ 1,000	\$ 1,000

***Political Subdivision Employee VLDP OPEB Fiduciary Net Position***

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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

At June 30, 2018, the Town reported a payable of \$154 for the outstanding amount of contributions to the Virginia Local Disability Program plan required for the year ended June 30, 2018.

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

**June 30, 2018**

**17. SUMMARY OF PENSION AND OTHER POSTEMPLOYMENT BENEFIT ELEMENTS**

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

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>
Net pension asset			
VRS-Defined Benefit Pension Plan	\$ 69,962	\$ 104,944	\$ 174,906
Total net pension liability	\$ 69,962	\$ 104,944	\$ 174,906
Deferred outflows of resources - Related to Pensions			
Deferred outflow-Differences in expected/actual and assumptions			
VRS-Defined Benefit Pension Plan	\$ 2,682	\$ 4,024	\$ 6,706
Deferred outflow-Contributions after the measurement date			
VRS-Defined Benefit Pension Plan	11,551	17,370	28,921
Total deferred outflow of resources - Pensions	\$ 14,233	\$ 21,394	\$ 35,627
Deferred outflows of resources - OPEB			
Deferred outflow-Differences in expected/actual and assumptions			
Local Health-Single Agent-Defined benefit	\$ 9,437	\$ 16,088	\$ 25,525
Deferred outflow-Contributions after the measurement date			
VRS-VLDP-OPEB Proram	685	1,030	1,715
Total deferred outflow of resources - OPEB	\$ 10,122	\$ 17,118	\$ 27,240
Net OPEB liability			
Local Health	\$ 17,744	\$ 30,248	\$ 47,992
VRS-VLDP	400	600	1,000
Total net OPEB liability	\$ 18,144	\$ 30,848	\$ 48,992
Deferred inflows of resources - Related to Pensions			
Deferred inflow-Differences in expected/ actual and assumptions			
VRS-Defined Benefit Pension Plan	\$ 23,106	\$ 34,658	\$ 57,764
Total deferred inflow of resources - Pensions	\$ 23,106	\$ 34,658	\$ 57,764
Deferred inflows of resources - OPEB			
Deferred inflow-Differences in expekte/actual and assumptions			
Local Health-Single Agent-Defined benefit	9,629	16,412	26,041
Total deferred inflow of resources - OPEB	\$ 9,629	\$ 16,412	\$ 26,041

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

**June 30, 2018**

**18. RESTATEMENT OF NET POSITION**

***Restatement of Net Position***

The Town implemented the financial reporting provisions of Statement 75 described in Notes 14 and 15 for the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures relating to other post-employment benefits (OPEB). Note disclosures and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve financial reporting by improving accounting and financial reporting by state and local governments for OPEB. The implementation of this Statement resulted in the following restatement of net position:

	General Government	Water	Sewer	Total
Net Position as reported at June 30, 2017	\$ 5,413,982	\$ 41,702,784	\$ 2,726,254	\$ 47,116,766
Implementation of GASB 75				
Locality Health Plan	22,000	15,070	1,988	37,070
Net Position as restated at June 30, 2017	<u>5,435,982</u>	<u>41,717,854</u>	<u>2,728,242</u>	<u>47,153,836</u>

**19. DEFICIT UNRESTRICTED NET POSITION**

The Sewer Enterprise Fund has a deficit unrestricted net position of \$204,254 at June 30, 2018. However, after considering the net investment in capital assets, the Sewer Enterprise Fund has a positive net position of \$2,438,860.

**20. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 22, 2019, the date which the financial statements were available to be issued. On January 22, 2019 Council approved a motion to forgive the two business debts recorded in the Industrial Development Fund as loans receivable in the amount of \$26,092. The loans were originally created under the low to moderate income loan program through DHCD funding resources and have exceeded the statute of limitations for collecting per Council's motion.

**21. NEW ACCOUNTING PRONOUNCEMENTS**

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

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



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June 30, 2018

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## 21. NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

## 22. FUTURE ACCOUNTING PRONOUNCEMENTS

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



**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2018**

SCHEDULE I

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>PRIMARY GOVERNMENT</b>				
<b>GENERAL FUND:</b>				
<b>General Property Taxes:</b>				
Real property taxes	\$ 167,600	\$ 171,600	\$ 182,394	\$ 10,794
Personal property taxes	17,300	17,300	17,747	447
Penalties and interest	1,800	2,600	4,497	1,897
Total General Property Taxes	<u>186,700</u>	<u>191,500</u>	<u>204,638</u>	<u>13,138</u>
<b>Other Local Taxes:</b>				
Local sales and use tax	48,000	48,000	50,092	2,092
Utility taxes	44,500	44,500	43,916	(584)
Business license tax	83,000	83,000	94,199	11,199
Communications tax	45,000	45,000	43,048	(1,952)
Bank stock taxes	140,000	140,000	148,616	8,616
Hotel and motel room taxes	2,400	2,400	2,154	(246)
Restaurant food taxes	526,600	526,600	526,191	(409)
Total Other Local Taxes	<u>889,500</u>	<u>889,500</u>	<u>908,216</u>	<u>18,716</u>
<b>Permits, Privilege Fees, And Regulatory Licenses</b>	<u>21,000</u>	<u>21,000</u>	<u>21,055</u>	<u>55</u>
<b>Fines and Forfeitures</b>	<u>10,500</u>	<u>10,500</u>	<u>6,508</u>	<u>(3,992)</u>
<b>Revenue From Use Of Money and Property:</b>				
Revenue from use of money	2,500	2,500	3,250	750
Revenue from use of property	35,858	35,858	28,509	(7,349)
Total Revenue From Use of Money and Property	<u>38,358</u>	<u>38,358</u>	<u>31,759</u>	<u>(6,599)</u>
<b>Miscellaneous Revenue</b>	<u>4,000</u>	<u>72,000</u>	<u>15,378</u>	<u>(56,622)</u>
<b>Charges For Services:</b>				
Garbage collection fees	85,000	85,000	80,210	(4,790)
Other	90,500	95,500	131,220	35,720
Total Charges For Services	<u>175,500</u>	<u>180,500</u>	<u>211,430</u>	<u>30,930</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>1,325,558</u>	<u>1,403,358</u>	<u>1,398,984</u>	<u>(4,374)</u>
<b>Revenue From Local Government:</b>				
Lee County Contributions-SRO	-	-	5,353	5,353
Lee County Contributions-Fire Dept	-	-	73,649	73,649
Lee County Contributions-Trail Proejct	3,000	3,000	-	(3,000)
Total Revenue from Local Government	<u>3,000</u>	<u>3,000</u>	<u>79,002</u>	<u>76,002</u>
<b>Revenue From The Commonwealth:</b>				
<b>Non-Categorical Aid:</b>				
Rolling stock taxes	6,300	6,300	6,353	53
VDOT	20,000	20,000	7,800	(12,200)
Litter Grant	1,000	1,000	1,056	56
Total Non-Categorical Aid	<u>27,300</u>	<u>27,300</u>	<u>15,209</u>	<u>(12,091)</u>
<b>Categorical Aid:</b>				
State assistance	42,170	42,170	43,528	1,358
COPS grant	4,800	4,800	15,675	10,875
DCJS Grant	15,600	15,600	5,483	(10,117)
TEA Grant	350,000	350,000	289,651	(60,349)
VDOT	445,000	445,000	-	(445,000)
Other grant income	248,177	252,562	179,796	(72,766)
Total Categorical Aid	<u>1,105,747</u>	<u>1,110,132</u>	<u>534,133</u>	<u>(575,999)</u>
Total Revenue From The Commonwealth	<u>1,133,047</u>	<u>1,137,432</u>	<u>549,342</u>	<u>(588,090)</u>
<b>Revenue From The Federal Government:</b>				
Rural Development	-	-	-	-
Total Revenue from the Federal Government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	-	-	-	-
Transfers Out	(5,000)	(5,000)	-	5,000
Loan proceeds	-	-	44,000	44,000
Insurance proceeds	-	20,000	21,080	1,080
Sale of property	-	-	-	-
Appropriation of prior year surplus	62,475	62,475	-	(62,475)
Total Other Financing Sources	<u>57,475</u>	<u>77,475</u>	<u>65,080</u>	<u>(12,395)</u>
<b>GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS</b>	<u>\$ 2,519,080</u>	<u>\$ 2,621,265</u>	<u>\$ 2,092,408</u>	<u>\$ (528,857)</u>

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

**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2018**

SCHEDULE 2

Page 1

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>PRIMARY GOVERNMENT</u></b>				
<b>GENERAL FUND:</b>				
<b>General Government Administration:</b>				
Salaries	\$ 71,000	\$ 71,000	\$ 67,175	\$ 3,825
Fringe benefits	31,830	31,830	31,119	711
Payroll taxes	6,170	6,170	4,971	1,199
Utilities	28,500	28,500	21,271	7,229
Insurance	15,000	15,000	11,247	3,753
Supplies	14,000	14,000	14,725	(725)
Repair and maintenance	15,000	15,000	14,764	236
Training and travel	14,500	14,500	12,701	1,799
Fuel	1,000	1,000	943	57
Advertising	12,500	12,500	10,192	2,308
Legal and accounting fees	11,200	11,200	11,167	33
Council fees	6,600	6,600	6,595	5
Donations	8,000	8,000	5,576	2,424
Capital purchases	850	850	-	850
Miscellaneous	27,300	30,800	22,197	8,603
Total General Government Administration	<u>263,450</u>	<u>266,950</u>	<u>234,643</u>	<u>32,307</u>
<b>Public Safety:</b>				
Salaries	267,000	267,000	226,355	40,645
Fringe benefits	96,100	96,100	92,799	3,301
Payroll taxes	21,400	21,400	17,671	3,729
Utilities	13,500	16,500	14,940	1,560
Insurance	35,000	35,000	33,452	1,548
Supplies	11,000	17,600	48,475	(30,875)
Repair and maintenance	29,500	31,100	27,686	3,414
Training and travel	13,500	13,500	8,974	4,526
Fuel	24,000	23,000	21,266	1,734
Legal and accounting fees	3,000	3,000	1,410	1,590
Capital purchases	2,000	24,400	121,304	(96,904)
Miscellaneous	17,700	62,700	20,429	42,271
Total Public Safety	<u>533,700</u>	<u>611,300</u>	<u>634,761</u>	<u>(23,461)</u>
<b>Public Works:</b>				
<b>Maintenance of Highways, Streets, Bridges and Sidewalks:</b>				
Salaries	52,500	57,500	59,101	(1,601)
Fringe benefits	16,050	16,050	19,358	(3,308)
Payroll taxes	4,250	4,250	4,792	(542)
Utilities	55,000	56,500	61,434	(4,934)
Insurance	11,000	11,000	10,820	180
Supplies	5,000	5,000	5,500	(500)
Repair and maintenance	15,000	15,000	17,869	(2,869)
Fuel	5,000	8,800	8,810	(10)
Capital purchases	10,000	10,000	1,627	8,373
Miscellaneous	11,600	11,600	13,661	(2,061)
Highways, streets, bridges and sidewalks	592,450	592,450	2,823	589,627
TVA Greenway	440,000	440,000	548,524	(108,524)
ATV Trail	50,000	50,000	24,046	25,954
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	<u>1,267,850</u>	<u>1,278,150</u>	<u>778,365</u>	<u>499,785</u>

**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2018**

SCHEDULE 2  
Page 2

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Sanitation and Waste Removal</b>				
Salaries	\$ 32,000	\$ 32,000	\$ 22,105	\$ 9,895
Fringe benefits	8,350	8,350	4,827	3,523
Payroll taxes	2,570	2,570	1,691	879
Insurance	15,000	15,000	11,643	3,357
Supplies	2,000	2,000	717	1,283
Repair and maintenance	5,500	7,500	13,302	(5,802)
Fuel	9,000	9,000	9,049	(49)
Capital purchases	-	-	-	-
Miscellaneous	13,400	13,400	17,710	(4,310)
Total Sanitation and Waste Removal	<u>87,820</u>	<u>89,820</u>	<u>81,044</u>	<u>8,776</u>
Total Public Works	<u>1,355,670</u>	<u>1,367,970</u>	<u>859,409</u>	<u>508,561</u>
 <b>Parks, Recreation and Cultural:</b>				
Salaries	76,000	76,000	68,038	7,962
Fringe benefits	6,800	8,100	6,270	1,830
Payroll taxes	3,450	3,450	2,823	627
Utilities	48,000	46,000	49,889	(3,889)
Insurance	30,000	30,000	23,286	6,714
Supplies	9,000	13,500	17,481	(3,981)
Repair and maintenance	17,500	20,000	22,230	(2,230)
Capital purchases	15,000	15,000	2,698	12,302
Miscellaneous	-	-	2,570	(2,570)
Theatre	70,000	68,700	43,381	25,319
Parks and recreation	70,300	74,085	60,987	13,098
Total Parks, Recreation and Cultural	<u>346,050</u>	<u>354,835</u>	<u>299,653</u>	<u>55,182</u>
 <b>Debt Service</b>				
Principal retirement	20,210	20,210	40,375	(20,165)
Interest	-	-	3,395	(3,395)
Total Debt Service	<u>20,210</u>	<u>20,210</u>	<u>43,770</u>	<u>(23,560)</u>
 <b>GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS</b>	 <u>\$ 2,519,080</u>	 <u>\$ 2,621,265</u>	 <u>\$ 2,072,236</u>	 <u>\$ 549,029</u>
 <b>NET INCREASE (DECREASE) IN GENERAL FUND BALANCE</b>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 20,172</u>	 <u>\$ 20,172</u>

**TOWN OF PENNINGTON GAP**  
**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS**  
**GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**  
**JUNE 30, 2018**

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

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



**TOWN OF PENNINGTON GAP  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES  
JUNE 30, 2018**

Date	Contractually Required Contribution	Contributions Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
2018	\$ 28,921	\$ 28,921	\$ -	\$ 840,870	3.44%
2017	\$ 30,344	\$ 30,344	\$ -	\$ 822,966	3.69%
2016	\$ 39,051	\$ 39,051	\$ -	\$ 774,106	5.04%
2015	\$ 39,349	\$ 39,349	\$ -	\$ 674,462	5.83%
2014	\$ 63,135	\$ 63,135	\$ -	\$ 608,832	10.37%
2013	\$ 56,107	\$ 56,107	\$ -	\$ 554,126	10.13%
2012	\$ 54,356	\$ 54,356	\$ -	\$ 453,453	11.99%
2011	\$ 47,908	\$ 47,908	\$ -	\$ 501,019	9.56%
2010	\$ 46,468	\$ 46,468	\$ -	\$ 413,299	11.24%
2009	\$ 43,448	\$ 43,448	\$ -	\$ 406,120	10.70%
2008	\$ 42,735	\$ 42,735	\$ -	\$ 404,433	10.57%

**TOWN OF PENNINGTON GAP**  
**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**  
**JUNE 30, 2018**

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

1) Fiscal year 2018 was the first year of GASB 75 implementation; therefore only one year is shown herein.

**Notes to Schedule:**

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

2018	3.870%
2017	2.000%

**TOWN OF PENNINGTON GAP**  
**SCHEDULE OF EMPLOYER SHARE OF NET OPEB LIABILITY**  
**JUNE 30, 2018**

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

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

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

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

**TOWN OF PENNINGTON GAP**  
**SCHEDULE OF EMPLOYER OPEB CONTRIBUTIONS**  
**JUNE 30, 2018**

Fiscal Year	Contractually Required Contribution	Contributions Related to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
<b>VRS- Virginia Local Disability Program-General Employees</b>					
2018	\$ 1,715	\$ 1,715	\$ -	\$ 285,900	0.60%

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

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



**TOWN OF PENNINGTON GAP**  
**Notes to Required Supplemental Information**  
**For the Year Ended June 30, 2018**

**Note 1. Change of benefit terms**

Pension

There have been no actuarially material changes to the town's benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits.

Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

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

**Note 2. Changes of assumptions-** The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

**Largest 10 -- Non-Hazardous Duty:**

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

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

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

**Largest 10 -- Hazardous Duty/Public Safety Employees:**

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

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

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