

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

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**AUDIT REPORT**

**Year Ended June 30, 2013**

**TOWN OF PENNINGTON GAP, VIRGINIA  
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Year Ended June 30, 2013**

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**TOWN OF PENNINGTON GAP, VIRGINIA**  
**TOWN OFFICIALS**  
**June 30, 2013**

**MAYOR:** D.R. Carter

**TOWN COUNCIL:** Larry Holbrook  
Gary McElyea  
Terry K. Pope  
Jimmy Smallwood  
Keith Harless

**OTHER OFFICIALS:** Phil Hensley – Town Manager  
Karen Maggard - Treasurer  
Angela K. O'Dell - Clerk

**ATTORNEY:** Gregory Kallen

# THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants  
& Consultants*

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

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

Founded 1948

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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, 2013, 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 .287 percent, .391 percent, and .163 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, 2013, 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.

### Emphasis of Matter

As described in Note 17 to the financial statements, in fiscal year 2013, the Town adopted new accounting guidance, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 37 through 39 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 Government 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 December 18, 2014 on our consideration of the Town of Saint Paul'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  
December 18, 2014

# 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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Saint Paul, Virginia's basic financial statements, and have issued our report thereon dated December 18, 2014. 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, 2013, 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. We consider the deficiencies described in the *Schedule of Findings* issued separately to management as 2013-4 and 2013-5 to be material weaknesses.

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.

### **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  
Page 2

*(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)*

We noted certain matters that we reported to management of the Town of Pennington Gap, Virginia, in a separate letter dated December 18, 2014.

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  
December 18, 2014

**TOWN OF PENNINGTON GAP, VIRGINIA**

***SUMMARY OF COMPLIANCE MATTERS***

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**June 30, 2013**

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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 and Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* we performed tests of the Town's compliance with certain provisions of the laws, regulations, contracts and grants shown below.

**STATE COMPLIANCE MATTERS**

**Code of Virginia:**

Budget and Appropriation Laws  
Cash and Investments Laws  
Conflicts of Interest Act  
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, 2013

EXHIBIT 1

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total Primary Government</u>	<u>Industrial Development Authority</u>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 1,032,234	\$ 778,015	\$ 1,810,249	51,160
Receivables, net	93,482	235,012	328,494	-
Due from other funds	275	189,360	189,635	-
Due from other governmental units	151,139	-	151,139	-
Restricted cash	287,539	1,270,267	1,557,806	-
Loans receivable	-	32,861	32,861	-
Prepaid and other	-	1,200	1,200	-
Capital assets, net	2,614,684	11,699,644	14,314,328	-
<b>TOTAL ASSETS</b>	<b><u>\$ 4,179,353</u></b>	<b><u>\$ 14,206,359</u></b>	<b><u>\$ 18,385,712</u></b>	<b><u>\$ 51,160</u></b>
<b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 167,123	\$ 56,805	\$ 223,928	874
Accrued payroll and related liabilities	12,146	10,244	22,390	-
Accrued interest payable	-	28,693	28,693	-
Customer security deposits	-	62,075	62,075	-
Due to other funds	167,130	22,504	189,634	-
Compensated absences	18,789	28,271	47,060	-
Long-term liabilities:				
Due within one year	-	256,213	256,213	-
Due in more than one year	22,596	4,684,139	4,706,735	-
<b>Total Liabilities</b>	<b><u>387,784</u></b>	<b><u>5,148,944</u></b>	<b><u>5,536,728</u></b>	<b><u>874</u></b>
<b><u>NET POSITION</u></b>				
Net investment in capital assets	2,592,088	6,743,393	9,335,481	-
Restricted	287,539	301,520	589,059	-
Unrestricted	911,942	2,012,502	2,924,444	50,286
<b>Total Net Position</b>	<b><u>\$ 3,791,569</u></b>	<b><u>\$ 9,057,415</u></b>	<b><u>\$ 12,848,984</u></b>	<b><u>\$ 50,286</u></b>

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF ACTIVITIES**  
 June 30, 2013

EXHIBIT 2

FUNCTIONS/PROGRAMS:	Net (Expense) Revenue and Changes in Net Assets						Component Unit
	Program Revenues			Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General government	\$ 282,980	\$ 120,474	\$ -	\$ -	\$ (162,506)	\$ -	\$ (162,506)
Public safety	496,268	15,486	64,483	-	(416,299)	-	(416,299)
Public works	431,392	82,789	-	-	(348,603)	-	(348,603)
Parks, recreation, and cultural	65,049	17,753	-	574,800	527,504	-	527,504
Non-departmental	-	-	-	-	-	-	-
Total Governmental Activities	<u>1,275,689</u>	<u>236,502</u>	<u>64,483</u>	<u>574,800</u>	<u>(399,904)</u>	<u>-</u>	<u>(399,904)</u>
<b>Business-Type Activities:</b>							
Water	1,356,246	1,214,336	-	9,961	-	(131,949)	(131,949)
Wastewater	577,480	535,996	-	-	-	(41,484)	(41,484)
Industrial fund	-	-	-	-	-	-	-
Total Enterprise Activities	<u>1,933,726</u>	<u>1,750,332</u>	<u>-</u>	<u>9,961</u>	<u>-</u>	<u>(173,433)</u>	<u>(173,433)</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u>\$ 3,209,415</u>	<u>\$ 1,986,834</u>	<u>\$ 64,483</u>	<u>\$ 584,761</u>	<u>\$ (399,904)</u>	<u>\$ (173,433)</u>	<u>\$ (573,337)</u>
<b>COMPONENT UNIT:</b>							
Industrial Development Authority	\$ 9,814	\$ -	\$ 60,100	\$ -	\$ -	\$ -	\$ 50,286
<b>General Revenues:</b>							
Property taxes				183,500	-	-	183,500
Other local taxes				663,964	-	-	663,964
Unrestricted intergovernmental revenue				8,121	-	-	8,121
Unrestricted investment earnings				9,463	17,913	-	27,376
Rental of Town property				23,578	-	-	23,578
Recovered costs				-	-	-	-
Transfers-Primary Government				157,094	(157,094)	-	-
Gain from Sale of Property				4,024	-	-	4,024
Other				52,363	-	-	52,363
Total general revenues and transfers				<u>1,102,107</u>	<u>(139,181)</u>	<u>-</u>	<u>962,926</u>
Change in net position				702,203	(312,614)	-	389,589
<b>NET POSITION - JULY 1, as Restated</b>				<u>3,089,366</u>	<u>9,370,029</u>	<u>12,459,395</u>	<u>-</u>
<b>NET POSITION - JUNE 30</b>				<u>\$ 3,791,569</u>	<u>\$ 9,057,415</u>	<u>\$ 12,848,984</u>	<u>\$ 50,286</u>

The accompanying notes are an integral part of the financial statements

**TOWN OF PENNINGTON GAP**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
 June 30, 2013

EXHIBIT 3

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,032,234	\$ -	\$ 1,032,234
Receivables, net:			
Taxes receivable	45,411	-	45,411
Accounts receivable	47,682	-	47,682
Interest	390	-	390
Due From other funds	275	-	275
Due from other governmental units	151,139	-	151,139
Restricted cash	102,829	184,710	287,539
Total Assets	<u>\$ 1,379,959</u>	<u>\$ 184,710</u>	<u>\$ 1,564,669</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	167,122	-	167,122
Accrued payroll and related liabilities	12,146	-	12,146
Due to other funds	167,130	-	167,130
Total Liabilities	<u>346,399</u>	<u>-</u>	<u>346,399</u>
<b>DEFERRED INFLOWS</b>			
Property Taxes Receivable	41,401	-	41,401
Total Deferred Inflows	<u>41,401</u>	<u>-</u>	<u>41,401</u>
<b>FUND BALANCES</b>			
Nonspendable	-	-	-
Restricted	102,829	184,710	287,539
Committed	-	-	-
Assigned	-	-	-
Unassigned	889,330	-	889,330
Total Fund Balances	<u>992,159</u>	<u>184,710</u>	<u>1,176,869</u>
Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 1,379,959</u>	<u>\$ 184,710</u>	<u>\$ 1,564,669</u>
Total Fund Balances	<u>\$ 1,176,869</u>		
<b>Amounts reported for governmental activities in the statement of net position are different because:</b>			
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.	2,614,684		
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.	41,401		
Other liabilities are not required to be paid out of current financial resources and, therefore, are not reported in the governmental funds.	(18,789)		
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(22,596)		
Net Position of Governmental Activities	<u>\$ 3,791,569</u>		

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GENERAL AND DEBT SERVICE FUNDS**  
Year Ended June 30, 2013

EXHIBIT 4

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
<b>REVENUES:</b>			
General property taxes	\$ 183,414	\$ -	\$ 183,414
Other local taxes	663,964	-	663,964
Permits, Privilege Fees, and Licenses	120,474	-	120,474
Fines and forfeitures	15,486	-	15,486
Revenue from use of money & property	32,001	1,041	33,042
Charges for services	100,542	-	100,542
Miscellaneous	256,463	-	256,463
Recovered costs	-	-	-
Intergovernmental	443,304	-	443,304
<b>Total Revenues</b>	<u>1,815,648</u>	<u>1,041</u>	<u>1,816,689</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
General government administration	289,957	-	289,957
Public safety	515,626	-	515,626
Public works	395,181	-	395,181
Parks, recreation and cultural	830,470	-	830,470
<b>Debt Service:</b>			
Principal retirement	-	-	-
Interest	-	-	-
<b>Total Expenditures</b>	<u>2,031,234</u>	<u>-</u>	<u>2,031,234</u>
Excess (Deficiency) of Revenues Over Expenditures	(215,586)	1,041	(214,545)
<b>OTHER FINANCING SOURCES (USES):</b>			
Sale of surplus	4,024	-	4,024
Loan proceeds	-	-	-
Operating transfers in(out)	154,461	2,633	157,094
<b>Total Other Financing Sources ( Uses )</b>	158,485	2,633	161,118
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(57,101)	3,674	(53,427)
<b>Fund Balance at Beginning of Year</b>	<u>1,049,260</u>	<u>181,036</u>	<u>1,230,296</u>
<b>Fund Balance at End of Year</b>	<u>\$ 992,159</u>	<u>\$ 184,710</u>	<u>\$ 1,176,869</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, 2013**

EXHIBIT 5

	<u>Governmental Funds</u>
<b>Net Change in Fund Balance Governmental Funds:</b>	\$ (53,427)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	767,804
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	85
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and, therefore, are not required as expenditures in governmental funds.	<u>(12,259)</u>
<b>Change in Net Position of Governmental Activities</b>	<b><u>\$ 702,203</u></b>

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
June 30, 2013

EXHIBIT 6

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Industrial Fund</b>	<b>Combined Total 2013</b>
<b><u>ASSETS</u></b>				
Cash and cash equivalents	\$ 325,672	\$ 401,967	\$ 50,376	\$ 778,015
Receivables (Net of Allowance for Uncollectibles):				
Accounts	142,782	91,601	-	234,383
Interest	516	47	67	629
Due from other funds	29,305	28,368	131,687	189,360
Loans receivable	-	-	32,861	32,861
Prepaid and other	1,200	-	-	1,200
Restricted cash	1,133,361	-	136,906	1,270,267
Land	10,600	20,515	6,943	38,058
Capital assets, net	7,808,494	3,853,092	-	11,661,586
Total Assets	\$ 9,451,930	\$ 4,395,590	\$ 358,839	14,206,359
 <b><u>LIABILITIES</u></b>				
Accounts payable and accrued liabilities	\$ 12,814	\$ 43,991	\$ -	\$ 56,805
Accrued payroll and related liabilities	6,304	3,940	-	10,244
Accrued interest payable	21,726	6,967	-	28,693
Customer security deposits	42,877	19,198	-	62,075
Due to other funds	-	22,504	-	22,504
Compensated absences	26,250	2,021	-	28,271
Long-term liabilities:				
Due within one year	206,713	49,500	-	256,213
Due in more than one year	4,026,677	657,462	-	4,684,139
Total Liabilities	4,343,361	805,583	-	5,148,944
 <b><u>NET POSITION</u></b>				
Net investment in capital assets	3,598,079	3,138,371	6,943	6,743,393
Restricted	-	-	301,520	301,520
Unrestricted	1,510,490	451,636	50,376	2,012,502
Total Net Position	5,108,569	3,590,007	358,839	9,057,415
Total Liabilities and Net Position	\$ 9,451,930	\$ 4,395,590	\$ 358,839	\$ 14,206,359

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
For the Year Ended June 30, 2013

EXHIBIT 7

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Industrial Fund</u>	<u>Combined Totals 2013</u>
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,193,038	\$ 533,704	\$ -	\$ 1,726,742
Tap fees	1,300	600	-	1,900
Connections	1,636	-	-	1,636
Reconnections	3,194	-	-	3,194
Penalties	14,796	-	-	14,796
Miscellaneous	372	1,692	-	2,064
Total Operating Revenues	<u>1,214,336</u>	<u>535,996</u>	<u>-</u>	<u>1,750,332</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	362,603	121,501	-	484,104
Payroll taxes	32,348	11,191	-	43,539
Group health and life	96,925	34,025	-	130,951
Pension	16,604	6,626	-	23,230
Utilities	117,728	53,074	-	170,803
Telephone	6,434	1,296	-	7,730
Supplies	62,893	16,170	-	79,063
Vehicle expense	8,891	15,066	-	23,957
Insurance	19,448	13,599	-	33,046
Repair and maintenance	42,207	41,419	-	83,627
Certification, travel, and training	1,109	388	-	1,497
Professional services	33,259	21,467	-	54,727
Lab and analysis	2,312	5,041	-	7,353
Dues and subscriptions	6,931	282	-	7,213
Depreciation	432,501	173,711	-	606,212
Miscellaneous	5,475	39,453	-	44,928
Total Operating Expenses	<u>1,247,669</u>	<u>554,309</u>	<u>-</u>	<u>1,801,978</u>
Operating Income (Loss)	<u>(33,332)</u>	<u>(18,313)</u>	<u>-</u>	<u>(51,646)</u>
<b>NON-OPERATING REVENUES (EXPENSES) :</b>				
Grant income	9,961	-	-	9,961
Transfers	(206,891)	49,797	-	(157,094)
Interest expense	(108,577)	(23,172)	-	(131,749)
Interest income	16,145	567	1,201	17,913
Gain/loss on disposition of assets	-	-	-	-
Total Non-Operating Revenue (Expenses)	<u>(289,361)</u>	<u>27,191</u>	<u>1,201</u>	<u>(260,969)</u>
<b>CHANGE IN NET POSITION</b>	<b>(322,694)</b>	<b>8,878</b>	<b>1,201</b>	<b>(312,614)</b>
<b>NET POSITION AT JULY 1, AS RESTATED</b>	<u>5,431,263</u>	<u>3,581,129</u>	<u>357,638</u>	<u>9,370,029</u>
<b>NET POSITION AT JUNE 30</b>	<u>\$ 5,108,569</u>	<u>\$ 3,590,007</u>	<u>\$ 358,839</u>	<u>\$ 9,057,415</u>

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
Year Ended June 30, 2013

EXHIBIT 8

	<u>Water Fund</u>	<u>Sanitation Fund</u>	<u>Industrial Fund</u>	<u>TOTAL</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>				
Cash received from customers	\$ 1,216,914	\$ 532,980	\$ -	\$ 1,749,894
Cash payments to suppliers for goods and services	(290,953)	(206,934)	-	(497,887)
Cash payments to employees for services	(496,532)	(170,471)	-	(667,003)
Other operating income	-	-	-	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>429,429</u>	<u>155,575</u>	<u>-</u>	<u>585,004</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>				
Increase ( decrease ) in customer deposits	1,269	681	-	1,950
(Increase) decrease in due from other funds	177,586	(28,139)	-	149,447
Increase (decrease) in due to other funds	-	(27,797)	-	(27,797)
<b>NET CASH PROVIDED BY NON-CAPITAL FINANCING ACTIVITIES</b>	<u>178,855</u>	<u>(55,255)</u>	<u>-</u>	<u>123,600</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Purchase of capital assets	(102,871)	(81,520)	-	(184,391)
Disposition of capital assets	-	-	-	-
Interfund transfer	(206,891)	49,797	-	(157,094)
Proceeds from borrowings	1,750,000	750,000	-	2,500,000
Contributed capital - Grant revenue	9,961	-	-	9,961
Principal paid on revenue bonds	(1,911,062)	(756,865)	-	(2,667,927)
Interest paid on revenue bonds and equipment	(112,913)	(25,954)	-	(138,867)
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(573,776)</u>	<u>(64,542)</u>	<u>-</u>	<u>(638,318)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments received on community development loans	-	-	4,023	-
Interest on investments	16,191	586	1,196	16,777
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>16,191</u>	<u>586</u>	<u>5,219</u>	<u>16,777</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	50,699	36,364	5,219	87,063
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,408,334</u>	<u>365,603</u>	<u>182,063</u>	<u>1,773,937</u>
Cash and Cash Equivalents at June 30, 2013				
Unrestricted	\$ 325,672	\$ 401,967	\$ 50,376	\$ 727,639
Restricted	1,133,361	-	136,906	1,133,361
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 1,459,033</u>	<u>\$ 401,967</u>	<u>\$ 187,282</u>	<u>\$ 1,861,000</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ (33,332)	\$ (15,823)	\$ -	\$ (49,155)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation and amortization	432,501	173,711	-	606,212
Increase (decrease) in accrued compensated absences	6,667	1,984	-	8,651
<b>Change in Assets, Liabilities, Deferred Inflows/Outflows:</b>				
(Increase) decrease in accounts receivable	2,578	(3,016)	-	(438)
(Increase) decrease in prepaid expenses	8,429	3,671	-	12,100
Increase (decrease) in accounts payable	7,305	(6,711)	-	594
Increase (decrease) in accrued liabilities	5,281	1,759	-	7,040
<b>TOTAL ADJUSTMENTS</b>	<u>462,761</u>	<u>171,398</u>	<u>-</u>	<u>634,159</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 429,429</u>	<u>\$ 155,575</u>	<u>\$ -</u>	<u>\$ 585,004</u>



**TOWN OF PENNINGTON GAP**  
Discretely Presented Component Unit-Industrial Development Authority  
Balance Sheet  
June 30, 2013

EXHIBIT 9

**ASSETS**

Cash and cash equivalents	\$ 51,160
Total Assets	<u>\$ 51,160</u>

**LIABILITIES**

Accounts payable	\$ 874
Total Liabilities	<u>874</u>

**FUND BALANCES**

Assigned	-
Unassigned	<u>50,286</u>
Total fund balances	<u>50,286</u>
Total liabilities and fund balances	<u>\$ 51,160</u>

**TOWN OF PENNINGTON GAP**  
Discretely Presented Component Unit-Industrial Development Authority  
Statement of Revenues, Expenditures and Changes in Net Position  
Year Ended June 30, 2013

EXHIBIT 10

	<b>Total</b>
<b>REVENUES:</b>	
Charges for services	\$ -
Contributions from primary government	60,100
Total Revenues	60,100
 <b>EXPENDITURES:</b>	
Industrial development	8,734
Professional services	1,080
Total Expenditures	9,814
Excess of revenues over expenditures	50,286
 <b>Net Position at Beginning of Year</b>	 -
<b>Net Position at End of Year</b>	<b>\$ 50,286</b>

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June 30, 2013

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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 subject to vote by referendum. The Town provides a full range of services including public safety, roads, sanitation, water, sewer, planning, boundary adjustment, and general administrative services to its approximately 1,781 residents. The Town's land area is 1.44 square miles (922 acres). The accompanying financial statements conform to accounting principles generally accepted in the United States of America as applicable to governments.

**A. Reporting Entity**

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

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

**B. Individual Component Unit Disclosures**

Discretely Presented Component Unit:

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

**C. Financial Reporting Model**

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

June 30, 2013

2. **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.

June 30, 2013

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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

June 30, 2013

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

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

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

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

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

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

The Town reports the following major governmental funds:

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

Proprietary Fund Types

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

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

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

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

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

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 June 30, 2013
 

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## 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. Total Columns on Combined Statements-Overview

The total columns on the Combined Statements – Overview are captioned “Memorandum Only” to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

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

**J. Defined Benefit Pension Plans**

Defined benefit pension plan contributions are actuarially determined and consist of current service costs and amortization of past service costs over a 10-year period for the Virginia Retirement System (VRS) Plans. The Town's policy is to fund pension cost as it accrues.

**K. Fund Equity**

Beginning with the fiscal year ended June 30, 2011, the Town implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. 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.

Beginning fund balances for the Town's governmental funds have been restated to reflect the above classifications.

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.



June 30, 2013

## 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.

InvestmentsInvestment 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).

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	63%
Farmers and Miners Bank	15%
Powell Valley National Bank	14%
New Peoples 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	\$ 800	\$ -0-
Deposits	768,115	51,160
Investments	<u>2,599,140</u>	<u>-0-</u>
	<u>\$3,368,055</u>	<u>\$ 51,160</u>
Statement of net position:		
Cash and cash equivalents	\$ 632,009	\$ 51,160
Restricted cash and cash equivalents	1,557,806	-0-
Investments	<u>1,178,240</u>	<u>-0-</u>
	<u>\$3,368,055</u>	<u>\$ 51,160</u>

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

June 30, 2013

**3. DUE FROM OTHER GOVERNMENTAL UNITS**

Commonwealth of Virginia:		
Local sales tax	\$ 4,765	
Fire Programs	800	
Tobacco Indemnification Commission Grant	137,885	
Communication tax	<u>7,618</u>	
Total Commonwealth of Virginia		\$ 151,068
Lee County:		
Court fines/transfer fees	<u>71</u>	
Total Lee County		<u>71</u>
Total Due from other Governmental Units		<u>\$ 151,139</u>

**4. INTERFUND OBLIGATIONS**

	<u>Due From</u>	<u>Due To</u>
General Fund:		
Water Fund	-	7,075
Sewer Fund	275	28,368
Industrial Fund	-	131,687
Water Fund:		
General Fund	7,075	-
Sewer Fund	22,229	-
Sewer Fund:		
Water Fund	-	22,229
General Fund	28,368	275
Industrial Fund:		
General Fund	<u>131,687</u>	<u>-</u>
TOTAL	<u>\$ 189,634</u>	<u>\$ 189,634</u>

**5. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town currently has no item that meets this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has deferred inflows totaling \$41,401 in the general fund, comprised of uncollected tax billings not available for funding of current expenditures as of June 30, 2013.

June 30, 2013

6. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in capital assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets, non-depreciable</b>				
Land	\$ 145,345	\$ 15,000	\$ -	\$ 160,345
Construction in progress	<u>507,633</u>	<u>787,054</u>	<u>-</u>	<u>1,294,687</u>
Total Capital Assets, Non-depreciable	<u>652,978</u>	<u>802,054</u>	<u>-</u>	<u>1,455,032</u>
<b>Capital assets, depreciable</b>				
Equipment	1,455,111	93,506	-	1,548,617
Buildings and improvements	1,142,593	4,700	-	1,147,293
Other improvements	88,674	-	-	88,674
Infrastructure	<u>467,453</u>	<u>-</u>	<u>-</u>	<u>467,453</u>
Total Capital Assets, depreciable	<u>3,153,831</u>	<u>98,206</u>	<u>-</u>	<u>3,252,037</u>
<b>Less accumulated depreciation for</b>				
Equipment	1,148,721	87,880	-	1,236,601
Buildings and improvements	346,464	30,743	-	377,207
Other improvements	89,808	2,147	-	91,955
Infrastructure	<u>374,936</u>	<u>11,686</u>	<u>-</u>	<u>386,622</u>
Total accumulated depreciation	<u>1,959,929</u>	<u>132,456</u>	<u>-</u>	<u>2,092,385</u>
Total Capital Assets, depreciable, net	<u>1,193,902</u>	<u>(34,250)</u>	<u>-</u>	<u>1,159,652</u>
<b>Governmental activities</b>				
Capital assets, net	<u>\$1,846,880</u>	<u>\$ 767,804</u>	<u>\$ -</u>	<u>\$2,614,684</u>

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets, non-depreciable</b>				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Constructions in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, Non-depreciable	<u>38,058</u>	<u>-</u>	<u>-</u>	<u>38,058</u>
<b>Capital assets, depreciable</b>				
Buildings	9,320,445	-	-	9,320,445
Infrastructure	13,331,115	219,127	-	13,550,242
Machinery & equipment	<u>612,497</u>	<u>-</u>	<u>-</u>	<u>612,497</u>
Total Capital Assets, depreciable	<u>23,264,057</u>	<u>219,127</u>	<u>-</u>	<u>23,483,184</u>
<b>Less accumulated depreciation for</b>				
Buildings	3,883,568	232,762	-	4,116,330
Infrastructure	6,946,408	339,430	-	7,285,838
Machinery & equipment	<u>385,410</u>	<u>34,020</u>	<u>-</u>	<u>419,430</u>
Total accumulated depreciation	<u>11,215,386</u>	<u>606,212</u>	<u>-</u>	<u>11,821,598</u>
Total Capital Assets, depreciable, net	<u>12,048,671</u>	<u>(387,085)</u>	<u>-</u>	<u>11,661,586</u>
<b>Business-Type activities</b>				
Capital assets, net	<u>\$12,086,729</u>	<u>\$ (387,085)</u>	<u>\$ -</u>	<u>\$11,699,644</u>

June 30, 2013

**7. CAPITAL ASSETS**

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

Governmental activities:	
General government	\$ 3,740
Public safety	67,164
Public works	43,807
Parks, recreation and cultural	<u>17,745</u>
Total depreciation expense – governmental activities	<u>\$ 132,456</u>
Business-type activities:	
Water	\$ 432,501
Sanitation	<u>173,711</u>
Total depreciation expense – business-type activities	<u>\$ 606,212</u>

**8. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

The Town provided additions to its allowance for uncollectible taxes, garbage, water, and sewer services based on 15% of the total outstanding balance. The allowance amounted to approximately \$126,276 at June 30, 2013, and is composed of the following:

<b>General Fund:</b>	
Allowance for uncollectible property taxes	\$ 42,765
Allowance for uncollectible garbage fees	<u>5,383</u>
Total General Fund	<u>48,148</u>
<b>Water and Sewer Fund:</b>	
Allowance for uncollectible water and sewer fee billings	<u>78,128</u>
Total Water and Sewer Fund	<u>78,128</u>
TOTAL	<u>\$ 126,276</u>

**9. 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. The balance outstanding at June 30, 2013, was \$1,616,492.

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. The balance outstanding at June 30, 2013, was \$970,023.

	<b>Water Revenue</b>
	<b>Bonds</b>
Revenue bonds payable at July 1, 2012	<u>\$ 2,672,442</u>
Issuances	-
Retirements	<u>( 85,927)</u>
Revenue bonds payable at June 30, 2013	<u>\$ 2,586,515</u>

**TOWN OF PENNINGTON GAP, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

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June 30, 2013

**10. GENERAL OBLIGATION 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.

\$ 1,634,500

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

700,500

TOTAL REVENUE REFUNDING BONDS

\$ 2,335,000

	<b>REVENUE REFUNDING BONDS</b>				
	<b>Series 2007 Water Revenue Refunding</b>	<b>Series 2007 Sewer Revenue Refunding</b>	<b>Series 2012 Water Revenue Refunding</b>	<b>Series 2012 Sewer Revenue Refunding</b>	<b>Total Revenue Refunding Bond</b>
Bonds/loans payable at					
July 01, 2012	\$ 1,709,635	\$ 707,366	\$ -	\$ -	\$ 2,417,001
Issuances	-	-	1,750,000	750,000	2,500,000
Retirements	<u>(1,709,635)</u>	<u>(707,366)</u>	<u>(115,500)</u>	<u>(49,500)</u>	<u>(2,582,001)</u>
Bonds/loans payable at					
June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,634,500</u>	<u>\$ 700,500</u>	<u>\$ 2,335,000</u>

The annual requirements to amortize general obligation bonds outstanding as of June 30, 2013, are as follows:

Years Ending June 30.	2012 Sewer Refunding		2012 Water Refunding		Total Revenue Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 49,500	\$ 21,015	\$ 115,500	\$ 49,035	\$ 165,000	\$ 70,050
2015	49,500	19,530	115,500	45,570	165,000	65,100
2016	49,500	18,045	115,500	42,105	165,000	60,150
2017	46,800	16,560	109,200	38,640	156,000	55,200
2018	48,000	15,156	112,000	35,364	160,000	50,520
2019-2023	261,000	53,325	609,000	124,425	870,000	177,750
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>\$700,500</u>	<u>\$157,329</u>	<u>\$1,634,500</u>	<u>\$367,101</u>	<u>\$ 2,335,000</u>	<u>\$ 524,430</u>

June 30, 2013

**11. COMPENSATED ABSENCES**

Employees of the Town are entitled to paid time off for subsequent use or for payment upon termination, death or retirement, 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, 2013 was \$47,930. Another type of compensated absence is compensatory time for the overtime worked by some employees. A maximum of five days compensatory leave may be carried over from one fiscal year to the next.

The following is a summary of compensated absences transactions for the year ended June 30, 2013:

	Balance July 1, 2012	Additions/ Proceeds	Payments/ Reductions	Balance June 30, 2013
<b>Governmental Activities</b>				
Accrued Compensated Absences	\$ 14,062	\$ 20,278	\$ (15,551)	\$ 18,789
	<u>14,062</u>	<u>20,278</u>	<u>(15,551)</u>	<u>18,789</u>
<b>Business-Type Activities</b>				
Accrued Compensated Absences	\$ 20,490	\$ 30,915	\$ (23,134)	\$ 28,271
	<u>20,490</u>	<u>30,915</u>	<u>(23,134)</u>	<u>28,271</u>
<b>Totals</b>	<b><u>\$ 34,552</u></b>	<b><u>\$ 51,193</u></b>	<b><u>\$ (38,685)</u></b>	<b><u>\$ 47,060</u></b>

**12. COMMITMENTS AND CONTINGENCIES**

**Litigation**

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

**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. DEFINED BENEFIT PENSION PLAN****A. Plan Description**

Name of Plan:	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 (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who are vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for member electing the Survivor Option, PLOP or Advanced Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publication/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

June 30, 2013

14. **DEFINED BENEFIT PENSION PLAN (continued)**

**B. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be 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% member contribution. This could be phased in over a period 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. In addition, the Town of Pennington Gap, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 5.79% of annual covered payroll.

**C. Annual Pension Cost**

For the fiscal year 2013 the Town of Pennington Gap's annual pension cost of \$56,107 was equal to the Town's required and actual contributions. The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.5% (b) projected salary increases of 3.75% to 5.60% per year for general government employees and 3.5% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

**Primary Government:**

Trend information for the Town of Pennington Gap, Virginia is as follows:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2013	\$ 56,107	100%	\$ -
June 30, 2012	54,356	100%	-
June 30, 2011	47,908	100%	-

**D. Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 108.5% funded. The actuarial accrued liability for benefits was \$491,959, resulting in an unfunded actuarial accrued liability (UAAL) of (\$41,818). The covered payroll (annual payroll of active employees covered by the plan) was \$453,453, and ratio of the UAAL to the covered payroll was (9.22%).

The schedule of funding progress, presented as Required Supplementary Information following these notes, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.



June 30, 2013

14. *DEFINED BENEFIT PENSION PLAN (continued)*

REQUIRED SUPPLEMENTARY INFORMATION  
 Schedule of Funding Progress for the Town of Pennington Gap, Virginia

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
6/30/2012	\$ 533,777	\$ 491,959	\$ (41,818)	108.50%	\$ 453,453	-9.22%
6/30/2011	\$ 498,323	\$ 576,189	\$ 77,866	86.49%	\$ 501,019	15.54%
6/30/2010	\$ 458,278	\$ 512,130	\$ 53,852	89.48%	\$ 413,299	13.03%
6/30/2009	\$ 409,772	\$ 411,698	\$ 1,925	99.53%	\$ 406,120	0.47%
6/30/2008	\$ 358,691	\$ 360,512	\$ 1,821	99.49%	\$ 404,433	0.45%

15. *FUND BALANCE-GOVERNMENTAL FUNDS*

As of June 30, 2013, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Non-spendable:			
Prepaid items	\$ —	\$ —	\$ —
Restricted:			
Parks, Recreation & Cultural	102,829	—	102,829
Debt Reserve	—	184,710	184,710
Committed:			
Assigned:	—	—	—
Unassigned	889,330	—	889,330
Total fund balances	\$ 992,159	\$ 184,710	\$ 1,176,869

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.

June 30, 2013

## 16. OTHER POST-EMPLOYMENT BENEFITS

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

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

### Plan Description

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

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

### Actuarial Methods and Assumptions

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

The entry-age normal cost method was used to determine liabilities under the alternative measurement method. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. Active employees are presumed to retire at age 65 which is the historical average age of retirement for employees of the Town. Active employees age 65 or older who have qualified postemployment benefits under the plan are assumed to retire in the first projected year. A healthcare plan that includes both retirees and active employees contains a blended rate. The rate used in the calculation is the age-adjusted premium less the contribution from the retiree or blended premium. The actuarial assumptions for the Town included: inflation at 3.0 and an investment rate of return of 3.0%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics. The 2004 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2013 is 27 years.

16. OTHER POST-EMPLOYMENT BENEFITS (continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2013, the Town's annual OPEB costs of \$7,532 for governmental activities and \$6,279 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Annual required contribution	\$ 7,532	\$ 6,279	\$ 13,811
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	7,532	6,279	13,811
Contributions made (Age Adjusted)	-	-	-
Increase in net OPEB obligation	7,532	6,279	13,811
Net OPEB obligation-beginning of year	<u>15,064</u>	<u>12,558</u>	<u>27,622</u>
Net OPEB obligation-end of year	<u>\$ 22,596</u>	<u>\$ 18,837</u>	<u>\$ 41,433</u>

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 7,532	0%	\$ 22,596
June 30, 2012	\$ 7,532	0%	\$ 15,064
June 30, 2011	\$ 7,532	0%	\$ 7,532

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 6,279	0%	\$ 18,837
June 30, 2012	\$ 6,279	0%	\$ 12,558
June 30, 2011	\$ 6,279	0%	\$ 6,279

Funding Policy

The Town currently funds post-employment health care benefits on a pay-as-you-go basis. During fiscal year 2013, the Town had not designated any funding for the OPEB liability.

June 30, 2013

16. *OTHER POST-EMPLOYMENT BENEFITS (continued)*

Funding Status and Funding Progress

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

REQUIRED SUPPLEMENTARY INFORMATION  
 Schedule of Funding Progress for the Town of Pennington Gap, Virginia

Activity Type	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
Governmental	\$ -	\$ 45,464	\$ 45,464	0.00%	\$ 419,929	10.83%
Business-type	\$ -	\$ 37,197	\$ 37,197	0.00%	\$ 343,579	10.83%

17. *CHANGE IN ACCOUNTING POLICY*

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 63, “Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.” GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in the statement of financial position. This change was incorporated in the Town’s financial statements; however, there was no effect on beginning net position.

The Town has decided to early implement Governmental Accounting Standards Board (GASB) Statement No. 65, “Items Previously Reported as Assets and Liabilities” which is effective for periods beginning after December 15, 2012. A prior period adjustment was made to account for the effects of this new standard.

18. *RESTATEMENT OF BEGINNING NET POSITION*

In order to record the adoption of GASB Statement 65, “Items Previously Reported as Assets and Liabilities,” an adjustment was made in the amount of \$9,000 to the Sewer Fund and \$21,000 to the Water Fund.

TOWN OF PENNINGTON GAP  
GOVERNMENTAL FUNDS  
STATEMEN OF REVENUES - BUDGET AND ACTUAL  
Year Ended June 30, 2013

	<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 Property Taxes:</b>				
Real property taxes	\$ 149,000	\$ 149,000	\$ 160,196	\$ 11,196
Personal property taxes	23,500	23,500	19,437	(4,063)
Penalties and interest	1,400	1,400	3,780	2,380
Total General Property Taxes	173,900	173,900	183,414	9,514
<b>Other Local Taxes:</b>				
Local sales and use tax	50,000	50,000	46,888	(3,112)
Utility taxes	48,000	48,000	43,464	(4,536)
Business license tax	15,000	15,000	16,144	1,144
Franchise license tax	50,000	50,000	48,179	(1,821)
Bank stock taxes	164,500	164,500	165,633	1,133
Hotel and motel room taxes	4,800	4,800	4,073	(727)
Restaurant food taxes	353,000	353,000	336,294	(16,706)
Other local taxes	2,000	2,000	3,289	1,289
Total Other Local Taxes	687,300	687,300	663,962	(23,338)
<b>Permits, Privilege Fees, And Regulatory Licenses</b>	137,000	137,000	120,474	(16,526)
<b>Fines and Forfeitures</b>	20,300	20,300	15,486	(4,814)
<b>Revenue From Use Of Money and Property:</b>				
Revenue from use of money	12,500	12,500	8,423	(4,077)
Revenue from use of property	22,424	22,424	23,578	1,154
Total Revenue From Use of Money and Property	34,924	34,924	32,001	(2,923)
<b>Miscellaneous Revenue</b>	-	58,000	256,463	198,463
<b>Charges For Services:</b>				
Garbage collection fees	80,000	80,000	82,789	2,789
Other	14,000	14,000	17,754	3,754
Total Charges For Services	94,000	94,000	100,542	6,542
<b>TOTAL PRIMARY GOVERNMENT</b>	1,147,424	1,205,424	1,372,342	166,918
<b>Revenue From The Commonwealth:</b>				
<b>Non-Categorical Aid:</b>				
Rolling stock taxes	5,000	5,000	6,858	1,858
DCR	431,708	431,708	-	(431,708)
TIC	1,057,630	1,057,630	370,700	(686,930)
Litter Grant	750	750	1,263	513
Total Non-Categorical Aid	1,495,088	1,495,088	378,821	(1,116,267)
<b>Categorical Aid:</b>				
State assistance	35,000	35,000	60,168	25,168
TVA-Greenway	970,682	970,682	-	(970,682)
COPS grant	12,000	12,000	4,315	(7,685)
Other grant income	9,200	9,200	-	(9,200)
Total Categorical Aid	1,026,882	1,026,882	64,483	(962,399)
Total Revenue From The Commonwealth	2,521,970	2,521,970	443,304	(2,078,666)
<b>Revenue From The Federal Government:</b>				
Federal Emergency Management Grant	-	-	-	-
Rural Development-Economic Impact	-	-	-	-
Total Revenue from the Federal Government	-	-	-	-
<b>Other Financing Sources:</b>				
Transfers	50,000	50,000	154,461	104,461
Sale of property	-	-	4,024	4,024
Appropriation of prior year surplus	187,501	187,501	-	(187,501)
Total Other Financing Sources	237,501	237,501	158,485	(79,016)
<b>GRAND TOTAL-REVENUE-PRIMARY GOVERNMENT FUNDS</b>	\$ 3,906,895	\$ 3,964,895	\$ 1,974,131	\$ (1,990,764)

**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2013**

	<u>Original</u> <u>Budget</u>	<u>Revised</u> <u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b><u>PRIMARY GOVERNMENT</u></b>				
<b><u>GENERAL FUND:</u></b>				
<b>General Government Administration:</b>				
Salaries	\$ 86,000	\$ 86,000	\$ 97,206	(11,206)
Fringe benefits	23,837	23,837	28,289	(4,452)
Payroll taxes	7,978	7,978	7,539	439
Utilities	10,900	10,900	13,980	(3,080)
Insurance	6,800	6,800	5,855	945
Supplies	8,500	8,500	9,887	(1,387)
Repair and maintenance	8,600	8,600	10,943	(2,343)
Training and travel	2,700	2,700	4,561	(1,861)
Advertising	2,500	2,500	1,539	961
Legal and accounting fees	19,500	19,500	22,983	(3,483)
Council fees	9,000	9,000	5,980	3,020
Donations	54,500	54,500	66,706	(12,206)
Capital purchases	40,000	40,000	5,992	34,008
Miscellaneous	134,744	134,744	8,495	126,249
Total General Government Administration	415,559	415,559	289,955	125,604
 <b>Public Safety:</b>				
Salaries	195,500	195,500	186,093	9,407
Fringe benefits	73,350	73,350	60,469	12,881
Payroll taxes	18,356	18,356	17,377	979
Utilities	16,750	16,750	15,713	1,037
Insurance	21,900	21,900	21,205	696
Supplies	9,500	9,500	9,267	233
Repair and maintenance	11,500	11,500	5,867	5,633
Training and travel	11,500	11,500	9,928	1,572
Fuel	40,000	40,000	34,322	5,678
Legal and accounting fees	3,000	3,000	3,058	(58)
Capital purchases	71,650	129,650	147,774	(18,124)
Miscellaneous	3,400	3,400	4,552	(1,152)
Total Public Safety	476,406	534,406	515,626	18,780
 <b>Public Works:</b>				
<b>Maintenance of Highways, Streets, Bridges and Sidewalks:</b>				
Salaries	70,000	70,000	63,641	6,359
Fringe benefits	26,900	26,900	24,049	2,851
Payroll taxes	6,754	6,754	6,341	413
Utilities	52,450	52,450	49,062	3,388
Insurance	8,300	8,300	11,502	(3,202)
Supplies	2,500	2,500	3,885	(1,385)
Repair and maintenance	10,000	10,000	14,022	(4,022)
Fuel	10,000	10,000	13,308	(3,308)
Capital purchases	32,000	32,000	14,017	17,983
Miscellaneous	4,750	4,750	4,059	691
Highways, streets, bridges and sidewalks	51,350	51,350	992	50,358
TIC	-	-	-	-
TVA Greenway	970,682	970,682	35,098	935,584
ATV Trail	431,708	431,708	38,062	393,646
Total Maintenance of Highways, Streets, Bridges, and Sidewalks	1,677,394	1,677,394	278,037	1,399,357

**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL**  
Year Ended June 30, 2013

SCHEDULE 2  
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	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Sanitation and Waste Removal</b>				
Salaries	\$ 53,832	53,832	\$ 54,419	(587)
Fringe benefits	23,713	23,713	22,577	1,136
Payroll taxes	5,051	5,051	4,887	164
Insurance	7,600	7,600	7,148	452
Supplies	800	800	125	675
Repair and maintenance	300	300	400	(100)
Fuel	12,000	12,000	10,096	1,904
Capital purchases	6,600	6,600	1,883	4,717
Miscellaneous	17,360	17,360	15,609	1,751
Total Sanitation and Waste Removal	<u>127,256</u>	<u>127,256</u>	<u>117,144</u>	<u>10,112</u>
 <b>Parks, Recreation and Cultural:</b>				
Salaries	24,000	24,000	25,157	(1,157)
Fringe benefits	-	-	-	-
Payroll taxes	2,000	2,000	2,549	(549)
Utilities	29,050	29,050	24,559	4,491
Insurance	7,600	7,600	6,115	1,485
Supplies	6,500	6,500	5,285	1,216
Repair and maintenance	8,500	8,500	15,048	(6,548)
Capital purchases	1,097,630	1,097,630	725,006	372,624
Miscellaneous	2,000	2,000	-	2,000
Theatre	7,000	7,000	3,540	3,460
DCR-Leeman Field	-	-	-	-
Parks and recreation	26,000	26,000	23,210	2,790
Total Parks, Recreation and Cultural	<u>1,210,280</u>	<u>1,210,280</u>	<u>830,470</u>	<u>379,810</u>
 <b>GRAND TOTAL-EXPENDITURES-PRIMARY GOVERNMENT FUNDS</b>				
	<u>\$ 3,906,895</u>	<u>\$ 3,964,895</u>	<u>\$ 2,031,232</u>	<u>\$ 1,933,663</u>
 <b>NET INCREASE (DECREASE) IN GENERAL FUND BALANCE</b>				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (57,101)</u>	<u>\$ (57,101)</u>