

TOWN OF PENNINGTON GAP, VIRGINIA

AUDIT REPORT

Year Ended June 30, 2007

TOWN OF PENNINGTON GAP, VIRGINIA
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Year Ended June 30, 2007

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TOWN OF PENNINGTON GAP, VIRGINIA
TOWN OFFICIALS
June 30, 2007

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: Donald Williams

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.
Tammy L. Oaks, C.P.A.

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

Founded 1948

Members of American Institute of
Certified Public Accountants
Virginia & Tennessee Society of
Certified Public Accountants

P.O. Box 1266
612 Trent Street, NE
Norton, Virginia 24273
Phone: (276) 679-2780
Fax: (276) 679-7445

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, 2007, 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, 2007, 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

December 13, 2007

THROWER, BLANTON & ASSOCIATES, P.C.

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& Consultants*

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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, 2007, and have issued our report thereon dated December 13, 2007. 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 and not to provide assurance on the 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. We did not identify any deficiencies in internal control over financial reporting and its operation that we consider to be material weaknesses, as defined above.

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

December 13, 2007

TOWN OF PENNINGTON GAP, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2007

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, 2007

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 276,685	\$ 637,525	\$ 914,210
Restricted cash	253,629	150,460	404,089
Investments	336,569	-	336,569
Receivable, net	56,175	153,166	209,341
Due from other funds	-	296,071	296,071
Loans receivable	-	72,806	72,806
Prepaid and other	14,860	14,205	29,065
Capital assets, net	<u>1,209,022</u>	<u>13,595,608</u>	<u>14,804,630</u>
 Total Assets	 <u>\$ 2,146,940</u>	 <u>\$ 14,919,841</u>	 <u>\$ 17,066,781</u>
 LIABILITIES			
Accounts payable and accrued liabilities	58,996	106,923	165,919
Accrued payroll and related liabilities	11,808	13,977	25,785
Accrued interest payable	-	51,572	51,572
Customer security deposits	-	57,853	57,853
Due to other funds	278,159	17,912	296,071
Compensated absences	11,519	27,989	39,508
Long-term liabilities:			
Due within one year	6,873	277,669	284,542
Due in more than one year	<u>-</u>	<u>6,544,815</u>	<u>6,544,815</u>
 Total Liabilities	 <u>367,355</u>	 <u>7,098,710</u>	 <u>7,466,065</u>
 NET ASSETS			
Invested in capital assets, net of related debt	1,202,149	6,773,124	7,975,273
Restricted	-	-	-
Unrestricted	<u>577,436</u>	<u>1,048,007</u>	<u>1,625,443</u>
 Total Net Assets	 <u>\$ 1,779,585</u>	 <u>\$ 7,821,131</u>	 <u>\$ 9,600,716</u>
	 <u>\$ 2,146,940</u>	 <u>\$ 14,919,841</u>	 <u>\$ 17,066,781</u>

TOWN OF PENNINGTON GAP
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

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
Governmental Activities							
General government	\$ 176,013	\$ 112,503	\$ -	\$ -	\$ (63,510)	\$ -	\$ (63,510)
Public safety	376,392	32,904	49,908	278,750	(14,830)	-	(14,830)
Public works	303,573	86,468	-	11,526	(205,579)	-	(205,579)
Parks, recreation and cultural	94,059	19,340	-	-	(74,719)	-	(74,719)
Total Governmental Activities	<u>950,037</u>	<u>251,215</u>	<u>49,908</u>	<u>290,276</u>	<u>(358,638)</u>	<u>-</u>	<u>(358,638)</u>
Business-type activities							
Water	1,133,107	991,844	-	109,169	-	(32,094)	(32,094)
Wastewater	568,199	565,428	-	-	-	(2,771)	(2,771)
Industrial fund	35,687	-	-	91,294	-	55,607	55,607
Total Business-Type Activities	<u>1,736,993</u>	<u>1,557,272</u>	<u>-</u>	<u>200,463</u>	<u>-</u>	<u>20,742</u>	<u>20,742</u>
TOTAL PRIMARY GOVERNMENT	<u>2,687,030</u>	<u>1,808,487</u>	<u>49,908</u>	<u>490,739</u>	<u>(358,638)</u>	<u>20,742</u>	<u>(337,896)</u>
General revenues							
Property taxes					155,567	-	155,567
Other local taxes					541,277	-	541,277
Unrestricted intergovernmental revenue					21,260	-	21,260
Unrestricted investment earnings					13,011	6,324	19,335
Rental of Town property					24,758	-	24,758
Total general revenues and transfers					<u>755,873</u>	<u>6,324</u>	<u>762,197</u>
Change in net assets					397,235	27,066	424,301
NET ASSETS - JULY 1					<u>1,382,350</u>	<u>7,794,065</u>	<u>9,176,415</u>
NET ASSETS - JUNE 30					<u>\$ 1,779,585</u>	<u>\$ 7,821,131</u>	<u>\$ 9,600,716</u>

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

**TOWN OF PENNINGTON GAP
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2007**

	General Fund	Permanent Fund	
		Debt Service Fund	Total
ASSETS			
Cash and cash equivalents	\$ 276,685	\$ -	\$ 276,685
Restricted cash	93,000	160,629	253,629
Investments	336,569	-	336,569
Taxes receivable	27,405	-	27,405
Accounts receivable	28,770	-	28,770
Prepaid and other	14,860	-	14,860
Due from other governmental units	-	-	-
Total Assets	<u>\$ 777,289</u>	<u>\$ 160,629</u>	<u>\$ 937,918</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 58,996	\$ -	\$ 58,996
Accrued payroll and related liabilities	11,808	-	11,808
Deferred revenue	27,123	-	27,123
Due to other funds	275,526	2,633	278,159
Total Liabilities	<u>373,453</u>	<u>2,633</u>	<u>376,086</u>
FUND BALANCES			
Reserved for	-	-	-
Unreserved:			
Designated	-	157,996	157,996
Undesignated	403,836	-	403,836
Total Fund Balances	<u>403,836</u>	<u>157,996</u>	<u>561,832</u>
Total Liabilities and Fund Balances	<u>\$ 777,289</u>	<u>\$ 160,629</u>	<u>\$ 937,918</u>

Total Fund Balances \$ 561,832

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	1,209,022
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds	27,123
Other liabilities are not required to be paid out of current financial resources and therefore are not reported in the governmental funds	(11,519)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	<u>(6,873)</u>
Net Assets of Governmental Activities	<u>\$ 1,779,585</u>

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GENERAL AND DEBT SERVICE FUNDS
Year Ended June 30, 2007

	General Fund	Debt Service Fund	TOTALS
REVENUES:			
General property taxes	\$ 150,368	\$ -	\$ 150,368
Other local taxes	541,277	-	541,277
Permits, privilege fees and regulatory licenses	112,503	-	112,503
Fines and forfeitures	32,904	-	32,904
Revenue from use of money and property	29,571	8,198	37,769
Charges for services	105,808	-	105,808
Intergovernmental	361,444	-	361,444
Total Revenues	1,333,875	8,198	1,342,073
EXPENDITURES:			
General government administration	171,807	-	171,807
Public safety	685,537	-	685,537
Public works	269,963	-	269,963
Parks, recreation and cultural	70,981	-	70,981
Total Expenditures	1,198,288	-	1,198,288
OTHER FINANCING SOURCES:			
Transfers	-	-	-
Excess (Deficiency) of Revenues Over Expenditures	135,587	8,198	143,785
Fund Balance, July 1, 2006	268,249	149,798	418,047
Fund Balance, June 30, 2007	\$ 403,836	\$ 157,996	\$ 561,832

**TOWN OF PENNINGTON GAP
BALANCE SHEETS
ALL ENTERPRISE FUNDS
Year Ended June 30, 2007**

	Water Fund	Sewer Fund	Industrial Fund	TOTALS (MEMORANDUM ONLY)
ASSETS				
Cash and cash equivalents	\$ 375,198	\$ 262,327	\$ -	\$ 637,525
Restricted cash	39,265	-	111,195	150,460
Investments	-	-	-	-
Receivable, net	83,202	69,964	-	153,166
Due from other funds	164,384	-	131,687	296,071
Loans receivable	-	-	72,806	72,806
Prepaid and other	9,781	4,424	-	14,205
Capital assets, net	<u>9,905,347</u>	<u>3,683,318</u>	<u>6,943</u>	<u>13,595,608</u>
 Total Assets	 <u>\$ 10,577,177</u>	 <u>\$ 4,020,033</u>	 <u>\$ 322,631</u>	 <u>\$ 14,919,841</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 96,292	\$ 10,631	\$ -	\$ 106,923
Accrued payroll and related liabilities	8,063	5,914	-	13,977
Accrued interest payable	36,432	15,140	-	51,572
Deferred revenue	-	-	-	-
Customer security deposits	40,482	17,371	-	57,853
Due to other funds	-	17,912	-	17,912
Compensated absences	13,156	14,833	-	27,989
Long-term liabilities:				
Due within one year	159,034	118,635	-	277,669
Due in more than one year	<u>5,277,861</u>	<u>1,266,954</u>	<u>-</u>	<u>6,544,815</u>
 Total Liabilities	 <u>5,631,320</u>	 <u>1,467,390</u>	 <u>-</u>	 <u>7,098,710</u>
NET ASSETS				
Invested in capital assets, net of related debt	4,468,452	2,297,729	6,943	6,773,124
Restricted	-	-	-	-
Unrestricted	<u>477,405</u>	<u>254,914</u>	<u>315,688</u>	<u>1,048,007</u>
 Total Net Assets	 <u>4,945,857</u>	 <u>2,552,643</u>	 <u>322,631</u>	 <u>7,821,131</u>
	<u>\$ 10,577,177</u>	<u>\$ 4,020,033</u>	<u>\$ 322,631</u>	<u>\$ 14,919,841</u>

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN RETAINED EARNINGS
ALL ENTERPRISE FUNDS
Year Ended June 30, 2007

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Industrial Fund</u>	<u>TOTALS (MEMORANDUM ONLY)</u>
OPERATING REVENUES:				
Charges for services	\$ 951,537	\$ 555,301	\$ -	\$ 1,506,838
Tap fees	2,719	375	-	3,094
Connections	2,070	-	-	2,070
Reconnections	550	-	-	550
Penalties	14,619	-	-	14,619
Miscellaneous	20,349	9,752	-	30,101
Total Operating Revenues	<u>991,844</u>	<u>565,428</u>	<u>-</u>	<u>1,557,272</u>
OPERATING EXPENSES:				
Salaries and wages	227,985	140,373	-	368,358
Payroll taxes	16,678	10,307	-	26,985
Group health and life	70,740	42,630	-	113,370
Pension	12,729	8,528	-	21,257
Utilities	85,607	36,906	-	122,513
Telephone	5,484	1,026	-	6,510
Supplies	78,880	28,577	-	107,457
Vehicle expense	776	13,673	-	14,449
Insurance	21,600	7,168	-	28,768
Repair and maintenance	8,945	33,546	-	42,491
Certification, travel and training	227	183	-	410
Professional services	4,139	3,834	-	7,973
Lab and analysis	2,711	1,044	-	3,755
Dues and subscriptions	4,270	1,662	-	5,932
Depreciation	409,738	151,803	-	561,541
Miscellaneous	1,393	39,796	-	41,189
Bad debt	2,380	2,258	-	4,638
Community development	-	-	35,687	35,687
Total Operating Expenses	<u>954,282</u>	<u>523,314</u>	<u>35,687</u>	<u>1,513,283</u>
Operating Income (Loss)	<u>37,562</u>	<u>42,114</u>	<u>(35,687)</u>	<u>43,989</u>
NON-OPERATING REVENUES (EXPENSES):				
Grant income	109,169	-	91,294	200,463
Interest revenue	5,615	-	709	6,324
Interest expense	(178,825)	(44,885)	-	(223,710)
Non-Operating Revenues (Expenses), Net	<u>(64,041)</u>	<u>(44,885)</u>	<u>92,003</u>	<u>(16,923)</u>
CHANGE IN NET ASSETS	<u>(26,479)</u>	<u>(2,771)</u>	<u>56,316</u>	<u>27,066</u>
NET ASSETS AT JULY 1, 2006	<u>4,972,336</u>	<u>2,555,414</u>	<u>266,315</u>	<u>7,794,065</u>
NET ASSETS AT JUNE 30, 2007	<u>\$ 4,945,857</u>	<u>\$ 2,552,643</u>	<u>\$ 322,631</u>	<u>\$ 7,821,131</u>

TOWN OF PENNINGTON GAP
COMBINED STATEMENT OF CASH FLOWS
ALL ENTERPRISE FUNDS
Year Ended June 30, 2007

	Water Fund	Sewer Fund	Industrial Fund	TOTALS (MEMORANDUM ONLY)
OPERATING ACTIVITIES:				
Receipts from customers	\$ 984,351	\$ 551,160	\$ -	\$ 1,535,511
Payments to suppliers	(146,655)	(166,658)	(35,687)	(349,000)
Payments to employees	(327,780)	(200,534)	-	(528,314)
Receipts of customer deposits	<u>1,147</u>	<u>1,520</u>	<u>-</u>	<u>2,667</u>
Net cash provided by Operating Activities	<u>511,063</u>	<u>185,488</u>	<u>(35,687)</u>	<u>660,864</u>
CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(210,235)	(19,486)	-	(229,721)
Proceeds from borrowings	-	-	-	-
Contributed Capital-Grant Revenue	109,169	-	91,294	200,463
Interest paid on bonds	(181,660)	(47,658)	-	(229,318)
Principal paid on bond maturities and transfers to debt service fund	<u>(153,945)</u>	<u>(115,595)</u>	<u>-</u>	<u>(269,540)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(436,671)</u>	<u>(182,739)</u>	<u>91,294</u>	<u>(528,116)</u>
INVESTING ACTIVITIES:				
Reclassification of investments and assets	-	-	-	-
Payments received on community development loans	-	-	9,189	9,189
Interest revenue	<u>5,615</u>	<u>-</u>	<u>709</u>	<u>6,324</u>
Net Cash Provided (Used) by Investing Activities	<u>5,615</u>	<u>-</u>	<u>9,898</u>	<u>15,513</u>
Net Increase (Decrease) in Cash and Cash Equivalents	80,007	2,749	65,505	148,261
Cash and Cash Equivalents at Beginning of Year	<u>334,456</u>	<u>259,578</u>	<u>45,690</u>	<u>639,724</u>
Cash and Cash Equivalents at June 30, 2007				
Unrestricted	\$ 375,198	\$ 262,327	\$ -	\$ 637,525
Restricted	<u>39,265</u>	<u>-</u>	<u>111,195</u>	<u>150,460</u>
Cash and Cash Equivalents at End of Year	<u>\$ 414,463</u>	<u>\$ 262,327</u>	<u>\$ 111,195</u>	<u>\$ 787,985</u>
RECONCILIATION OF OPERATING INCOME TO NETCASH PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 37,562	\$ 42,114	\$ (35,687)	\$ 43,989
Adjustment to reconcile operating income to net cash provided by operating activities:				
Depreciation	409,738	151,803	-	561,541
(Increase) decrease in accounts receivable	(7,493)	(14,268)	-	(21,761)
(Increase) decrease in prepaid expenses	(1,234)	(432)	-	(1,666)
(Decrease) increase in accounts payable	70,991	3,447	-	74,438
(Decrease) increase in accrued liabilities	2,135	1,192	-	3,327
(Decrease) increase in accrued compensated absences	(1,783)	112	-	(1,671)
(Decrease) increase in customer deposits	<u>1,147</u>	<u>1,520</u>	<u>-</u>	<u>2,667</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 511,063</u>	<u>\$ 185,488</u>	<u>\$ (35,687)</u>	<u>\$ 660,864</u>

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES - BUDGET AND ACTUAL
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
PRIMARY GOVERNMENT:				
GENERAL FUND:				
General Property Taxes:				
Real property taxes	\$ 110,000	\$ 110,000	\$ 127,157	\$ 17,157
Personal property taxes	24,000	24,000	21,562	(2,438)
Penalties and interest	1,100	1,100	1,649	549
Total General Property Taxes	<u>135,100</u>	<u>135,100</u>	<u>150,368</u>	<u>15,268</u>
Other Local Taxes:				
Local sales and use tax	37,000	37,000	46,472	9,472
Utility taxes	82,500	82,500	87,683	5,183
Business license tax	16,000	16,000	18,663	2,663
Franchise license tax	11,000	11,000	11,215	215
Bank stock taxes	140,000	140,000	199,011	59,011
Hotel and motel room taxes	4,500	4,500	6,333	1,833
Restaurant food taxes	145,000	145,000	165,841	20,841
Other	2,000	2,000	6,059	4,059
Total Other Local Taxes	<u>438,000</u>	<u>438,000</u>	<u>541,277</u>	<u>103,277</u>
Permits, Privilege Fees and Regulatory Licenses	<u>105,000</u>	<u>105,000</u>	<u>112,503</u>	<u>7,503</u>
Fines and Forfeitures	<u>16,000</u>	<u>16,000</u>	<u>32,904</u>	<u>16,904</u>
Revenue From Use of Money and Property:				
Revenue from use of money	5,000	5,000	13,011	8,011
Revenue from use of property	16,400	16,400	16,560	160
Total Revenue from Use of Money and Property	<u>21,400</u>	<u>21,400</u>	<u>29,571</u>	<u>8,171</u>
Charges for Services:				
Garbage collection fees	80,000	80,000	86,468	6,468
Other	12,000	12,000	19,340	7,340
Total Charges for Services	<u>92,000</u>	<u>92,000</u>	<u>105,808</u>	<u>13,808</u>
TOTAL PRIMARY GOVERNMENT	<u>807,500</u>	<u>807,500</u>	<u>972,431</u>	<u>164,931</u>
Revenue From the Commonwealth:				
Non-Categorical Aid:				
ABC profits	2,138	2,138	2,138	-
Rolling stock taxes	4,067	4,067	3,918	(149)
DCR	75,000	75,000	-	-
TIC	89,230	89,230	14,276	(74,954)
Litter grant	1,000	1,000	928	(72)
Total Non-Categorical Aid	<u>171,435</u>	<u>171,435</u>	<u>21,260</u>	<u>(75,175)</u>
Categorical Aid:				
State assistance	49,900	49,900	49,908	8
TEA 21 grant	247,740	247,740	-	(247,740)
VDOT-Bypass utility funds	5,000	5,000	-	(5,000)
Community improvement grant	158,900	158,900	11,526	(147,374)
Other grant income	8,000	8,000	15,000	7,000
Total Categorical Aid	<u>469,540</u>	<u>469,540</u>	<u>76,434</u>	<u>(393,106)</u>
Total Revenue from the Commonwealth	<u>640,975</u>	<u>640,975</u>	<u>97,694</u>	<u>(468,281)</u>
Revenue From the Federal Government:				
Federal Emergency Management Grant	-	-	213,750	213,750
Rural Development-Economic Impact	-	-	50,000	50,000
Total Revenue From the Federal Government	<u>-</u>	<u>-</u>	<u>263,750</u>	<u>263,750</u>
Other Financing Sources:				
Transfers	-	-	-	-
Appropriation of prior year surplus	194,250	194,250	-	(194,250)
Total Other Financing Sources	<u>194,250</u>	<u>194,250</u>	<u>-</u>	<u>(194,250)</u>
GRAND TOTAL - REVENUES - PRIMARY GOVERNMENT FUNDS	<u>\$ 1,642,725</u>	<u>\$ 1,642,725</u>	<u>\$ 1,333,875</u>	<u>\$ (233,850)</u>

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>PRIMARY GOVERNMENT:</u>				
GENERAL FUND:				
General Government Administration:				
Salaries	\$ 72,000	\$ 72,000	\$ 68,973	\$ 3,027
Fringe benefits	42,870	42,870	36,267	6,603
Payroll taxes	6,000	6,000	4,931	1,069
Utilities	14,000	14,000	12,959	1,041
Insurance	5,000	5,000	3,852	1,148
Supplies	10,000	10,000	10,347	(347)
Repair and maintenance	7,000	7,000	7,229	(229)
Training and travel	3,000	3,000	4,982	(1,982)
Advertising	2,000	2,000	1,477	523
Legal and accounting fees	8,100	8,100	7,633	467
Council fees	6,600	6,600	6,150	450
Donations	1,000	1,000	476	524
Capital purchases	1,000	1,000	895	105
Miscellaneous	6,900	6,900	5,636	1,264
Total General Government Administration	<u>185,470</u>	<u>185,470</u>	<u>171,807</u>	<u>13,663</u>
Public Safety:				
Salaries	165,000	165,000	157,047	7,953
Fringe benefits	65,250	65,250	58,835	6,415
Payroll taxes	13,200	13,200	11,425	1,775
Utilities	14,400	14,400	14,259	141
Insurance	17,450	17,450	16,615	835
Supplies	7,500	7,500	6,541	959
Repair and maintenance	7,000	7,000	2,861	4,139
Training and travel	5,500	5,500	2,268	3,232
Fuel	26,000	26,000	25,552	448
Legal and accounting fees	6,000	6,000	4,700	1,300
Capital purchases	64,950	64,950	383,607	(318,657)
Miscellaneous	400	400	1,827	(1,427)
Total Public Safety	<u>392,650</u>	<u>392,650</u>	<u>685,537</u>	<u>(292,887)</u>
Public Works:				
Maintenance of Highways, Streets, Bridges and Sidewalks:				
Salaries	71,000	71,000	46,471	24,529
Fringe benefits	38,500	38,500	21,707	16,793
Payroll taxes	5,800	5,800	3,361	2,439
Utilities	32,200	32,200	33,162	(962)
Insurance	10,700	10,700	11,235	(535)
Supplies	4,000	4,000	2,071	1,929
Repair and maintenance	6,000	6,000	5,932	68
Fuel	3,500	3,500	2,697	803
Capital purchases	7,500	7,500	7,027	473
Miscellaneous	3,750	3,750	4,439	(689)
Highways, streets, bridges and sidewalks	12,250	12,250	12,518	(268)
TIC	89,230	89,230	14,277	74,953
TVA Greenway	-	-	7,129	(7,129)
TEA 21	311,825	311,825	-	311,825
Community improvement grant	158,900	158,900	11,008	147,892
VDOT-Bypass utility	5,000	5,000	-	5,000
Total Maintenance of Highways, Streets, Bridges and Sidewalks	<u>760,155</u>	<u>760,155</u>	<u>183,034</u>	<u>577,121</u>

TOWN OF PENNINGTON GAP
GOVERNMENTAL FUNDS
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
Year Ended June 30, 2007

	<u>Original Budget</u>	<u>Revised Budget</u>	<u>Actual</u>	<u>Variance</u>
Sanitation and Waste Removal				
Salaries	34,500	34,500	35,245	92
Fringe benefits	15,400	15,400	14,979	6,708
Payroll taxes	2,800	2,800	2,564	171
Insurance	7,500	7,500	6,108	(206)
Supplies	500	500	360	358
Repair and Maintenance	500	500	515	(920)
Fuel	7,000	7,000	4,811	(1,821)
Capital purchases	4,000	4,000	3,139	(2,507)
Miscellaneous	16,500	16,500	19,208	(2,000)
Total Public Works	<u>88,700</u>	<u>88,700</u>	<u>86,929</u>	<u>(125)</u>
Parks, Recreation and Cultural:				
Salaries	15,000	15,000	16,498	(1,498)
Fringe benefits	-	-	-	-
Payroll taxes	1,150	1,150	1,397	(247)
Utilities	11,400	11,400	13,088	(1,688)
Insurance	4,800	4,800	4,997	(197)
Supplies	2,000	2,000	1,562	438
Repair and maintenance	8,500	8,500	8,440	60
Capital purchases	-	-	-	-
Miscellaneous	-	-	360	(360)
DCR- Leeman Field	150,000	150,000	903	149,097
Parks and recreation	<u>22,900</u>	<u>22,900</u>	<u>23,736</u>	<u>(836)</u>
Total Parks, Recreation and Cultural	<u>215,750</u>	<u>215,750</u>	<u>70,981</u>	<u>144,769</u>
 GRAND TOTAL - EXPENDITURES- PRIMARY GOVERNMENT FUNDS				
	<u>\$ 1,642,725</u>	<u>\$ 1,642,725</u>	<u>\$ 1,198,288</u>	<u>\$ 442,541</u>

June 30, 2007

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, 2007

1. **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, 2007

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, 2007

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, 2007

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.

June 30, 2007

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:

Lee Bank and Trust	83%
Powell Valley National Bank	10
Farmers and Miners Bank	7

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	\$ 1,318,299
Investments	<u>336,569</u>
	<u>\$ 1,654,868</u>
Statement of net assets:	
Cash and cash equivalents	\$ 914,210
Restricted cash and cash equivalents	404,089
Investments	<u>336,569</u>
	<u>\$ 1,654,868</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, 2007

3. GENERAL OBLIGATION BONDS

Description	Status	Parity Bond	Accrued Interest	Parity Bond	Subordinate	Long-Term	
		Interest Due Within One Year Per Bond Covenants		Principal Due Within One Year Per Bond Covenants	Principal Due Within One Year Per Bond Covenants	Parity Bonds	Subordinate Bonds
Water/Sewer Bonds, Series B	Parity	\$ 13,800	\$ 4,453	\$ 25,000	\$ -0-	\$ 251,000	\$ -0-
Water/Sewer Bonds, Series C	Parity	34,050	11,106	19,000	-0-	662,000	-0-
Water/Sewer Bonds, Series D	Subordinate	-0-	11,321	-0-	19,100	-0-	675,200
Water/Sewer Bonds, Series E	Subordinate	-0-	7,847	-0-	13,100	-0-	468,100
Water/Sewer Bonds, Series F	Subordinate	-0-	15,140	-0-	19,778	-0-	871,527
Water/Sewer Bonds, Series G	Subordinate	-0-	-0-	-0-	98,857	-0-	395,427
Water/Sewer Bonds, Series 2004	Subordinate	-0-	-0-	-0-	2,811	-0-	225,561
TOTALS		<u>\$ 47,850</u>	<u>\$ 49,867</u>	<u>\$ 44,000</u>	<u>\$153,646</u>	<u>\$ 913,000</u>	<u>\$2,635,815</u>

Water and Sewer Bonds, Series B, were issued on May 24, 1986, in the amount of \$593,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1, and September 1 of each year. The bonds mature on March 1 in the amounts and for the years shown below.

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$25,000	2013	32,000
2009	27,000	2014	34,000
2010	28,000	2015	36,000
2011	29,000	2016	44,000
2012	21,000		

Water and Sewer Bonds, Series C, were issued on May 24, 1986, in the amount of \$887,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1 and September 1 of each year. The bonds mature on March 1 in amounts and for the years show below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 19,000	2015	\$ 30,000	2022	\$ 47,000
2009	20,000	2016	32,000	2023	51,000
2010	22,000	2017	34,000	2024	54,000
2011	23,000	2018	36,000	2025	58,000
2012	25,000	2019	39,000	2026	51,000
2013	26,000	2020	42,000		
2014	28,000	2021	44,000		

The Series B and C bonds were issued on "parity" to finance construction of a new water system. The Town is required, under the conditions of the Bond issues, to charge such rates and fees to water consumers and sewer users as will produce sufficient revenues to pay all costs of the operation of the system and will pay the interest and principal on the bonds. The revenues of the water and sewer systems are pledged to secure the bonds. In addition, the full faith and credit of the Town is pledged to secure the bonds.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

3. GENERAL OBLIGATION BONDS (Continued)

Water and Sewer Bonds, Series D, were issued on March 31, 1989, in a principal amount equal to the sum of the principal advances made, but not to exceed the amount of \$910,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1 and September 1 of each year. The bonds mature on March 1, in the amounts and for the years shown below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 19,100	2014	\$ 25,700	2020	\$ 34,300	2026	\$ 46,100
2009	20,200	2015	27,000	2021	36,200	2027	48,600
2010	21,100	2016	28,300	2022	37,900	2028	60,900
2011	22,000	2017	29,800	2023	39,800		
2012	23,300	2018	31,100	2024	41,700		
2013	24,400	2019	32,800	2025	44,000		

Water and Sewer Bonds, Series E, were issued on March 31, 1989, in a principal amount equal to the sum of the principal advances made, but not to exceed the amount of \$630,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1 and September 1 of each year. The bonds mature on March 1, in the amounts and for the years shown below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 13,100	2015	\$ 18,600	2022	\$ 26,100
2009	13,800	2016	19,500	2023	27,400
2010	14,500	2017	20,600	2024	28,700
2011	15,400	2018	21,500	2025	30,200
2012	15,900	2019	22,600	2026	31,700
2013	16,800	2020	23,700	2027	33,400
2014	17,700	2021	25,000	2028	45,000

Water and Sewer Bonds, Series F, were sold to Rural Development on March 7, 1991, in a principal amount equal to the sum of the principal advances made, but not to exceed \$1,100,000. These bonds were issued at an interest rate of 5% per year for 40 years. Interest accrues immediately on each principal advance. Combined principal and interest payments of \$32,197, are due March 1 and September 1 annually. Principal payments mature on March 1, in the amounts and for the years shown below:

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 19,778	2018	\$ 32,344	2028	\$ 52,894
2009	20,775	2019	33,974	2029	55,560
2010	21,822	2020	35,687	2030	58,361
2011	22,923	2021	37,486	2031	64,453
2012	24,078	2022	39,376		
2013	25,292	2023	41,362		
2014	25,567	2024	43,447		
2015	27,907	2025	45,637		
2016	29,314	2026	47,938		
2017	30,791	2027	50,355		

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

3. GENERAL OBLIGATION BONDS (Continued)

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, 2007 was \$494,284.

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.

	<u>PARITY BONDS</u>		
	<u>Series B Water & Sewer Bonds</u>	<u>Series C Water & Sewer Bonds</u>	<u>Total Parity Bonds</u>
Bonds/loans payable at July 1, 2006	\$300,000	\$699,000	\$ 999,000
Issuances	-0-	-0-	-0-
Retirements	(24,000)	(18,000)	(42,000)
Bonds/loans payable at June 30, 2007	<u>\$276,000</u>	<u>\$681,000</u>	<u>\$ 957,000</u>

	<u>SUBORDINATE BONDS</u>					
	<u>Series D Water & Sewer Bonds</u>	<u>Series E Water & Sewer Bonds</u>	<u>Series F Water & Sewer Bonds</u>	<u>Series G Water & Sewer Bonds</u>	<u>Series 2004 Water Bonds</u>	<u>Total Subordinate Bonds</u>
Bonds/loans payable at July 01, 2006	\$712,500	\$493,800	\$908,042	\$593,141	\$231,095	\$2,938,578
Issuances	-0-	-0-	-0-	-0-	-0-	-0-
Retirements	(18,200)	(12,600)	(16,737)	(98,857)	(2,724)	(149,118)
Bonds/loans payable at June 30, 2007	<u>\$694,300</u>	<u>\$481,200</u>	<u>\$891,305</u>	<u>\$494,284</u>	<u>\$228,371</u>	<u>\$2,789,460</u>

Details of Long-Term Indebtedness:

Water and Sewer Bonds, Series B, were issued on May 24, 1986, in the amount of \$593,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1, and September 1 of each year. Final payment is due September 1, 2016

\$ 276,000

Water and Sewer Bonds, Series C, were issued on May 24, 1986, in the amount of \$887,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1 and September 1 of each year. Final payment is due September 1, 2026

681,000

TOTAL PARITY BONDS

\$ 957,000

Water and Sewer Bonds, Series D, were issued on March 31, 1989, in a principal amount equal to the sum of the principal advances made, but not to exceed the amount of \$910,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1 and September 1 of each year. Final payment is due September 1, 2028

\$ 694,300

Water and Sewer Bonds, Series E, were issued on March 31, 1989, in a principal amount equal to the sum of the principal advances made, but not to exceed the amount of \$630,000. These bonds were issued at an interest rate of 5% per year, payable semi-annually on March 1 and September 1 of each year. Final payment is due September 1, 2028

481,200

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

3. GENERAL OBLIGATION BONDS (Continued)

Water and Sewer Bonds, Series F, were sold to Rural Development on March 7, 1991, in a principal amount equal to the sum of the principal advances made, but not to exceed \$1,100,000. These bonds were issued at an interest rate of 5% per year for 40 years. Interest accrues immediately on each principal advance. Combined principal and interest payments of \$32,197 are due March 1 and September 1. Final payment is due September 1, 2031

\$ 891,305

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.

494,284

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

228,371
\$ 2,789,460

TOTAL SUBORDINATE BONDS

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, 2007, was \$1,828,852.

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, 2007, was \$1,247,143.

	<u>Water Revenue Bonds</u>
Revenue bonds payable at July 1, 2006	\$3,154,416
Issuances	-0-
Retirements	<u>(78,421)</u>
Revenue bonds payable at June 30, 2007	<u>\$3,075,995</u>

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 \$76,271 at June 30, 2007, and is composed of the following:

General Fund:	
Allowance for uncollectible property taxes	\$ 20,574
Allowance for uncollectible garbage fees	<u>4,910</u>
Total General Fund	<u>\$ 25,484</u>

Water and Sewer Fund:	
Allowance for uncollectible water and sewer fee billings	<u>50,787</u>
TOTAL	<u>\$ 76,271</u>

TOWN OF PENNINGTON GAP, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

6. CHANGES IN FIXED ASSETS

The following is a summary of changes in fixed assets:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, depreciated				
Equipment	\$ 959,902	\$ 336,968	\$ -	\$ 1,296,870
Buildings and improvements	820,756	-	-	820,756
Other improvements	88,674	-	-	88,674
Infrastructure	467,453	-	-	467,453
Total Capital Assets, Depreciated	<u>2,336,785</u>	<u>336,968</u>	<u>-</u>	<u>2,673,753</u>
Less accumulated depreciation for				
Equipment	\$ 784,343	\$ 68,307	\$ -	\$ 852,650
Buildings and improvements	198,614	17,671	-	216,285
Other improvements	77,201	2,091	-	79,292
Infrastructure	304,818	11,686	-	316,504
Total accumulated depreciation	<u>1,364,976</u>	<u>99,755</u>	<u>-</u>	<u>1,464,731</u>
Governmental activities capital assets, net	<u>\$ 971,809</u>	<u>\$ 237,213</u>	<u>\$ -</u>	<u>\$ 1,209,022</u>
Business Type Activities				
Capital assets, not depreciated				
Land	38,058	-	-	38,058
Total Capital Assets, not Depreciated	<u>38,058</u>	<u>-</u>	<u>-</u>	<u>38,058</u>
Capital assets, depreciated				
Buildings	9,320,445	-	-	9,320,445
Infrastructure	11,895,323	154,509	-	12,049,832
Machinery and equipment	372,158	125,211	-	497,369
Construction in progress	50,000	-	(50,000)	-
Total Capital Assets, Depreciated	<u>21,637,926</u>	<u>279,720</u>	<u>(50,000)</u>	<u>21,867,646</u>
Less accumulated depreciation for				
Buildings	2,481,087	232,761	-	2,713,848
Infrastructure	5,073,548	298,456	-	5,372,004
Machinery and equipment	195,714	28,530	-	224,244
Total Accumulated Depreciation	<u>7,750,349</u>	<u>559,747</u>	<u>-</u>	<u>8,310,096</u>
Total Capital Assets, Depreciated, Net	<u>13,887,577</u>	<u>(280,027)</u>	<u>(50,000)</u>	<u>13,557,550</u>
Business-Type Activities Capital Assets, Net	<u>\$ 13,925,635</u>	<u>\$ (280,027)</u>	<u>\$ (50,000)</u>	<u>\$ 13,595,608</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007 was \$39,508. 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, 2007:

	Balance July 1, <u>2006</u>	Additions/ <u>Proceeds</u>	Payments/ <u>Reductions</u>	Balance June 30, <u>2007</u>
Governmental Activities				
Accrued Compensated Absences	\$ 16,077	\$ 21,322	\$ (25,880)	\$ 11,519
	<u>16,077</u>	<u>21,322</u>	<u>(25,880)</u>	<u>11,519</u>
Business-Type Activities				
Accrued Compensated Absences	<u>29,660</u>	<u>33,225</u>	<u>(34,896)</u>	<u>27,989</u>
	<u>29,660</u>	<u>33,225</u>	<u>(34,896)</u>	<u>27,989</u>
Totals	\$ 45,737	\$ 54,547	\$ (60,776)	\$ 39,508

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.

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.

June 30, 2007

10. **DEFINED BENEFIT PENSION PLAN (Continued)****A. Plan Description**

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/2006AnnuRept.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, 2007 was 5.62% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2007, the Town's annual pension cost of \$40,364 was equal to the Town's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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 6.2% per year, and (c) 3.00% 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.

Information for the Town of Pennington Gap, Virginia

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 40,364	100.0%	\$ -0-
June 30, 2006	47,017	100.0%	-0-
June 30, 2005	38,324	100.0%	-0-

Schedule of Funding Progress for Town of Pennington Gap, Virginia

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
June 30, 2006	\$221,412	\$256,289	\$ 34,877	86.39%	\$ 362,376	9.62%
June 30, 2005	164,702	269,969	105,267	61.01%	349,299	30.14%
June 30, 2004	110,757	156,606	45,849	70.72%	317,116	14.46%

June 30, 2007

11. Capital Leases

The Town of Pennington Gap has one capital lease for the purchase of a 2006 Ford Crown Victoria Police Sedan. The Lessor is Ford Motor Credit. The lease is to be paid in 3 equal payments of \$7,281.78 each including interest, at a rate of 5.95%, to be paid annually beginning December 14, 2005. As of June 30, 2007, the principal portion of the lease was \$6,873.