

*TOWN OF PENNINGTON GAP, VIRGINIA*

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AUDIT REPORT

Year Ended June 30, 2008

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**TOWN OF PENNINGTON GAP, VIRGINIA  
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Year Ended June 30, 2008**

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**TOWN OF PENNINGTON GAP, VIRGINIA  
TOWN OFFICIALS  
June 30, 2008**

**MAYOR:** Jimmy Smallwood

**TOWN COUNCIL:** Larry Fish, Vice-Mayor  
Connie Nunley  
Keith Harless  
Mike Reuille  
C. R. Wynn

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

**ATTORNEY:** Greg Edwards

# THROWER, BLANTON & ASSOCIATES, P.C.

*Certified Public Accountants  
& Consultants*

M. BARDIN THROWER, JR., C.P.A.  
BRIAN K. BLANTON, C.P.A.  
CHARLES F. LAWSON, C.P.A.

MONROE B. THROWER, C.P.A.  
(1918 - 2000)

*Founded 1918*

Members of American Institute of  
Certified Public Accountants  
Virginia & Tennessee Society of  
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P.O. Box 1266  
612 Trent Street, NE  
Norton, Virginia 24273  
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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2008, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Pennington Gap, Virginia's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, each major fund, and the aggregate remaining fund information of the Town of Pennington Gap, Virginia as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Town has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.

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

March 15, 2009

# THROWER, BLANTON & ASSOCIATES, P.C.

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROLS OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the general purpose financial statements of the Town of Pennington Gap, Virginia, as of and for the year ended June 30, 2008, and have issued our report thereon dated March 15, 2009. 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.

### Compliance

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

### Internal Control Over Financial Reporting

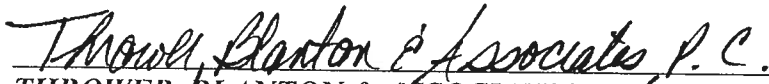
In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expression our opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed in the separate Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

This report is intended for the information of management and state and federal regulatory agencies. However, this report is a matter of public record and its distribution is not limited.

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

March 15, 2009

TOWN OF PENNINGTON GAP, VIRGINIA

*SUMMARY OF COMPLIANCE MATTERS*

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June 30, 2008

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

**STATE COMPLIANCE MATTERS**

**Code of Virginia:**

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

**LOCAL COMPLIANCE MATTERS**

Town Charter

**TOWN OF PENNINGTON GAP**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 383,985	\$ 924,481	\$ 1,308,466
Restricted cash	262,292	162,456	424,748
Investments	401,149	-	401,149
Receivable, net	78,501	174,905	253,406
Due from other funds	-	321,902	321,902
Deferred bond expense	-	38,000	38,000
Loans receivable	-	95,288	95,288
Prepaid and other	13,965	11,843	25,808
Capital assets, net	1,329,019	13,042,145	14,371,164
 Total Assets	 <u>\$ 2,468,911</u>	 <u>\$ 14,771,020</u>	 <u>\$ 17,239,931</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	24,710	19,958	44,668
Accrued payroll and related liabilities	14,127	16,956	31,083
Accrued interest payable	-	42,789	42,789
Customer security deposits	-	57,708	57,708
Due to other funds	288,720	33,183	321,903
Compensated absences	16,087	26,199	42,286
Long-term liabilities:			
Due within one year	-	309,639	309,639
Due in more than one year	-	6,264,180	6,264,180
 Total Liabilities	 <u>343,644</u>	 <u>6,770,612</u>	 <u>7,114,256</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,329,019	6,468,326	7,797,345
Restricted	-	-	-
Unrestricted	796,248	1,532,082	2,328,330
 Total Net Assets	 <u>\$ 2,125,267</u>	 <u>\$ 8,000,408</u>	 <u>\$ 10,125,675</u>
	<u>\$ 2,468,911</u>	<u>\$ 14,771,020</u>	<u>\$ 17,239,931</u>

TOWN OF PENNINGTON GAP  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2008

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
<b>Governmental Activities</b>							
General government	\$ 185,114	\$ 110,202	\$ -	\$ -	(74,912)	\$ -	\$ (74,912)
Public safety	421,397	30,178	53,796	-	(337,423)	-	(337,423)
Public works	314,616	83,249	-	48,127	(183,240)	-	(183,240)
Parks, recreation and cultural	91,167	20,563	-	-	(70,604)	-	(70,604)
Total Governmental Activities	1,012,294	244,192	53,796	48,127	(666,179)	-	(666,179)
<b>Business-type activities</b>							
Water	1,178,082	1,248,125	-	81,796	-	151,839	151,839
Wastewater	566,899	554,302	-	-	-	(12,597)	(12,597)
Industrial fund	-	32,164	-	-	-	32,164	32,164
Total Business-Type Activities	1,744,981	1,834,591	-	81,796	-	171,406	171,406
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>2,757,275</b>	<b>2,078,783</b>	<b>53,796</b>	<b>129,923</b>	<b>(666,179)</b>	<b>171,406</b>	<b>(494,773)</b>
<b>General revenues</b>							
Property taxes					164,345	-	164,345
Other local taxes					634,751	-	634,751
Unrestricted intergovernmental revenue					139,340	-	139,340
Unrestricted investment earnings					14,561	7,871	22,432
Gain on sale of assets					10,578	-	10,578
Other					23,913	-	23,913
Rental of Town property					24,373	-	24,373
Total general revenues and transfers					1,011,861	7,871	1,019,732
Change in net assets					345,682	179,277	524,959
<b>NET ASSETS - JULY 1</b>					1,779,585	7,821,131	9,600,716
<b>NET ASSETS - JUNE 30</b>					\$ 2,125,267	\$ 8,000,408	\$ 10,125,675

TOWN OF PENNINGTON GAP  
 BALANCE SHEET  
 GOVERNMENTAL FUND  
 JUNE 30, 2008

	General Fund	Permanent Fund	
		Debt Service Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 383,985	\$ -	\$ 383,985
Restricted cash	93,000	169,292	262,292
Investments	401,149	-	401,149
Taxes receivable	38,097	-	38,097
Accounts receivable	40,404	-	40,404
Prepaid and other	13,965	-	13,965
Due from other governmental units	-	-	-
Total Assets	<u>\$ 970,600</u>	<u>\$ 169,292</u>	<u>\$ 1,139,892</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 24,710	\$ -	\$ 24,710
Accrued payroll and related liabilities	14,127	-	14,127
Deferred revenue	37,590	-	37,590
Due to other funds	286,087	2,633	288,720
Total Liabilities	<u>362,514</u>	<u>2,633</u>	<u>365,147</u>
<b>FUND BALANCES</b>			
Reserved for	-	-	-
Unreserved:			
Designated	-	166,659	166,659
Undesignated	608,086	-	608,086
Total Fund Balances	<u>608,086</u>	<u>166,659</u>	<u>774,745</u>
Total Liabilities and Fund Balances	<u>\$ 970,600</u>	<u>\$ 169,292</u>	<u>\$ 1,139,892</u>
Total Fund Balances	\$ 774,745		
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	1,329,019		
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds	37,590		
Other liabilities are not required to be paid out of current financial resources and therefore are not reported in the governmental funds	(16,087)		
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	-		
Net Assets of Governmental Activities	<u>\$ 2,125,267</u>		

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES**  
**GENERAL AND DEBT SERVICE FUNDS**  
**Year Ended June 30, 2008**

	General Fund	Debt Service Fund	TOTALS
<b>REVENUES:</b>			
General property taxes	\$ 153,872	\$ -	\$ 153,872
Other local taxes	634,751	-	634,751
Permits, privilege fees and regulatory licenses	110,202	-	110,202
Fines and forfeitures	30,178	-	30,178
Revenue from use of money and property	30,271	8,663	38,934
Miscellaneous revenue	23,913	-	23,913
Charges for services	103,812	-	103,812
Intergovernmental	241,263	-	241,263
	<u>1,328,262</u>	<u>8,663</u>	<u>1,336,925</u>
<b>EXPENDITURES:</b>			
General government administration	180,244	-	180,244
Public safety	355,173	-	355,173
Public works	333,238	-	333,238
Parks, recreation and cultural	258,561	-	258,561
	<u>1,127,216</u>	<u>-</u>	<u>1,127,216</u>
<b>OTHER FINANCING SOURCES:</b>			
Sale of assets	3,204	-	3,204
Transfers	-	-	-
	<u>204,250</u>	<u>8,663</u>	<u>212,913</u>
Excess (Deficiency) of Revenues Over Expenditures			
Fund Balance, July 1, 2007	<u>403,836</u>	<u>157,996</u>	<u>561,832</u>
Fund Balance, June 30, 2008	<u>\$ 608,086</u>	<u>\$ 166,659</u>	<u>\$ 774,745</u>

**TOWN OF PENNINGTON GAP  
BALANCE SHEETS  
ALL ENTERPRISE FUNDS  
Year Ended June 30, 2008**

	Water Fund	Sewer Fund	Industrial Fund	TOTALS (MEMORANDUM ONLY)
<b>ASSETS</b>				
Cash and cash equivalents	\$ 648,465	\$ 276,016	\$ -	\$ 924,481
Restricted cash	40,828	-	121,628	162,456
Investments	-	-	-	-
Receivable, net	104,331	70,574	-	174,905
Due from other funds	190,047	168	131,687	321,902
Deferred bond expense	26,600	11,400	-	38,000
Loans receivable	-	-	95,288	95,288
Prepaid and other	8,264	3,579	-	11,843
Capital assets, net	<u>9,504,276</u>	<u>3,530,926</u>	<u>6,943</u>	<u>13,042,145</u>
 Total Assets	 <u>\$ 10,522,811</u>	 <u>\$ 3,892,663</u>	 <u>\$ 355,546</u>	 <u>\$ 14,771,020</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ 9,687	\$ 10,271	\$ -	\$ 19,958
Accrued payroll and related liabilities	10,144	6,812	-	16,956
Accrued interest payable	30,864	11,925	-	42,789
Deferred revenue	-	-	-	-
Customer security deposits	40,714	16,994	-	57,708
Due to other funds	-	33,183	-	33,183
Compensated absences	13,471	12,728	-	26,199
Long-term liabilities:				
Due within one year	173,829	135,810	-	309,639
Due in more than one year	<u>5,139,286</u>	<u>1,124,894</u>	<u>-</u>	<u>6,264,180</u>
 Total Liabilities	 <u>5,417,995</u>	 <u>1,352,617</u>	 <u>-</u>	 <u>6,770,612</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,191,161	2,270,222	6,943	6,468,326
Restricted	-	-	-	-
Unrestricted	<u>913,655</u>	<u>269,824</u>	<u>348,603</u>	<u>1,532,082</u>
 Total Net Assets	 <u>5,104,816</u>	 <u>2,540,046</u>	 <u>355,546</u>	 <u>8,000,408</u>
	<u>\$ 10,522,811</u>	<u>\$ 3,892,663</u>	<u>\$ 355,546</u>	<u>\$ 14,771,020</u>

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN RETAINED EARNINGS**  
**ALL ENTERPRISE FUNDS**  
**Year Ended June 30, 2008**

	Water Fund	Sewer Fund	Industrial Fund	TOTALS (MEMORANDUM ONLY)
<b>OPERATING REVENUES:</b>				
Charges for services	\$ 1,225,851	\$ 540,686	\$ -	\$ 1,766,537
Tap fees	1,826	125	-	1,951
Connections	1,880	-	-	1,880
Reconnections	615	-	-	615
Penalties	17,136	-	-	17,136
Miscellaneous	817	13,491	32,164	46,472
Total Operating Revenues	<u>1,248,125</u>	<u>554,302</u>	<u>32,164</u>	<u>1,834,591</u>
<b>OPERATING EXPENSES:</b>				
Salaries and wages	244,189	152,987	-	397,176
Payroll taxes	17,560	11,285	-	28,845
Group health and life	82,662	44,312	-	126,974
Pension	10,830	6,870	-	17,700
Utilities	95,019	41,103	-	136,122
Telephone	5,091	1,419	-	6,510
Supplies	65,758	26,314	-	92,072
Vehicle expense	2,783	4,221	-	7,004
Insurance	21,021	8,021	-	29,042
Repair and maintenance	21,638	23,943	-	45,581
Certification, travel and training	689	384	-	1,073
Professional services	3,521	4,899	-	8,420
Lab and analysis	2,051	2,049	-	4,100
Dues and subscriptions	4,293	1,860	-	6,153
Depreciation	424,041	155,812	-	579,853
Amortization	1,400	600	-	2,000
Miscellaneous	8,684	42,851	-	51,535
Bad debt	7,180	203	-	7,383
Community development	-	-	-	-
Total Operating Expenses	<u>1,018,410</u>	<u>529,133</u>	<u>-</u>	<u>1,547,543</u>
Operating Income (Loss)	<u>229,715</u>	<u>25,169</u>	<u>32,164</u>	<u>287,048</u>
<b>NON-OPERATING REVENUES (EXPENSES):</b>				
Grant income	81,796	-	-	81,796
Interest revenue	7,120	-	751	7,871
Interest expense	(159,672)	(37,766)	-	(197,438)
Non-Operating Revenues (Expenses), Net	<u>(70,756)</u>	<u>(37,766)</u>	<u>751</u>	<u>(107,771)</u>
<b>CHANGE IN NET ASSETS</b>	158,959	(12,597)	32,915	179,277
<b>NET ASSETS AT JULY 1, 2007</b>	<u>4,945,857</u>	<u>2,552,643</u>	<u>322,631</u>	<u>7,821,131</u>
<b>NET ASSETS AT JUNE 30, 2008</b>	<u>\$ 5,104,816</u>	<u>\$ 2,540,046</u>	<u>\$ 355,546</u>	<u>\$ 8,000,408</u>

**TOWN OF PENNINGTON GAP**  
**COMBINED STATEMENT OF CASH FLOWS**  
**ALL ENTERPRISE FUNDS**  
**Year Ended June 30, 2008**

	Water Fund	Sewer Fund	Industrial Fund	TOTALS (MEMORANDUM ONLY)
<b>OPERATING ACTIVITIES:</b>				
Receipts from customers	\$ 1,226,996	\$ 553,692	\$ -	\$ 1,780,688
Payments to suppliers	(322,816)	(156,782)	-	(479,598)
Payments to employees	(352,845)	(216,661)	-	(569,506)
Receipts of customer deposits	232	(377)	-	(145)
Net cash provided by Operating Activities	<u>551,567</u>	<u>179,872</u>	<u>-</u>	<u>731,439</u>
<b>NON-CAPITAL FINANCING ACTIVITIES:</b>				
Operating transfers from other funds	-	15,271	-	15,271
Operating transfers to other funds	(25,663)	(168)	-	(25,831)
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(25,663)</u>	<u>15,103</u>	<u>-</u>	<u>(10,560)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES:</b>				
Acquisition and construction of capital assets	(14,963)	-	-	(14,963)
Proceeds from borrowings	2,132,892	882,108	-	3,015,000
Contributed Capital-Grant Revenue	81,796	-	-	81,796
Interest paid on bonds	(173,275)	(44,402)	-	(217,677)
Principal paid on bond maturities and transfers to debt service fund	(2,284,644)	(1,018,992)	-	(3,303,636)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(258,194)</u>	<u>(181,286)</u>	<u>-</u>	<u>(439,480)</u>
<b>INVESTING ACTIVITIES:</b>				
Reclassification of investments and assets	-	-	-	-
Payments received on community development loans	-	-	9,682	9,682
Interest revenue	7,120	-	751	7,871
Net Cash Provided (Used) by Investing Activities	<u>7,120</u>	<u>-</u>	<u>10,433</u>	<u>17,553</u>
Net Increase (Decrease) in Cash and Cash Equivalents	274,830	13,689	10,433	298,952
Cash and Cash Equivalents at Beginning of Year	<u>414,463</u>	<u>262,327</u>	<u>111,195</u>	<u>787,985</u>
Cash and Cash Equivalents at June 30, 2008				
Unrestricted	\$ 648,465	\$ 276,016	\$ -	\$ 924,481
Restricted	40,828	-	121,628	162,456
Cash and Cash Equivalents at End of Year	<u>\$ 689,293</u>	<u>\$ 276,016</u>	<u>\$ 121,628</u>	<u>\$ 1,086,937</u>
<b>RECONCILIATION OF OPERATING INCOME TO NETCASH PROVIDED BY OPERATING ACTIVITIES:</b>				
Operating income (loss)	\$ 229,715	\$ 25,169	\$ 32,164	\$ 287,048
Adjustment to reconcile operating income to net cash provided by operating activities:				
Depreciation and Amortization	425,441	156,412	-	581,853
(Increase) decrease in accounts receivable	(21,129)	(610)	(32,164)	(53,903)
(Increase) decrease in prepaid expenses	1,517	845	-	2,362
(Decrease) increase in accounts payable	(86,605)	(360)	-	(86,965)
(Decrease) increase in accrued liabilities	2,081	898	-	2,979
(Decrease) increase in accrued compensated absences	315	(2,105)	-	(1,790)
(Decrease) increase in customer deposits	232	(377)	-	(145)
Net Cash Provided (Used) by Operating Activities	<u>\$ 551,567</u>	<u>\$ 179,872</u>	<u>\$ -</u>	<u>\$ 731,439</u>

TOWN OF PENNINGTON GAP  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES - BUDGET AND ACTUAL  
Year Ended June 30, 2008

	Original Budget	Revised Budget	Actual	Variance
<b>PRIMARY GOVERNMENT:</b>				
<b>GENERAL FUND:</b>				
<b>General Property Taxes:</b>				
Real property taxes	\$ 120,000	\$ 120,000	\$ 130,445	\$ 10,445
Personal property taxes	23,700	23,700	22,113	(1,587)
Penalties and interest	1,100	1,100	1,314	214
Total General Property Taxes	<u>144,800</u>	<u>144,800</u>	<u>153,872</u>	<u>9,072</u>
<b>Other Local Taxes:</b>				
Local sales and use tax	39,000	39,000	47,969	8,969
Utility taxes	47,600	47,600	47,432	(168)
Business license tax	17,000	17,000	12,469	(4,531)
Franchise license tax	42,000	42,000	53,523	11,523
Bank stock taxes	155,000	155,000	165,465	10,465
Hotel and motel room taxes	5,000	5,000	4,663	(337)
Restaurant food taxes	222,000	222,000	282,029	60,029
Other	2,000	2,000	21,201	19,201
Total Other Local Taxes	<u>529,600</u>	<u>529,600</u>	<u>634,751</u>	<u>105,151</u>
Permits, Privilege Fees and Regulatory Licenses	<u>105,000</u>	<u>105,000</u>	<u>110,202</u>	<u>5,202</u>
Fines and Forfeitures	<u>23,000</u>	<u>23,000</u>	<u>30,178</u>	<u>7,178</u>
<b>Revenue From Use of Money and Property:</b>				
Revenue from use of money	8,400	8,400	14,561	6,161
Revenue from use of property	16,150	16,150	15,710	(440)
Total Revenue from Use of Money and Property	<u>24,550</u>	<u>24,550</u>	<u>30,271</u>	<u>5,721</u>
Miscellaneous Revenue	<u>-</u>	<u>-</u>	<u>23,913</u>	<u>23,913</u>
<b>Charges for Services:</b>				
Garbage collection fees	80,000	80,000	83,249	3,249
Other	12,000	12,000	20,563	8,563
Total Charges for Services	<u>92,000</u>	<u>92,000</u>	<u>103,812</u>	<u>11,812</u>
TOTAL PRIMARY GOVERNMENT	<u>918,950</u>	<u>918,950</u>	<u>1,086,999</u>	
<b>Revenue From the Commonwealth:</b>				
<b>Non-Categorical Aid:</b>				
ABC profits	2,138	2,138	2,138	-
Rolling stock taxes	3,900	3,900	4,203	303
DCR	75,000	75,000	72,938	(2,062)
TIC	119,230	119,230	58,922	(60,308)
Litter grant	1,000	1,000	1,139	139
Total Non-Categorical Aid	<u>201,268</u>	<u>201,268</u>	<u>139,340</u>	<u>(61,928)</u>
<b>Categorical Aid:</b>				
State assistance	52,792	52,792	53,796	1,004
TEA 21 grant	247,740	247,740	-	(247,740)
VDOT-Bypass utility funds	5,000	5,000	-	(5,000)
Community improvement grant	-	-	-	-
Other grant income	33,000	33,000	48,127	15,127
Total Categorical Aid	<u>338,532</u>	<u>338,532</u>	<u>101,923</u>	<u>(236,609)</u>
Total Revenue from the Commonwealth	<u>539,800</u>	<u>539,800</u>	<u>241,263</u>	<u>(298,537)</u>
<b>Revenue From the Federal Government:</b>				
Federal Emergency Management Grant	-	-	-	-
Rural Development-Economic Impact	-	-	-	-
Total Revenue From the Federal Government	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Other Financing Sources:</b>				
Transfers	-	-	-	-
Sale of property	-	-	3,204	3,204
Appropriation of prior year surplus	139,085	139,085	-	(139,085)
Total Other Financing Sources	<u>139,085</u>	<u>139,085</u>	<u>3,204</u>	<u>(135,881)</u>
GRAND TOTAL - REVENUES - PRIMARY GOVERNMENT FUNDS	<u>\$ 1,597,835</u>	<u>\$ 1,597,835</u>	<u>\$ 1,331,466</u>	<u>#VALUE!</u>

**TOWN OF PENNINGTON GAP**  
**GOVERNMENTAL FUNDS**  
**STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL**  
**Year Ended June 30, 2008**

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>PRIMARY GOVERNMENT:</b>				
<b>GENERAL FUND:</b>				
<b>General Government Administration:</b>				
Salaries	\$ 72,100	\$ 72,100	\$ 73,386	\$ (1,286)
Fringe benefits	39,477	39,477	39,014	463
Payroll taxes	6,020	6,020	5,151	869
Utilities	14,000	14,000	11,502	2,498
Insurance	5,000	5,000	5,072	(72)
Supplies	10,000	10,000	9,966	34
Repair and maintenance	7,000	7,000	6,814	186
Training and travel	4,000	4,000	2,559	1,441
Advertising	2,000	2,000	1,984	16
Legal and accounting fees	8,100	8,100	7,883	217
Council fees	6,600	6,600	6,400	200
Donations	1,500	1,500	1,436	64
Capital purchases	7,500	7,500	7,380	120
Miscellaneous	2,628	2,628	1,697	931
Total General Government Administration	<u>185,925</u>	<u>185,925</u>	<u>180,244</u>	<u>5,681</u>
<b>Public Safety:</b>				
Salaries	160,000	160,000	150,608	9,392
Fringe benefits	65,685	65,685	59,024	6,661
Payroll taxes	12,500	12,500	10,880	1,620
Utilities	14,000	14,000	13,149	851
Insurance	17,600	17,600	17,036	564
Supplies	8,000	8,000	9,865	(1,865)
Repair and maintenance	7,000	7,000	4,989	2,011
Training and travel	6,000	6,000	6,733	(733)
Fuel	26,000	26,000	34,383	(8,383)
Legal and accounting fees	6,000	6,000	1,554	4,446
Capital purchases	75,850	75,850	39,422	36,428
Miscellaneous	2,400	2,400	7,530	(5,130)
Total Public Safety	<u>401,035</u>	<u>401,035</u>	<u>355,173</u>	<u>45,862</u>
<b>Public Works:</b>				
<b>Maintenance of Highways, Streets, Bridges and Sidewalks:</b>				
Salaries	61,000	61,000	35,009	25,991
Fringe benefits	30,375	30,375	13,734	16,641
Payroll taxes	4,900	4,900	2,467	2,433
Utilities	34,000	34,000	34,319	(319)
Insurance	11,500	11,500	10,496	1,004
Supplies	4,000	4,000	3,020	980
Repair and maintenance	6,000	6,000	7,726	(1,726)
Fuel	3,500	3,500	3,884	(384)
Capital purchases	7,500	7,500	6,142	1,358
Miscellaneous	3,750	3,750	1,228	2,522
Highways, streets, bridges and sidewalks	12,850	12,850	6,560	6,290
TIC	119,230	119,230	69,270	49,960
TVA Greenway	-	-	1,135	(1,135)
TEA 21	311,825	311,825	-	311,825
Broadband	24,725	24,725	22,586	2,139
Community improvement grant	17,450	17,450	10,043	7,407
VDOT-Bypass utility	5,000	5,000	-	5,000
Total Maintenance of Highways, Streets, Bridges and Sidewalks	<u>657,605</u>	<u>657,605</u>	<u>227,619</u>	<u>429,986</u>

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

**TOWN OF PENNINGTON GAP  
GOVERNMENTAL FUNDS  
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL  
Year Ended June 30, 2008**

	Original Budget	Revised Budget	Actual	Variance
<b>Sanitation and Waste Removal</b>				
Salaries	43,000	43,000	44,521	92
Fringe benefits	19,870	19,870	19,290	6,708
Payroll taxes	3,350	3,350	3,148	171
Insurance	7,500	7,500	7,822	(206)
Supplies	500	500	292	358
Repair and Maintenance	500	500	526	(920)
Fuel	7,000	7,000	8,069	(1,821)
Capital purchases	4,000	4,000	4,171	(2,507)
Miscellaneous	18,000	18,000	17,780	(2,000)
Total Public Works	<u>103,720</u>	<u>103,720</u>	<u>105,619</u>	<u>(125)</u>
<b>Parks, Recreation and Cultural:</b>				
Salaries	16,900	16,900	17,502	(602)
Fringe benefits	-	-	-	-
Payroll taxes	1,300	1,300	1,343	(43)
Utilities	13,900	13,900	15,912	(2,012)
Insurance	4,900	4,900	5,455	(555)
Supplies	2,000	2,000	2,493	(493)
Repair and maintenance	7,500	7,500	9,895	(2,395)
Capital purchases	10,000	10,000	18,888	(8,888)
Miscellaneous	-	-	1,592	(1,592)
DCR- Leeman Field	169,050	169,050	159,726	9,324
Parks and recreation	24,000	24,000	25,755	(1,755)
Total Parks, Recreation and Cultural	<u>249,550</u>	<u>249,550</u>	<u>258,561</u>	<u>(9,011)</u>
<b>GRAND TOTAL - EXPENDITURES- PRIMARY GOVERNMENT FUNDS</b>				
	<u>\$ 1,597,835</u>	<u>\$ 1,597,835</u>	<u>\$ 1,127,216</u>	<u>\$ 472,393</u>

June 30, 2008

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

A. **Reporting Entity**

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. The Town's financial statements include all the Town operations.

B. **Financial Reporting Model**

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

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

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

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

June 30, 2008

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

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

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

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

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

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

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

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

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

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

June 30, 2008

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

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

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

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

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

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

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

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

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

June 30, 2008

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

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

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

The focus of the Reporting Model is on the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds, the operations of which are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate.

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

The Town reports the following major governmental funds:

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

Proprietary Fund Types

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

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

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

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

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

D. **Budgets and Budgetary Accounting**

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

June 30, 2008

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

E. **Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

F. **Capital Assets**

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

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

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

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

G. **Cash Equivalents**

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

H. **Total Columns on Combined Statements - Overview**

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

I. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

J. **Defined Benefit Pension Plans**

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

2. CASH AND CASH EQUIVALENTS

Deposits

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

Investments

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including regulations, the Town permits investments in U. S. Treasury Securities, U. S. agency securities, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker's acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

Credit Risk:

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

Concentration of Credit Risk:

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

Lec Bank and Trust	86%
Powell Valley National Bank	8
Farmers and Miners Bank	6

Custodial Credit Risk:

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

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

	<u>Primary Government</u>
Deposits and investments:	
Deposits	\$ 1,733,214
Investments	<u>401,149</u>
	<u>\$ 2,134,363</u>
Statement of net assets:	
Cash and cash equivalents	\$ 1,308,466
Restricted cash and cash equivalents	424,748
Investments	<u>401,149</u>
	<u>\$ 2,134,363</u>

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

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. GENERAL OBLIGATION BONDS

Description	Status	Parity Bond Interest Due Within One Year Per Bond Covenants	Accrued Interest	Parity Bond Principal Due Within One Year Per Bond Covenants	Subordinate Bond		Long-Term	
					Principal Due Within One Year Per Bond Covenants	Principal Due Within One Year Per Bond Covenants	Parity Bonds	Subordinate Bonds
Water/Sewer Bonds, Series G	Subordinate	-0-	-0-	-0-	98,857	-0-	-0-	296,570
Water/Sewer Bonds, Series 2004	Subordinate	-0-	-0-	-0-	2,932	-0-	-0-	222,573
TOTALS		\$ -0-	\$ -0-	\$ -0-	\$ 101,789	\$ -0-	\$ -0-	\$ 519,143

Water and Sewer bonds, Series G, issued to the Virginia Revolving Loan Fund on March 7, 1991, in a principal amount equal to the sum of the principal advances made, but not to exceed \$1,884,660. These bonds were issued at an interest rate of 0% per year for 20 years. Principal payments of \$49,428 are due each September 1st and March 1st, to be deposited by the 15th day of the month preceding the payment date. Late charges, equal to 2.5% of any installment received more than ten days from the due date, are to be paid to VRLF. The balance outstanding at June 30, 2008 was \$395,427.

The 1989 Series D and E bonds and the 1991 Series F & G are subordinated to the lien of the Series B and C bonds.

	PARITY BONDS		
	Series B Water & Sewer Bonds	Series C Water & Sewer Bonds	Total Parity Bonds
Bonds/loans payable at July 1, 2007	\$276,000	\$681,000	\$ 957,000
Issuances	-0-	-0-	-0-
Retirements	(276,000)	(681,000)	( 957,000)
Bonds/loans payable at June 30, 2008	\$ -0-	\$ -0-	\$ -0-

	SUBORDINATE BONDS					
	Series D Water & Sewer Bonds	Series E Water & Sewer Bonds	Series F Water & Sewer Bonds	Series G Water & Sewer Bonds	Series 2004 Water Bonds	Total Subordinate Bonds
Bonds/loans payable at July 01, 2007	\$694,300	\$481,200	\$891,305	\$494,284	\$228,371	\$2,789,460
Issuances	-0-	-0-	-0-	-0-	-0-	-0-
Retirements	(694,300)	(481,200)	(891,305)	( 98,857)	( 2,866)	( 2,168,528)
Bonds/loans payable at June 30, 2008	\$ -0-	\$ -0-	\$ -0-	\$ 395,427	\$ 225,505	\$ 620,932

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. GENERAL OBLIGATION BONDS (Continued)

	REVENUE REFUNDING BOND					
	Series 2007 Water Revenue Refunding		Series 2007 Sewer Revenue Refunding		Total Revenue Refunding Bond	
Bonds/loans payable at July 01, 2007	\$ -0-		\$ -0-		\$ -0-	
Issuances	2,160,892		894,108		3,055,000	
Retirements	( 69,669)		( 28,831)		( 98,500)	
Bonds/loans payable at June 30, 2008	<u>\$2,091,223</u>		<u>\$ 865,277</u>		<u>\$2,956,500</u>	
	Series 2007 Water Revenue Refunding		Series 2007 Sewer Revenue Refunding		Series 2007 Revenue Refunding Totals	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 89,297	\$ 85,736	\$ 36,953	\$ 35,480	\$ 126,250	\$ 121,216
2010	93,364	82,075	38,636	33,965	132,000	116,040
2011	96,900	78,247	40,100	32,381	137,000	110,628
2012	102,028	74,274	42,222	30,737	144,250	105,011
2013	105,388	65,770	43,612	29,006	149,000	94,776
Thereafter	<u>1,604,246</u>	<u>505,322</u>	<u>663,754</u>	<u>207,326</u>	<u>2,268,000</u>	<u>712,648</u>
Totals	<u>\$2,091,223</u>	<u>\$891,424</u>	<u>\$865,277</u>	<u>\$368,895</u>	<u>\$2,956,500</u>	<u>\$1,206,319</u>

Water and Sewer bonds, Series G, issued to the Virginia Revolving Loan Fund on March 7, 1991, in a principal amount equal to the sum of the principal advances made, but not to exceed \$1,884,660. These bonds were issued at an interest rate of 0% per year for 20 years. Principal payments of \$49,428.48 are due each September 1st and March 1st, to be deposited by the 15th day of the month preceding the payment date. Late charges, equal to 2.5% of any installment received more than ten days from the due date, are to be paid to VRLF.

Water Bond Series 2004, dated July 25, 2004, held by Rural Development, with a principal balance of \$237,070 bearing interest at 4.25%. Interest only is payable on the first anniversary date of July 24, 2005. Thereafter, principal and interest shall be made in monthly installments of \$1,039 commencing on August 25, 2005 with final payment due August 25, 2043

TOTAL SUBORDINATE BONDS

395,427

225,505  
\$ 620,932

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

3. GENERAL OBLIGATION BONDS (Continued)

Water Revenue Refunding bond, Series 2007, issued to Carter Bank & Trust on August 28, 2007 with a principal balance of \$2,160,892 bearing interest of 4.10%. Semiannual payments of interest due on each March 1<sup>st</sup> and September 1<sup>st</sup> beginning March 1, 2008 through and including March 1, 2027 with principal payable annually in installments on each March 1 commencing March 1, 2008 through and including the maturity date of March 1, 2027.

2,091,223

Sewer Revenue Refunding bond, Series 2007, issued to Carter Bank & Trust on August 28, 2007 with a principal balance of \$894,108 bearing interest of 4.10%. Semiannual payments of interest due on each March 1<sup>st</sup> and September 1<sup>st</sup> beginning March 1, 2008 through and including March 1, 2027 with principal payable annually in installments on each March 1 commencing March 1, 2008 through and including the maturity date of March 1, 2027.

865,277

TOTAL REVENUE REFUNDING BONDS

\$ 2,956,500

4. REVENUE BONDS

Water Revenue Bond, Series 1999 was issued on September 20, 1999, in a principal amount equal to the sum of the principal advances made, but not to exceed \$2,003,540. The bonds were issued at an interest rate of 3.25% per year, interest only payable on the first and second anniversary dates of closing, and thereafter, payable in monthly installments of combined principal and interest of \$7,674. The first payment was due November 12, 2001, and on the same day of each month thereafter for a period of thirty-eight years until paid, each payment to be applied first to interest accrued to such payment date and then to principal and such final installment, if not sooner paid, to be due and payable forty years from the date thereof. The balance outstanding at June 30, 2008, was \$1,795,405.

Water Revenue Bond, Series 2004B, issued to the Virginia Revolving Loan Fund on July 25, 2004, in a principal sum of \$1,385,748. The bonds bear interest of 0% for thirty years. Principal installments of \$23,095.80 are due semi-annually on September 1 and March 1 of each year beginning September 1, 2005, with final payment due March 1, 2034. The balance outstanding at June 30, 2008, was \$1,200,982.

**Water Revenue  
Bonds**

Revenue bonds payable at July 1, 2007  
Issuances  
Retirements  
Revenue bonds payable at June 30, 2008

\$3,075,995  
-0-  
( 79,608)  
\$2,996,387

5. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

The Town provided additions to its allowance for uncollectible taxes, garbage, water, and sewer services based on 15% of the total outstanding balance. The allowance amounted to approximately \$85,934 at June 30, 2008, and is composed of the following:

**General Fund:**

Allowance for uncollectible property taxes  
Allowance for uncollectible garbage fees  
Total General Fund

\$ 22,834  
4,929  
\$ 27,763

**Water and Sewer Fund:**

Allowance for uncollectible water and sewer  
fee billings  
TOTAL

58,171  
\$ 85,934

## NOTES TO FINANCIAL STATEMENTS

June 30, 2008

## 6. CHANGES IN FIXED ASSETS

The following is a summary of changes in fixed assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
<b>Capital assets, not depreciated</b>				
Land	-	8,500	-	8,500
Construction in progress	-	46,697	-	46,697
Total Capital Assets, not Depreciated	-	55,197	-	55,197
<b>Capital assets, depreciated</b>				
Equipment	\$ 1,296,870	\$ 16,018	\$ (54,950)	\$ 1,257,938
Buildings and improvements	820,756	159,627	-	980,383
Other improvements	88,674	-	-	88,674
Infrastructure	467,453	-	-	467,453
Total Capital Assets, Depreciated	2,673,753	175,645	(54,950)	2,794,448
<b>Less accumulated depreciation for</b>				
Equipment	\$ 852,650	\$ 67,774	\$ (43,994)	\$ 876,430
Buildings and improvements	216,285	18,336	-	234,621
Other improvements	79,292	2,092	-	81,384
Infrastructure	316,504	11,687	-	328,191
Total accumulated depreciation	1,464,731	99,889	(43,994)	1,520,626
Governmental activities capital assets, net	\$ 1,209,022	\$ 130,953	\$ (10,956)	\$ 1,329,019
<b>Business Type Activities</b>				
<b>Capital assets, not depreciated</b>				
Land	38,058	-	-	38,058
Total Capital Assets, not Depreciated	38,058	-	-	38,058
<b>Capital assets, depreciated</b>				
Buildings	9,320,445	-	-	9,320,445
Infrastructure	12,049,832	-	-	12,049,832
Machinery and equipment	497,369	15,100	-	512,469
Construction in progress	-	2,934	-	2,934
Total Capital Assets, Depreciated	21,867,646	18,034	-	21,885,680
<b>Less accumulated depreciation for</b>				
Buildings	2,713,848	232,761	-	2,946,609
Infrastructure	5,372,004	301,538	-	5,673,542
Machinery and equipment	224,244	37,198	-	261,442
Total Accumulated Depreciation	8,310,096	571,497	-	8,881,593
Total Capital Assets, Depreciated, Net	13,557,550	(553,463)	-	13,004,087
Business-Type Activities Capital Assets, Net	\$13,595,608	\$ (553,463)	\$ -	\$13,042,145

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 June 30, 2008
 

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**7. COMPENSATED ABSENCES**

Employees of the Town are entitled to paid time off for subsequent use or for payment upon termination, death or retirement, a program of integrating paid vacation, general leave and sick leave, depending on length of service. The estimated amount of compensation for vested future absences has been recorded as a liability in the accompanying financial statements. The Town recognizes the cost of paid time off as a salary expense. The balance of accrued compensated absences at June 30, 2008 was \$42,286. Another type of compensated absence is compensatory time for the overtime worked by some employees. A maximum of five days compensatory leave may be carried over from one fiscal year to the next.

The following is a summary of compensated absences transactions for the year ended June 30, 2008:

	Balance July 1, <u>2007</u>	Additions/ <u>Proceeds</u>	Payments/ <u>Reductions</u>	Balance June 30, <u>2008</u>
<b>Governmental Activities</b>				
Accrued Compensated Absences	\$ 11,519	\$ 19,029	\$ (14,461)	\$ 16,087
	<u>11,519</u>	<u>19,029</u>	<u>(14,461)</u>	<u>16,087</u>
<b>Business-Type Activities</b>				
Accrued Compensated Absences	27,989	33,967	(35,757)	26,199
	<u>27,989</u>	<u>33,967</u>	<u>(35,757)</u>	<u>26,199</u>
<b>Totals</b>	<b>\$ 39,508</b>	<b>\$ 52,996</b>	<b>\$ (50,218)</b>	<b>\$ 42,286</b>

**8. COMMITMENTS AND CONTINGENCIES****Litigation**

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

**9. DEFINED CONTRIBUTION PENSION PLAN**

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

June 30, 2008

10. **DEFINED BENEFIT PENSION PLAN**

A. **Plan Description**

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent and Cost-Sharing Multiple-Employer  
Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits.

In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/2007AnnuRept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. **Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual compensation to the VRS. The employer may assume this 5% member contribution. In addition, the Town of Pennington Gap, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2008 was 5.62% of annual covered payroll.

C. **Annual Pension Cost**

For fiscal year 2008, the Town's annual pension cost of \$42,735 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.73% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years or less.

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

10. DEFINED BENEFIT PENSION PLAN (Continued)

Information for the Town of Pennington Gap, Virginia

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 42,735	100.0%	\$ -0-
June 30, 2007	40,364	100.0%	-0-
June 30, 2006	47,017	100.0%	-0-

Schedule of Funding Progress for Town of Pennington Gap, Virginia

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2007	\$283,635	\$287,497	\$ 3,862	98.66%	\$ 381,339	1.01%
June 30, 2006	221,412	256,289	34,877	86.39%	362,376	9.62%
June 30, 2005	164,702	269,969	105,267	70.72%	317,116	30.14%