

TOWN OF PENNINGTON GAP, VIRGINIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2025

TOWN OF PENNINGTON GAP, VIRGINIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2025

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INTRODUCTORY SECTION

TOWN OF PENNINGTON GAP, VIRGINIA

TOWN COUNCIL

Gary McElyea, Mayor
Doug Aslup
Terry K. Pope
Darrell Hayes
Jeff Martin
Jimmy Warner

OTHER OFFICIALS

Keith Harless Town Manager
Brian Skidmore Assistant Town Manager
Tina Rowe Town Treasurer
Angela O'Dell Clerk

FINANCIAL SECTION



Independent Auditors' Report

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Town of Pennington Gap, Virginia, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principles

As described in Note 15 to the financial statements, in 2025, the Town adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

Restatement of Beginning Balances for Error Correction

As described in Note 16 to the financial statements, the Town corrected errors for a duplicate capital asset shown in both construction in progress and completed capital assets in 2024 and an unrecorded receivable from the IDA relating to 2023.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Town of Pennington Gap, Virginia's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Town of Pennington Gap, Virginia's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

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

Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 3, 2026 on our consideration of the Town of Pennington Gap, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Pennington Gap, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Pennington Gap, Virginia's internal control over financial reporting and compliance.

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

Blacksburg, Virginia
March 3, 2026

Basic Financial Statements

Town of Pennington Gap, Virginia
Statement of Net Position
June 30, 2025

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Industrial Development Authority
ASSETS				
Cash and cash equivalents	\$ 1,105,754	\$ 544,921	\$ 1,650,675	\$ 7,129
Investments	268,919	304,378	573,297	-
Restricted cash and cash equivalents - customer deposits	-	95,108	95,108	-
Restricted investments	-	92,088	92,088	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	29,755	-	29,755	-
Accounts receivable	266,177	359,434	625,611	1,200
Loan receivable	-	2,000	2,000	-
Notes receivable	-	-	-	867,599
Lease receivable	79,144	-	79,144	-
Due from component unit	509,000	-	509,000	-
Due from other governmental units	119,265	-	119,265	-
Prepaid expenses	10,400	-	10,400	-
Net pension asset	14,723	12,142	26,865	-
Capital assets not being depreciated/amortized:				
Land	654,005	38,058	692,063	694,528
Construction in progress	71,189	162,547	233,736	1,343,157
Capital assets, net of accumulated depreciation/amortization:				
Buildings and improvements	3,761,016	2,471,449	6,232,465	126,061
Machinery, equipment, and vehicles	703,132	150,119	853,251	-
Infrastructure	261,510	3,936,952	4,198,462	-
Right to use assets:				
Machinery and equipment - lease	19,350	-	19,350	-
Total Assets	\$ 7,873,339	\$ 8,169,196	\$ 16,042,535	\$ 3,039,674
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 77,999	\$ 75,053	\$ 153,052	\$ -
Total Deferred Outflows of Resources	\$ 77,999	\$ 75,053	\$ 153,052	\$ -
LIABILITIES				
Accounts payable	\$ 106,985	\$ 59,215	\$ 166,200	\$ -
Accounts payable - construction	86,859	45,077	131,936	-
Accrued wages	19,551	12,821	32,372	-
Customers' deposits	-	95,108	95,108	-
Accrued interest payable	7,072	4,231	11,303	6,414
Due to primary government	-	-	-	509,000
Unearned revenues	34,444	3,974	38,418	-
Long-term liabilities:				
Due within one year	188,889	360,208	549,097	27,380
Due in more than one year	673,636	1,749,129	2,422,765	400,230
Total Liabilities	\$ 1,117,436	\$ 2,329,763	\$ 3,447,199	\$ 943,024
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ 1,177	\$ -	\$ 1,177	\$ -
Lease related items	78,427	-	78,427	-
Pension related items	42,220	31,925	74,145	-
Total Deferred Inflows of Resources	\$ 121,824	\$ 31,925	\$ 153,749	\$ -
NET POSITION				
Net investment in capital assets	\$ 5,139,557	\$ 4,669,791	\$ 9,809,348	\$ 2,163,746
Restricted for:				
Future pension costs	14,723	12,142	26,865	-
Debt service and bond covenants	-	92,088	92,088	-
Unrestricted (deficit)	1,557,798	1,108,540	2,666,338	(67,096)
Total Net Position	\$ 6,712,078	\$ 5,882,561	\$ 12,594,639	\$ 2,096,650

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

Town of Pennington Gap, Virginia
Statement of Activities
For the Year Ended June 30, 2025

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government		Component Unit Indus. Develop. Authority
			Grants and Contributions	Capital Grants and Contributions		Business-type Activities	Total	
Governmental activities:								
General government administration	\$ 321,206	\$ 30,387	\$ 82,500	\$ -	\$ (208,319)	\$ -	\$ (208,319)	\$ -
Public safety	1,223,051	447,783	90,179	-	(685,089)	-	(685,089)	-
Public works	457,164	149,212	12,276	-	(295,676)	-	(295,676)	-
Parks, recreation, and cultural	778,826	163,040	4,500	-	(611,286)	-	(611,286)	-
Community development	886,946	-	-	820,360	(66,586)	-	(66,586)	-
Interest on long-term debt	23,705	-	-	-	(23,705)	-	(23,705)	-
Total governmental activities	\$ 3,690,898	\$ 790,422	\$ 189,455	\$ 820,360	\$ (1,890,661)	\$ -	\$ (1,890,661)	\$ -
Business-type activities:								
Water	\$ 1,503,159	\$ 1,499,551	\$ -	\$ -	\$ -	\$ (3,608)	\$ (3,608)	\$ -
Sewer	888,771	846,016	-	-	(42,755)	-	(42,755)	-
Total business-type activities	\$ 2,391,930	\$ 2,345,567	\$ -	\$ -	\$ (46,363)	\$ -	\$ (46,363)	\$ -
Total	\$ 6,082,828	\$ 3,135,989	\$ 189,455	\$ 820,360	\$ (1,890,661)	\$ (46,363)	\$ (1,937,024)	\$ -
COMPONENT UNIT:								
Industrial Development Authority	\$ 22,522	\$ -	\$ 1,560	\$ -	\$ -	\$ -	\$ -	\$ (20,962)
General revenues:								
General property taxes					\$ 201,757	\$ -	\$ 201,757	\$ -
Other local taxes:								
Local sales and use tax					75,827	-	75,827	-
Business license taxes					116,537	-	116,537	-
Restaurant food taxes					735,741	-	735,741	-
Bank stock taxes					211,736	-	211,736	-
Other local taxes					71,275	-	71,275	-
Unrestricted revenues from use of money					50,235	34,588	84,823	232
Miscellaneous					59,737	-	59,737	-
Grants and contributions not restricted to specific programs					47,207	-	47,207	-
Gain on sale of property					20,746	-	20,746	-
Contribution to Town IDA					-	-	-	799,452
Total general revenues					\$ 1,590,798	\$ 34,588	\$ 1,625,386	\$ 799,684
Change in net position					\$ (299,863)	\$ (11,775)	\$ (311,638)	\$ 778,722
Net position - beginning, as previously reported					\$ 7,001,559	\$ 5,894,336	\$ 12,895,895	\$ 1,366,928
Restatements					10,382	-	10,382	(49,000)
Net position - beginning, as restated					\$ 7,011,941	\$ 5,894,336	\$ 12,906,277	\$ 1,317,928
Net position - ending					\$ 6,712,078	\$ 5,882,561	\$ 12,594,639	\$ 2,096,650

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

Town of Pennington Gap, Virginia
Balance Sheet
Governmental Funds
June 30, 2025

	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 1,105,754
Investments	268,919
Receivables (net of allowance for uncollectibles):	
Taxes receivable	29,755
Accounts receivable	266,177
Lease receivable	79,144
Due from component unit	509,000
Due from other governmental units	119,265
Prepaid items	10,400
Total assets	<u>\$ 2,388,414</u>
LIABILITIES	
Accounts payable	\$ 106,985
Accounts payable - construction	86,859
Accrued wages	19,551
Unearned revenue	34,444
Total liabilities	<u>\$ 247,839</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	\$ 29,360
Unavailable revenue - ambulance billings	121,905
Lease related items	78,427
Total deferred inflows of resources	<u>\$ 229,692</u>
FUND BALANCES	
Nonspendable - prepaid items	\$ 10,400
Unassigned	1,900,483
Total fund balances	<u>\$ 1,910,883</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,388,414</u>

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

Town of Pennington Gap, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Position
June 30, 2025

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	1,910,883
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	654,005	
Buildings and system		3,761,016	
Machinery, equipment, and vehicles		703,132	
Infrastructure		261,510	
Lease - machinery and equipment		19,350	
Construction in progress		71,189	5,470,202

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

Unavailable revenue-property taxes	\$	28,183	
Unavailable revenue-ambulance billings		121,905	150,088

The net pension asset is not an available resource and therefore, is not reported in the funds.		14,723
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Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Pension related items		77,999
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Notes payable	\$	(741,005)	
Financed purchase		(5,000)	
Lease liability		(12,251)	
Accrued interest payable		(7,072)	
Total OPEB liability		(6,516)	
Compensated absences		(97,753)	(869,597)

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

Pension related items		(42,220)
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Net position of governmental activities	\$	6,712,078
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The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2025

	<u>General</u>
REVENUES	
General property taxes	\$ 202,309
Other local taxes	1,211,116
Fines and forfeitures	6,547
Revenue from the use of money and property	80,622
Charges for services	736,978
Miscellaneous	59,737
Recovered costs	139,243
Intergovernmental:	
Local government	82,500
Commonwealth	140,585
Federal	833,937
Total revenues	<u>\$ 3,493,574</u>
EXPENDITURES	
Current:	
General government administration	\$ 431,441
Public safety	1,062,283
Public works	404,797
Parks, recreation, and cultural	645,607
Community development	792,002
Capital projects	377,588
Debt service:	
Principal	110,519
Interest and other fiscal charges	23,936
Total expenditures	<u>\$ 3,848,173</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (354,599)</u>
OTHER FINANCING SOURCES (USES)	
Issuance of note payable	\$ 12,417
Issuance of lease liability	24,747
Sale of capital assets	24,021
Total other financing sources (uses)	<u>\$ 61,185</u>
Net change in fund balances	\$ (293,414)
Fund balances - beginning, as previously reported	\$ 2,155,297
Restatement	49,000
Fund balances - beginning, as restated	<u>\$ 2,204,297</u>
Fund balances - ending	<u>\$ 1,910,883</u>

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

Town of Pennington Gap, Virginia
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2025

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

Net change in fund balances - total governmental funds	\$	(293,414)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital asset additions in the current period.

Capital asset additions	\$	290,757
Depreciation expense	(414,007)	(123,250)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.

Sale of vehicles and equipment	\$	(3,275)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Increase (decrease) in unavailable revenue - property taxes	\$	(552)
Increase (decrease) in unavailable revenue - ambulance billings	16,510	15,958

The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

Issuance of notes payable	\$	(12,417)
Issuance of lease liability	(24,747)	
Principal payments:		
Notes payable	93,023	
Lease liabilities	12,496	
Financed purchase	5,000	73,355

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

(Increase) decrease in compensated absences	\$	27,580
(Increase) decrease in accrued interest payable	231	
Changes in total OPEB liability and related deferred items	(610)	
Changes in net pension liability and related deferred items	3,562	30,763

Change in net position of governmental activities	\$	<u>(299,863)</u>
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The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2025

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 333,307	\$ 211,614	\$ -	\$ 544,921
Investments	304,378	-	-	304,378
Accounts receivable, net of allowance for uncollectibles	202,924	156,510	-	359,434
Interfund loan receivable	2,000	-	-	2,000
Due from other funds	13,471	-	-	13,471
Total current assets	\$ 856,080	\$ 368,124	\$ -	\$ 1,224,204
Noncurrent assets:				
Restricted cash and cash equivalents - customer deposits	\$ 60,508	\$ 34,600	\$ -	\$ 95,108
Restricted investments - debt service	92,088	-	-	92,088
Net pension asset	5,249	6,893	-	12,142
Capital assets:				
Land	10,600	20,515	6,943	38,058
Utility plant in service	12,256,879	2,536,807	-	14,793,686
Buildings and improvements	5,069,675	4,338,298	-	9,407,973
Machinery, equipment, and vehicles	654,515	257,917	-	912,432
Construction in progress	89,185	73,362	-	162,547
Accumulated depreciation	(13,413,321)	(5,142,250)	-	(18,555,571)
Total capital assets	\$ 4,667,533	\$ 2,084,649	\$ 6,943	\$ 6,759,125
Total noncurrent assets	\$ 4,825,378	\$ 2,126,142	\$ 6,943	\$ 6,958,463
Total assets	\$ 5,681,458	\$ 2,494,266	\$ 6,943	\$ 8,182,667
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 40,696	\$ 34,357	\$ -	\$ 75,053
Total deferred outflows of resources	\$ 40,696	\$ 34,357	\$ -	\$ 75,053
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 32,722	\$ 26,493	\$ -	\$ 59,215
Accounts payable - construction	2,378	42,699	-	45,077
Customers' deposits	60,508	34,600	-	95,108
Accrued wages payable	7,247	5,574	-	12,821
Accrued interest payable	3,581	650	-	4,231
Unearned revenue	3,974	-	-	3,974
Due to other funds	-	13,471	-	13,471
Compensated absences - current portion	26,199	18,581	-	44,780
Bonds payable - current portion	233,474	52,500	-	285,974
Notes payable - current portion	27,787	1,667	-	29,454
Total current liabilities	\$ 397,870	\$ 196,235	\$ -	\$ 594,105
Noncurrent liabilities:				
Compensated absences - net of current portion	\$ 8,733	\$ 6,193	\$ -	\$ 14,926
Notes payable - net of current portion	156,257	-	-	156,257
Bonds payable - net of current portion	1,538,972	33,600	-	1,572,572
Total OPEB liability	3,051	2,323	-	5,374
Total noncurrent liabilities	\$ 1,707,013	\$ 42,116	\$ -	\$ 1,749,129
Total liabilities	\$ 2,104,883	\$ 238,351	\$ -	\$ 2,343,234
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 15,358	\$ 16,567	\$ -	\$ 31,925
Total deferred inflows of resources	\$ 15,358	\$ 16,567	\$ -	\$ 31,925
NET POSITION				
Net investment in capital assets	\$ 2,708,665	\$ 1,954,183	\$ 6,943	\$ 4,669,791
Restricted:				
Future pension costs	5,249	6,893	-	12,142
Debt service and bond covenants	92,088	-	-	92,088
Unrestricted (deficit)	795,911	312,629	-	1,108,540
Total net position	\$ 3,601,913	\$ 2,273,705	\$ 6,943	\$ 5,882,561

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

Town of Pennington Gap, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2025

	Enterprise Funds			
	Water <u>Fund</u>	Sewer <u>Fund</u>	Industrial <u>Fund</u>	<u>Total</u>
OPERATING REVENUES				
Charges for services:				
Water sales	\$ 1,467,747	\$ -	\$ -	\$ 1,467,747
Sewer sales	-	820,393	-	820,393
Tap fees	14,990	-	-	14,990
Penalties	10,349	10,768	-	21,117
Other revenues	6,465	14,855	-	21,320
Total operating revenues	<u>\$ 1,499,551</u>	<u>\$ 846,016</u>	<u>\$ -</u>	<u>\$ 2,345,567</u>
OPERATING EXPENSES				
Salaries and fringes	\$ 652,121	\$ 509,721	\$ -	\$ 1,161,842
Utilities	166,658	68,543	-	235,201
Vehicle expense	21,954	4,305	-	26,259
Dues and subscriptions	9,694	8,443	-	18,137
Chemicals	60,887	22,897	-	83,784
Supplies	55,880	16,110	-	71,990
Insurance	17,269	31,467	-	48,736
Lab analysis	7,330	6,189	-	13,519
Professional services	24,485	22,365	-	46,850
Maintenance and repairs	68,181	26,499	-	94,680
Miscellaneous	5,597	1,717	-	7,314
Depreciation	341,360	166,631	-	507,991
Total operating expenses	<u>\$ 1,431,416</u>	<u>\$ 884,887</u>	<u>\$ -</u>	<u>\$ 2,316,303</u>
Operating income (loss)	<u>\$ 68,135</u>	<u>\$ (38,871)</u>	<u>\$ -</u>	<u>\$ 29,264</u>
NONOPERATING REVENUES (EXPENSES)				
Investment income	\$ 32,339	\$ 2,249	\$ -	\$ 34,588
Interest expense	(71,743)	(3,884)	-	(75,627)
Total nonoperating revenues (expenses)	<u>\$ (39,404)</u>	<u>\$ (1,635)</u>	<u>\$ -</u>	<u>\$ (41,039)</u>
Change in net position	<u>\$ 28,731</u>	<u>\$ (40,506)</u>	<u>\$ -</u>	<u>\$ (11,775)</u>
Net position - beginning	3,573,182	2,314,211	6,943	5,894,336
Net position - ending	<u>\$ 3,601,913</u>	<u>\$ 2,273,705</u>	<u>\$ 6,943</u>	<u>\$ 5,882,561</u>

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

Town of Pennington Gap, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2025

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers and users	\$ 1,506,681	\$ 842,391	\$ -	\$ 2,349,072
Payments to and for employees	(660,928)	(495,041)	-	(1,155,969)
Payments for goods and services	(434,267)	(207,766)	-	(642,033)
Net cash provided by (used for) operating activities	\$ 411,486	\$ 139,584	\$ -	\$ 551,070
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Interfund borrowings and transfers	\$ (13,471)	\$ 13,471	\$ -	\$ -
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Additions to capital assets	\$ (32,911)	\$ (58,504)	\$ -	\$ (91,415)
Principal payments on bonds and notes	(882,212)	(59,211)	-	(941,423)
Interest payments	(73,838)	(4,230)	-	(78,068)
Net cash provided by (used for) capital and related financing activities	\$ (988,961)	\$ (121,945)	\$ -	\$ (1,110,906)
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of investments	\$ (396,466)	\$ -	\$ -	\$ (396,466)
Interest income	32,339	2,249	-	34,588
Net cash provided by (used for) investing activities	\$ (364,127)	\$ 2,249	\$ -	\$ (361,878)
Net increase (decrease) in cash and cash equivalents	\$ (955,073)	\$ 33,359	\$ -	\$ (921,714)
Cash and cash equivalents - beginning (restricted cash and cash equivalents of \$93,756)	1,348,888	212,855	-	1,561,743
Cash and cash equivalents - ending (restricted cash and cash equivalents of \$95,108)	\$ 393,815	\$ 246,214	\$ -	\$ 640,029
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 68,135	\$ (38,871)	\$ -	\$ 29,264
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 341,360	\$ 166,631	\$ -	\$ 507,991
(Increase) decrease in accounts receivable	6,277	(4,439)	-	1,838
(Increase) decrease in deferred outflows of resources	(21,926)	(18,029)	-	(39,955)
(Increase) decrease in net pension asset	26,643	19,201	-	45,844
Increase (decrease) in customers' deposits	538	814	-	1,352
Increase (decrease) in accounts payable	3,668	769	-	4,437
Increase (decrease) in accrued wages	1,529	1,092	-	2,621
Increase (decrease) in unearned revenue	315	-	-	315
Increase (decrease) in compensated absences	(11,846)	11,452	-	(394)
Increase (decrease) in total OPEB liability	(231)	(603)	-	(834)
Increase (decrease) in deferred inflows of resources	(2,976)	1,567	-	(1,409)
Total adjustments	\$ 343,351	\$ 178,455	\$ -	\$ 521,806
Net cash provided by (used for) operating activities	\$ 411,486	\$ 139,584	\$ -	\$ 551,070
Noncash investing, capital, and financing activities:				
Construction payables - prior year	\$ 2,378	\$ -	\$ -	\$ 2,378
Construction payables - current year	2,378	42,699	-	45,077

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

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS JUNE 30, 2025

Note 1-Summary of Significant Accounting Policies:

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

A. Financial reporting entity:

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

Blended Component Units - None

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

Related Organizations - None

Jointly Governed Organizations - None

B. Government-wide financial statements:

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

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities). Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

The Town reports the following major governmental funds:

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

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

The Town reports the following major proprietary funds:

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

1. Cash and Cash Equivalents

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

2. Investments

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

3. Property Taxes

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

4. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$240,280 at June 30, 2025. The allowance consists of delinquent taxes in the amount of \$13,708 delinquent ambulance billings of \$102,014, delinquent garbage bills of \$8,493, delinquent water bills of \$65,894, and delinquent sewer bills of \$50,171.

5. Use of Estimates

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

6. Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	20 - 40
Building improvements	20 - 40
Utility plant and equipment	10 - 40
Machinery, equipment, and vehicles	4 - 30
Infrastructure	10 - 40
Lease - machinery and equipment	2

7. Compensated Absences

The Town recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee flex spending account) during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences - vacation and sick leave. The Town only has vacation leave. The liability for compensated absences is reported as incurred in the government-wide and proprietary fund financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Vacation

The Town's policy permits employees to accumulate earned but unused vacation benefits, which are eligible for payment at the employee's current pay rate upon separation.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

8. Pensions

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

9. Other Postemployment Benefits (OPEB)

Local Health Insurance

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

10. Long-term Obligations

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

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

11. Fund Balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called "fund balance." The Town's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes:

- Nonspendable fund balance - amounts that are either not in spendable form (such as inventory and prepaids) or are legally or contractually required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers;

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

11. Fund Balance (Continued)

- Committed fund balance - amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the Town Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the Council adopts another ordinance to remove or revise the limitation;
- Assigned fund balance - amounts a government intends to use for a specific purpose but do not meet the criteria to be classified as committed; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. Unlike commitments, assignments general only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

Committed Fund Balance Policy:

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

Assigned Fund Balance Policy:

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

Resource Flow Policy:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

12. Deferred Outflows/Inflows of Resources

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

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

13. Net Position

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

13. Net Position (Continued)

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

14. Leases

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

Lessor

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

Lessee

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

Key Estimates and Judgments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

14. Leases (Continued)

Key Estimates and Judgments (continued)

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

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

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

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

1. Prior to May 1, the Town Manager submits to the Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. The General, Water and Sewer funds have legally adopted budgets.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department level in the General Fund and fund level of other funds. Only the Town Council can revise the appropriation for each fund. The Town Manager is authorized to transfer budgeted amounts within general government departments.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all Town units.
8. The accompanying financial statements present the original and revised budgets.
9. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the Town's accounting system.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

B. Excess of expenditures over appropriations

The General Office, Police, Fire, General Properties, Parks and Recreation, and Economic Development departments had expenditures that exceeded their appropriations.

C. Deficit fund balance

At June 30, 2025, no funds had deficit fund balance.

Note 3-Deposits and Investments:

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town’s investments at June 30, 2025 were held in the Town’s name by the Town’s custodial bank.

Credit Risk of Debt Securities: The Town has not adopted an investment policy for credit risk. The Town’s rated debt investments as of June 30, 2025 were rated by Standard & Poor’s and/or an equivalent national rating organization and the ratings are presented below using the Standard & Poor’s rating scale.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 3-Deposits and Investments: (Continued)

Interest Rate Risk:

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

Investment Type	Investment Maturities (in years)	
	Fair Value	Less than 1 yr
Nonnegotiable certificate of deposits	\$ 665,385	\$ 665,385
VML/VACO Virginia Investment Pool (VIP)	1,194,361	1,194,361
Total	<u>\$ 1,859,746</u>	<u>\$ 1,859,746</u>

Town's Investment Values					
Investments	Fair Quality Ratings				
	AAAm	AAA	AA+	Unrated	Total
Nonnegotiable certificate of deposits	\$ -	\$ -	\$ -	\$ 665,385	665,385
VML/VACO Virginia Investment Pool (VIP)*	1,194,361	-	-	-	1,194,361
Total	<u>\$ 1,194,361</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 665,385</u>	<u>\$ 1,859,746</u>

*These investments are reported as cash and cash equivalents due to their liquidity.

External Investment Pool:

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

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TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 4-Due from Other Governmental Units:

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

	<u>Primary Government Governmental Activities</u>
<u>Lee County</u>	
Court fines/transfer fees	\$ 1,099
<u>Commonwealth of Virginia:</u>	
Communications Tax	4,875
Local Sales Tax	12,892
Community Flood Preparedness Grant	14,133
<u>Federal Government:</u>	
ARPA - Industrial Revitalization Fund	74,984
FEMA	10,345
Transportation Safety	937
Total	<u>\$ 119,265</u>

Note 5-Interfund/Component-Unit Activity:

Interfund balances for the year ended June 30, 2025 consisted of the following:

<u>Fund</u>	<u>Due From</u>	<u>Due To</u>
Water Fund	\$ 13,471	\$ -
Sewer Fund	-	13,471
Totals	<u>\$ 13,471</u>	<u>\$ 13,471</u>

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

<u>Fund</u>	<u>Due From Primary Government/ Component Unit</u>	<u>Due To Primary Government/ Component Unit</u>
Primary Government		
General Fund	\$ 509,000	\$ -
Component Unit		
IDA	<u>\$ -</u>	<u>\$ 509,000</u>

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

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 6-Long-term Obligations:

Governmental Activities Obligations:

The following is a summary of long-term obligation transactions of the Town for the year ended June 30, 2025:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Direct borrowings:				
Notes payable	\$ 821,611	\$ 12,417	\$ (93,023)	\$ 741,005
Financed Purchase	10,000	-	(5,000)	5,000
Lease liability	-	24,747	(12,496)	12,251
Total OPEB liability	5,906	2,090	(1,480)	6,516
Compensated absences*	125,333	-	(27,580)	97,753
Total	\$ 962,850	\$ 39,254	\$ (139,579)	\$ 862,525

*The change in the compensated absences liability is presented as a net change.

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

Year Ending June 30,	Direct Borrowings and Direct Placements							
	Notes Payable		Note Payable - IDA (component unit)		Financed Purchase		Lease Liability	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 70,943	\$ 10,639	\$ 27,380	\$ 12,828	\$ 5,000	\$ -	\$ 12,251	\$ 245
2027	62,155	8,823	28,201	12,007	-	-	-	-
2028	40,561	7,072	29,047	11,161	-	-	-	-
2029	28,793	5,616	29,919	10,289	-	-	-	-
2030	19,237	4,864	30,816	9,392	-	-	-	-
2031-2035	91,706	14,232	168,515	32,525	-	-	-	-
2036-2038	-	-	113,732	6,890	-	-	-	-
Totals	\$ 313,395	\$ 51,246	\$ 427,610	\$ 95,092	\$ 5,000	\$ -	\$ 12,251	\$ 245

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2025

Note 6-Long-term Obligations: (Continued)

Governmental Activities Obligations: (Continued)

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Total Amount	Amount Due Within One Year
<u>Direct Borrowings - Notes Payable:</u>							
Rural Development - Sanitation Truck	2.13%	10/19/2020	10/19/2027	\$1,232 (b)	\$ 96,000	\$ 33,468	\$ 14,209
Farmers and Miners Bank - Fire Truck	2.87%	3/11/2021	3/11/2029	\$1,151 (b)	98,438	48,947	12,572
Water fund - Police Radios	0.00%	7/1/2018	2/1/2026	\$1,000 (b)	44,000	2,000	2,000
Rural Development - Pumper Truck	3.00%	11/20/2019	11/20/2034	\$1,859 (b)	269,000	182,375	17,064
Rural Development - 2 Chevy Tahoes	2.13%	11/17/2021	11/17/2026	\$377 (b)	21,400	6,253	4,435
Farmers and Miners Bank - Kubota RTV	1.90%	12/10/2021	12/24/2026	\$576 (b)	32,925	10,186	6,783
Lee Bank and Trust - Scag Mower	4.99%	4/4/2023	4/3/2026	\$260 (b)	8,664	2,538	2,538
Powell Valley National Bank - Chevy Colorado	4.46%	11/3/2022	11/3/2027	\$660 (b)	35,427	18,118	7,257
County of Lee - IDA Note Payable	3.00%	5/23/2023	12/15/2037	\$40,208 (b)	480,000	427,610	27,380
Farmers and Miners Bank - Cub Cadet	5.41%	8/30/2024	9/1/2027	\$375 (b)	12,417	9,510	4,085
Total direct borrowings - notes payable						\$ 741,005	\$ 98,323
<u>Direct Borrowings - Financed Purchases:</u>							
Glass Machinery - Sweeper Truck	0.00%	7/11/2019	7/11/2026	\$5,000 (a)	\$ 35,000	\$ 5,000	\$ 5,000
Total direct borrowings - financed purchases						\$ 5,000	\$ 5,000
<u>Lease Liabilities:</u>							
Flock camera lease	2.00%	1/21/2025	1/21/2026	\$12,496 (a)	\$ 24,747	\$ 12,251	\$ 12,251
Total lease liabilities						\$ 12,251	\$ 12,251
<u>Other Obligations:</u>							
Compensated absences						\$ 97,753	\$ 73,315
Total OPEB liability						6,516	-
Total other obligations						\$ 104,269	\$ 73,315
Total long-term obligations						\$ 862,525	\$ 188,889

(a) annual payment includes principal and interest

(b) monthly payments include principal and interest

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TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 6-Long-term Obligations: (Continued)

Business-type Activities Obligations:

The following is a summary of long-term obligation transactions of the Enterprise Fund for the year ended June 30, 2025:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Direct borrowings:				
General obligation bonds	\$ 469,000	\$ -	\$ (182,000)	\$ 287,000
Note payable	840,469	-	(654,758)	185,711
Revenue bonds	1,676,211	-	(104,665)	1,571,546
Total OPEB liability	6,208	1,121	(1,955)	5,374
Compensated absences*	60,100	-	(394)	59,706
Total	\$ 3,051,988	\$ 1,121	\$ (943,772)	\$ 2,109,337

*The change in the compensated absences liability is presented as a net change.

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

Year Ending June 30,	Direct Borrowings and Direct Placements					
	General Obligation Bonds		Revenue Bonds		Notes Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 175,000	\$ 8,610	\$ 110,974	\$ 37,861	\$ 29,454	\$ 4,973
2027	112,000	3,360	113,069	35,829	27,199	4,144
2028	-	-	115,232	33,730	22,399	3,383
2029	-	-	117,465	31,564	21,959	2,756
2030	-	-	119,771	29,327	22,598	2,116
2031-2035	-	-	589,958	100,766	62,102	2,374
2036-2040	-	-	376,027	30,038	-	-
2041-2045	-	-	36,632	2,327	-	-
Totals	\$ 287,000	\$ 11,970	\$ 1,579,128	\$ 301,442	\$ 185,711	\$ 19,746
Amount not yet drawn down			(7,582)			
Adjusted Total			\$ 1,571,546			

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2025

Note 6-Long-term Obligations: (Continued)

Business-type Activities Obligations: (Continued)

Details of long-term obligations:

	Interest Rates	Issue Date	Final Maturity Date	Installment Amounts	Amount of Original Issue	Total Amount	Amount Due Within One Year
Direct Borrowings - General Obligation Bonds							
2012 Water Refunding - Lee Bank and Trust	3.00%	9/1/2012	3/1/2027	\$24,889 - \$42,467 (a+)	\$ 416,667	\$ 66,967	\$ 40,833
2012 Water Refunding - Powell Valley National Bank	3.00%	9/1/2012	3/1/2027	\$24,889 - \$42,467 (a+)	416,667	66,967	40,833
2012 Water Refunding - Farmers and Miners Bank	3.00%	9/1/2012	3/1/2027	\$24,889 - \$42,467 (a+)	416,667	66,966	40,834
2012 Sewer Refunding - Lee Bank and Trust	3.00%	9/1/2012	3/1/2027	\$12,444 - \$20,556 (a+)	416,667	28,700	17,500
2012 Sewer Refunding - Powell Valley National Bank	3.00%	9/1/2012	3/1/2027	\$12,444 - \$20,556 (a+)	416,667	28,700	17,500
2012 Sewer Refunding - Farmers and Miners Bank	3.00%	9/1/2012	3/1/2027	\$12,444 - \$20,556 (a+)	416,667	28,700	17,500
Total direct borrowings - general obligation bonds						\$ 287,000	\$ 175,000
Direct Borrowings - Notes Payable:							
Powell Valley National Bank - WTP Projects	2.88%	8/8/2017	2/9/2033	\$2,060 (b)	\$ 300,000	\$ 168,874	\$ 20,146
Farmers and Miners Bank - Ford F250	2.85%	10/1/2020	10/1/2025	\$428 (b)	23,900	1,667	1,667
Lee Bank and Trust - Dodge Ram	3.00%	9/2/2020	9/2/2025	\$475 (b)	26,500	1,401	1,401
Farmers and Miners Bank - Chevy Colorado	3.55%	8/3/2022	8/1/2027	\$552 (b)	30,288	13,769	6,240
Total direct borrowings - notes payable						\$ 185,711	\$ 29,454
Direct Borrowings - Revenue Bonds:							
1999 Water Revenue Bond	3.25%	9/20/1999	9/20/2039	\$7,674 (b)	\$ 2,003,540	\$ 1,030,427	\$ 59,415
2004B Water Revenue Bond	0.00%	7/25/2004	3/1/2034	\$23,096 (c)	1,385,748	415,725	46,192
VRA Water Revenue Bond*	2.50%	10/19/2023	9/1/2044	\$4,329 (c)	132,975	125,394	5,367
Total direct borrowings - revenue bonds						\$ 1,571,546	\$ 110,974
Other Obligations:							
Compensated absences						\$ 59,706	\$ 44,780
Total OPEB liability						5,374	-
Total other obligations						\$ 65,080	\$ 44,780
Total long-term obligations						\$ 2,109,337	\$ 360,208

(a+) annual principal installments shown does not include semi-annual interest installments

(b) monthly payments include principal and interest

(c) semi-annual principal payments

* bond still in draw-down phase

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 6-Long-term Obligations: (Continued)

Business-type Activities Obligations: (Continued)

Details of long-term obligations: (Continued)

The revenue bonds are subject to a pledge of the system generated revenues. The revenues as received by the Town are immediately subject to the lien of this pledge. Further, the Town has agreed to fix and collect rates, fees, and other charges for the services as provided by the system so that each year the net revenues available for debt service will equal at least 115% of the amount required to pay the principal and interest costs of the bonds. The Town agrees to monitor rates and immediately take action to increase its rates or reduce operation expenses if it fails to satisfy such requirements. For fiscal year 2025, the Town did meet the 115% rate covenant.

The Town has a general obligation bond that is split between the water and sewer funds totaling \$287,000 at year-end.

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

Note 7-Pension Plan:

Plan Description

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

Benefit Structures

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)

Benefit Structures (continued)

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

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.70% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

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

Employees Covered by Benefit Terms

As of the June 30, 2023 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	7
Inactive members:	
Vested inactive members	3
Non-vested	8
Inactive members active elsewhere in VRS	11
Total inactive members	<u>22</u>
Active members	<u>31</u>
Total covered employees	<u><u>60</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Town's contractually required employer contribution rate for the year ended June 30, 2025 was 3.94% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2023.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$51,194 and \$48,746 for the years ended June 30, 2025 and June 30, 2024, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)

Contributions (Continued)

The defined contributions component of the Hybrid plan includes member and employer mandatory and voluntary contributions. The Hybrid plan member must contribute a mandatory rate of 1% of their covered payroll. The employer must also contribute a mandatory rate of 1% of this covered payroll, which totaled \$9,675 for the Town, for the year ended June 30, 2025. Hybrid plan members may also elect to contribute an additional voluntary rate of up to 4% of their covered payroll; which would require the employer a mandatory additional contribution rate of up to 2.5%. This additional employer mandatory contribution totaled \$12,275 for the Town, for the year ended June 30, 2025. The total Hybrid plan participant covered payroll totaled \$939,013 and for the Town, for the year ended June 30, 2025.

Net Pension Asset

The net pension asset (NPA) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Town of Pennington Gap, the net pension asset was measured as of June 30, 2024. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2023 rolled forward to the measurement date of June 30, 2024.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

Beneficiaries and Survivors:

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

Mortality Improvement:

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2023, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2024.

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

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

- Pre-Retirement:
Pub-2010 Amount Weighted Safety Employee Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males; 105% of rates for females set forward 2 years
- Post-Retirement:
Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males; 105% of rates for females set forward 3 years
- Post-Disablement:
Pub-2010 Amount Weighted General Disabled Rates projected generationally with a Modified MP-2020 Improvement Scale; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years
- Beneficiaries and Survivors:
Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally with a Modified MP-2020 Improvement Scale; 110% of rates for males and females set forward 2 years
- Mortality Improvements:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025**Note 7-Pension Plan: (Continued)*****Long-Term Expected Rate of Return***

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	32.00%	6.70%	2.14%
Fixed Income	16.00%	5.40%	0.86%
Credit Strategies	16.00%	8.10%	1.30%
Real Assets	15.00%	7.20%	1.08%
Private Equity	15.00%	8.70%	1.31%
PIP - Private Investment Partnerships	1.00%	8.00%	0.08%
Diversifying Strategies	6.00%	5.80%	0.35%
Cash	2.00%	3.00%	0.06%
Leverage	-3.00%	3.50%	-0.11%
Total	100.00%		7.07%
Expected arithmetic nominal return**			7.07%

*The above allocation provides a one-year expected return of 7.07% (includes 2.50% inflation assumption). However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the System, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.10%, including expected inflation of 2.50%.

**On June 15, 2023, the VRS Board elected a long-term rate return of 6.75% which was roughly at the 45th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.14%, including expected inflation of 2.50%

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)**Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. For the year ended June 30, 2024, the employer contribution rate was 100% of the actuarially determined employer contribution rate from the June 30, 2023 actuarial valuations. From July 1, 2024 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2023	\$ 1,636,016	\$ 1,732,659	\$ (96,643)
Changes for the year:			
Service cost	\$ 91,716	\$ -	\$ 91,716
Interest	113,822	-	113,822
Differences between expected and actual experience	125,907	-	125,907
Contributions - employer	-	41,723	(41,723)
Contributions - employee	-	51,956	(51,956)
Net investment income	-	168,983	(168,983)
Benefit payments, including refunds of employee contributions	(82,957)	(82,957)	-
Administrative expenses	-	(1,034)	1,034
Other changes	-	39	(39)
Net changes	\$ 248,488	\$ 178,710	\$ 69,778
Balances at June 30, 2024	\$ 1,884,504	\$ 1,911,369	\$ (26,865)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)***Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate***

The following presents the net pension liability (asset) of the Town using the discount rate of 6.75%, as well as what the Town's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(5.75%)	(6.75%)	(7.75%)
Town's Net Pension Liability (Asset) \$	238,186 \$	(26,865) \$	(231,589)

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

For the year ended June 30, 2025, the Town recognized pension expense of \$45,089. At June 30, 2025, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 91,127	\$ 15,238
Net difference between projected and actual earnings on pension plan investments	-	48,176
Changes in proportion and differences between employer contributions and proportionate share of contributions	10,731	10,731
Employer contributions subsequent to the measurement date	51,194	-
Total	\$ 153,052	\$ 74,145

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 7-Pension Plan: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$51,194 reported as deferred outflows of resources related to pensions resulting from the Town’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year fiscal ending June 30, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2026	\$ (17,593)
2027	43,744
2028	11,901
2029	(10,339)
2030	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2024 Annual Comprehensive Financial Report (Annual Report). A copy of the 2024 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2024-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

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TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2025

Note 8-Capital Assets:

Capital asset activity for the year ended June 30, 2025 was as follows:

	Beginning Balance as Reported	Restatement	Beginning Balance as Restated	Increases	Decreases	Ending Balance
Governmental Activities:						
Capital assets, not being depreciated/amortized:						
Land	\$ 654,005	\$ -	\$ 654,005	\$ -	\$ -	\$ 654,005
Construction in progress	38,618	(38,618)	-	237,824	(166,635)	71,189
Total capital assets not being depreciated/amortized	<u>\$ 692,623</u>	<u>\$ (38,618)</u>	<u>\$ 654,005</u>	<u>\$ 237,824</u>	<u>\$ (166,635)</u>	<u>\$ 725,194</u>
Capital assets, being depreciated/amortized:						
Buildings and improvements	\$ 5,759,152	\$ -	\$ 5,759,152	\$ -	\$ -	\$ 5,759,152
Machinery, equipment, and vehicles	3,000,597	-	3,000,597	28,186	(115,308)	2,913,475
Infrastructure	569,750	-	569,750	166,635	-	736,385
Right-to-use lease machinery and equipment	-	-	-	24,747	-	24,747
Total capital assets being depreciated/amortized	<u>\$ 9,329,499</u>	<u>\$ -</u>	<u>\$ 9,329,499</u>	<u>\$ 219,568</u>	<u>\$ (115,308)</u>	<u>\$ 9,433,759</u>
Accumulated depreciation:						
Buildings and improvements	\$ (1,809,843)	\$ -	\$ (1,809,843)	\$ (188,293)	\$ -	\$ (1,998,136)
Machinery, equipment, and vehicles	(2,105,291)	-	(2,105,291)	(217,085)	112,033	(2,210,343)
Infrastructure	(471,643)	-	(471,643)	(3,232)	-	(474,875)
Right-to-use lease machinery and equipment	-	-	-	(5,397)	-	(5,397)
Total accumulated depreciation	<u>\$ (4,386,777)</u>	<u>\$ -</u>	<u>\$ (4,386,777)</u>	<u>\$ (414,007)</u>	<u>\$ 112,033</u>	<u>\$ (4,688,751)</u>
Total capital assets being depreciated/amortized, net	<u>\$ 4,942,722</u>	<u>\$ -</u>	<u>\$ 4,942,722</u>	<u>\$ (194,439)</u>	<u>\$ (3,275)</u>	<u>\$ 4,745,008</u>
Governmental activities capital assets, net	<u>\$ 5,635,345</u>	<u>\$ (38,618)</u>	<u>\$ 5,596,727</u>	<u>\$ 43,385</u>	<u>\$ (169,910)</u>	<u>\$ 5,470,202</u>

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

Governmental Activities:

General government administration	\$ 35,784
Public safety	173,733
Public works	51,634
Parks, recreation, and cultural	152,856

Total depreciation expense-governmental activities \$ 414,007

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 8-Capital Assets: (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Construction in progress	75,514	87,033	-	162,547
Total capital assets not being depreciated	<u>\$ 113,572</u>	<u>\$ 87,033</u>	<u>\$ -</u>	<u>\$ 200,605</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 9,407,973	\$ -	\$ -	\$ 9,407,973
Utility plant and equipment	14,793,686	-	-	14,793,686
Machinery, equipment, and vehicles	865,351	47,081	-	912,432
Total capital assets being depreciated	<u>\$ 25,067,010</u>	<u>\$ 47,081</u>	<u>\$ -</u>	<u>\$ 25,114,091</u>
Accumulated depreciation:				
Buildings and improvements	\$ (6,699,985)	\$ (236,539)	\$ -	\$ (6,936,524)
Utility plant and equipment	(10,614,816)	(241,918)	-	(10,856,734)
Machinery, equipment, and vehicles	(732,779)	(29,534)	-	(762,313)
Total accumulated depreciation	<u>\$ (18,047,580)</u>	<u>\$ (507,991)</u>	<u>\$ -</u>	<u>\$ (18,555,571)</u>
Total capital assets being depreciated, net	<u>\$ 7,019,430</u>	<u>\$ (460,910)</u>	<u>\$ -</u>	<u>\$ 6,558,520</u>
Business-type activities capital assets, net	<u>\$ 7,133,002</u>	<u>\$ (373,877)</u>	<u>\$ -</u>	<u>\$ 6,759,125</u>

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

Business-type Activities:

Water	\$ 341,360
Sewer	<u>166,631</u>
Total depreciation expense - business-type activities	<u>\$ 507,991</u>

Note 9-Risk Management:

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10-Other Postemployment Benefits - Health Insurance:

Plan Description

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

Benefits Provided

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

Plan Membership

At June 30, 2025 (measurement date), the following employees were covered by the benefit terms:

Total active employees	25
Total	<u>25</u>

Contributions

The Town Council does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Town Council. The amount paid by the Town for OPEB as the benefits came due during the year ended June 30, 2025, was \$0.00.

Total OPEB Liability

The Town's total OPEB liability was measured as of June 30, 2025. The total OPEB liability was determined by using the alternative measurement method as of June 30, 2025.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 10-Other Postemployment Benefits - Health Insurance: (Continued)**Actuarial Assumptions**

The total OPEB liability in the June 30, 2025 actuarial valuation, using the alternative measurement method, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.00%
Average Retirement Age	65
Discount Rate	5.25%

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

Discount Rate

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

Changes in Total OPEB Liability

	Total OPEB Liability
Balance as of June 30, 2024	\$ 12,116
Changes for the year:	
Service cost	1,982
Interest	493
Effect of Economic/Demographic Gains or Losses	(473)
Effect of changes in assumptions	(2,228)
Balance as of June 30, 2025	<u>\$ 11,890</u>

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

The following presents the total OPEB liability of the Town, as well as what the total OPEB liability would be if it were calculated using discount rates that are one percentage point lower (4.25%) or one percentage point higher (6.25%) than the current discount rate:

<u>1% Decrease</u> <u>(4.25%)</u>	<u>Current Discount</u> <u>(5.25%)</u>	<u>1% Increase</u> <u>(6.25%)</u>
\$ 13,101	\$ 11,890	\$ 10,820

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

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

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

Healthcare Cost Trend Rates		
1% Decrease	Current	1% Increase
\$ 10,361	\$ 11,890	\$ 13,716

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

For the year ended June 30, 2025, the Town recognized OPEB expense in the amount of \$(226). At June 30, 2025, the Town did not report deferred outflows of resources and deferred inflows of resources related to OPEB.

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

Note 11-Deferred/ Unavailable Revenue:

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

	Government-wide Statements Governmental Activities	Balance Sheet Governmental Funds
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures	\$ -	\$ 28,183
Prepaid property taxes due after June 30 but paid in advance by taxpayers	1,177	1,177
Unavailable ambulance billing revenue representing uncollected ambulance billings that are not available for the funding of current expenditures	-	121,905
	<u>\$ 1,177</u>	<u>\$ 151,265</u>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) JUNE 30, 2025

Note 12-Litigation:

As of June 30, 2025, there were no matters of litigation involving the Town which would materially affect the Town's financial position should any court decisions on pending matters not be favorable.

Note 13-Commitments and Contingencies:

The Town took over the Lee County Rescue Squad Inc during FY2023 after it went out of business. The town will receive all of the vehicles, building, and equipment after the former entity settles its debt, and the Town received title for the ambulance and equipment in September 2025, and the deed to the building in December 2025. The Town currently leases those items for \$1 per month until they are given title to the assets.

Construction Commitments:

At June 30, 2025, the Town had the following outstanding construction commitments:

Project	Amount of Contract	Amount Outstanding	Accounts Payable	Retainage Payable
Mattern & Craig - Water Treatment Plant Structural Repairs	\$ 278,200	\$ 130,130	\$ 2,378	\$ -
Mattern & Craig - Wallen Creek Sanitary Sewer Project	126,780	98,520	19,152	-
Mattern & Craig - Cane Creek Sanitary Sewer Project	223,400	184,848	16,998	-
The Lane Group - Pennington Gap STP Improvements	137,984	39,746	6,549	-
Mattern & Craig - Hotel Site Project*	124,750	56,698	-	-
Quesenberry's Inc. - Bailey Robbins Renovations*	955,850	47,793	39,067	47,792
Total	\$ 1,846,964	\$ 557,735	\$ 84,144	\$ 47,792

*These projects are paid for by the Town to improve buildings owned by the Town of Pennington Gap IDA

Note 14-Lease Receivable:

The following is a summary of leases receivable transactions of the Town for the year ended June 30, 2025:

	Beginning Balance,	Increases / Issuances	Decreases / Retirements	Ending Balance	Interest Revenue
Leases receivable	\$ -	\$ 97,967	\$ (18,823)	\$ 79,144	\$ 1,947

Lease revenue recognized during the fiscal year was \$97,967.

Details of lease receivable:

Lease Description	Start Date*	End Date	Payment Frequency	Discount Rate	Ending Balance	Amount Due Within One Year
Crown Castle tower lease	7/1/2024	6/30/2029	Monthly	2.40%	\$ 79,144	\$ 19,080

There are no variable payments for the lease receivable above.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 15-Adoption of Accounting Principle:

During the current year, the Town implemented GASB Statement No. 101, *Compensated Absences*. In addition to the value of unused vacation time owed to employees upon separation of employment, the Town now recognizes an estimated amount of leave earned as of year-end that will be used by employees as time off in future years as part of the liability for compensated absences. Since the impact of the change in accounting principle was not significant, there was no restatement of beginning balances.

Note 16-Restatement of Beginning Balances:

The Town of Pennington Gap completed the pickleball court capital project in FY24, and it was erroneously reported as both CIP and completed capital assets. In addition, the Town gave the IDA funds in FY23 to issue a note receivable. This transaction was originally treated as a contribution but should have been an amount due to the Town. These transactions were corrected through a beginning balance restatement recorded as a receivable due from the IDA.

	General Fund
Fund balance, July 1, 2024, as previously reported	\$ 2,155,297
Correction to record additional amount due from IDA	49,000
Fund balance, July 1, 2024, as restated	<u>\$ 2,204,297</u>
	Primary Government
	Governmental
	Activities
Net position, July 1, 2024, as previously stated	\$ 7,001,559
Correction to remove already capitalized CIP	(38,618)
Correction to record additional amount due from IDA	49,000
Net position, July 1, 2024, as restated	<u>\$ 7,011,941</u>

Note 17-Subsequent Events:

On August 18, 2025, the Town authorized the issuance and sale of a general obligation and water/sewer revenue bond for a maximum of \$1,193,004 at 0% interest.

In September 2025, the Town accepted a bid for \$136,490 for the demolition of the Cas Walker building.

In October 2025, the Town purchased a new 1-ton truck to be used for the water and sewer departments for \$73,706.

Note 18-Upcoming Pronouncements:

Statement No. 103, *Financial Reporting Model Improvements*, improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2025

Note 18-Upcoming Pronouncements: (Continued)

Statement No. 104, *Disclosure of Certain Capital Assets*, requires certain types of assets (lease assets, subscription assets, intangible right-to-use assets, and other intangible assets) to be disclosed separately in the capital asset note disclosures by major class of underlying asset. It also requires additional disclosures for capital assets held for sale. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

Implementation Guide No. 2025-1, *Implementation Guidance Update—2025*, effective for fiscal years beginning after June 15, 2025.

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

Required Supplementary Information

Town of Pennington Gap, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2025

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 185,500	\$ 189,500	\$ 202,309	\$ 12,809
Other local taxes	1,160,700	1,160,700	1,211,116	50,416
Fines and forfeitures	5,000	5,000	6,547	1,547
Revenue from the use of money and property	31,900	31,900	80,622	48,722
Charges for services	744,000	745,000	736,978	(8,022)
Miscellaneous	28,650	37,250	59,737	22,487
Recovered costs	10,000	125,000	139,243	14,243
Intergovernmental:				
Local government	60,000	67,000	82,500	15,500
Commonwealth	132,600	132,600	140,585	7,985
Federal	853,500	1,475,996	833,937	(642,059)
Total revenues	\$ 3,211,850	\$ 3,969,946	\$ 3,493,574	\$ (476,372)
EXPENDITURES				
Current:				
General government administration	\$ 403,200	\$ 415,700	\$ 431,441	\$ (15,741)
Public safety	1,147,750	1,126,546	1,062,283	64,263
Public works	353,400	420,700	404,797	15,903
Parks, recreation, and cultural	584,650	629,050	645,607	(16,557)
Community development	1,094,650	1,212,950	792,002	420,948
Capital projects	32,500	436,000	377,588	58,412
Debt service:				
Principal	102,814	102,814	110,519	(7,705)
Interest and other fiscal charges	23,936	23,936	23,936	-
Total expenditures	\$ 3,742,900	\$ 4,367,696	\$ 3,848,173	\$ 519,523
Excess (deficiency) of revenues over (under) expenditures	\$ (531,050)	\$ (397,750)	\$ (354,599)	\$ 43,151
OTHER FINANCING SOURCES (USES)				
Issuance of note payable	\$ 102,400	\$ 22,900	\$ 12,417	\$ (10,483)
Issuance of lease liability	-	-	24,747	24,747
Sale of capital assets	-	17,000	24,021	7,021
Total other financing sources (uses)	\$ 102,400	\$ 39,900	\$ 61,185	\$ 21,285
Net change in fund balances	\$ (428,650)	\$ (357,850)	\$ (293,414)	\$ 64,436
Fund balances - beginning, as previously reported	\$ 428,650	\$ 357,850	\$ 2,155,297	\$ 1,797,447
Restatement	-	-	49,000	49,000
Fund balances - beginning, as restated	\$ 428,650	\$ 357,850	\$ 2,204,297	\$ 1,846,447
Fund balances - ending	\$ -	\$ -	\$ 1,910,883	\$ 1,910,883

Town of Pennington Gap, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Pension Plan
For the Measurement Dates of June 30, 2015 through June 30, 2024

	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Total pension liability										
Service cost	\$ 91,716	\$ 80,141	\$ 65,830	\$ 58,683	\$ 61,592	\$ 63,373	\$ 61,102	\$ 62,054	\$ 61,248	\$ 58,394
Interest	113,822	107,788	101,745	78,840	78,514	69,121	63,273	61,094	54,173	47,463
Differences between expected and actual experience	125,907	(32,392)	(20,315)	193,554	(49,733)	62,569	(1,865)	(30,306)	6,619	10,655
Assumption changes	-	-	-	17,771	-	38,166	(22,272)	(22,272)	-	-
Benefit payments	(82,957)	(72,482)	(71,608)	(79,065)	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)
Net change in total pension liability	\$ 248,488	\$ 83,055	\$ 75,652	\$ 269,783	\$ (1,675)	\$ 210,296	\$ 67,508	\$ 46,681	\$ 99,606	\$ 97,618
Total pension liability - beginning	1,636,016	1,552,961	1,477,309	1,207,526	1,209,201	998,905	931,397	884,716	785,110	687,492
Total pension liability - ending (a)	\$ 1,884,504	\$ 1,636,016	\$ 1,552,961	\$ 1,477,309	\$ 1,207,526	\$ 1,209,201	\$ 998,905	\$ 931,397	\$ 884,716	\$ 785,110
Plan fiduciary net position										
Contributions - employer	\$ 41,723	\$ 42,570	\$ 19,313	\$ 17,757	\$ 15,395	\$ 19,794	\$ 28,921	\$ 30,656	\$ 41,559	\$ 38,698
Contributions - employee	51,956	49,201	38,157	34,164	33,934	39,561	39,185	48,678	35,731	33,368
Net investment income	168,983	105,808	(2,110)	353,713	24,478	82,665	82,233	118,475	16,964	36,926
Benefit payments	(82,957)	(72,482)	(71,608)	(79,065)	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)
Administrator charges	(1,034)	(1,008)	(1,006)	(881)	(869)	(753)	(685)	(618)	(497)	(445)
Other	39	43	38	33	(29)	(53)	(75)	(108)	(7)	(7)
Net change in plan fiduciary net position	\$ 178,710	\$ 124,132	\$ (17,216)	\$ 325,721	\$ (19,139)	\$ 118,281	\$ 94,577	\$ 173,194	\$ 71,316	\$ 89,646
Plan fiduciary net position - beginning	1,732,659	1,608,527	1,625,743	1,300,022	1,319,161	1,200,880	1,106,303	933,109	861,793	772,147
Plan fiduciary net position - ending (b)	\$ 1,911,369	\$ 1,732,659	\$ 1,608,527	\$ 1,625,743	\$ 1,300,022	\$ 1,319,161	\$ 1,200,880	\$ 1,106,303	\$ 933,109	\$ 861,793
Town's net pension liability (asset) - ending (a) - (b)	\$ (26,865)	\$ (96,643)	\$ (55,566)	\$ (148,434)	\$ (92,496)	\$ (109,960)	\$ (201,975)	\$ (174,906)	\$ (48,393)	\$ (76,683)
Plan fiduciary net position as a percentage of the total pension liability (asset)	101.43%	105.91%	103.58%	110.05%	107.66%	109.09%	120.22%	118.78%	105.47%	109.77%
Covered payroll	\$ 1,204,386	\$ 1,123,272	\$ 848,734	\$ 753,061	\$ 756,134	\$ 863,203	\$ 840,870	\$ 822,966	\$ 774,106	\$ 674,462
Town's net pension liability (asset) as a percentage of covered payroll	-2.23%	-8.60%	-6.55%	-19.71%	-12.23%	-12.74%	-24.02%	-21.25%	-6.25%	-11.37%

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

For the Years Ended June 30, 2016 through June 30, 2025

Date	Contractually Required Contribution (1)*	Contributions in Relation to Contractually Required Contribution (2)*	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2025	\$ 51,194	\$ 51,194	\$ -	\$ 1,299,388	3.94%
2024	48,746	48,746	-	1,204,386	4.05%
2023	42,838	42,838	-	1,123,272	3.81%
2022	19,447	19,447	-	848,734	2.29%
2021	17,756	17,756	-	753,061	2.36%
2020	15,598	15,598	-	756,134	2.06%
2019	19,794	19,794	-	863,203	2.29%
2018	28,921	28,921	-	840,870	3.44%
2017	30,344	30,344	-	822,966	3.69%
2016	39,051	39,051	-	774,106	5.04%

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

Town of Pennington Gap, Virginia
Notes to Required Supplementary Information
Pension Plan
For the Year Ended June 30, 2025

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

Changes of assumptions - The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

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

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

Town of Pennington Gap, Virginia
Schedule of Changes in Total OPEB Liability and Related Ratios
Town Health Insurance
For the Measurement Dates of June 30, 2018 through June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Total OPEB liability								
Service cost	\$ 1,982	\$ 3,494	\$ 2,752	\$ 3,027	\$ 3,186	\$ 3,088	\$ 4,383	\$ 3,590
Interest	493	1,275	1,314	867	912	1,349	2,027	952
Differences between expected and actual experience	(473)	(23,742)	(6,627)	(2,911)	(11,574)	2,398	(17,988)	26,943
Assumption Changes	(2,228)	204	(300)	(4,538)	(1,044)	4,585	1,203	(27,488)
Benefit payments	-	-	-	-	-	(3,216)	-	-
Net change in total OPEB liability	\$ (226)	\$ (18,769)	\$ (2,861)	\$ (3,555)	\$ (8,520)	\$ 8,204	\$ (10,375)	\$ 3,997
Total OPEB liability - beginning	12,116	30,885	33,746	37,301	45,821	37,617	47,992	43,995
Total OPEB liability - ending	\$ 11,890	\$ 12,116	\$ 30,885	\$ 33,746	\$ 37,301	\$ 45,821	\$ 37,617	\$ 47,992
Covered-employee payroll	\$ 1,864,656	\$ 1,729,696	\$ 1,581,526	\$ 1,339,561	\$ 1,054,580	\$ 1,075,405	\$ 1,108,672	\$ 1,872,398
Town's total OPEB liability as a percentage of covered-employee payroll	0.64%	0.70%	1.95%	2.52%	3.54%	4.26%	3.39%	2.56%

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

Town of Pennington Gap, Virginia
Notes to Required Supplementary Information - Town Health Insurance
For the Year Ended June 30, 2025

Valuation Date: 6/30/2025

Measurement Date: 6/30/2025

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Alternative measurement method (AMM)
Discount Rate	5.25% as of June 30, 2025
Healthcare Trend Rate - Medical	The medical healthcare trend rate assumption starts at 5.8% before ultimately decreasing to 4.1%
Healthcare Trend Rate - Pharmacy	The pharmacy trend rate assumption starts at 11.70% ultimately decreasing to 4.10%
Healthcare Trend Rate - Dental	The dental healthcare trend rate assumption starts at 3.50% and decreases after one year to a constant 3.00%
Healthcare Trend Rate - Vision	The vision healthcare trend rate assumption starts at 3.00% and remains constant
Salary Increase Rates	3.00% per year as of June 30, 2025
Retirement Age	The average age at retirement is 65
Mortality Rates	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years

Other Supplementary Information

Town of Pennington Gap, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real Property Tax	\$ 156,000	\$ 159,500	\$ 172,964	\$ 13,464
Real and Personal PSC Tax	15,500	15,500	14,426	(1,074)
Personal Property Tax	14,000	14,500	14,919	419
Total general property taxes	<u>\$ 185,500</u>	<u>\$ 189,500</u>	<u>\$ 202,309</u>	<u>\$ 12,809</u>
Other local taxes:				
Local sales and use taxes	\$ 75,000	\$ 75,000	\$ 75,827	\$ 827
Consumers' utility taxes	36,000	36,000	35,367	(633)
Business license taxes	95,000	95,000	116,537	21,537
Gross receipts taxes	6,700	6,700	7,191	491
Motor vehicle licenses	23,000	23,000	24,821	1,821
Bank stock taxes	150,000	150,000	211,736	61,736
Lodging tax	5,000	5,000	3,896	(1,104)
Restaurant food taxes	770,000	770,000	735,741	(34,259)
Total other local taxes	<u>\$ 1,160,700</u>	<u>\$ 1,160,700</u>	<u>\$ 1,211,116</u>	<u>\$ 50,416</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 5,000	\$ 5,000	\$ 6,547	\$ 1,547
Revenue from use of money and property:				
Revenue from use of property	\$ 20,900	\$ 20,900	\$ 30,387	\$ 9,487
Revenue from use of money	11,000	11,000	50,235	39,235
Total revenue from use of money and property	<u>\$ 31,900</u>	<u>\$ 31,900</u>	<u>\$ 80,622</u>	<u>\$ 48,722</u>
Charges for services:				
Charges for recreation user fees	\$ 18,400	\$ 18,400	\$ 16,163	\$ (2,237)
Charges for RV park	60,000	60,000	45,304	(14,696)
Charges for refuse collections	135,000	135,000	149,212	14,212
Charges for theater	77,000	77,000	61,578	(15,422)
Charges for pool services	29,600	30,600	39,995	9,395
Charges for emergency services	424,000	424,000	424,726	726
Total charges for services	<u>\$ 744,000</u>	<u>\$ 745,000</u>	<u>\$ 736,978</u>	<u>\$ (8,022)</u>
Miscellaneous:				
Miscellaneous	\$ 4,650	\$ 13,250	\$ 35,575	\$ 22,325
Fire Department contributions	24,000	24,000	24,162	162
Total miscellaneous	<u>\$ 28,650</u>	<u>\$ 37,250</u>	<u>\$ 59,737</u>	<u>\$ 22,487</u>
Recovered costs:				
VDOT recovered costs	\$ 10,000	\$ 52,000	\$ 59,653	\$ 7,653
Insurance proceeds from vehicle accidents	-	73,000	79,590	6,590
Total recovered costs	<u>\$ 10,000</u>	<u>\$ 125,000</u>	<u>\$ 139,243</u>	<u>\$ 14,243</u>
Total revenue from local sources	<u>\$ 2,165,750</u>	<u>\$ 2,294,350</u>	<u>\$ 2,436,552</u>	<u>\$ 142,202</u>

Town of Pennington Gap, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental:				
Revenues from local governments:				
Lee County contributions	\$ 60,000	\$ 67,000	\$ 82,500	\$ 15,500
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 7,100	\$ 7,100	\$ 7,705	\$ 605
Mobile home titling tax	800	800	75	(725)
Telecommunications Tax	31,000	31,000	30,549	(451)
Personal property tax relief funds	8,900	8,900	8,878	(22)
Total noncategorical aid	\$ 47,800	\$ 47,800	\$ 47,207	\$ (593)
Categorical aid:				
Other categorical aid:				
Litter control grant	\$ 2,000	\$ 2,000	\$ 1,931	\$ (69)
EMS state grant	3,300	3,300	3,277	(23)
State fire funds	15,000	15,000	15,000	-
DCJP Law Enforcement grant	50,000	50,000	56,174	6,174
CFPF grant	-	-	12,496	12,496
VTC marketing grant	10,000	10,000	-	(10,000)
Performing arts grant	4,500	4,500	4,500	-
Total other categorical aid	\$ 84,800	\$ 84,800	\$ 93,378	\$ 8,578
Total categorical aid	\$ 84,800	\$ 84,800	\$ 93,378	\$ 8,578
Total revenue from the Commonwealth	\$ 132,600	\$ 132,600	\$ 140,585	\$ 7,985
Revenue from the Federal Government:				
Categorical aid:				
Police grants	\$ 3,500	\$ 3,500	\$ 3,232	\$ (268)
FEMA grant	-	-	10,345	10,345
Virginia housing grant (ARPA)	850,000	1,174,000	596,138	(577,862)
Solve It prize*	-	298,496	224,222	(74,274)
Total categorical aid	\$ 853,500	\$ 1,475,996	\$ 833,937	\$ (642,059)
Total revenue from the federal government	\$ 853,500	\$ 1,475,996	\$ 833,937	\$ (642,059)
Total intergovernmental	\$ 1,046,100	\$ 1,675,596	\$ 1,057,022	\$ (618,574)
Total General Fund	\$ 3,211,850	\$ 3,969,946	\$ 3,493,574	\$ (476,372)

*This is a federally funded prize that is exempt from Uniform Guidance single audit requirements.

Town of Pennington Gap, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Funds, Functions and Departments</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
General and financial administration:				
General government administration	\$ 403,200	\$ 415,700	\$ 431,441	\$ (15,741)
Total general and financial administration	\$ 403,200	\$ 415,700	\$ 431,441	\$ (15,741)
Public safety:				
Law enforcement and traffic control:				
Police	\$ 446,900	\$ 466,396	\$ 483,327	\$ (16,931)
Fire and rescue services:				
Fire department	\$ 54,300	\$ 68,800	\$ 68,886	\$ (86)
Rescue squad	646,550	591,350	510,070	81,280
Total fire and rescue services	\$ 700,850	\$ 660,150	\$ 578,956	\$ 81,194
Total public safety	\$ 1,147,750	\$ 1,126,546	\$ 1,062,283	\$ 64,263
Public works:				
Sanitation and waste removal:				
Refuse collections	\$ 121,000	\$ 131,000	\$ 110,587	\$ 20,413
Total sanitation and waste removal	\$ 121,000	\$ 131,000	\$ 110,587	\$ 20,413
Maintenance of general buildings and grounds:				
General properties	\$ 232,400	\$ 289,700	\$ 294,210	\$ (4,510)
Total maintenance of general buildings and grounds	\$ 232,400	\$ 289,700	\$ 294,210	\$ (4,510)
Total public works	\$ 353,400	\$ 420,700	\$ 404,797	\$ 15,903
Parks, recreation, and cultural:				
Parks and recreation:				
Theater	\$ 197,900	\$ 197,900	\$ 174,541	\$ 23,359
General parks and recreation	386,750	431,150	471,066	(39,916)
Total parks and recreation	\$ 584,650	\$ 629,050	\$ 645,607	\$ (16,557)
Total parks, recreation, and cultural	\$ 584,650	\$ 629,050	\$ 645,607	\$ (16,557)

Town of Pennington Gap, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2025

<u>Funds, Functions and Departments</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (continued)				
Community development:				
Planning and community development:				
Economic development	\$ -	\$ 2,000	\$ 4,976	\$ (2,976)
Contribution to Town IDA	1,200	1,200	1,200	-
Capital contributions to Pennington Gap IDA	1,093,450	1,209,750	785,826	423,924
Total planning and community development	<u>\$ 1,094,650</u>	<u>\$ 1,212,950</u>	<u>\$ 792,002</u>	<u>\$ 420,948</u>
Total community development	\$ 1,094,650	\$ 1,212,950	\$ 792,002	\$ 420,948
Capital projects:				
Solve-It project	\$ -	\$ 195,566	\$ 195,566	\$ -
Downtown improvements	-	137,202	137,202	-
Other capital projects	32,500	103,232	44,820	58,412
Total capital projects	<u>\$ 32,500</u>	<u>\$ 436,000</u>	<u>\$ 377,588</u>	<u>\$ 58,412</u>
Debt service:				
Principal retirement	\$ 102,814	\$ 102,814	\$ 110,519	\$ (7,705)
Interest and other fiscal charges	23,936	23,936	23,936	-
Total debt service	<u>\$ 126,750</u>	<u>\$ 126,750</u>	<u>\$ 134,455</u>	<u>\$ (7,705)</u>
Total General Fund	<u>\$ 3,742,900</u>	<u>\$ 4,367,696</u>	<u>\$ 3,848,173</u>	<u>\$ 519,523</u>

COMPLIANCE SECTION



**Independent Auditors' Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Pennington Gap, Virginia as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town of Pennington Gap, Virginia's basic financial statements and have issued our report thereon dated March 3, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Pennington Gap, Virginia's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Pennington Gap, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Pennington Gap, Virginia's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses, as item 2025-001, that we consider to be a material weakness.

Report on Compliance and Other Matters

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

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

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

Purpose of This Report

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

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

Blacksburg, Virginia
March 3, 2026

Town of Pennington Gap, Virginia
Schedule of Findings and Responses
For the Year Ended June 30, 2025

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies)?	None reported
Noncompliance material to financial statements noted?	No

Section II - Financial Statement Findings

2025-001

Criteria:	Identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness may exist.
Condition:	The Town's financial statements required material adjustments to ensure such statements complied with Generally Accepted Accounting Principles.
Effect:	There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected by the Town's internal controls over financial reporting.
Cause:	The Town is working to provide properly adjusted trial balances and related schedules but is still learning some of the nuances of this process.
Recommendation:	The Town should review the auditors' proposed audit adjustments for 2025 and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The Town will review the auditors' proposed audit adjustments for 2025 and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Town of Pennington Gap, Virginia
Summary Schedule of Prior Year Findings
For the Year Ended June 30, 2025

Status of Prior Audit Findings

Finding 2024-001 recurred in the current year as finding 2025-001.