

TOWN OF PENNINGTON GAP, VIRGINIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2024

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TOWN OF PENNINGTON GAP, VIRGINIA  
 FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2024

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INTRODUCTORY SECTION

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# TOWN OF PENNINGTON GAP, VIRGINIA

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## TOWN COUNCIL

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Larry Holbrook, Mayor  
Doug Aslup  
Gary McElyea  
Terry K. Pope  
Jeff Martin  
Jimmy Warner

## OTHER OFFICIALS

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

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FINANCIAL SECTION

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**Independent Auditors' Report**

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**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, 2024, 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, 2024, 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 2024, the Authority adopted new accounting guidance, GASB Statement No. 100, Accounting Changes and Error Corrections. Our opinions are not modified with respect to this matter.

**Restatement of Beginning Balances**

As described in Note 16 to the financial statements, in 2024, the Authority corrected an error for an unrecorded contribution of land and building to the Town of Pennington Gap IDA which occurred in 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 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

## **Required Supplementary Information**

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

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

## **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pennington Gap, Virginia's basic financial statements. The accompanying supporting schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## **Other Information**

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

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

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2025 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.

*Robinson, Famer, Cox Associates*

Blacksburg, Virginia  
February 5, 2025

## Basic Financial Statements

Town of Pennington Gap, Virginia  
Statement of Net Position  
June 30, 2024

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Industrial Development Authority
<b>ASSETS</b>				
Cash and cash equivalents	\$ 489,837	\$ 1,375,899	\$ 1,865,736	\$ 21,008
Investments	1,146,599	-	1,146,599	-
Restricted cash and cash equivalents - customer deposits	-	93,756	93,756	-
Restricted investments	-	92,088	92,088	-
Receivables (net of allowance for uncollectibles):				
Taxes receivable	29,846	-	29,846	-
Accounts receivable	251,585	361,272	612,857	-
Loan receivable	-	2,000	2,000	-
Notes receivable	-	-	-	535,056
Due from component unit	110,000	-	110,000	-
Due from other governmental units	598,809	-	598,809	-
Prepaid expenses	24,616	-	24,616	-
Net pension asset	38,657	57,986	96,643	-
Capital assets not being depreciated:				
Land	654,005	38,058	692,063	694,528
Construction in progress	38,618	75,514	114,132	557,331
Capital assets, net of accumulated depreciation:				
Buildings and improvements	3,949,309	2,707,988	6,657,297	130,010
Machinery, equipment, and vehicles	895,306	132,572	1,027,878	-
Infrastructure	98,107	4,178,870	4,276,977	-
Total Assets	<u>\$ 8,325,294</u>	<u>\$ 9,116,003</u>	<u>\$ 17,441,297</u>	<u>\$ 1,937,933</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	\$ 30,504	\$ 35,098	\$ 65,602	\$ -
Total Deferred Outflows of Resources	<u>\$ 30,504</u>	<u>\$ 35,098</u>	<u>\$ 65,602</u>	<u>\$ -</u>
<b>LIABILITIES</b>				
Accounts payable	\$ 101,004	\$ 54,778	\$ 155,782	\$ -
Accounts payable - construction	244,812	2,378	247,190	-
Accrued wages	14,472	10,200	24,672	-
Customers' deposits	-	93,756	93,756	-
Accrued interest payable	7,303	6,672	13,975	6,813
Due to primary government	-	-	-	110,000
Unearned revenues	-	3,659	3,659	-
Long-term liabilities:				
Due within one year	191,116	797,890	989,006	26,582
Due in more than one year	771,734	2,254,098	3,025,832	427,610
Total Liabilities	<u>\$ 1,330,441</u>	<u>\$ 3,223,431</u>	<u>\$ 4,553,872</u>	<u>\$ 571,005</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred revenue - property taxes	\$ 1,577	\$ -	\$ 1,577	\$ -
Pension related items	22,221	33,334	55,555	-
Total Deferred Inflows of Resources	<u>\$ 23,798</u>	<u>\$ 33,334</u>	<u>\$ 57,132</u>	<u>\$ -</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 5,257,926	\$ 4,144,944	\$ 9,402,870	\$ 1,271,869
Restricted for:				
Future pension costs	38,657	57,986	96,643	-
Debt service and bond covenants	-	92,088	92,088	-
Unrestricted	1,704,976	1,599,318	3,304,294	95,059
Total Net Position	<u>\$ 7,001,559</u>	<u>\$ 5,894,336</u>	<u>\$ 12,895,895</u>	<u>\$ 1,366,928</u>

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, 2024

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Component Unit Indust. Develop. Authority
Governmental activities:							
General government administration	\$ 443,613	\$ 22,268	\$ 400,125	\$ 309,187	\$ 287,967	\$ 287,967	\$ -
Public safety	1,126,211	350,940	353,970	362,000	(59,301)	(59,301)	-
Public works	509,272	143,556	320,534	65,949	20,767	20,767	-
Parks, recreation, and cultural	683,623	194,959	433,028	39,759	(15,877)	(15,877)	-
Community development	558,004	-	-	403,862	(154,142)	(154,142)	-
Interest on long-term debt	32,903	-	-	-	(32,903)	(32,903)	-
Total governmental activities	\$ 3,353,626	\$ 711,723	\$ 1,507,657	\$ 1,180,757	\$ 46,511	\$ 46,511	\$ -
Business-type activities:							
Water	\$ 1,545,162	\$ 1,485,637	\$ -	\$ 125,394	\$ 65,869	\$ 65,869	\$ -
Sewer	912,343	755,486	-	5,919	(150,938)	(150,938)	-
Total business-type activities	\$ 2,457,505	\$ 2,241,123	\$ -	\$ 131,313	\$ (85,069)	\$ (85,069)	\$ -
Total	\$ 5,811,131	\$ 2,952,846	\$ 1,507,657	\$ 1,312,070	\$ 46,511	\$ (38,558)	\$ -
<b>COMPONENT UNIT:</b>							
Industrial Development Authority	\$ 295,174	\$ -	\$ 34,641	\$ 519,878	\$ -	\$ -	\$ 259,345
General revenues:							
General property taxes					\$ 197,680	\$ -	\$ -
Other local taxes:							
Local sales and use tax					76,488	-	76,488
Business license taxes					122,963	-	122,963
Restaurant food taxes					796,969	-	796,969
Bank stock taxes					182,468	-	182,468
Other local taxes					74,076	-	74,076
Unrestricted revenues from use of money					89,345	24,494	113,839
Miscellaneous					94,906	72,501	167,407
Grants and contributions not restricted to specific programs					131,011	-	131,011
Gain on sale of property					67,784	-	67,784
Transfers					20,061	(20,061)	-
Total general revenues and transfers					\$ 1,853,751	\$ 76,934	\$ 1,930,685
Change in net position					\$ 1,900,262	\$ (8,135)	\$ 1,892,127
Net position - beginning, as previously reported					5,293,506	5,902,471	11,195,977
Restatements					(192,209)	-	(192,209)
Net position - beginning, as restated					5,101,297	5,902,471	11,003,768
Net position - ending					\$ 7,001,559	\$ 5,894,336	\$ 12,895,895
							\$ 1,366,928

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

Town of Pennington Gap, Virginia  
Balance Sheet  
Governmental Funds  
June 30, 2024

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	<u>General</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 489,837
Investments	1,146,599
Receivables (net of allowance for uncollectibles):	
Taxes receivable	29,846
Accounts receivable	251,585
Due from component unit	110,000
Due from other governmental units	598,809
Prepaid items	24,616
Total assets	<u>\$ 2,651,292</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 101,004
Accounts payable - construction	244,812
Accrued wages	14,472
Total liabilities	<u>\$ 360,288</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Unavailable revenue - property taxes	\$ 30,312
Unavailable revenue - ambulance billings	105,395
Total deferred inflows of resources	<u>\$ 135,707</u>
<b>FUND BALANCES</b>	
Nonspendable - prepaids	\$ 24,616
Unassigned	2,130,681
Total fund balances	<u>\$ 2,155,297</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,651,292</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, 2024

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds		\$ 2,155,297
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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	3,949,309	
Machinery, equipment, and vehicles	895,306	
Infrastructure	98,107	
Construction in progress	<u>38,618</u>	5,635,345

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	\$ 28,735	
Unavailable revenue-ambulance billings	105,395	
Net pension asset	<u>38,657</u>	172,787

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

Pension related items		30,504
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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	\$ (821,611)	
Financed purchase	(10,000)	
Accrued interest payable	(7,303)	
Total OPEB liability	(5,906)	
Compensated absences	<u>(125,333)</u>	(970,153)

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

Pension related items		<u>(22,221)</u>
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Net position of governmental activities		<u><u>\$ 7,001,559</u></u>
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The notes to the financial statements are an integral part of this statement.

Town of Pennington Gap, Virginia  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2024

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	<u>General</u>
<b>REVENUES</b>	
General property taxes	\$ 193,989
Other local taxes	1,252,964
Fines and forfeitures	9,626
Revenue from the use of money and property	111,613
Charges for services	742,958
Miscellaneous	94,906
Recovered costs	67,280
Intergovernmental:	
Local government	80,105
Commonwealth	161,189
Federal	2,318,134
Total revenues	<u>\$ 5,032,764</u>
<b>EXPENDITURES</b>	
Current:	
General government administration	\$ 480,944
Public safety	1,305,605
Public works	465,025
Parks, recreation, and cultural	602,976
Community development	544,222
Capital projects	47,086
Debt service:	
Principal	97,520
Interest and other fiscal charges	26,069
Total expenditures	<u>\$ 3,569,447</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,463,317</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Transfers in	\$ 20,061
Sale of capital assets	67,784
Total other financing sources (uses)	<u>\$ 87,845</u>
Net change in fund balances	\$ 1,551,162
Fund balances - beginning	<u>604,135</u>
Fund balances - ending	<u>\$ 2,155,297</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, 2024

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

Net change in fund balances - total governmental funds \$ 1,551,162

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 capital asset additions exceeded depreciation expense in the current period.

Capital asset additions	\$ 447,712	
Depreciation expense	(361,089)	86,623

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

Sale of Lanningham property	\$ (35,000)	
Donation of Creech property from Pennington Gap IDA	259,997	224,997

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	\$ 3,691	
Increase (decrease) in unavailable revenue - ambulance billings	(63,129)	(59,438)

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.

Principal payments:		
Notes payable	\$ 97,519	97,519

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	\$ 2,504	
(Increase) decrease in accrued interest payable	(6,834)	
Changes in total OPEB liability and related deferred items	6,448	
Changes in net pension liability and related deferred items	(2,719)	(601)

Change in net position of governmental activities	<u>\$ 1,900,262</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, 2024

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,196,830	\$ 179,069	\$ -	\$ 1,375,899
Accounts receivable, net of allowance for uncollectibles	209,201	152,071	-	361,272
Interfund loan receivable	2,000	-	-	2,000
Total current assets	<u>\$ 1,408,031</u>	<u>\$ 331,140</u>	<u>\$ -</u>	<u>\$ 1,739,171</u>
Noncurrent assets:				
Restricted cash and cash equivalents - customer deposits	\$ 59,970	\$ 33,786	\$ -	\$ 93,756
Restricted cash and cash equivalents - debt service	92,088	-	-	92,088
Net pension asset	31,892	26,094	-	57,986
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	635,275	230,076	-	865,351
Construction in progress	75,514	-	-	75,514
Accumulated depreciation	(13,071,961)	(4,975,619)	-	(18,047,580)
Total capital assets	<u>\$ 4,975,982</u>	<u>\$ 2,150,077</u>	<u>\$ 6,943</u>	<u>\$ 7,133,002</u>
Total noncurrent assets	<u>\$ 5,159,932</u>	<u>\$ 2,209,957</u>	<u>\$ 6,943</u>	<u>\$ 7,376,832</u>
Total assets	<u>\$ 6,567,963</u>	<u>\$ 2,541,097</u>	<u>\$ 6,943</u>	<u>\$ 9,116,003</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	\$ 18,770	\$ 16,328	\$ -	\$ 35,098
Total deferred outflows of resources	<u>\$ 18,770</u>	<u>\$ 16,328</u>	<u>\$ -</u>	<u>\$ 35,098</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable	\$ 29,054	\$ 25,724	\$ -	\$ 54,778
Accounts payable - construction	2,378	-	-	2,378
Customers' deposits	59,970	33,786	-	93,756
Accrued wages payable	5,718	4,482	-	10,200
Accrued interest payable	5,676	996	-	6,672
Unearned revenue	3,659	-	-	3,659
Compensated absences - current portion	35,084	9,992	-	45,076
Bonds payable - current portion	231,110	54,600	-	285,710
Notes payable - current portion	462,090	5,014	-	467,104
Total current liabilities	<u>\$ 834,739</u>	<u>\$ 134,594</u>	<u>\$ -</u>	<u>\$ 969,333</u>
Noncurrent liabilities:				
Compensated absences - net of current portion	\$ 11,694	\$ 3,330	\$ -	\$ 15,024
Notes payable - net of current portion	372,101	1,264	-	373,365
Bonds payable - net of current portion	1,773,401	86,100	-	1,859,501
Total OPEB liability	3,282	2,926	-	6,208
Total noncurrent liabilities	<u>\$ 2,160,478</u>	<u>\$ 93,620</u>	<u>\$ -</u>	<u>\$ 2,254,098</u>
Total liabilities	<u>\$ 2,995,217</u>	<u>\$ 228,214</u>	<u>\$ -</u>	<u>\$ 3,223,431</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension related items	\$ 18,334	\$ 15,000	\$ -	\$ 33,334
Total deferred inflows of resources	<u>\$ 18,334</u>	<u>\$ 15,000</u>	<u>\$ -</u>	<u>\$ 33,334</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 2,134,902	\$ 2,003,099	\$ 6,943	\$ 4,144,944
Restricted:				
Future pension costs	31,892	26,094	-	57,986
Debt service and bond covenants	92,088	-	-	92,088
Unrestricted (deficit)	<u>1,314,300</u>	<u>285,018</u>	<u>-</u>	<u>1,599,318</u>
Total net position	<u>\$ 3,573,182</u>	<u>\$ 2,314,211</u>	<u>\$ 6,943</u>	<u>\$ 5,894,336</u>

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, 2024

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
<b>OPERATING REVENUES</b>				
Charges for services:				
Water sales	\$ 1,463,354	\$ -	\$ -	\$ 1,463,354
Sewer sales	-	744,170	-	744,170
Tap fees	10,885	500	-	11,385
Penalties	10,898	11,316	-	22,214
Other revenues	1,586	70,915	-	72,501
Total operating revenues	<u>\$ 1,486,723</u>	<u>\$ 826,901</u>	<u>\$ -</u>	<u>\$ 2,313,624</u>
<b>OPERATING EXPENSES</b>				
Salaries and fringes	\$ 613,082	\$ 477,586	\$ -	\$ 1,090,668
Utilities	170,452	69,391	-	239,843
Vehicle expense	10,436	5,743	-	16,179
Dues and subscriptions	10,669	9,518	-	20,187
Chemicals	82,240	34,384	-	116,624
Supplies	69,875	22,379	-	92,254
Insurance	19,226	32,322	-	51,548
Lab analysis	6,432	5,873	-	12,305
Professional services	28,162	25,889	-	54,051
Maintenance and repairs	141,430	56,812	-	198,242
Miscellaneous	1,711	543	-	2,254
Depreciation	332,707	166,753	-	499,460
Total operating expenses	<u>\$ 1,486,422</u>	<u>\$ 907,193</u>	<u>\$ -</u>	<u>\$ 2,393,615</u>
Operating income (loss)	<u>\$ 301</u>	<u>\$ (80,292)</u>	<u>\$ -</u>	<u>\$ (79,991)</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment income	\$ 22,019	\$ 2,475	\$ -	\$ 24,494
Interest expense	(58,740)	(5,150)	-	(63,890)
Total nonoperating revenues (expenses)	<u>\$ (36,721)</u>	<u>\$ (2,675)</u>	<u>\$ -</u>	<u>\$ (39,396)</u>
Income (loss) before capital contributions and transfers	<u>\$ (36,420)</u>	<u>\$ (82,967)</u>	<u>\$ -</u>	<u>\$ (119,387)</u>
Capital contributions and construction grants	125,394	5,919	-	131,313
Transfers in (out)	(667,870)	647,809	-	(20,061)
Change in net position	<u>\$ (578,896)</u>	<u>\$ 570,761</u>	<u>\$ -</u>	<u>\$ (8,135)</u>
Net position - beginning	4,152,078	1,743,450	6,943	5,902,471
Net position - ending	<u>\$ 3,573,182</u>	<u>\$ 2,314,211</u>	<u>\$ 6,943</u>	<u>\$ 5,894,336</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, 2024

	Enterprise Funds			
	Water Fund	Sewer Fund	Industrial Fund	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 1,474,452	\$ 812,966	\$ -	\$ 2,287,418
Payments to and for employees	(632,967)	(483,529)	-	(1,116,496)
Payments for goods and services	(543,737)	(274,559)	-	(818,296)
Net cash provided by (used for) operating activities	<u>\$ 297,748</u>	<u>\$ 54,878</u>	<u>\$ -</u>	<u>\$ 352,626</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Additions to capital assets	\$ (297,332)	\$ (24,957)	\$ -	\$ (322,289)
Issuance of debt	778,394	-	-	778,394
Principal payments on bonds	(307,497)	(60,381)	-	(367,878)
Contributions in aid of construction	125,394	16,115	-	141,509
Interest payments	(60,861)	(6,144)	-	(67,005)
Net cash provided by (used for) capital and related financing activities	<u>\$ 238,098</u>	<u>\$ (75,367)</u>	<u>\$ -</u>	<u>\$ 162,731</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Sale of investments	\$ 92,088	\$ -	\$ -	\$ 92,088
Interest income	48,476	2,475	-	50,951
Net cash provided by (used for) investing activities	<u>\$ 140,564</u>	<u>\$ 2,475</u>	<u>\$ -</u>	<u>\$ 143,039</u>
Net increase (decrease) in cash and cash equivalents	\$ 676,410	\$ (18,014)	\$ -	\$ 658,396
Cash and cash equivalents - June 30, 2023 (restricted cash and cash equivalents of \$91,855)	672,478	230,869	-	903,347
Cash and cash equivalents - June 30, 2024 (restricted cash and cash equivalents of \$185,844)	<u>\$ 1,348,888</u>	<u>\$ 212,855</u>	<u>\$ -</u>	<u>\$ 1,561,743</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 301	\$ (80,292)	\$ -	\$ (79,991)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	\$ 332,707	\$ 166,753	\$ -	\$ 499,460
(Increase) decrease in accounts receivable	(10,564)	(13,359)	-	(23,923)
(Increase) decrease in deferred outflows of resources	19,499	16,760	-	36,259
(Increase) decrease in net pension asset	(13,555)	(11,091)	-	(24,646)
Increase (decrease) in customers' deposits	(1,762)	(576)	-	(2,338)
Increase (decrease) in accounts payable	(3,104)	(11,705)	-	(14,809)
Increase (decrease) in accrued wages	17	307	-	324
Increase (decrease) in unearned revenue	55	-	-	55
Increase (decrease) in compensated absences	(14,415)	(2,806)	-	(17,221)
Increase (decrease) in total OPEB liability	(6,910)	(5,413)	-	(12,323)
Increase (decrease) in deferred inflows of resources	(4,521)	(3,700)	-	(8,221)
Total adjustments	<u>\$ 297,447</u>	<u>\$ 135,170</u>	<u>\$ -</u>	<u>\$ 432,617</u>
Net cash provided by (used for) operating activities	<u>\$ 297,748</u>	<u>\$ 54,878</u>	<u>\$ -</u>	<u>\$ 352,626</u>
<b>Noncash investing, capital, and financing activities:</b>				
Construction payables - prior year	\$ 16,823	\$ -	\$ -	\$ 16,823
Construction payables - current year	2,378	-	-	2,378
Construction receivables - prior year	-	10,196	-	10,196

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, 2024

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**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, 2024

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**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.

**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, 2024

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**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. Property Taxes

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

3. Allowance for Uncollectible Accounts

The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$237,267 at June 30, 2024. The allowance consists of delinquent taxes in the amount of \$15,272 delinquent ambulance billings of \$92,553, delinquent garbage bills of \$8,828, delinquent water bills of \$69,926, and delinquent sewer bills of \$50,688.

4. Use of Estimates

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

5. Investments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

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**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:

<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

7. Compensated Absences

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

**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:

- i 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);
- i 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, 2024

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**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)

- i 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;
- i 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;
- i 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, 2024

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**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 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.

**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.

Lessee

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

Lessor

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

Key Estimates and Judgments

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**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.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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

B. Excess of expenditures over appropriations

The Fire, Refuse, Maintenance of Buildings and Grounds, and Parks and Recreation departments had expenditures that exceeded their appropriations.

C. Deficit fund balance

At June 30, 2024, 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. For FY2024, there were three accounts not reported to SPDA: Two CDs for Lee Bank causing amounts to exceed FDIC coverage by \$271,443, and a business liquidity account for Powell Valley National Bank causing amounts to exceed FDIC coverage by \$366,650.

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, 2024 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, 2024 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, 2024

**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.

Investments	Town's Investment Values				
	Fair Quality Ratings				
	AAAm	AAA	AA+	Unrated	Total
VML/VACO Virginia Investment Pool (VIP)	1,146,599	-	-	-	1,146,599

Investment Type	Investment Maturities (in years)	
	Fair Value	Less than 1 yr
VML/VACO Virginia Investment Pool (VIP)	1,146,599	1,146,599

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, 2024

**Note 4-Due from Other Governmental Units:**

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

	<u>Primary Government Governmental Activities</u>
<b><u>Lee County</u></b>	
Court fines/transfer fees	\$ 3,034
<b><u>Commonwealth of Virginia:</u></b>	
Communications Tax	4,829
Local Sales Tax	13,109
<b><u>Federal Government:</u></b>	
ARPA - Industrial Revitalization Fund	238,661
ARPA - Law Enforcement Equipment	339,176
Total	<u>\$ 598,809</u>

**Note 5-Interfund/Component-Unit Activity:**

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 20,061	\$ -
Water Fund	-	667,870
Sewer Fund	647,809	-
Totals	<u>\$ 667,870</u>	<u>\$ 667,870</u>

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

<u>Fund</u>	<u>Due from Primary Government/ Component Unit</u>	<u>Due to Primary Government/ Component Unit</u>
Primary Government:		
General Fund	<u>\$ 110,000</u>	<u>\$ -</u>
Component Unit:		
IDA	<u>\$ -</u>	<u>\$ 110,000</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, 2024

**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, 2024:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Direct borrowings and direct placements:				
Notes payable	\$ 909,130	\$ -	\$ (87,519)	\$ 821,611
Financed Purchase	20,000	-	(10,000)	10,000
Total OPEB liability	12,354	5,125	(11,573)	5,906
Compensated absences	127,837	93,374	(95,878)	125,333
 Total	 \$ 1,069,321	 \$ 98,499	 \$ (204,970)	 \$ 962,850

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	
	Principal	Interest	Principal	Interest	Principal	Interest
2025	\$ 65,534	\$ 9,841	\$ 26,582	\$ 13,626	\$ 5,000	\$ -
2026	64,858	8,002	27,380	12,828	5,000	-
2027	57,840	6,226	28,201	12,007	-	-
2028	39,456	4,744	29,047	11,161	-	-
2029	28,775	3,967	29,919	10,289	-	-
2030-2034	102,216	9,324	163,607	37,433	-	-
2035-2038	8,739	62	149,457	11,375	-	-
Totals	\$ 367,418	\$ 42,166	\$ 454,193	\$ 108,719	\$ 10,000	\$ -

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

**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
<b>Direct Borrowings and Placements - Notes Payable:</b>							
Rural Development - Sanitation Truck	2.13%	10/19/2020	10/19/2027	\$1,232 (b)	\$ 96,000	\$ 47,382	\$ 13,911
Farmers and Miners Bank - Fire Truck	2.87%	3/11/2021	3/11/2029	\$1,151 (b)	98,438	61,145	12,216
Water fund - Police Radios	0.00%	7/1/2018	2/1/2022	\$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	198,949	16,560
Rural Development - 2 Chevy Tahoes	2.13%	11/17/2021	11/17/2026	\$377 (b)	21,400	10,594	4,341
Farmers and Miners Bank - Kubota RTV	1.90%	12/10/2021	12/24/2026	\$576 (b)	32,925	16,840	6,655
Lee Bank and Trust - Scag Mower	4.99%	4/4/2023	4/3/2026	\$260 (b)	8,664	5,447	2,910
Powell Valley National Bank - Chevy Colorado	4.46%	11/3/2022	11/3/2027	\$660 (b)	35,427	25,062	6,941
County of Lee - IDA Note Payable	3.00%	5/23/2023	12/15/2037	\$40,208 (a)	480,000	454,192	26,582
Total direct borrowings - notes payable						\$ 821,611	\$ 92,116
<b>Direct Borrowings and Placements - Financed Purchases:</b>							
Glass Machinery - Sweeper Truck	0.00%	7/11/2019	7/11/2026	\$5000 (a)	\$ 35,000	\$ 10,000	\$ 5,000
Total direct borrowings - financed purchases						\$ 10,000	\$ 5,000
<b>Other Obligations:</b>							
Compensated absences						\$ 125,333	\$ 94,000
Total OPEB liability						5,906	-
Total other obligations						\$ 131,239	\$ 94,000
Total long-term obligations						\$ 962,850	\$ 191,116

- (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, 2024

**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, 2024:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Direct borrowings and direct placements:				
General obligation bonds	\$ 654,000	\$ -	\$ (185,000)	\$ 469,000
Note payable	269,311	653,000	(81,842)	840,469
Revenue Bond	1,651,853	125,394	(101,036)	1,676,211
Total OPEB liability	18,531	2,548	(14,871)	6,208
Compensated absences	77,321	40,769	(57,990)	60,100
<b>Total</b>	<b>\$ 2,671,016</b>	<b>\$ 821,711</b>	<b>\$ (440,739)</b>	<b>\$ 3,051,988</b>

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
2025	\$ 182,000	\$ 14,070	\$ 103,710	\$ 39,731	\$ 467,104	\$ 28,904
2026	175,000	8,610	110,974	37,861	217,183	5,502
2027	112,000	3,360	113,069	35,829	27,199	4,144
2028	-	-	115,232	33,730	22,402	3,383
2029	-	-	117,465	34,470	21,959	2,756
2030-2034	-	-	623,446	134,674	84,622	4,490
2035-2039	-	-	454,771	70,731	-	-
2040-2044	-	-	39,956	39,956	-	-
2045	-	-	5,170	4,275	-	-
<b>Totals</b>	<b>\$ 469,000</b>	<b>\$ 26,040</b>	<b>\$ 1,683,793</b>	<b>\$ 431,257</b>	<b>\$ 840,469</b>	<b>\$ 49,179</b>

Amount not yet drawn down  
 Adjusted Total

(7,582)  
\$ 1,676,211

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

**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
<b>Direct Borrowings and Placements - General Obligation Bonds</b>							
2012 Water Refunding - Lee Bank and Trust	3.00%	9/1/2012	3/1/2027	\$24,889 - \$42,467 (a+)	\$ 416,667	\$ 109,434	\$ 42,466
2012 Water Refunding - Powell Vally National Bank	3.00%	9/1/2012	3/1/2027	\$24,889 - \$42,467 (a+)	416,667	109,433	42,467
2012 Water Refunding - Farmers and Miners Bank	3.00%	9/1/2012	3/1/2027	\$24,889 - \$42,467 (a+)	416,667	109,433	42,467
2012 Sewer Refunding - Lee Bank and Trust	3.00%	9/1/2012	3/1/2027	\$12,444 - \$20,556 (a+)	416,667	46,900	18,200
2012 Sewer Refunding - Powell Vally National Bank	3.00%	9/1/2012	3/1/2027	\$12,444 - \$20,556 (a+)	416,667	46,900	18,200
2012 Sewer Refunding - Farmers and Miners Bank	3.00%	9/1/2012	3/1/2027	\$12,444 - \$20,556 (a+)	416,667	46,900	18,200
Total direct borrowings - general obligation bonds						\$ 469,000	\$ 182,000
<b>Direct Borrowings and Placements - Notes Payable:</b>							
Powell Valley National Bank - WTP Projects	2.88%	8/8/2017	2/9/2033	\$2,060 (b)	\$ 300,000	\$ 188,373	\$ 19,576
Lee Bank and Trust - Excavator	3.58%	8/23/2018	8/23/2024	\$1,005 (b)	65,000	1,008	1,008
Farmers and Miners Bank - Ford F250	2.85%	10/1/2020	10/1/2025	\$428 (b)	23,900	6,278	5,014
Lee Bank and Trust - Dodge Ram	3.00%	9/2/2020	9/2/2025	\$475 (b)	26,500	6,979	5,580
Farmers and Miners Bank - Chevy Colorado	3.55%	8/3/2022	8/1/2027	\$552 (b)	30,288	19,796	6,023
Powell Valley National Bank - Water Plant Repairs	4.99%	5/24/2024	11/24/2025	\$37,732 (b)	653,000	618,035	429,903
Total direct borrowings - notes payable						\$ 840,469	\$ 467,104
<b>Direct Borrowings and Placements - Revenue Bonds:</b>							
1999 Water Revenue Bond	3.25%	9/20/1999	7/11/2026	\$7,674 (b)	\$ 2,003,540	\$ 1,088,901	\$ 57,518
2004B Water Revenue Bond	0.00%	7/25/2004	3/1/2034	\$23,096 (c)	1,385,748	461,916	46,192
VRA Water Revenue Bond*	2.50%	10/19/2023	9/1/2044	\$4,329 (c)	132,975	125,394	-
Total direct borrowings - revenue bonds						\$ 1,676,211	\$ 103,710
<b>Other Obligations:</b>							
Compensated absences						\$ 60,100	\$ 45,076
Total OPEB liability						6,208	-
Total other obligations						\$ 66,308	\$ 45,076
Total long-term obligations						\$ 3,051,988	\$ 797,890

(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, 2024

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**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 2024, the Town did not meet the 115% rate covenant.

The Town has a general obligation bond that is split between the water and sewer funds totaling \$469,000 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.

**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, 2024

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**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, 2022 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	6
Inactive members:	
Vested inactive members	5
Non-vested	7
Inactive members active elsewhere in VRS	10
Total inactive members	<u>22</u>
Active members	<u>25</u>
Total covered employees	<u><u>53</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, 2024 was 5.09% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

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 \$48,746 and \$42,838 for the years ended June 30, 2024 and June 30, 2023, respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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

**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, 2023. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2022 rolled forward to the measurement date of June 30, 2023.

**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, 2022, 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, 2023.

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

**Mortality rates:**

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

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

**Beneficiaries and Survivors:**

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

**Mortality Improvement:**

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

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

**Actuarial Assumptions - General Employees (Continued)**

Mortality rates: (Continued)

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS action effective as of July 1, 2021. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

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

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

**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits**

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2022, 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, 2023.

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, 2024

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

**Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits (Continued)**

Mortality rates: (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action as of July 1, 2021. 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, 2024

Note 7-Pension Plan: (Continued)

**Long-Term Expected Rate of Return**

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

Asset Class (Strategy)	Long-Term Target Asset Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	6.14%	2.09%
Fixed Income	15.00%	2.56%	0.38%
Credit Strategies	14.00%	5.60%	0.78%
Real Assets	14.00%	5.02%	0.70%
Private Equity	16.00%	9.17%	1.47%
MAPS - Multi-Asset Public Strategies	4.00%	4.50%	0.18%
PIP - Private Investment Partnership	2.00%	7.18%	0.14%
Cash	1.00%	1.20%	0.01%
Total	100.00%		5.75%
		Inflation	2.50%
		Expected arithmetic nominal return**	8.25%

\* The above allocation provides a one-year expected return of 8.25%. 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 7.14%, 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 45<sup>th</sup> 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, 2024

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

**Discount Rate**

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Town was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2022 actuarial valuations, whichever was greater. From July 1, 2023 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, 2022	\$ 1,552,961	\$ 1,608,527	\$ (55,566)
Changes for the year:			
Service cost	\$ 80,141	\$ -	\$ 80,141
Interest	107,788	-	107,788
Differences between expected and actual experience	(32,392)	-	(32,392)
Contributions - employer	-	42,570	(42,570)
Contributions - employee	-	49,201	(49,201)
Net investment income	-	105,808	(105,808)
Benefit payments, including refunds of employee contributions	(72,482)	(72,482)	-
Administrative expenses	-	(1,008)	1,008
Other changes	-	43	(43)
Net changes	\$ 83,055	\$ 124,132	\$ (41,077)
Balances at June 30, 2023	\$ 1,636,016	\$ 1,732,659	\$ (96,643)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

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 (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Town's Net Pension Liability (Asset) \$	160,729 \$	(96,643) \$	(292,222)

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

For the year ended June 30, 2024, the Town recognized pension expense of \$54,594. At June 30, 2024, 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 \$	15,438 \$	30,923
Change in assumptions	1,418	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	24,632
Employer contributions subsequent to the measurement date	48,746	-
Total	\$ 65,602 \$	55,555

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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

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

\$48,746 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, 2025. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year Ended June 30**

2025	\$	(16,648)
2026		(42,033)
2027		19,303
2028		679
2029		-
Thereafter		-

**Pension Plan Data**

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2023 Annual Comprehensive Financial Report (Annual Report). A copy of the 2023 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2023-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, 2024

**Note 8-Capital Assets:**

Capital asset activity for the year ended June 30, 2024 was as follows:

	Beginning Balance as Reported	Restatement	Beginning Balance as Restated	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>						
Capital assets, not being depreciated:						
Land	\$ 750,883	\$ (87,498)	\$ 663,385	\$ 25,620	\$ (35,000)	\$ 654,005
Construction in progress	38,618	-	38,618	-	-	38,618
Total capital assets not being depreciated	<u>\$ 789,501</u>	<u>\$ (87,498)</u>	<u>\$ 702,003</u>	<u>\$ 25,620</u>	<u>\$ (35,000)</u>	<u>\$ 692,623</u>
Capital assets, being depreciated:						
Buildings and improvements	\$ 5,602,087	\$ (126,502)	\$ 5,475,585	\$ 283,567	\$ -	\$ 5,759,152
Machinery, equipment, and vehicles	2,695,372	-	2,695,372	305,225	-	3,000,597
Infrastructure	476,453	-	476,453	93,297	-	569,750
Total capital assets being depreciated	<u>\$ 8,773,912</u>	<u>\$ (126,502)</u>	<u>\$ 8,647,410</u>	<u>\$ 682,089</u>	<u>\$ -</u>	<u>\$ 9,329,499</u>
Accumulated depreciation:						
Buildings and improvements	\$ (1,647,717)	\$ 21,791	\$ (1,625,926)	\$ (183,917)	\$ -	\$ (1,809,843)
Machinery, equipment, and vehicles	(1,930,608)	-	(1,930,608)	(174,683)	-	(2,105,291)
Infrastructure	(469,154)	-	(469,154)	(2,489)	-	(471,643)
Total accumulated depreciation	<u>\$ (4,047,479)</u>	<u>\$ 21,791</u>	<u>\$ (4,025,688)</u>	<u>\$ (361,089)</u>	<u>\$ -</u>	<u>\$ (4,386,777)</u>
Total capital assets being depreciated, net	<u>\$ 4,726,433</u>	<u>\$ (104,711)</u>	<u>\$ 4,621,722</u>	<u>\$ 321,000</u>	<u>\$ -</u>	<u>\$ 4,942,722</u>
Governmental activities capital assets, net	<u>\$ 5,515,934</u>	<u>\$ (192,209)</u>	<u>\$ 5,323,725</u>	<u>\$ 346,620</u>	<u>\$ (35,000)</u>	<u>\$ 5,635,345</u>

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

**Governmental Activities:**

General government administration	\$ 32,111
Public safety	127,072
Public works	52,433
Parks, recreation, and cultural	<u>149,473</u>
Total depreciation expense-governmental activities	<u>\$ 361,089</u>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

**Note 8-Capital Assets: (Continued)**

	Beginning Balance	Increases	Decreases	Ending Balance
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Business-type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 38,058	\$ -	\$ -	\$ 38,058
Construction in progress	54,116	21,398	-	75,514
Total capital assets not being depreciated	<u>\$ 92,174</u>	<u>\$ 21,398</u>	<u>\$ -</u>	<u>\$ 113,572</u>
Capital assets, being depreciated:				
Buildings and Improvements	\$ 9,396,430	\$ 11,543	\$ -	\$ 9,407,973
Utility plant and equipment	14,554,267	239,419	-	14,793,686
Machinery, equipment, and vehicles	829,867	35,484	-	865,351
Total capital assets being depreciated	<u>\$ 24,780,564</u>	<u>\$ 286,446</u>	<u>\$ -</u>	<u>\$ 25,067,010</u>
Accumulated depreciation:				
Buildings and Improvements	\$ (6,462,762)	\$ (237,223)	\$ -	\$ (6,699,985)
Utility plant and equipment	(10,379,605)	(235,211)	-	(10,614,816)
Machinery, equipment, and vehicles	(705,753)	(27,026)	-	(732,779)
Total accumulated depreciation	<u>\$ (17,548,120)</u>	<u>\$ (499,460)</u>	<u>\$ -</u>	<u>\$ (18,047,580)</u>
Total capital assets being depreciated, net	<u>\$ 7,232,444</u>	<u>\$ (213,014)</u>	<u>\$ -</u>	<u>\$ 7,019,430</u>
Business-type activities capital assets, net	<u>\$ 7,324,618</u>	<u>\$ (191,616)</u>	<u>\$ -</u>	<u>\$ 7,133,002</u>

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

**Business-type Activities:**

Water	\$ 332,708
Sewer	<u>166,752</u>
Total depreciation expense - business-type activities	<u>\$ 499,460</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, 2024

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**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, 2024 (measurement date), the following employees were covered by the benefit terms:

Total active employees	32
Total retired employees	2
Total	<u>34</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, 2024, was \$0.00.

***Total OPEB Liability***

The Town's total OPEB liability was measured as of June 30, 2024. The total OPEB liability was determined by using the alternative measurement method as of June 30, 2024.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

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

**Actuarial Assumptions**

The total OPEB liability in the June 30, 2024 actuarial valuation, using the alternative measurement method, was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Salary Increases	3.00%
Average Retirement Age	65
Discount Rate	3.50%

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, 2023	\$ 30,885
Changes for the year:	
Service cost	3,494
Interest	1,275
Effect of Economic/Demographic Gains or Losses	(23,742)
Effect of changes in assumptions	204
Contributions - employer	-
Balance as of June 30, 2024	<u>\$ 12,116</u>

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

The following presents the total OPEB liability of the Town, as well as what the total OPEB liability would be if it were calculated using discount rates that are one percentage point lower (2.50%) or one percentage point higher (4.50%) than the current discount rate:

<u>1% Decrease</u> <u>(2.50%)</u>	<u>Current Discount</u> <u>(3.50%)</u>	<u>1% Increase</u> <u>(4.50%)</u>
\$ 13,122	\$ 12,116	\$ 11,174

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

**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
\$ 10,639	\$ 12,116	\$ 13,856

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

For the year ended June 30, 2024, the Town recognized OPEB expense in the amount of \$(18,769). At June 30, 2024, 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	\$ -	\$ 28,735
Prepaid property taxes due after June 30 but paid in advance by taxpayers	1,577	1,577
Unavailable ambulance billing revenue representing uncollected ambulance billings that are not available for the funding of current expenditures	-	105,395
	\$ 1,577	\$ 135,707

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

**Note 12-Litigation:**

As of June 30, 2024, 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, but to date this has not occurred. The Town currently leases those items for \$1 per month until they are given title to the assets.

*Construction Commitments:*

At June 30, 2024, 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	\$ 143,802	\$ 2,378	\$ -
Mattern & Craig - Hotel Site Project	124,750	97,368	6,151	-
Quesenberry's Inc. - Bailey Robbins Renovations	941,972	538,110	218,468	20,193
Total	\$ 1,344,922	\$ 779,280	\$ 226,997	\$ 20,193

\*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 County for the year ended June 30, 2024:

	Beginning Balance, as adjusted	Increases/ Issuances	Decreases/ Retirements	Ending Balance	Interest Revenue
Leases receivable	\$ 18,307	\$ -	\$ (18,307)	\$ -	\$ (239)

Lease revenue recognized during the fiscal year was \$18,307.

The Town is currently in negotiations with Crown Castle to renew the expired lease agreement.

**Note 15-Adoption of Accounting Principle:**

In fiscal year 2024, the Town implemented Statement No. 100, *Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*, which provides more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability for accounting changes and error corrections. The requirements of this Statement are effective for fiscal years beginning after June 15, 2023.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 JUNE 30, 2024

**Note 16-Restatement of Beginning Balances:**

The Town of Pennington Gap donated two properties to the IDA, including land from the old town hall and the Old Cas Walker land and building. The Town did not previously record the land. These transactions were not recorded in the prior year financial statements but corrected through a beginning balance restatement.

	<u>Primary Government</u> Governmental Activities
Net position, July 1, 2023, as previously stated	\$ 5,293,506
Correction to record old town hall land	20,600
Correction to record additional new town hall land	80,000
Correction to record donation of old town hall land and Cas Walker building and land to IDA, net of accumulated depreciation	<u>(292,809)</u>
Net position, July 1, 2023, as restated	<u>\$ 5,101,297</u>

**Note 17-Subsequent Events:**

On July 18, 2024, the Town of Pennington Gap IDA entered into an option purchase agreement to purchase the Rooster’s Pub for \$350,000. This agreement was exercised, and the IDA purchased the business and property on August 19, 2024. The funding for the purchase was provided by the Town of Pennington Gap and will be repaid by the IDA.

On August 1, 2024, The Town was awarded a \$50,000 Community Flood Preparedness Fund grant from the Virginia Resource Authority for flood risk mitigation.

On September 27, 2024, the remnants of Hurricane Helene provided substantial rainfall which resulted in significant flooding in the region surrounding the Town. As of release of these financial statements, the financial impact of the damages and resulting repairs has not been determined.

On October 31, 2024, the IDA entered into a lease and sale agreement with Jimmy Gordon Jr, who will lease the newly acquired Rooster’s Pub property from October 31, 2024 until March 1, 2025 at \$2,000 per month. The lessor has the option to purchase at any time during the lease for \$250,000, less any lease payments already made. In addition, on March 1, 2025, the lessor will purchase rights to the business, Rooster’s Pub Inc, for \$100,000. The proceeds of this agreement will be used to repay the Town of Pennington Gap for the \$350,000 loan noted above.

On November 12, 2024, the Town received a donation of three parcels of land, known as the Miles Hollow property, which currently has an assessed value of \$50,300.

On December 19, 2024, the Town was awarded \$130,000 for Phase 2 of the Solutions for Lasting, Viable Energy Infrastructure Technologies (SOLVE IT) prize. These funds are to be used to provide lighting on the greenway.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2024

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**Note 18-Upcoming Pronouncements:**

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

Statement No. 102, Certain Risk Disclosures, provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024.

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.

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, 2024

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
General property taxes	\$ 197,700	\$ 197,700	\$ 193,989	\$ (3,711)
Other local taxes	1,199,500	1,199,500	1,252,964	53,464
Fines and forfeitures	7,000	7,000	9,626	2,626
Revenue from the use of money and property	35,600	35,600	111,613	76,013
Charges for services	738,100	738,100	742,958	4,858
Miscellaneous	49,700	49,700	94,906	45,206
Recovered costs	54,050	54,050	67,280	13,230
Intergovernmental:				
Local government	60,000	60,000	80,105	20,105
Commonwealth	307,589	307,589	161,189	(146,400)
Federal	1,251,100	1,251,100	2,318,134	1,067,034
Total revenues	<u>\$ 3,900,339</u>	<u>\$ 3,900,339</u>	<u>\$ 5,032,764</u>	<u>\$ 1,132,425</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 482,100	\$ 482,100	\$ 480,944	\$ 1,156
Public safety	1,457,631	1,457,631	1,305,605	152,026
Public works	423,439	423,439	465,025	(41,586)
Parks, recreation, and cultural	548,450	548,450	602,976	(54,526)
Community development	968,063	968,063	544,222	423,841
Capital projects	94,350	94,350	47,086	47,264
Debt service:				
Principal	115,476	115,476	97,520	17,956
Interest and other fiscal charges	12,381	12,381	26,069	(13,688)
Total expenditures	<u>\$ 4,101,890</u>	<u>\$ 4,101,890</u>	<u>\$ 3,569,447</u>	<u>\$ 532,443</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (201,551)</u>	<u>\$ (201,551)</u>	<u>\$ 1,463,317</u>	<u>\$ 1,664,868</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ -	\$ 20,061	\$ 20,061
Issuance of notes payable	90,000	90,000	-	(90,000)
Sale of capital assets	7,151	7,151	67,784	60,633
Total other financing sources (uses)	<u>\$ 97,151</u>	<u>\$ 97,151</u>	<u>\$ 87,845</u>	<u>\$ (9,306)</u>
Net change in fund balances	\$ (104,400)	\$ (104,400)	\$ 1,551,162	\$ 1,655,562
Fund balances - beginning	104,400	104,400	604,135	499,735
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,155,297</u>	<u>\$ 2,155,297</u>

Town of Pennington Gap, Virginia  
 Schedule of Changes in Net Pension Liability (Asset) and Related Ratios  
 Pension Plan  
 For the Measurement Dates of June 30, 2014 through June 30, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total pension liability</b>										
Service cost	\$ 80,141	65,830	58,683	61,592	63,373	61,102	62,054	61,248	58,394	53,695
Interest	107,788	101,745	78,840	78,514	69,121	63,273	61,094	54,173	47,463	42,053
Changes in benefit terms	(32,392)	(20,315)	193,554	(49,733)	62,569	(1,865)	(30,306)	6,619	10,655	-
Differences between expected and actual experience	(72,482)	(71,608)	17,771	-	38,166	-	(22,272)	-	-	-
Changes of assumptions	83,055	75,652	(269,783)	(1,675)	210,296	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Benefit payments	1,552,961	1,477,309	1,207,526	1,209,201	998,905	931,397	884,716	785,110	687,492	609,759
<b>Total pension liability - beginning</b>	<b>1,636,016</b>	<b>1,552,961</b>	<b>1,477,309</b>	<b>1,207,526</b>	<b>1,209,201</b>	<b>998,905</b>	<b>931,397</b>	<b>884,716</b>	<b>785,110</b>	<b>687,492</b>
<b>Total pension liability - ending (a)</b>										
<b>Plan fiduciary net position</b>										
Contributions - employer	\$ 42,570	19,313	17,757	15,395	19,794	28,921	30,656	41,559	38,698	33,860
Contributions - employee	49,201	38,157	34,164	33,934	39,561	39,185	48,678	35,731	33,368	29,229
Net investment income	105,808	(2,110)	353,713	24,478	82,665	82,233	118,475	16,964	36,926	102,321
Benefit payments	(72,482)	(71,608)	(79,065)	(92,048)	(22,933)	(55,002)	(23,889)	(22,434)	(18,894)	(18,015)
Administrator charges	(1,008)	(1,006)	(881)	(869)	(753)	(685)	(618)	(497)	(445)	(506)
Other	43	38	33	(29)	(53)	(75)	(108)	(7)	(7)	6
<b>Net change in plan fiduciary net position</b>	<b>124,132</b>	<b>(17,216)</b>	<b>325,721</b>	<b>(19,139)</b>	<b>118,281</b>	<b>94,577</b>	<b>173,194</b>	<b>71,316</b>	<b>89,646</b>	<b>146,895</b>
<b>Plan fiduciary net position - beginning</b>	<b>1,608,527</b>	<b>1,625,743</b>	<b>1,300,022</b>	<b>1,319,161</b>	<b>1,200,880</b>	<b>1,106,303</b>	<b>933,109</b>	<b>861,793</b>	<b>772,147</b>	<b>625,252</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>1,732,659</b>	<b>1,608,527</b>	<b>1,625,743</b>	<b>1,300,022</b>	<b>1,319,161</b>	<b>1,200,880</b>	<b>1,106,303</b>	<b>933,109</b>	<b>861,793</b>	<b>772,147</b>
<b>Town's net pension liability (asset) - ending (a) - (b)</b>	<b>\$ (96,643)</b>	<b>(55,566)</b>	<b>(148,434)</b>	<b>(92,496)</b>	<b>(109,960)</b>	<b>(201,975)</b>	<b>(174,906)</b>	<b>(48,393)</b>	<b>(76,683)</b>	<b>(84,655)</b>
<b>Plan fiduciary net position as a percentage of the total pension liability (asset)</b>	105.91%	103.58%	110.05%	107.66%	109.09%	120.22%	118.78%	105.47%	109.77%	112.31%
<b>Covered payroll</b>	\$ 1,123,272	848,734	753,061	756,134	863,203	840,870	822,966	774,106	674,462	608,832
<b>Town's net pension liability (asset) as a percentage of covered payroll</b>	-8.60%	-6.55%	-19.71%	-12.23%	-12.74%	-24.02%	-21.25%	-6.25%	-11.37%	-13.90%

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

For the Years Ended June 30, 2015 through June 30, 2024

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)
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%
2015	39,349	39,349	-	674,462	5.83%

\*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, 2024

**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, 2022 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2021. 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, 2024

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

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, 2024**

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Valuation Date: 6/30/2024

Measurement Date: 6/30/2024

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Alternative measurement method (AMM)
Discount Rate	3.50% as of June 30, 2024
Healthcare Trend Rate - Medical	The medical healthcare trend rate assumption starts at 4.70% before ultimately decreasing to 4.2%
Healthcare Trend Rate - Pharmacy	The pharmacy trend rate assumption starts at 5.20% ultimately decreasing to 4.20%
Healthcare Trend Rate - Dental	The dental healthcare trend rate assumption starts at 3.50% and decreases after one year to a constant 3.00%
Healthcare Trend Rate - Vision	The vision healthcare trend rate assumption starts at 3.00% and remains constant
Salary Increase Rates	3.00% per year as of June 30, 2024
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, 2024

<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>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real Property Tax	\$ 164,550	\$ 164,550	\$ 163,282	\$ (1,268)
Real and Personal PSC Tax	16,000	16,000	15,496	(504)
Personal Property Tax	17,150	17,150	15,211	(1,939)
Total general property taxes	<u>\$ 197,700</u>	<u>\$ 197,700</u>	<u>\$ 193,989</u>	<u>\$ (3,711)</u>
Other local taxes:				
Local sales and use taxes	\$ 77,000	\$ 77,000	\$ 76,488	\$ (512)
Consumers' utility taxes	36,000	36,000	35,578	(422)
Business license taxes	95,000	95,000	122,963	27,963
Gross receipts taxes	7,000	7,000	6,881	(119)
Motor vehicle licenses	23,000	23,000	26,281	3,281
Bank stock taxes	182,000	182,000	182,468	468
Lodging tax	5,500	5,500	5,336	(164)
Restaurant food taxes	774,000	774,000	796,969	22,969
Total other local taxes	<u>\$ 1,199,500</u>	<u>\$ 1,199,500</u>	<u>\$ 1,252,964</u>	<u>\$ 53,464</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 7,000	\$ 7,000	\$ 9,626	\$ 2,626
Revenue from use of money and property:				
Revenue from use of property	\$ 20,900	\$ 20,900	\$ 22,268	\$ 1,368
Revenue from use of money	14,700	14,700	89,345	74,645
Total revenue from use of money and property	<u>\$ 35,600</u>	<u>\$ 35,600</u>	<u>\$ 111,613</u>	<u>\$ 76,013</u>
Charges for services:				
Charges for recreation user fees	\$ 16,000	\$ 16,000	\$ 19,011	\$ 3,011
Charges for RV park	70,000	70,000	51,918	(18,082)
Charges for refuse collections	135,000	135,000	143,556	8,556
Charges for theater	57,000	57,000	81,800	24,800
Charges for pool services	16,100	16,100	42,230	26,130
Charges for emergency services	444,000	444,000	404,443	(39,557)
Total charges for services	<u>\$ 738,100</u>	<u>\$ 738,100</u>	<u>\$ 742,958</u>	<u>\$ 4,858</u>
Miscellaneous:				
Miscellaneous	49,700	49,700	73,375	23,675
Fire Department contributions	-	-	21,531	21,531
Total miscellaneous	<u>\$ 49,700</u>	<u>\$ 49,700</u>	<u>\$ 94,906</u>	<u>\$ 45,206</u>

Town of Pennington Gap, Virginia  
Schedule of Revenues - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

<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>
<b>General Fund: (Continued)</b>				
Revenue from local sources: (Continued)				
Recovered costs:				
VDOT recovered costs	\$ 25,000	\$ 25,000	\$ 33,762	\$ 8,762
Insurance proceeds from vehicle accidents	29,050	29,050	33,518	4,468
Total recovered costs	<u>\$ 54,050</u>	<u>\$ 54,050</u>	<u>\$ 67,280</u>	<u>\$ 13,230</u>
 Total revenue from local sources	 <u>\$ 2,281,650</u>	 <u>\$ 2,281,650</u>	 <u>\$ 2,473,336</u>	 <u>\$ 191,686</u>
Intergovernmental:				
Revenues from local governments:				
Lee County contributions	\$ 60,000	\$ 60,000	\$ 80,105	\$ 20,105
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 6,500	\$ 6,500	\$ 7,096	\$ 596
Mobile home titling tax	-	-	3,938	3,938
Telecommunications Tax	31,000	31,000	33,312	2,312
Personal property tax relief funds	8,900	8,900	6,560	(2,340)
Total noncategorical aid	<u>\$ 46,400</u>	<u>\$ 46,400</u>	<u>\$ 50,906</u>	<u>\$ 4,506</u>
Categorical aid:				
Other categorical aid:				
Litter control grant	\$ 2,189	\$ 2,189	\$ 2,189	\$ -
State fire funds	39,000	39,000	15,000	(24,000)
DCJP Law Enforcement Grant	50,000	50,000	54,398	4,398
VTC marketing grant	15,500	15,500	34,196	18,696
Performing arts grant	4,500	4,500	4,500	-
UVA Outdoor Classroom grant	150,000	150,000	-	(150,000)
Total other categorical aid	<u>\$ 261,189</u>	<u>\$ 261,189</u>	<u>\$ 110,283</u>	<u>\$ (150,906)</u>
Total categorical aid	<u>\$ 261,189</u>	<u>\$ 261,189</u>	<u>\$ 110,283</u>	<u>\$ (150,906)</u>
Total revenue from the Commonwealth	<u>\$ 307,589</u>	<u>\$ 307,589</u>	<u>\$ 161,189</u>	<u>\$ (146,400)</u>
Revenue from the Federal Government:				
Categorical aid:				
Police grants	\$ 32,100	\$ 32,100	\$ 6,505	\$ (25,595)
CDBG grant	850,000	850,000	-	(850,000)
American Rescue Plan Act (ARPA) Funds	369,000	369,000	2,309,817	1,940,817
Other federal grants	-	-	1,812	1,812
Total categorical aid	<u>\$ 1,251,100</u>	<u>\$ 1,251,100</u>	<u>\$ 2,318,134</u>	<u>\$ 1,067,034</u>
Total revenue from the federal government	<u>\$ 1,251,100</u>	<u>\$ 1,251,100</u>	<u>\$ 2,318,134</u>	<u>\$ 1,067,034</u>
Total intergovernmental	<u>\$ 1,618,689</u>	<u>\$ 1,618,689</u>	<u>\$ 2,559,428</u>	<u>\$ 920,634</u>
Total General Fund	<u>\$ 3,840,339</u>	<u>\$ 3,840,339</u>	<u>\$ 4,952,659</u>	<u>\$ 1,112,320</u>

Town of Pennington Gap, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

<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>
<b>General Fund:</b>				
General government administration:				
General and financial administration:				
General government administration	\$ 482,100	\$ 482,100	\$ 480,944	\$ 1,156
Total general and financial administration	<u>\$ 482,100</u>	<u>\$ 482,100</u>	<u>\$ 480,944</u>	<u>\$ 1,156</u>
Public safety:				
Law enforcement and traffic control:				
Police	\$ 752,700	\$ 752,700	\$ 714,650	\$ 38,050
Fire and rescue services:				
Fire department	\$ 63,500	\$ 63,500	\$ 78,728	\$ (15,228)
Rescue squad	641,431	641,431	512,227	129,204
Total fire and rescue services	<u>\$ 704,931</u>	<u>\$ 704,931</u>	<u>\$ 590,955</u>	<u>\$ 113,976</u>
Total public safety	<u>\$ 1,457,631</u>	<u>\$ 1,457,631</u>	<u>\$ 1,305,605</u>	<u>\$ 152,026</u>
Public works:				
Sanitation and waste removal:				
Refuse collections	\$ 126,100	\$ 126,100	\$ 130,248	\$ (4,148)
Total sanitation and waste removal	<u>\$ 126,100</u>	<u>\$ 126,100</u>	<u>\$ 130,248</u>	<u>\$ (4,148)</u>
Maintenance of general buildings and grounds:				
General properties	\$ 297,339	\$ 297,339	\$ 268,828	\$ 28,511
Other maintenance of general buildings and grounds - COVID-19	-	-	65,949	(65,949)
Total maintenance of general buildings and grounds	<u>\$ 297,339</u>	<u>\$ 297,339</u>	<u>\$ 334,777</u>	<u>\$ (37,438)</u>
Total public works	<u>\$ 423,439</u>	<u>\$ 423,439</u>	<u>\$ 465,025</u>	<u>\$ (41,586)</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Theater	\$ 202,800	\$ 202,800	\$ 199,254	\$ 3,546
General parks and recreation	345,650	345,650	403,722	(58,072)
Total parks and recreation	<u>\$ 548,450</u>	<u>\$ 548,450</u>	<u>\$ 602,976</u>	<u>\$ (54,526)</u>
Total parks, recreation, and cultural	<u>\$ 548,450</u>	<u>\$ 548,450</u>	<u>\$ 602,976</u>	<u>\$ (54,526)</u>

Town of Pennington Gap, Virginia  
Schedule of Expenditures - Budget and Actual  
Governmental Funds  
For the Year Ended June 30, 2024

<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>
<b>General Fund: (continued)</b>				
Community development:				
Planning and community development:				
Economic development	\$ 27,993	\$ 27,993	\$ 24,344	\$ 3,649
Capital contributions to Pennington Gap IDA	940,070	940,070	519,878	420,192
Total planning and community development	<u>\$ 968,063</u>	<u>\$ 968,063</u>	<u>\$ 544,222</u>	<u>\$ 423,841</u>
Total community development	<u>\$ 968,063</u>	<u>\$ 968,063</u>	<u>\$ 544,222</u>	<u>\$ 423,841</u>
Capital projects:				
Pickleball Court	\$ 33,304	\$ 33,304	\$ 33,304	\$ -
Other capital projects	61,046	61,046	13,782	47,264
Total capital projects	<u>\$ 94,350</u>	<u>\$ 94,350</u>	<u>\$ 47,086</u>	<u>\$ 47,264</u>
Debt service:				
Principal retirement	\$ 115,476	\$ 115,476	\$ 97,520	\$ 17,956
Interest and other fiscal charges	12,381	12,381	26,069	(13,688)
Total debt service	<u>\$ 127,857</u>	<u>\$ 127,857</u>	<u>\$ 123,589</u>	<u>\$ 4,268</u>
Total General Fund	<u><u>\$ 4,101,890</u></u>	<u><u>\$ 4,101,890</u></u>	<u><u>\$ 3,569,447</u></u>	<u><u>\$ 532,443</u></u>

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COMPLIANCE SECTION

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**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**

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**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, 2024, and the related notes to the financial statements, which collectively comprise the Town of Pennington Gap, Virginia's basic financial statements and have issued our report thereon dated February 5, 2025.

**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 questioned costs, as item 2024-001, 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 questioned costs. 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.

*Robinson, Famer, Cox Associates*

Blacksburg, Virginia  
February 5, 2025



**Independent Auditors' Report on Compliance for Each Major Program and on  
Internal Control over Compliance Required by the Uniform Guidance**

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

**Report on Compliance for Each Major Federal Program**

**Opinion on Each Major Federal Program**

We have audited Town of Pennington Gap, Virginia's compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of Town of Pennington Gap, Virginia's major federal programs for the year ended June 30, 2024. Town of Pennington Gap, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Town of Pennington Gap, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

**Basis for Opinion on Each Major Federal Program**

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Town of Pennington Gap, Virginia and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Town of Pennington Gap, Virginia's compliance with the compliance requirements referred to above.

**Responsibilities of Management for Compliance**

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Town of Pennington Gap, Virginia's federal programs.

## **Auditors' Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Town of Pennington Gap, Virginia's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Town of Pennington Gap, Virginia's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Town of Pennington Gap, Virginia's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Town of Pennington Gap, Virginia's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Town of Pennington Gap, Virginia's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

## **Report on Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Robinson, James, Cox Associates*

Blacksburg, Virginia  
February 5, 2025

Town of Pennington Gap, Virginia  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2024

Federal Grantor/State Pass - Through Grantor/ Program Title (Pass - Through Grantor's Number)	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Federal Expenditures
<b>United States Department of Agriculture</b>			
Pass Through Payments:			
Virginia Department of Forestry:			
Cooperative Forestry Assistance	10.664	Not available	\$ 1,812
<b>Department of Justice</b>			
Pass Through Payments:			
Virginia Department of Criminal Justice Services:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	15PBJA22GG00616MUMU	\$ 2,803
<b>Department Transportation</b>			
Pass Through Payments:			
Virginia Department of Motor Vehicles:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	BSC-2023-53398-23398 BPT- 2024-54015-24015	\$ 3,702
<b>Department of Treasury</b>			
Pass Through Payments:			
Virginia Department of Housing and Community Development:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not available	\$ 403,862
Virginia Department of Criminal Justice Services:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not available	362,000
Virginia Department of Accounts:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	Not available	1,543,955
			\$ 2,309,817
Total Expenditures of Federal Awards			<u>\$ 2,318,134</u>

**Notes to Schedule of Expenditures of Federal Awards**

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Town of Pennington Gap, Virginia, under programs of the federal government for the year ended June 30, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Town of Pennington Gap, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Pennington Gap, Virginia.

Note 2 -- Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.
- (3) The Town did not elect to use the 10 percent de minimis indirect cost rate because they only request direct costs for reimbursement.
- (4) The Town did not have any loans or loan guarantees which are subject to reporting requirements for the year.

Note 3 -- Subrecipients

The Town did not have any subrecipients during the fiscal year.

Note 4 -- Relationship to the Financial Statements:

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund

Total expenditures of federal awards per basic financial statements

\$ 2,318,134

\$ 2,318,134

Town of Pennington Gap, Virginia  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2024

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**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

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

<u>Assistance Listing #</u>	<u>Name of Federal Program or Cluster</u>
21.027	COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	No

**Town of Pennington Gap, Virginia**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2024**

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**Section II - Financial Statement Findings**

**2024-001**

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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 2024 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 2024 and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

**Section III - Federal Award Findings and Questioned Costs**

There are no federal award findings to report.

Town of Pennington Gap, Virginia  
Summary Schedule of Prior Year Findings  
For the Year Ended June 30, 2024

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**Status of Prior Audit Findings**

Finding 2023-001 recurred in the current year as finding 2024-001.