

CITY OF BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2003

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY OF BEDFORD, VIRGINIA

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INTRODUCTORY SECTION

October 6, 2003

**The Honorable Mayor, Members of City Council
And the Citizens of Bedford, Virginia**

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the City of Bedford for the fiscal year ended June 30, 2003. This report is submitted in accordance with Section 15.1-167 of the Code of Virginia and with Section 30 of the Charter of the City of Bedford, both of which require an annual independent audit and report of financial activity of the City. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P., has audited the financial statements and supplemental schedules contained herein. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The CAFR is divided into the Introductory, Financial, Statistical, and Compliance sections. The Introductory Section includes this transmittal letter, the City of Bedford's organizational chart, a listing of the City's principal officials and the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting. The Financial Section includes the government-wide financial statements and fund financial statements, as well as the auditor's report on the financial statements and schedules and management's discussion and analysis. The Statistical Section is unaudited and contains selected financial and demographic information, presented on a multi-year basis where appropriate. The Compliance Section includes the auditor's reports on compliance and on internal controls over financial reporting and on compliance with requirements applicable to each major program and internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations.

THE REPORTING ENTITY AND SERVICES PROVIDED

For financial reporting purposes, in accordance with the criteria in Governmental Accounting Standards Board (GASB) Statement No. 14, the City of Bedford includes all funds, agencies, boards, commissions and authorities that are controlled by or are financially dependent upon the City. Control by or financial dependence was determined on the basis of obligation of the City to finance deficits, guarantee debt, select the governing authority, approve the budget, have authority to make a public levy, and to have ownership of assets. As a result of implementing GASB Statement No. 14, the City of Bedford has not identified any entities that should be reported as discretely presented component units of the City.

Related organizations of the City that require only note disclosure presentation according to GASB Statement No. 14 are the City of Bedford Redevelopment and Housing Authority and the Industrial Development Authority of the City of Bedford. Also excluded are the financial statements of the Bedford Public Library System, the Blue Ridge Regional Jail Authority and Central Virginia Community Services Board, which are jointly governed organizations. Finally, not included are the Bedford Joint Industrial Development Authority, the Central Virginia Radio Communication Board and the Joint Tourism Program which are joint ventures that are only in note disclosure presentation.

The City of Bedford provides an extensive range of services for its citizens including general administration, public safety, public works, planning, zoning, economic development, code enforcement, cemetery management, recreational activities and tourism. The City also provides and maintains electrical, water and sewer utilities, and solid waste disposal facilities for the benefit of its citizens. Pursuant to a contract made with Bedford County in 1988, the County provides public school services and educational programs for the students of the City of Bedford. The City reimburses the County for its share of the net expenses based on its percentage of students in the County's public school system. In addition, agreements with Bedford County have been established to provide judicial administration and health and welfare services for the City. This report includes the fiscal activities of the City in the provision of services and under contracts and agreements made with the County of Bedford, Virginia.

Organization of Government

The City of Bedford was established in October 1782 as the Town of Liberty. In September 1968, The City adopted its present City Charter. The City is organized under a Council-Manager form of government with a seven member City Council as the governing body. The City Council is elected and the Mayor is selected by City Council from its membership. Council is responsible for adopting an annual budget, passing ordinances, establishing policies, appointing committees, and appointing the City Manager, City Attorney and City Clerk. The City Manager is responsible for carrying out the policies and ordinances of the City Council, for the day-to-day operations of the City, and for appointing City department heads.

Economic Condition and Outlook

The City of Bedford is located in the west-central portion of Virginia known as the Piedmont Plateau. It is located midway between the cities of Lynchburg to the east and Roanoke to the west. The City is within the physical boundaries of Bedford County, one of the fastest growing counties in the State. Although the City is a separate, independent, political entity, it serves as the County seat for administrative and judicial affairs. This strategic location between two urban centers and surrounded by Bedford County allows the City of Bedford to serve as a regional employment and commercial center, while preserving its small town atmosphere and enjoying the markets and services of larger cities.

Bedford enjoys a diversified economy comprised of wholesale and retail sales, professional services, agriculture and tourism, in addition to manufacturing. Bedford's industrial base includes major employers involved in food processing, furniture manufacturing, lithographed labels, weaving, polyurethane products, steel abrasives, closed cell rubber products and steel cutting dies. Professional services, health services and retail trade are also significant employers in the City. As of June 2003, the City's unemployment rate was 3.9%, which is slightly lower than the State's average unemployment rate of 4.3%. City Council's commitment to economic development and diversification should position the City well for economic expansion when the overall economic climate improves.

Bedford also enjoys a healthy mix in real estate values with approximately 70 percent coming from residential property, while approximately 30 percent is commercial and industrial. Growth in tax revenues is most obvious in new construction and revenue sharing areas, while personal property, machinery and tools and real estate tax revenues have remained flat.

The City of Bedford has enjoyed a relatively stable economic status as a result of several factors. The City was one of the first in the Commonwealth to be selected as a Virginia Main Street City in 1985, and its commitment to downtown revitalization has resulted in millions of dollars being invested in ongoing renovation and rehabilitation projects in the historic Centertown area. Bedford's downtown continues to maintain a very high occupancy rate, and business owners continue to reinvest in their facilities.

In 1998, the City of Bedford and Bedford County entered into a historic revenue sharing agreement, which established revenue sharing areas on major corridors immediately adjacent to the City. This agreement allows the City to share in County tax revenues in these areas in exchange for providing water and sewer service to stimulate increased development. The City completed construction of water and sewer lines in the 460 East revenue sharing area, and will begin preliminary engineering for water and sewer service in the US 460 West corridor in 2004.

The City and County have developed a 100-acre business park on Independence Boulevard in the City. The Bedford Center for Business provides the City a greater opportunity to compete for industrial relocations and expansions. A 50,000 square foot shell building was constructed in the park by Bedford County in 1999 to temporarily house court and social services facilities for the City and County while the County's Centertown historic courthouse was renovated and expanded. The shell building is now vacant, and is currently available for sale or lease/purchase.

Tourism continues to grow in the City and surrounding area. On June 6, 2001, President George W. Bush dedicated the National D-Day Memorial in the City. The \$25 million dollar memorial, constructed to commemorate those who lost their lives in the D-Day invasion of Normandy during World War II, has drawn over 450,000 visitors since its opening. In recognition of the increased tourism potential, the City and Bedford County have partnered to establish a joint tourism program, and opened a temporary welcome center located at the intersection of Route 122 and US Highway 460.

Major Initiatives

In the coming year, several major initiatives are planned which will assist the City Council, management, and staff in preparing for the continued growth and prosperity of the City. These initiatives include:

- Maintaining the City's financial stability with a goal of stabilizing fund balances. As reflected in the accompanying financial statements, the City continues to make significant strides in reducing its dependency on revenue generated by the sale of electricity, while increasing the revenues from water and sewer operations to better enable those funds to be self-sufficient. However, maintaining financial stability with ever-challenging State mandates and reduced State funding of required services is perhaps the greatest short-term threat to the financial stability of the City.
- The City Council continues to provide support for economic development initiatives, and through the City's Industrial Development Authority, provides funding for a performance-based, economic incentive program. The City will continue to work closely with Bedford County, Virginia's Region 2000, and the Virginia Economic Development Partnership to actively solicit existing industry expansions and new industries to occupy the Bedford Center for Business.
- As mentioned earlier, the City and County have established a joint tourism program and established a State accredited, temporary visitors center in the vicinity of the National D-Day Memorial. A permanent welcome center is planned for the site, and the City and County have received TEA-21 transportation grant funding for this new facility. Construction on the new welcome center will begin in October, 2003 with completion of the center anticipated in August, 2004.

- In an effort to provide modern, efficient facilities for the City's public safety operations, the City Council has provided funds for the design of a new public safety facility, which would encompass the life saving crew, as well as the police and fire departments. Design of this facility is underway, and expected to take approximately three to six months.
- The City has completed a system review and 20-year long range plan for its electric system, and funding has been provided in the current year budget to continue the expansion and upgrade of the City's electric utility infrastructure. We will also complete the process of "unbundling" our electric rate structure, and will be addressing other revenue sources (e.g., pole attachment agreements, right-of-way fees, etc.) to ensure that we are competitive and maximizing our revenues in these areas. The City will also continue to focus on providing exemplary customer service and reliability for our customers.
- The City will continue to evaluate its solid waste operations to determine the best long-term strategy for our citizens. The fiscal year 2003 budget instituted a \$3 per month residential recycling charge to help offset the cost of our recycling operations. However, with ever-increasing costs associated with the monitoring of our closed landfill, and the operational costs of our existing landfill, additional revenues and/or operating expense reductions must continue to be evaluated to support the solid waste fund.
- In early 2003, the City's updated Comprehensive Plan was approved. The Comprehensive Plan is the primary means for local government officials and citizens to express their goals for the future of their community. In addition to serving as a roadmap for the community vision, the comprehensive plan is considered the legal basis for public improvement projects. Currently, the Land Development Regulations are being reviewed and modified to complement the revised Comprehensive Plan.
- The City plans to remain an active regional partner in many programs. We currently participate in many regional programs, including regional marketing and economic development, and police and emergency services. We also participate in cooperative services such as the Blue Ridge Power Agency, the Region 2000 Regional Commission, and the Municipal Electric Providers Association of Virginia.

Financial Information

The City of Bedford manages its financial affairs using the budgetary basis of accounting and maintains its accounting records on a modified accrual basis as required by accounting principles generally accepted in the United States of America. The modified accrual basis of accounting recognizes revenues when they become both measurable and available. Expenditures are recorded when a fund liability is incurred, except for interest on long-term debt and compensated absences payable. Governmental fund types, such as the City's General Fund and Special Revenue Funds, are reported in the financial statements on the modified accrual basis. The City's enterprise funds are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred.

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allowed for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits require estimates and judgements by management.

In addition, the City maintains budgetary controls. These controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund, Special Revenue Funds, and Enterprise Funds are included in the annual appropriated budget. The level of budgetary control (e.g., the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances generally are reappropriated in the subsequent year.

As demonstrated by the financial statements and supplemental schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Cash Management

During the year, cash was invested in certain U.S. Government Agency Securities, prime quality issues of commercial paper, as well as the State Treasurer's Local Government Investment Pool (LGIP). Total deposits and investments at June 30, 2003, totaled \$18,827,159. All deposits of the City are either insured by federal depository insurance or collateralized as required by Virginia Statutes. Total earnings on General Fund deposits and investments were \$135,058 for the year.

Risk Management

The City utilizes a variety of techniques to identify and monitor its risks and exposures for the activities of the City. The City is insured for exposure related to property, boiler and machinery, flood, accident, automobile and general liability. In addition to this, the City is also insured for Public Officials and Law Enforcement Liability and School Board Legal Liability. Workmen's Compensation is covered by insurance through the Virginia Municipal Group Self-Insurance Association. The City provides healthcare coverage for employees through the Political Subdivision Health Benefits Trust and contributes the required premium for employees.

As part of its overall risk management program, the City has an ongoing safety program initiated to help prevent losses and to better identify those areas that need attention.

Other Information

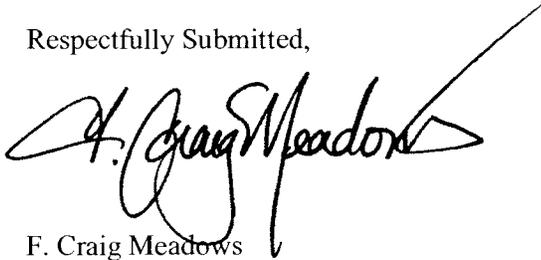
Independent Audit. Virginia Law and the Charter of the City of Bedford require that the financial statements of the City be audited by a Certified Public Accountant. Brown, Edwards, & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. The auditor's report is included in the Financial Section of this report. The auditors' reports as required as part of a single audit are found in the Compliance Section of this report.

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bedford for its comprehensive annual financial report for the fiscal year ended June 30, 2002. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements. The preparation of this report is a very intensive project, and could not have been accomplished without the assistance and dedication of the Finance Department staff and other personnel from various departments, who assisted in the preparation. A particular thank you goes to Elizabeth Berry-Mosley who provided valuable assistance with this transmittal letter and James Ervin who assisted with the layout of this CAFR. The Mayor and City Council continue to be very supportive of our efforts to produce the best financial reports possible for our citizens. We appreciate your support in granting us the time and funding to generate this document, and allowing us to submit it to the GFOA for consideration. Lastly, we would like to express our appreciation to our independent auditing firm, Brown, Edwards & Company, L.L.P., for their cooperation and assistance in these efforts.

Respectfully Submitted,



F. Craig Meadows
City Manager



Rosemarie B. Jordan
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bedford,
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

**CITY OF BEDFORD, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2003**

MEMBERS OF CITY COUNCIL

E. Thomas Messier, Mayor
Willard D. "Skip" Tharp, Vice Mayor

C. G. Stanley
Robert T. Wandrei
Mary L. Flood

Thomas M. Padgett
Jeffrey B. Hubbard

MEMBERS OF CITY SCHOOL BOARD

William H. Ross, Chairman
Betsy S. Klein, Vice Chairman

Debora R. Spinner
Anne M. VanDerwerker
Paul D. Sherman

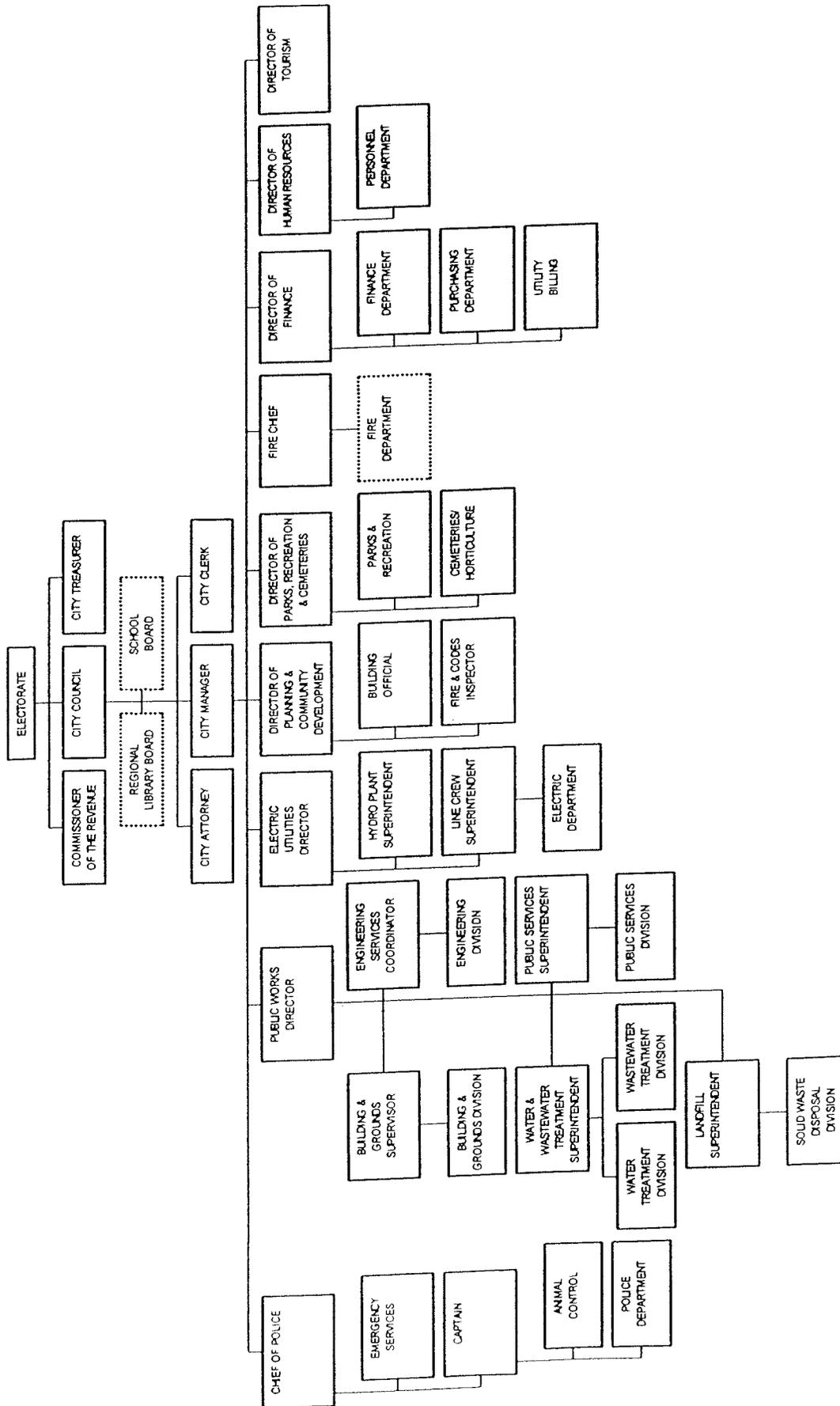
Debra Z. Bond
Stephen C. Rush

OTHER OFFICIALS

F. Craig Meadows
Teresa W. Hatcher
William W. Berry, IV
Joanne Mitchell Caldwell
Brenda A. Daniel
Milton H. Graham
S. Todd Stone
Rosemarie B. Jordan
Barrett F. Warner
Clarke W. Gibson
Randal A. Nixon
Eugene Ratzlaff
Dr. James G. Blevins
Jan Johnston

City Manager
City Clerk
City Attorney
City Treasurer
Commissioner of the Revenue
Chief of Police
Fire Chief
Director of Finance
Director of Planning and Community Development
Director of Public Works
Director of Parks, Recreation and Cemeteries
Director of Electric Utilities
Superintendent of Schools
Clerk of the School Board

CITY OF BEDFORD ORGANIZATIONAL CHART



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the City Council
City of Bedford
Bedford, Virginia

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 City of Bedford, Virginia as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bedford, Virginia, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the required supplementary information on pages 3 through 11 and on page 43, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the accompanying financial information listed as supporting schedules in the accompanying table of contents are not required parts of the financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Introductory and Statistical Sections of the report are presented for the purpose of additional analysis and are not required parts of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2003 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 15, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bedford, Virginia (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2003. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$27,477,100 (net assets). Of this amount, \$21,368,747 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$812,655, which is primarily attributable to the operations of the electric fund.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,205,562, a decrease of \$842 in comparison with the prior year. Approximately 82% of this total amount, \$3,458,290 is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,949,240, or 22% of total general fund expenditures.
- The City's total debt increased by \$438,903 (1%) during the current fiscal year. The key factor in this increase was the additional debt incurred from the issuance of General Obligation Water and Sewer Bonds through the Virginia Resources Authority.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, judicial administration, public safety, public works, health and welfare, education, parks, recreation, and cultural and community development. The business-type activities of the City are the Water and Sewer, Solid Waste, and Electric Departments.

Overview of the Financial Statements (Continued)

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 15 through 17 of this report.

Proprietary Funds – The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Water and Sewer, Solid Waste, and Electric operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Solid Waste, and Electric operations.

The basic proprietary fund financial statements can be found on pages 18 to 20 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement. The notes to the financial statements can be found on pages 21 through 41 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's funding progress for the defined benefit pension plan. Required supplementary information can be found on page 43 of this report.

Overview of the Financial Statements (Continued)

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$27,477,100 at the close of the most recent fiscal year.

A portion of the City's net assets (22%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net assets* (78%) may be used to meet the government's ongoing obligations to citizens and creditors.

	The City's Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	\$ 5,047,562	\$ 5,111,342	\$ 20,442,801	\$ 20,649,545	\$ 25,490,363	\$ 25,760,887
Capital assets	9,000,482	9,995,357	30,745,554	28,314,350	39,746,036	38,309,707
Total assets	14,048,044	15,106,699	51,188,355	48,963,895	65,236,399	64,070,594
Long-term liabilities outstanding	3,693,607	4,302,649	32,021,762	30,768,629	35,715,369	35,071,278
Other liabilities	688,122	612,840	1,355,808	1,722,031	2,043,930	2,334,871
Total liabilities	4,381,729	4,915,489	33,377,570	32,490,660	37,759,299	37,406,149
Net assets						
Invested in capital assets, net of related debt	5,417,713	5,751,892	690,640	1,963,966	6,108,353	7,715,858
Unrestricted	4,248,602	4,439,318	17,120,145	14,509,269	21,368,747	18,948,587
Total net assets	\$ 9,666,315	\$ 10,191,210	\$ 17,810,785	\$ 16,473,235	\$ 27,477,100	\$ 26,664,445

At the end of the current fiscal year, the City is able to report positive balances in both categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$812,655 during the current fiscal year. This increase represents a 3% increase during the current fiscal year. The key element of this increase is the increase in net assets from the activity of the electric fund.

Governmental activities – Governmental activities decreased the City's net assets by \$524,895. A key element of this decrease (\$990,590) is the contribution of property to the Bedford Joint Industrial Development Authority.

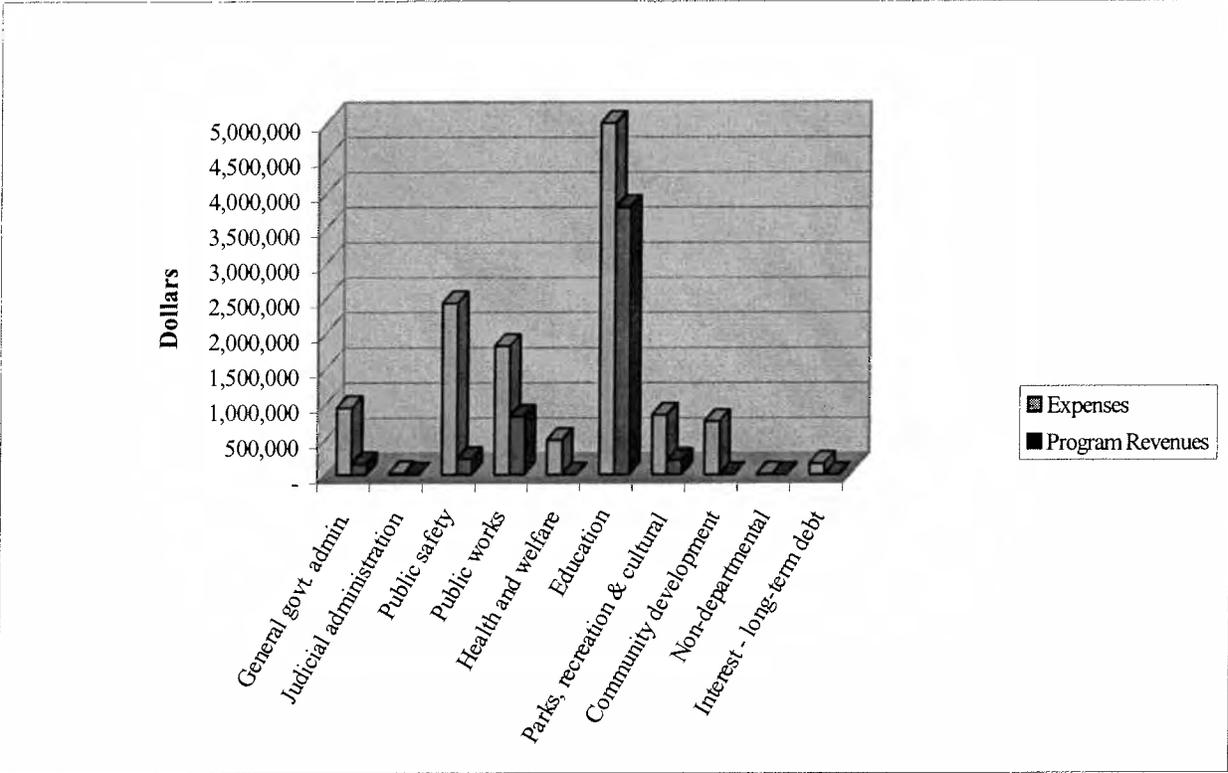
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Two noteworthy exceptions, however, are the City's increase in the education category and the community development category. In regards to the education category, the growth in expenses of \$384,964 (7%) reflects the higher cost paid to Bedford County for the City's share of educational expenditures. The community development category increase of \$371,322 (97%) reflects the amount due to the Virginia Department of Transportation for repayment of an incentive grant in the amount of \$223,042.

Business-type activities – Business-type activities increased the City's net assets by \$1,337,550. Key elements of this increase are as follows: increased revenues generated from the 2001 water and sewer rate increases, and the increase in net assets from the activity of the electric fund.

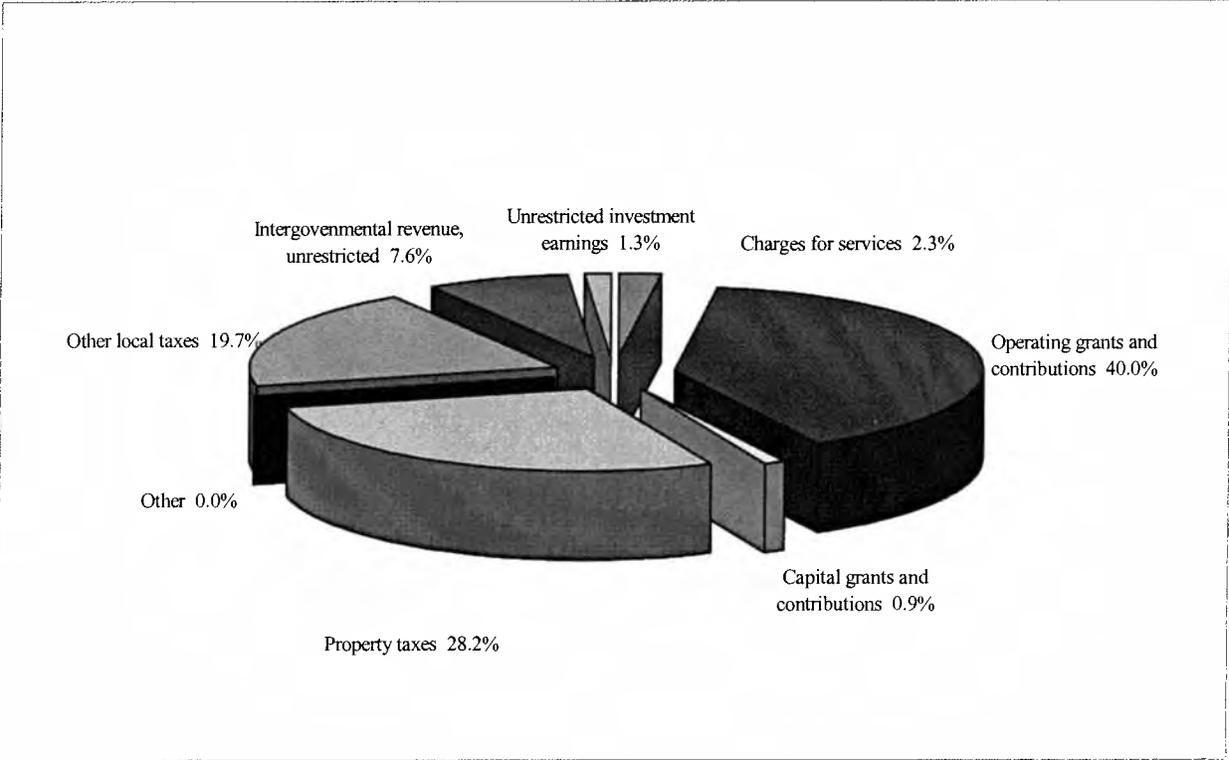
The City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues						
Program revenues						
Charges for services	\$ 274,437	\$ 245,888	\$ 16,464,251	\$ 15,685,159	\$ 16,738,688	\$ 15,931,047
Operating grants and contributions	4,815,749	4,609,397	-	-	4,815,749	4,609,397
Capital grants and contributions	113,318	226,979	-	-	113,318	226,979
General revenues						
Property taxes	3,395,115	3,365,531	-	-	3,395,115	3,365,531
Other taxes	2,369,550	2,214,947	-	-	2,369,550	2,214,947
Intergovernmental revenue unrestricted	917,835	987,376	-	-	917,835	987,376
Investment earnings	156,775	257,035	546,077	619,887	702,852	876,922
Other	1,731	23,142	231,473	211,209	233,204	234,351
Total revenues	12,044,510	11,930,295	17,241,801	16,516,255	29,286,311	28,446,550
Expenses						
General government	947,472	1,065,330	-	-	947,472	1,065,330
Judicial administration	22,602	22,759	-	-	22,602	22,759
Public safety	2,432,172	2,328,613	-	-	2,432,172	2,328,613
Public works	1,822,153	1,729,639	-	-	1,822,153	1,729,639
Health and welfare	491,097	688,613	-	-	491,097	688,613
Education	5,567,031	5,182,067	-	-	5,567,031	5,182,067
Parks, recreation, and cultural	846,373	860,994	-	-	846,373	860,994
Community development	753,717	382,395	-	-	753,717	382,395
Non-departmental	5,665	2,665	-	-	5,665	2,665
Interest on long-term debt	157,533	224,640	-	-	157,533	224,640
Water and sewer	-	-	2,603,408	2,299,612	2,603,408	2,299,612
Solid waste	-	-	1,160,635	774,592	1,160,635	774,592
Electric	-	-	10,673,208	10,329,967	10,673,208	10,329,967
Total expenses	13,045,815	12,487,715	14,437,251	13,404,171	27,483,066	25,891,886
Excess (deficiency) before special items and transfers	(1,001,305)	(557,420)	2,804,550	3,112,084	1,803,245	2,554,664
Special item - Contribution of property to Joint IDA	(990,590)	-	-	-	(990,590)	-
Transfers	1,467,000	1,066,000	(1,467,000)	(1,066,000)	-	-
Change in net assets	(524,895)	508,580	1,337,550	2,046,084	812,655	2,554,664
Net assets – July 1, 2002	10,191,210	9,682,630	16,473,235	14,427,151	26,664,445	24,109,781
Net assets – June 30, 2003	\$ 9,666,315	\$ 10,191,210	\$ 17,810,785	\$ 16,473,235	\$ 27,477,100	\$ 26,664,445

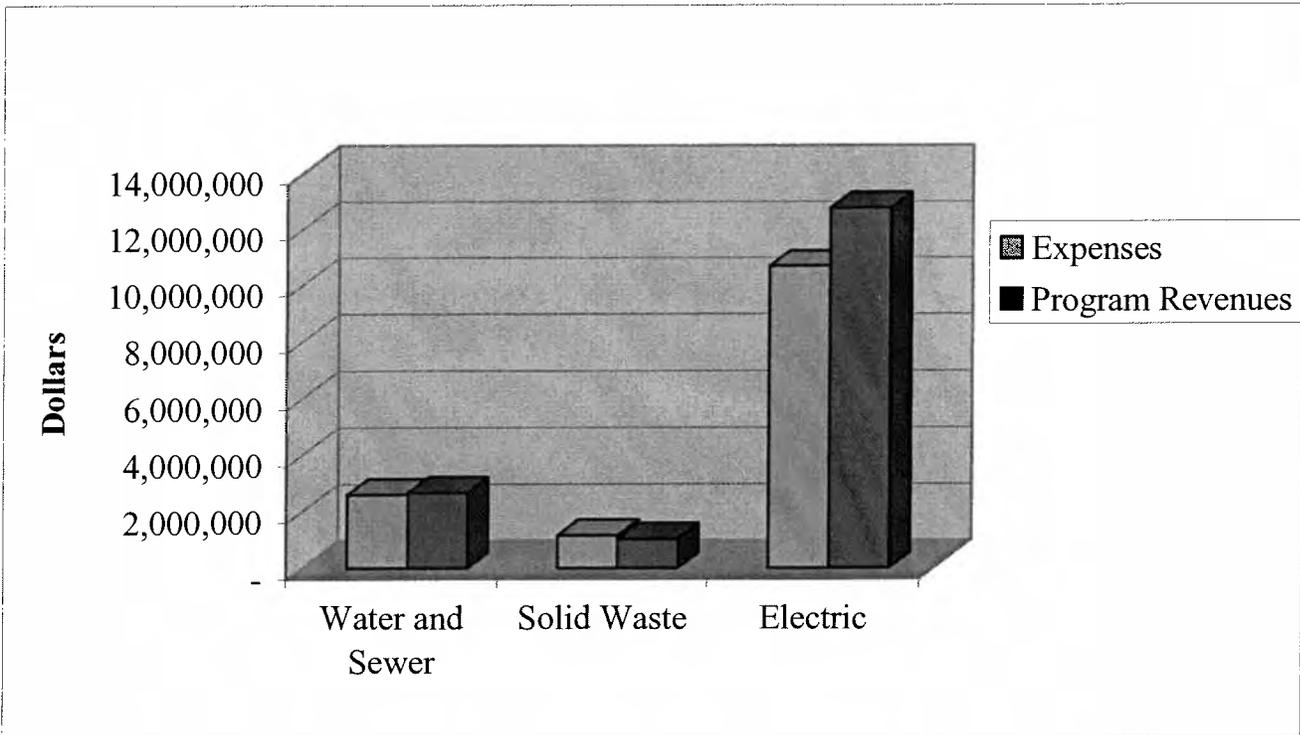
Expenses and Program Revenues – Governmental Activities



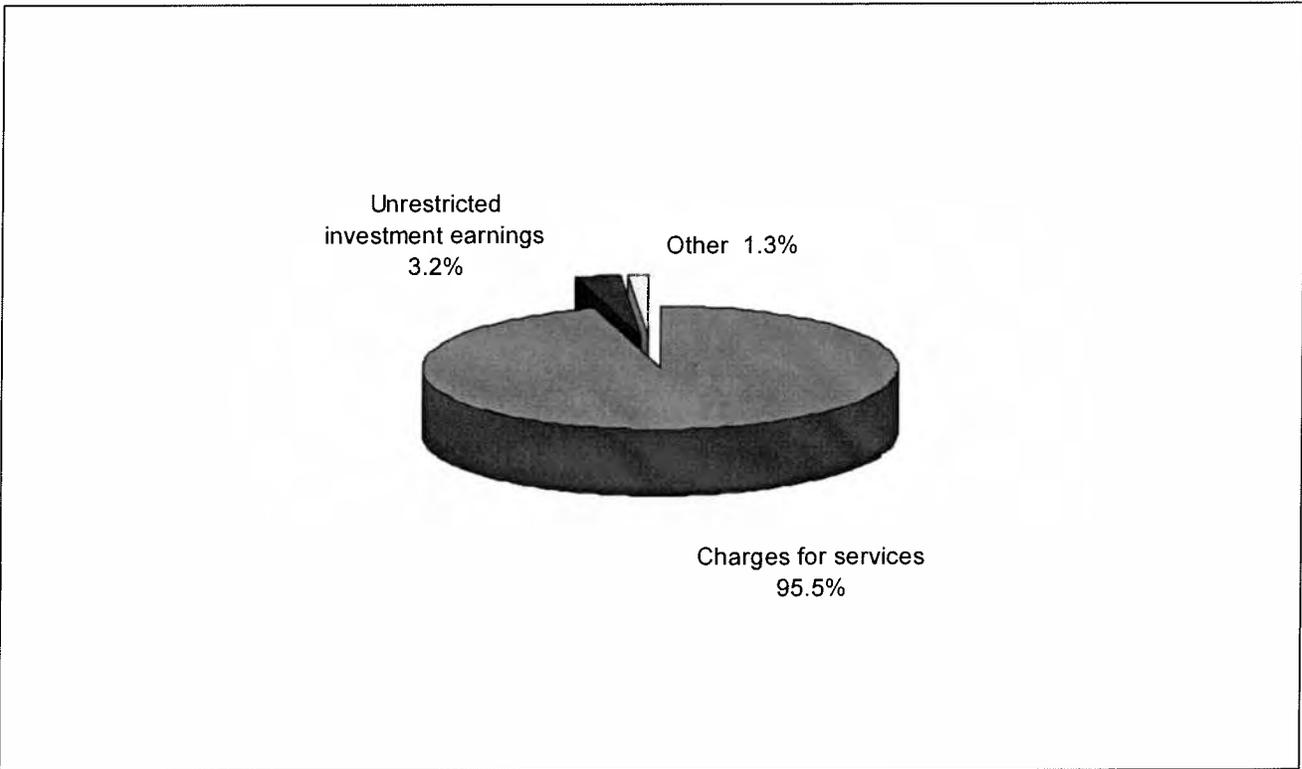
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-Type Activities



Revenues by Source – Business-Type Activities



Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds – The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$4,205,562, a decrease of \$842 in comparison with the prior year. Approximately 82% of this total amount – that is, \$3,458,290 – constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period of \$198,379 or to generate income of \$548,893 to pay for the perpetual care of the City's cemeteries.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$2,949,240, while total fund balance reached \$3,696,512. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22% of total general fund expenditures, while total fund balance represents 27% of that same amount.

The fund balance of the City's general fund increased by \$26,770 during the current fiscal year. The key factor to this change is the increase in the transfer from the Electric Fund to support the operations of the General Fund.

Proprietary funds – The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water and sewer fund at the end of the year amounted to \$489,915; the solid waste fund had a deficit of \$(1,029,330) and the net assets for the electric fund amounted to \$17,659,560. The total growth in net assets was \$1,337,550. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor (\$214,442 increase in appropriations) and can be summarized as follows:

- \$112,500 was appropriated to purchase land for the Bedford Visitors Center.
- \$24,000 was appropriated to replace the City Manager's vehicle.
- \$35,000 was appropriated for the development of the Central Virginia Community College Bedford Center.
- \$32,942 was appropriated for the Police Department to cover the expenditure of grant funds received by the department.
- \$10,000 was appropriated for the deer management program by the Police Department.

Capital Asset and Debt Administration

Capital assets – The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$39,746,036 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery and equipment. The total increase in the City’s investment in capital assets for the current fiscal year was 4% (a 10% decrease for governmental activities and a 9% increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- \$4,305,035 addition to water and sewer fixed assets due to the inflow and infiltration remediation project.
- \$85,000 for the construction of canopies over the walkways at the Bedford Middle School.
- \$152,186 for the construction of a new water line on Independence Blvd.
- \$232,681 was spent on the paving overlay program during the current fiscal year.

	The City’s Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land	\$ 1,759,710	\$ 2,750,300	\$ 973,779	\$ 973,779	\$ 2,733,489	\$ 3,724,079
Buildings and improvements	11,199,422	11,032,402	25,779,137	25,680,364	36,978,559	36,712,766
Distribution and transmission systems	-	-	20,766,498	15,798,398	20,766,498	15,798,398
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	5,556,053	5,508,756	2,062,152	1,960,381	7,618,205	7,469,137
Infrastructure	528,548	295,867	-	-	528,548	295,867
Construction in progress	26,185	-	2,308,498	3,789,715	2,334,683	3,789,715
Less accumulated depreciation	(10,069,436)	(9,591,968)	(24,460,455)	(23,204,232)	(34,529,891)	(32,796,200)
Total	\$ 9,000,482	\$ 9,995,357	\$ 30,745,554	\$ 28,314,350	\$ 39,746,036	\$ 38,309,707

Additional information on the City’s capital assets can be found in Note 6 on pages 31 through 33 of this report.

Long-term debt – At the end of the current fiscal year, the City had total bonded debt outstanding of \$35,226,419. Of this amount, \$34,867,339 comprises debt backed by the full faith and credit of the government, and \$359,080 is related to capital lease obligations.

The City’s Outstanding Debt General Obligation Bonds and Capital Leases

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
	General obligation bonds	\$ 2,018,100	\$ 2,413,900	\$ 13,336,878	\$ 11,614,328	\$ 15,354,978
Literary fund loans	1,275,000	1,350,000	-	-	1,275,000	1,350,000
Revenue bonds	-	-	18,237,361	18,829,991	18,237,361	18,829,991
Capital leases	325,078	479,567	34,002	99,730	359,080	579,297
	\$ 3,618,178	\$ 4,243,467	\$ 31,608,241	\$ 30,544,049	\$ 35,226,419	\$ 34,787,516

Capital Asset and Debt Administration (Continued)

The City's total debt increased by \$438,903 (1%) during the current fiscal year. The key factor in this increase was \$2,490,664 of additional water and sewer bonds for rehabilitation improvements to the City's wastewater collection system.

The City maintains a AAA rating (insured) from Standard & Poor's and an A3 rating from Moody's for its outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 7 on pages 33 through 35 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City is currently 3.9%, which is a decrease from a rate of 4.6% a year ago. This compares to the State's average unemployment rate of 4.3% and the national average rate of 6.5%.
- The occupancy rate of the government's central business district has remained at 95% for the past three years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2004 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, City of Bedford, 215 East Main Street, Bedford, Virginia 24523.

**BASIC FINANCIAL
STATEMENTS**

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2003

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 4,140,440	\$ 12,019,426	\$ 16,159,866
Receivables, net (Note 3)	199,419	2,123,553	2,322,972
Internal balances (Note 4)	39,277	(39,277)	-
Due from other governmental units (Note 5)	584,169	26,080	610,249
Inventories	-	867,603	867,603
Deferred expenses	13,318	295,068	308,386
Restricted assets:			
Cash and cash equivalents, restricted (Note 2)	70,939	2,597,165	2,668,104
Net investment in direct financing lease (Note 14)	-	2,553,183	2,553,183
Capital assets: (Note 6)			
Nondepreciable capital assets	1,785,895	3,282,277	5,068,172
Depreciable capital assets, net	7,214,587	27,463,277	34,677,864
Total assets	<u>14,048,044</u>	<u>51,188,355</u>	<u>65,236,399</u>
LIABILITIES			
Accounts payable and accrued liabilities	106,289	828,922	935,211
Accrued payroll and related liabilities	73,302	72,510	145,812
Accrued interest payable	39,424	174,323	213,747
Due to other governmental units (Note 5)	469,107	53,945	523,052
Customer security deposits	-	226,108	226,108
Noncurrent liabilities:			
Due within one year (Note 7)	555,385	1,535,670	2,091,055
Due in more than one year (Note 7)	3,138,222	30,486,092	33,624,314
Total liabilities	<u>4,381,729</u>	<u>33,377,570</u>	<u>37,759,299</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,417,713	690,640	6,108,353
Unrestricted (Note 9)	4,248,602	17,120,145	21,368,747
Total net assets	<u>\$ 9,666,315</u>	<u>\$ 17,810,785</u>	<u>\$ 27,477,100</u>

EXHIBIT 2

CITY OF BEDFORD, VIRGINIA
STATEMENT OF ACTIVITIES
Year Ended June 30, 2003

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Governmental activities:						
General government administration	\$ 947,472	\$ -	\$ 153,650	\$ -	\$ (793,822)	\$ (793,822)
Judicial administration	22,602	-	-	-	(22,602)	(22,602)
Public safety	2,432,172	71,292	149,783	-	(2,211,097)	(2,211,097)
Public works	1,822,153	-	821,978	-	(1,000,175)	(1,000,175)
Health and welfare	491,097	-	-	-	(491,097)	(491,097)
Education	5,567,031	-	3,690,338	113,318	(1,763,375)	(1,763,375)
Parks, recreation, and cultural	846,373	203,145	-	-	(643,228)	(643,228)
Community development	753,717	-	-	-	(753,717)	(753,717)
Non-departmental	5,665	-	-	-	(5,665)	(5,665)
Interest on long-term debt	157,533	-	-	-	(157,533)	(157,533)
Total governmental activities	13,045,815	274,437	4,815,749	113,318	(7,842,311)	(7,842,311)
Business-type activities:						
Water and sewer	2,603,408	2,676,689	-	-	73,281	73,281
Solid waste	1,160,635	1,037,228	-	-	(123,407)	(123,407)
Electric	10,673,208	12,750,334	-	-	2,077,126	2,077,126
Total business-type activities	14,437,251	16,464,251	-	-	2,027,000	2,027,000
Total primary government	\$ 27,483,066	\$ 16,738,688	\$ 4,815,749	\$ 113,318	(7,842,311)	(5,815,311)
General revenues:						
Property taxes					3,395,115	3,395,115
Sales tax					843,739	843,739
Business license tax					609,905	609,905
Meals tax					503,307	503,307
Other local taxes					412,599	412,599
Intergovernmental revenue, unrestricted					917,835	917,835
Unrestricted investment earnings					156,775	156,775
Other					1,731	1,731
Special item: Contribution of property to Joint IDA Transfers (Note 4)					(990,590)	(990,590)
					1,467,000	(1,467,000)
Total general revenues and transfers					7,317,416	6,627,966
Change in net assets					(524,895)	812,655
Net assets at July 1					10,191,210	16,473,235
Net assets at June 30					\$ 9,666,315	\$ 17,810,785
						\$ 27,477,100

The Notes to Financial Statements are an integral part of this statement.

CITY OF BEDFORD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
 June 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,631,390	\$ 509,050	\$ 4,140,440
Cash and cash equivalents, restricted	70,939	-	70,939
Receivables, net (Note 3)	199,419	-	199,419
Due from other funds (Note 4)	39,277	-	39,277
Due from other governmental units (Note 5)	584,169	-	584,169
Total assets	<u>\$ 4,525,194</u>	<u>\$ 509,050</u>	<u>\$ 5,034,244</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 106,289	\$ -	\$ 106,289
Accrued payroll and related liabilities	73,302	-	73,302
Due to other governmental units (Note 5)	469,107	-	469,107
Deferred revenue (Note 3)	179,984	-	179,984
Total liabilities	<u>828,682</u>	<u>-</u>	<u>828,682</u>
Fund balances: (Note 9)			
Reserved for:			
Encumbrances	198,379	-	198,379
Perpetual care	548,893	-	548,893
Unreserved, reported in:			
General fund, designated	51,928	-	51,928
General fund, undesignated	2,897,312	-	2,897,312
Special revenue funds	-	509,050	509,050
Total fund balances	<u>3,696,512</u>	<u>509,050</u>	<u>4,205,562</u>
Total liabilities and fund balances	<u>\$ 4,525,194</u>	<u>\$ 509,050</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	9,000,482
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	179,984
Bond issue costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.	13,318
Long-term liabilities, including bonds payable and accrued interest payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,733,031)
Net assets of governmental activities	<u>\$ 9,666,315</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF BEDFORD, VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2003

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 3,469,534	\$ -	\$ 3,469,534
Other local taxes	2,247,950	121,599	2,369,549
Permits, privilege fees, and regulatory licenses	33,828	-	33,828
Fines and forfeitures	34,959	-	34,959
Investment earnings	154,855	1,920	156,775
Charges for services	205,432	-	205,432
Other	22,064	-	22,064
Intergovernmental	5,736,653	15,015	5,751,668
Recovered costs	95,235	-	95,235
Total revenues	<u>12,000,510</u>	<u>138,534</u>	<u>12,139,044</u>
EXPENDITURES			
Current:			
General government administration	953,974	-	953,974
Judicial administration	22,602	-	22,602
Public safety	2,121,166	89,912	2,211,078
Public works	2,062,111	-	2,062,111
Health and welfare	491,097	-	491,097
Education	5,510,608	-	5,510,608
Parks, recreation, and cultural	833,436	-	833,436
Community development	733,439	19	733,458
Non-departmental	5,665	-	5,665
Debt service:			
Principal retirement	600,513	24,776	625,289
Interest and fiscal charges	141,766	15,802	157,568
Total expenditures	<u>13,476,377</u>	<u>130,509</u>	<u>13,606,886</u>
Excess (deficiency) of revenues over expenditures	<u>(1,475,867)</u>	<u>8,025</u>	<u>(1,467,842)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (Note 4)	1,502,637	-	1,502,637
Transfers out (Note 4)	-	(35,637)	(35,637)
Total other financing sources and uses	<u>1,502,637</u>	<u>(35,637)</u>	<u>1,467,000</u>
Net change in fund balance	26,770	(27,612)	(842)
FUND BALANCES AT JULY 1	<u>3,669,742</u>	<u>536,662</u>	
FUND BALANCES AT JUNE 30	<u>\$ 3,696,512</u>	<u>\$ 509,050</u>	

Adjustments for the Statement of Activities:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which new capital assets exceeded depreciation in the current period.	17,728
The net effect of the sale of capital assets and contribution of assets to the Joint IDA is to decrease net assets.	(1,012,603)
The net effect of the change in accrued interest expense, which is not reflected in the fund statements.	35
The net effect of the change in revenues in the Statement of Activities that do not provide current financial resources are not reported in the funds.	(74,419)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatments of long-term debt and related items.	553,872
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(8,666)
Change in net assets of governmental activities	<u>\$ (524,895)</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
General property taxes	\$ 3,926,900	\$ 3,926,900	\$ 3,469,534	\$ (457,366)
Other local taxes	2,271,000	2,271,000	2,247,950	(23,050)
Permits, privilege fees, and regulatory licenses	22,350	22,350	33,828	11,478
Fines and forfeitures	30,000	30,000	34,959	4,959
Investment earnings	240,800	240,800	154,855	(85,945)
Charges for services	82,400	82,400	205,432	123,032
Other	308,500	308,500	22,064	(286,436)
Intergovernmental	5,013,700	5,046,642	5,736,653	690,011
Recovered costs	103,300	103,300	95,235	(8,065)
Total revenues	11,998,950	12,031,892	12,000,510	(31,382)
EXPENDITURES				
Current:				
General government administration	1,534,662	1,558,662	953,974	604,688
Judicial administration	34,700	34,700	22,602	12,098
Public safety	2,642,455	2,685,397	2,121,166	564,231
Public works	2,026,170	2,026,170	2,062,111	(35,941)
Health and welfare	577,500	577,500	491,097	86,403
Education	5,563,870	5,563,870	5,510,608	53,262
Parks, recreation, and cultural	994,365	994,365	833,436	160,929
Community development	391,392	538,892	733,439	(194,547)
Non-departmental	2,000	2,000	5,665	(3,665)
Debt service:				
Principal retirement	727,700	727,700	600,513	127,187
Interest and fiscal charges	126,100	126,100	141,766	(15,666)
Total expenditures	14,620,914	14,835,356	13,476,377	1,358,979
Excess (deficiency) of revenues over expenditures	(2,621,964)	(2,803,464)	(1,475,867)	1,327,597
OTHER FINANCING SOURCES (USES)				
Proceeds from refunding bonds	1,198,100	1,198,100	-	(1,198,100)
Transfers in	1,540,100	1,540,100	1,502,637	(37,463)
Transfers out	(206,000)	(206,000)	-	206,000
Total other financing sources and uses	2,532,200	2,532,200	1,502,637	(1,029,563)
Net change in fund balances	\$ (89,764)	\$ (271,264)	\$ 26,770	\$ 298,034

The Notes to Financial Statements are an integral part of this statement.

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

June 30, 2003

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ 316,775	\$ 11,702,651	\$ 12,019,426
Receivables, net (Note 3)	363,582	214,964	1,545,007	2,123,553
Due from other governmental units (Note 5)	26,080	-	-	26,080
Inventories	-	-	867,603	867,603
Total current assets	389,662	531,739	14,115,261	15,036,662
Noncurrent assets:				
Cash and cash equivalents, restricted	540,639	312,241	1,744,285	2,597,165
Deferred expenses	-	51,998	243,070	295,068
Net investment in direct financing lease (Note 14)	-	-	2,553,183	2,553,183
Capital assets: (Note 6)				
Nondepreciable capital assets	2,565,998	512,593	203,686	3,282,277
Depreciable capital assets, net	15,697,287	602,608	11,163,382	27,463,277
Total noncurrent assets	18,803,924	1,479,440	15,907,606	36,190,970
Total assets	19,193,586	2,011,179	30,022,867	51,227,632
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	256,174	525	572,223	828,922
Accrued payroll and related liabilities	33,095	4,977	34,438	72,510
Accrued interest payable	49,648	30,772	93,903	174,323
Due to other funds (Note 4)	39,277	-	-	39,277
Due to other governmental units (Note 5)	-	-	53,945	53,945
Customer security deposits	22,765	-	203,343	226,108
Noncurrent liabilities due within a year (Note 7)	767,993	328,655	439,022	1,535,670
Total current liabilities	1,168,952	364,929	1,396,874	2,930,755
Noncurrent liabilities:				
Due in more than a year (Note 7)	11,635,134	4,143,543	14,707,415	30,486,092
Total liabilities	12,804,086	4,508,472	16,104,289	33,416,847
NET ASSETS				
Invested in capital assets, net of related debt	5,899,585	(1,467,963)	(3,740,982)	690,640
Unrestricted (Note 9)	489,915	(1,029,330)	17,659,560	17,120,145
Total net assets	\$ 6,389,500	\$ (2,497,293)	\$ 13,918,578	\$ 17,810,785

The Notes to Financial Statements are an integral part of this statement.

CITY OF BEDFORD, VIRGINIA

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
Year Ended June 30, 2003

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 2,676,689	\$ 1,037,228	\$ 12,750,334	\$ 16,464,251
Total operating revenues	<u>2,676,689</u>	<u>1,037,228</u>	<u>12,750,334</u>	<u>16,464,251</u>
OPERATING EXPENSES				
Refuse collection	-	231,861	-	231,861
Refuse disposal	-	380,733	-	380,733
Recycling	-	47,635	-	47,635
Supply and purification	436,936	-	-	436,936
Wastewater treatment	857,698	-	-	857,698
Wastewater pre-treatment	74,827	-	-	74,827
Transmission and distribution	174,268	-	1,157,523	1,331,791
Power generation	-	-	170,376	170,376
Purchased power	-	-	6,397,081	6,397,081
Meter reading	-	-	164,000	164,000
Landfill closure and postclosure care	-	108,223	-	108,223
Administration	131,003	71,173	988,228	1,190,404
Maintenance and repair	212,478	-	196,432	408,910
Depreciation	573,178	161,352	521,693	1,256,223
Amortization	-	4,518	11,114	15,632
Total operating expenses	<u>2,460,388</u>	<u>1,005,495</u>	<u>9,606,447</u>	<u>13,072,330</u>
Operating income	<u>216,301</u>	<u>31,733</u>	<u>3,143,887</u>	<u>3,391,921</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	18,331	8,790	518,956	546,077
Interest expense	(143,020)	(155,140)	(1,012,816)	(1,310,976)
Contribution to joint IDA	-	-	(53,945)	(53,945)
Gain on disposal of capital assets	-	-	12,500	12,500
Revenue sharing agreement	218,973	-	-	218,973
Net nonoperating revenue (expenses)	<u>94,284</u>	<u>(146,350)</u>	<u>(535,305)</u>	<u>(587,371)</u>
Income before transfers	310,585	(114,617)	2,608,582	2,804,550
TRANSFERS OUT (Note 4)	<u>-</u>	<u>-</u>	<u>(1,467,000)</u>	<u>(1,467,000)</u>
Change in net assets	310,585	(114,617)	1,141,582	1,337,550
NET ASSETS (DEFICIT) AT JULY 1	<u>6,078,915</u>	<u>(2,382,676)</u>	<u>12,776,996</u>	<u>16,473,235</u>
NET ASSETS (DEFICIT) AT JUNE 30	<u>\$ 6,389,500</u>	<u>\$ (2,497,293)</u>	<u>\$ 13,918,578</u>	<u>\$ 17,810,785</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2003

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 2,659,040	\$ 929,709	\$ 12,508,536	\$ 16,097,285
Payments to suppliers	(708,969)	(522,732)	(7,759,319)	(8,991,020)
Payments to employees	(1,190,604)	(211,101)	(1,284,610)	(2,686,315)
Net cash provided by operating activities	759,467	195,876	3,464,607	4,419,950
NONCAPITAL FINANCING ACTIVITIES				
Revenue sharing agreement	218,473	-	-	218,473
Contribution to joint IDA	-	-	(57,210)	(57,210)
Interfund borrowing	(672,764)	-	-	(672,764)
Transfers to other funds	-	-	(1,467,000)	(1,467,000)
Net cash used in noncapital financing activities	(454,291)	-	(1,524,210)	(1,978,501)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	2,490,664	-	-	2,490,664
Purchases of capital assets	(3,458,662)	-	(569,563)	(4,028,225)
Principal paid on capital debt	(679,442)	(306,822)	(440,208)	(1,426,472)
Interest paid on capital debt	(127,981)	(136,246)	(943,436)	(1,207,663)
Proceeds from sale of capital assets	-	-	12,500	12,500
Net cash used in capital and related financing activities	(1,775,421)	(443,068)	(1,940,707)	(4,159,196)
INVESTING ACTIVITIES				
Interest received	18,331	8,790	518,956	546,077
Net cash provided by investing activities	18,331	8,790	518,956	546,077
Net increase (decrease) in cash and cash equivalents	(1,451,914)	(238,402)	518,646	(1,171,670)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	1,992,553	867,418	12,928,290	15,788,261
Ending at June 30	\$ 540,639	\$ 629,016	\$ 13,446,936	\$ 14,616,591
RECONCILIATION TO EXHIBIT 6:				
Cash and cash equivalents	\$ -	\$ 316,775	\$ 11,702,651	\$ 12,019,426
Cash and cash equivalents, restricted	540,639	312,241	1,744,285	2,597,165
	\$ 540,639	\$ 629,016	\$ 13,446,936	\$ 14,616,591
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income	\$ 216,301	\$ 31,733	\$ 3,143,887	\$ 3,391,921
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	573,178	165,870	532,807	1,271,855
Landfill closure and postclosure care	-	108,223	-	108,223
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	(19,083)	(107,520)	110,008	(16,595)
Inventories	-	-	(297,192)	(297,192)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(6,696)	(1,496)	34,309	26,117
Accrued payroll and related liabilities	(5,644)	(2,661)	(3,582)	(11,887)
Customer security deposits	1,434	-	(54,614)	(53,180)
Compensated absences	(23)	1,727	(1,016)	688
Net cash provided by operating activities	\$ 759,467	\$ 195,876	\$ 3,464,607	\$ 4,419,950
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 228,440	\$ -	\$ -	\$ 228,440

The Notes to Financial Statements are an integral part of this statement.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The City of Bedford, Virginia (the "City") was incorporated as a city in 1968. The City operates on a Council-Manager form of government and provides all municipal services to its residents either directly or through shared services agreements with the County of Bedford, Virginia (see Note 11). As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government). The City does not have any component units.

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

Central Virginia Community Services Board

The City, in conjunction with the Counties of Amherst, Appomattox, Bedford, and Campbell and the City of Lynchburg, participates in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$15,000 for an operating contribution to the Central Virginia Community Services Board for the current year.

Blue Ridge Regional Jail Authority

The City, in conjunction with the Counties of Halifax, Bedford, and Campbell, and the City of Lynchburg, participates in the Blue Ridge Regional Jail Authority (the "Authority"). Each member jurisdiction pays a per-diem charge for each day that one of its prisoners is at any regional jail facility. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-diem charge is based upon an assumed number of prisoner days, and is subject to adjustment at the end of each fiscal year.

Bedford Public Library System

The Bedford Public Library System (the "Library") is an independent regional library system created by an agreement between the City and the County of Bedford. The Library is governed by a board consisting of six members appointed equally by the City and County. Since the County provides a major portion of the Library's annual revenue, it is accounted for in the County's financial statements.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Related Organizations:

City of Bedford Redevelopment and Housing Authority

Under the Code of Virginia (“Code”), the Commonwealth of Virginia (“Commonwealth”) created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in October 1970, City Council activated the City of Bedford Redevelopment and Housing Authority. The Authority owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the Authority are appointed by City Council; however, City Council is not financially accountable for the Authority.

Industrial Development Authority of the City of Bedford

Under the Code of Virginia, City Council passed an ordinance on November 10, 1970, which created the Industrial Development Authority of the City of Bedford (the “IDA”). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, City Council is not financially accountable for the IDA.

Other Boards and Commissions

City Council appoints certain members of various boards and commissions’ governing bodies as provided under state and local laws and ordinances. However, the boards and commissions are advisory in nature and City Council is not financially accountable for these organizations.

Joint Ventures:

Joint Industrial Development Authority

The City, in conjunction with the County of Bedford, created a Joint Industrial Development Authority, which is composed of a seven-member board of directors appointed by the participating localities. The City contributes a predetermined percentage of electric fund income before transfers and contributions to the Authority each year to fund expenses which is determined by expressing the revenue earned in the economic development area as a percentage of total revenue (4.05% for 2003). The City made an operating contribution of \$53,945 to the Authority for the year ended June 30, 2003. The City and County have agreed to share equally any additional amounts necessary to cover the Authority costs. Complete financial statements of the Joint Industrial Development Authority can be obtained from the Director of Finance of the City.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Joint Ventures: (Continued)

Central Virginia Radio Communication Board

The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford and the City of Lynchburg for the operation of a regional radio communication system. The Central Virginia Radio Communication Board is responsible for overseeing the management, operation, and administration of the system. The project is financed by lease revenue bonds of the Industrial Development Authorities of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest of 5.72%) and the leasing of the project to the participating jurisdictions. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 3.9%. Future minimum lease payments in the amount of \$257,604 are included in the Governmental Activities Noncurrent Liabilities. An asset in the amount of \$232,385 is shown in the Governmental Activities Capital Assets net of accumulated depreciation. Separate financial statements for this joint venture were not available.

Joint Tourism Program

The City, in conjunction with the County of Bedford, created a Joint Tourism Program, which is composed of a three-member executive committee made up of the City Manager, County Administrator, and Executive Director of the Bedford Area Chamber of Commerce. The City and County have agreed to share equally in the annual operating and capital expenses of the Program. The City and County each contributed \$277,002 to the Program during the current year. Separate financial statements for this joint venture were not available.

B. Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no major governmental funds, except for the General Fund.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. 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.

Government fund financial statements are reported using the *current financial resources 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the City's water and sewer operations.

The *solid waste fund* accounts for the activities of the City's solid waste operations.

The *electric fund* accounts for the activities of the City's electric distribution operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds 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.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

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.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer, solid-waste, and electric enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting

Following are the procedures used to establish the budgetary data reflected in the financial statements:

- 1) Prior to May 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the fund level.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$214,442 during the fiscal year ended June 30 primarily for Economic Development, the Police Department, and the City Manager.
- 5) Formal budgetary integration is employed as a management control device for all funds.
- 6) Budgets for the General Fund and Nonmajor Special Revenue E-911 Fund are adopted on the modified accrual basis of accounting.

The actual data presented in Exhibit 5 for the General Fund is presented on a basis consistent with the budget. All General Fund appropriations which are not encumbered lapse at year end.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the General Fund and Nonmajor Special Revenue E-911 Fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are stated at fair value.

H. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts related to governmental activities using historical collection data and specific account analysis. Management considers all accounts receivable related to business-type activities to be fully collectible and accordingly no allowance for doubtful accounts is considered necessary.

I. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of electric department parts and materials held for consumption, which are recorded as an expense when used.

J. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$62,155 of interest expense was included as part of the cost of capital assets under construction in connection with landfill expansion and sewer line extensions.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	30-40 years
Machinery and equipment	5-10 years
Distribution and transmission systems	40-50 years
Public domain infrastructure	40-50 years

Certain capital assets used specifically in landfill operations are depreciated based on the percentage of capacity used.

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. These infrastructure assets are likely to be the largest asset class of the City. The retroactive reporting of infrastructure placed into service prior to July 1, 2001 is subject to an extended implementation period and is first effective for the fiscal year ending in 2007.

K. Deferred Expenses

Deferred expenses consist of bond related costs that are amortized using the straight-line method over the life of the related bond issue.

L. Deferred Revenues

Deferred revenue in the General Fund consists primarily of property taxes not collected within 45 days of year end and property taxes collected that are not yet due.

M. Compensated Absences

City employees accumulate vacation time depending upon their length of service. Outstanding vacation time up to 20 days is payable upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in the governmental funds when the amounts have become due and payable.

N. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, *long-term debt* and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1. Summary of Significant Accounting Policies (Continued)

N. Long-Term Obligations (Continued)

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

O. 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.

P. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 et. seq. of the Code of Virginia or covered by FDIC.

Investments

Statutes authorize the City to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (“World Bank”), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (“LGIP”). Pursuant to Sec. 2.1-234.7 Code of Virginia, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at its regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than one year from the date of purchase.

The City has invested bond proceeds subject to rebate of arbitrage earnings in the Virginia State Non-Arbitrage Program (SNAP). SNAP is an open-end management investment company registered with the SEC. SNAP is designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. These programs provide comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities and towns. The fair value approximates the value of the pool.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investments are categorized below to give an indication of the level of risk assumed by the entity at year end. *Category 1* includes investments that are insured or registered, or for which the securities are held by the City or its safekeeping agent in the City's name. *Category 2* includes uninsured or unregistered investments for which the securities are held by the counterparty's trust department or agent in the City's name. *Category 3* includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the City's name.

There was no investment activity during the year other than in securities of the types held at year end. Investments in SNAP and LGIP are not subject to categorization, and are deemed involuntary under standards issued by the Government Accounting Standards Board (GASB).

The City's investment balances were as follows:

	Category			Fair Value
	1	2	3	
SunTrust:				
U.S. Government securities	\$ 273,061	\$ -	\$ -	\$ 273,061
Bank of New York:				
U.S. Government securities	369,206	-	-	369,206
Repurchase agreements	-	1,135,165	-	1,135,165
	\$ 642,267	\$ 1,135,165	\$ -	1,777,432
Investments not subject to categorization:				
LGIP				13,981,981
SNAP				486,437
Deposits				2,581,309
Total deposits and investments				\$ 18,827,159
Reconciliation to statement of net assets – Exhibit 1:				
Cash and cash equivalents, excluding \$811 cash on hand				\$ 16,159,055
Cash and cash equivalents, restricted				2,668,104
Total deposits and investments				\$ 18,827,159

Restricted cash and cash equivalents consist primarily of unused bond proceeds, and balances required to be maintained as conditions of certain bond instruments.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 3. Receivables

Receivables for the individual major funds, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Electric</u>	<u>Total</u>
Receivables					
Taxes	\$ 260,505	\$ -	\$ -	\$ -	\$ 260,505
Accounts	<u>672</u>	<u>363,582</u>	<u>214,964</u>	<u>1,545,007</u>	<u>2,124,225</u>
Gross receivables	261,177	363,582	214,964	1,545,007	2,384,730
Less: allowance for uncollectibles	<u>61,758</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,758</u>
Net total receivables	<u>\$ 199,419</u>	<u>\$ 363,582</u>	<u>\$ 214,964</u>	<u>\$ 1,545,007</u>	<u>\$ 2,322,972</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, 2003, *deferred revenue* reported in the governmental funds was as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable	<u>\$ 179,984</u>

Note 4. Interfund Receivables, Payables and Transfers

Amounts due from/to other funds consist of the following at June 30:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer	<u>\$ 39,277</u>

Interfund transfers are as follows:

	<u>Transfers In: General Fund</u>
Transfers Out:	
Nonmajor governmental fund	\$ 35,637
Electric	<u>1,467,000</u>
	<u>\$ 1,502,637</u>

The primary purposes of the transfer from the Electric Fund to the General Fund is to use unrestricted revenues collected in the Electric Fund to finance various General Fund programs in accordance with budgetary authorizations.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 5. Due to/from Other Governmental Units

Amounts due from other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Growth-sharing agreement	\$ 26,080	\$ 26,080
VDOT Incentive Grant	223,042	-
Commonwealth of Virginia		
Cost reimbursements	27,972	-
Highway grants	205,494	-
State sales tax	26,063	-
Local sales tax	75,518	-
	<u>\$ 584,169</u>	<u>\$ 26,080</u>

Amounts due to other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Shared services	\$ 13,842	\$ -
Consumer utility tax	9,181	-
Bedford Joint IDA		
Shared revenue	-	53,945
Commonwealth of Virginia		
Refund of VDOT Incentive Grant	446,084	-
	<u>\$ 469,107</u>	<u>\$ 53,945</u>

Note 6. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,750,300	\$ -	\$ 990,590	\$ 1,759,710
Construction in progress	-	26,185	-	26,185
Total capital assets, not depreciated	<u>2,750,300</u>	<u>26,185</u>	<u>990,590</u>	<u>1,785,895</u>
Capital assets, depreciated				
Buildings and improvements	11,032,402	167,020	-	11,199,422
Machinery and equipment	5,508,756	307,302	260,005	5,556,053
Infrastructure	295,867	232,681	-	528,548
Total capital assets depreciated	<u>16,837,025</u>	<u>707,003</u>	<u>260,005</u>	<u>17,284,023</u>
Less accumulated depreciation	<u>9,591,968</u>	<u>715,460</u>	<u>237,992</u>	<u>10,069,436</u>
Total capital assets, depreciated, net	<u>7,245,057</u>	<u>(8,457)</u>	<u>22,013</u>	<u>7,214,587</u>
Governmental activities capital assets, net	<u>\$ 9,995,357</u>	<u>\$ 17,728</u>	<u>\$ 1,012,603</u>	<u>\$ 9,000,482</u>

(Continued)

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 6. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 973,779	\$ -	\$ -	\$ 973,779
Construction in progress	3,789,715	2,823,818	4,305,035	2,308,498
Total capital assets, not depreciated	<u>4,763,494</u>	<u>2,823,818</u>	<u>4,305,035</u>	<u>3,282,277</u>
Capital assets, depreciated				
Buildings and improvements	25,680,364	98,773	-	25,779,137
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	15,798,398	4,968,100	-	20,766,498
Machinery and equipment	1,960,381	101,771	-	2,062,152
Total capital assets, depreciated	<u>46,755,088</u>	<u>5,168,644</u>	<u>-</u>	<u>51,923,732</u>
Less accumulated depreciation	<u>23,204,232</u>	<u>1,256,223</u>	<u>-</u>	<u>24,460,455</u>
Total capital assets, depreciated, net	<u>23,550,856</u>	<u>3,912,421</u>	<u>-</u>	<u>27,463,277</u>
Business-type activities capital assets, net	<u>\$ 28,314,350</u>	<u>\$ 6,736,239</u>	<u>\$ 4,305,035</u>	<u>\$ 30,745,554</u>

Included in Governmental Activities' capital assets is property in the amount of \$1,460,643 at June 30 financed by a capital lease. Also, there were assets with a cost of \$212,704 financed by a capital lease at June 30 in the business-type activities.

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 31,333
Public safety	265,715
Public works	162,723
Education	177,779
Parks, recreation, and cultural	57,654
Community development	20,256
	<u>\$ 715,460</u>
Business-type activities	
Water and sewer	\$ 573,178
Solid waste	161,352
Electric	521,693
	<u>\$ 1,256,223</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 6. Capital Assets (Continued)

Construction Commitments

The City has active construction projects, including pump station upgrades, inflow and infiltration abatement, water and sewer line extensions in the 460 East corridor and widening of a section of East Main Street. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Pump station upgrades – I/I	\$ 3,673,149	\$ 247,552
460 East Water and Sewer lines	1,688,284	318,556
	<u>\$ 5,361,433</u>	<u>\$ 566,108</u>

Note 7. Long-Term Liabilities

Prior Years' Defeasance of Debt

In 1994, the City defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the old bonds. During 1996, the trust monies were used to retire the old bonds. The deferred costs are being amortized over the life of the old bonds as a component of interest expense.

In 2002, the City defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. During 2002, the trust monies were used to retire the refunded bonds. The deferred costs are being amortized over the life of the new bonds as a component of interest expense.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 7. Long-Term Liabilities (Continued)

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	\$ 2,413,900	\$ -	\$ 395,800	\$ 2,018,100	\$ 386,700
Literary fund loans	1,350,000	-	75,000	1,275,000	75,000
Less:					
Deferred costs	(42,989)	7,580	-	(35,409)	-
Total bonds payable	3,720,911	7,580	470,800	3,257,691	461,700
Capital leases	479,567	-	154,489	325,078	93,685
Compensated absences	102,171	8,667	-	110,838	-
Governmental activities long-term liabilities	<u>\$ 4,302,649</u>	<u>\$ 16,247</u>	<u>\$ 625,289</u>	<u>\$ 3,693,607</u>	<u>\$ 555,385</u>
Business-Type Activities:					
Bonds payable:					
General obligation bonds	\$ 11,614,328	\$ 2,490,664	\$ 768,114	\$ 13,336,878	\$ 865,362
Revenue bonds	18,829,991	-	592,630	18,237,361	607,631
Less:					
Deferred costs	(1,669,072)	-	(86,523)	(1,582,549)	-
Plus deferred amounts:					
Bond premiums	35,715	-	6,493	29,222	-
Total bonds payable	28,810,962	2,490,664	1,280,714	30,020,912	1,472,993
Capital leases	99,730	-	65,728	34,002	34,002
Compensated absences	83,685	688	-	84,373	-
Landfill closure liability:					
Open landfill	1,392,612	74,402	-	1,467,014	-
Closed landfill	381,640	60,000	26,179	415,461	28,675
Business-type activities long-term liabilities	<u>\$ 30,768,629</u>	<u>\$ 2,625,754</u>	<u>\$ 1,372,621</u>	<u>\$ 32,021,762</u>	<u>\$ 1,535,670</u>

Governmental activities compensated absences are generally liquidated by the general fund.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 7. Long-Term Liabilities (Continued)

The annual requirements to amortize long-term debt and related interest are as follows:

Year Ended June 30	Governmental Activities				Business-Type Activities					
	General Obligation Bonds		Other Long-Term Debt		General Obligation Bonds		Revenue Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	\$ 386,700	\$ 88,209	\$ 168,685	\$ 53,875	\$ 865,362	\$ 320,200	\$ 607,631	\$ 921,345	\$ 34,002	\$ 638
2005	393,100	69,733	102,737	48,845	886,074	298,330	622,631	901,065	-	-
2006	391,100	54,133	104,343	44,986	896,929	275,603	647,631	879,504	-	-
2007	391,600	37,281	106,045	41,033	907,932	252,277	667,631	856,245	-	-
2008-2012	455,600	28,923	518,268	142,794	4,150,120	914,822	3,646,837	3,871,293	-	-
2013-2017	-	-	375,000	67,500	3,934,524	357,068	3,590,000	3,019,590	-	-
2018-2022	-	-	225,000	13,500	1,695,937	30,966	4,715,000	1,892,640	-	-
2023-2027	-	-	-	-	-	-	3,740,000	458,454	-	-
	<u>\$ 2,018,100</u>	<u>\$ 278,279</u>	<u>\$ 1,600,078</u>	<u>\$ 412,533</u>	<u>\$ 13,336,878</u>	<u>\$ 2,449,266</u>	<u>\$ 18,237,361</u>	<u>\$ 12,800,136</u>	<u>\$ 34,002</u>	<u>\$ 638</u>

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
Virginia Public School Authority						
G.O. Refunding Bonds	6.6-8.6	12/15/93	2008	\$ 1,700,000	\$ 465,000	\$ -
Public Improvement Bonds	3.7-5.3	07/01/93	2008	1,750,000	255,000	-
Virginia Resources Authority Taxable						
G.O. Water and Sewer Bonds	2.5	06/23/98	2019	5,225,000	-	4,573,501
Virginia Resources Authority Solid Waste						
Disposal System Revenue Bonds	3.65-4.9	03/01/97	2008	1,230,000	-	630,000
Virginia Resources Authority Solid Waste						
Management G.O. Refunding Bonds	4.1-4.85	06/28/01	2013	2,375,000	-	2,070,000
Virginia Resource Authority						
G.O. Water and Sewer Bonds	3.1-4.85	06/06/02	2017	2,005,000	-	1,920,000
Virginia Revolving Loan Fund						
G.O. Water and Sewer Bonds	-	04/25/02	2022	2,505,035	-	2,433,377
Virginia Revolving Loan Fund						
G.O. Water and Sewer Bonds	-	09/27/01	2022	1,800,000	-	1,710,000
G.O. Refunding Bonds	3.58	06/27/02	2009	1,498,900	1,298,100	-
					2,018,100	13,336,878
				Less deferred costs	(35,409)	(149,599)
				Plus bond premium	-	29,222
					<u>\$ 1,982,691</u>	<u>\$ 13,216,501</u>

Bonds issued between 1987 and 1998 are callable subject to a maximum premium of 2.5%. Also, the Water and Sewer revenue bonds have an additional \$361,265 that may be drawn in the future.

Revenue Bonds:

Virginia Resources Authority Taxable						
Water and Sewer Revenue Bonds	0.0%	01-91	2011	\$ 3,990,672	\$ -	\$ 1,722,361
Electric System Revenue Refunding Bonds	3.0-5.4	01-94	2025	16,450,000	-	14,100,000
Taxable Lease Revenue Bonds	7.81	06-96	2026	2,630,000	-	2,415,000
					-	18,237,361
				Less deferred costs	-	(1,432,950)
					<u>\$ -</u>	<u>\$ 16,804,411</u>
<u>Other Long-Term Debt:</u>						
Literary Fund Loans					\$ 1,275,000	\$ -

Capital Leases:

Central Virginia Radio						
Communications mobile equipment	5.72	05-96	2011	387,309	\$ 257,604	\$ -
SunTrust equipment and vehicles	4.98	11-99	2003	744,831	67,474	34,002
					<u>\$ 325,078</u>	<u>\$ 34,002</u>

(Continued)

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 8. Landfill Closure and Postclosure Care Costs

The City closed its former landfill site in 1994. In accordance with federal and state laws, the City placed a final cover on this site and will perform certain maintenance and monitoring functions at this site for ten years after closure. The cumulative amount of estimated closure and postclosure care costs to date for this site of \$587,769, less cash paid for such costs to date, totals \$415,461. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, or changes in regulations. This amount is included in the landfill closure and postclosure liability in the Solid Waste Enterprise Fund.

The City's current landfill site began accepting waste in August 1994. State and federal laws require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions at this site for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The closure and postclosure liability at June 30 includes \$1,467,014 for this site, which represents the cumulative amount of estimated closure and postclosure care costs of \$1,859,883 reported to date, based on the use of 65% of the estimated capacity of the landfill. During the year ended June 30, engineers determined the remaining capacity to be approximately 125,000 cubic yards, representing an additional capacity of approximately 50,000 cubic yards over previous estimates. The City will recognize the remaining estimated cost of closure and postclosure care of \$392,869 as the remaining estimated capacity is filled. The City expects to close the landfill in 2009. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The City uses the financial test method of demonstrating assurance for closure and postclosure care cost.

Note 9. Net Assets/Fund Equity

Reserved Fund Balance: Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use. Fund balance is reserved in the General Fund for future operating costs of the cemetery and for encumbrances related to contractual obligations for which goods or services have not been received.

Designated Fund Balance: Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance is designated in the General Fund for payment of retired employees' life insurance.

Net Assets: At June 30, the Solid Waste Fund had a deficit in net assets of \$2,497,293. This deficit is anticipated to be recovered through future revenues, as well as possible transfers from the General Fund.

Note 10. Defined Benefit Pension Plan

A. Plan Description

The City contributes to the Virginia Retirement System ("VRS"), an agent and cost sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System").

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 10. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after 5 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 and firefighters) and at age 50 with 30 years of service if elected by the employer (age 50 with at least 25 years experience for participating local law enforcement officers and firefighters) payable monthly, for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. AFC is defined as the highest consecutive 36 months of compensation. 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. Participating local law enforcement officers and firefighters 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 obtained by writing the System at P.O. Box 2500, Richmond, Virginia 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 salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2003 was 14.25% of annual covered payroll. The City's contribution rate includes the employee's share of 5% paid by the employer.

The City has an agreement with the County of Bedford to operate the schools under a joint contract. Information relating to the employees of the Bedford County Schools is included in Bedford County's financial statements.

C. Annual Pension Cost

For fiscal year 2003, the City's annual pension cost of \$570,979 was equal to its required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8% investment rate of return, (b) projected salary increases of 4.25% to 6.10% per year, and (c) 3% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3%. The actuarial value of the City's assets is equal to the modified fair value of assets. This method uses techniques that smooth the effects of short-term volatility in the fair value of assets over a 5-year period.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 10. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2003	\$ 570,979	100 %	\$ -
June 30, 2002	\$ 539,629	100 %	\$ -
June 30, 2001	\$ 500,150	100 %	\$ -

Note 11. Shared Services

Bedford County provides courthouse facilities and a centralized dispatching facility, as well as the services of the Sheriff, Commonwealth Attorney and Clerk of the Circuit Court to the City. The City reimburses the County for these services based on the total population of both localities as reported in the most recent census. For the current fiscal year, the City's population was 9.45% of the total population. In addition, the County provides health and welfare services to the City through the Departments of Health and Social Services, respectively. The City reimburses the County for these services based on the actual caseload for each fiscal year.

Pursuant to an agreement dated June 28, 1988, the County provides public school services and educational programs for the students of the City. The City reimburses the County for its share of the net expenses based on its percentage of students as determined by the March 30 Average Daily Membership (ADM) of each fiscal year. Further, the City provides fire services to the County and the County reimburses the City for these services based on the number of fire calls answered.

Note 12. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. The assessed value is as of July 1 for real property and January 1 for personal property. Real estate taxes are payable in four quarterly installments on September 30, December 31, March 31, and June 5. The real estate tax rate for fiscal year 2003 was \$.80 of assessed value.

Personal property taxes are payable on December 5. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes. Years 2003 and 2002 remains unchanged.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 13. Risk Management

The Risk Management programs of the City are as follows:

Workers' Compensation

The City is a member of the Virginia Municipal Group Self-Insured Association for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates and claims experience. Total premiums for fiscal year 2003 were \$66,127.

General Liability and Other

The City purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from Virginia Municipal Liability Pool. The City's property and contents are insured up to a limit of \$34,989,700. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability insurance. Total premiums for fiscal year 2003 were \$137,816.

The City's Public Officials and Law Enforcement Liability and the School Board Legal Liability coverages, with a \$1,000,000 limit for each, are provided through a policy with the Commonwealth of Virginia. Total premiums for fiscal year 2003 were \$10,274.

Healthcare

The City provides healthcare coverage for employees through a policy with MAMSI. The City contributes the required premium amount for single coverage for each employee. Dependents of employees are also covered by the policy provided they pay the additional premium to the City. Total premiums for fiscal year 2003 were \$541,996.

Other

There were no significant reductions in insurance coverages from the prior year and no settlements that exceeded the amount of insurance coverage during the last three fiscal years.

Note 14. Leases

The City is the lessor of certain equipment relating to an electric substation for a term of thirty years, which began October 1995. The lessee is required to provide all maintenance and repairs as deemed necessary at the lessee's cost. The lease is classified as a direct financing lease since the lessee will purchase the equipment from the City at the end of the lease term.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 14. Leases (Continued)

The following lists the components of the net investment in the direct financing lease as of June 30:

Total minimum lease payments	\$	8,016,726
Guaranteed residual value		1,369,086
Unearned income		<u>(6,832,629)</u>
Net investment in direct financing lease	\$	<u>2,553,183</u>

Monthly lease payments are \$29,152 through May 2026, at which time the guaranteed residual value is due.

Note 15. Commitments and Contingencies

Infiltration and Inflow

Under a Consent Order issued by the Virginia Department of Environmental Quality (VDEQ) on July 16, 1996, and amended in July 1997, November 1997, and February 1999, the City must make certain rehabilitation improvements to its wastewater collection system. The Consent Order (as amended) requires the City to reduce the amount of infiltration and inflow (I/I) that enters the system during wet weather. The objective of the I/I abatement effort is to reduce the occurrences of by-passes and overflows within the collection system and at the wastewater treatment plant and system pump stations in order to protect State waters and the environment. On February 2, 1999, the VDEQ issued the most recent amendment continuing the terms and conditions that will govern implementation of the I/I project. The permit requires the City to implement the I/I project by completing construction for the wastewater treatment plant upgrade. The order establishes a compliance schedule and project priorities for implementation of the I/I project.

The compliance schedule contains fixed dates for implementing the I/I project. The City is currently implementing the I/I project in accordance with the requirements of its permit and consent order. Further, the City is required by the consent order to submit written reports to VDEQ on the City's compliance with the order upon completion of each item.

On December 10, 1999, the City was awarded a \$4,666,300 loan through the Virginia Wastewater Revolving Loan Program to fund the remaining estimated costs of the I/I project. The loan is for a term of 20 years at 0% interest. At June 30, draws have been made in the amount of \$4,305,035.

Grant Programs

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, would not be material to the financial position of the City.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 16. Joint Economic Development and Growth Sharing Agreement

The City of Bedford and Bedford County entered into a voluntary agreement dated February 9, 1998 titled "Joint Economic Development and Growth Sharing Agreement." The agreement provides for the development of a jointly owned 110-acre industrial park within the City; designation of four economic development areas located in the County adjacent to the City for which water and sewer will be made available that will enhance commercial and industrial development; and development of a long range plan to address water and sewer needs in the central part of Bedford County.

The City and County agreed in perpetuity to share equally all local taxes on real estate, personal property and machinery and tools, merchant's capital, sales and use taxes, and all business, professional and occupational taxation and any other taxes generated in respect to properties and activities with the Economic Development Areas (including the Industrial Park site located within the City and four designated areas located within the County).

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BEDFORD, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2003

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 2000	\$ 10,135,279	\$ 10,763,447	\$ 628,168	94.16%	\$ 3,644,837	17.23%
June 30, 2001	\$ 11,126,870	\$ 12,182,764	\$ 1,055,894	91.33%	\$ 3,671,970	28.76%
June 30, 2002	\$ 11,441,640	\$ 13,020,265	\$ 1,578,625	87.88%	\$ 3,911,728	40.36%

**OTHER SUPPLEMENTARY
INFORMATION**



NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Each fund is established on a functional basis and may include one or more grants or other funding sources. Funds in this category include:

A-1 Alternate Fund – accounts for revenues received from the Virginia Department of Transportation for the construction of Independence Boulevard.

VCDG Fund – accounts for revenues received from participants in a low-interest home mortgage program.

E-911 Fund – accounts for revenues received to support the operations and capital expenditures of the Joint Dispatch Center/E-911 System.

**CITY OF BEDFORD, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING BALANCE SHEET
June 30, 2003**

	Special Revenue			Total Nonmajor Governmental Funds
	A-1 Alternate Fund	VCDG Fund	E-911 Fund	
ASSETS				
Cash and cash equivalents	\$ -	\$ 148,144	\$ 360,906	\$ 509,050
Total assets	\$ -	\$ 148,144	\$ 360,906	\$ 509,050
 LIABILITIES AND FUND BALANCES				
Fund balances:				
Unreserved	\$ -	\$ 148,144	\$ 360,906	\$ 509,050
Total fund balances	-	148,144	360,906	509,050
Total liabilities and fund balances	\$ -	\$ 148,144	\$ 360,906	\$ 509,050

**CITY OF BEDFORD, VIRGINIA
NONMAJOR GOVERNMENTAL FUNDS**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2003**

	Special Revenue			Total Nonmajor Governmental Funds
	A-1 Alternate Fund	VCDG Fund	E-911 Fund	
REVENUES				
Other local taxes	\$ -	\$ -	\$ 121,599	\$ 121,599
Investment earnings	534	1,386	-	1,920
Intergovernmental	-	6,986	8,029	15,015
Total sources of financial resources	<u>534</u>	<u>8,372</u>	<u>129,628</u>	<u>138,534</u>
EXPENDITURES				
Current:				
Public safety	-	-	89,912	89,912
Community development	-	19	-	19
Debt service:				
Principal retirement	-	-	24,776	24,776
Interest and fiscal charges	-	-	15,802	15,802
Total expenditures	<u>-</u>	<u>19</u>	<u>130,490</u>	<u>130,509</u>
Excess of expenditures over revenues	<u>534</u>	<u>8,353</u>	<u>(862)</u>	<u>8,025</u>
OTHER FINANCING SOURCES (USES)				
Transfers out:				
General Fund	<u>(35,637)</u>	<u>-</u>	<u>-</u>	<u>(35,637)</u>
Total other financing uses	<u>(35,637)</u>	<u>-</u>	<u>-</u>	<u>(35,637)</u>
Net change in fund balances	<u>(35,103)</u>	<u>8,353</u>	<u>(862)</u>	<u>(27,612)</u>
FUND BALANCE AT JULY 1	<u>35,103</u>	<u>139,791</u>	<u>361,768</u>	<u>536,662</u>
FUND BALANCE AT JUNE 30	<u>\$ -</u>	<u>\$ 148,144</u>	<u>\$ 360,906</u>	<u>\$ 509,050</u>

CITY OF BEDFORD, VIRGINIA
NONMAJOR GOVERNMENTAL FUND WITH A LEGALLY ADOPTED BUDGET

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
E-911 FUND
Year Ended June 30, 2003

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other local taxes	\$ 105,000	\$ 105,000	\$ 121,599	\$ 16,599
Intergovernmental	-	-	8,029	8,029
Total sources of financial resources	105,000	105,000	129,628	24,628
EXPENDITURES				
Current:				
Public safety	143,200	143,200	89,912	53,288
Debt service:				
Principal retirement	40,600	40,600	24,776	15,824
Interest and fiscal charges	-	-	15,802	(15,802)
Total expenditures	183,800	183,800	130,490	53,310
Excess of expenditures over revenues	(78,800)	(78,800)	(862)	77,938
Net change in fund balances	(78,800)	(78,800)	(862)	77,938
FUND BALANCES AT JULY 1	361,768	361,768	361,768	-
FUND BALANCES AT JUNE 30	\$ 282,968	\$ 282,968	\$ 360,906	\$ 77,938

SUPPORTING SCHEDULE

CITY OF BEDFORD, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2003

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
<u>Department of Emergency Management:</u>		
Emergency Management Preparedness Grant	83.552	\$ 6,769
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
<u>Department of Emergency Management:</u>		
State and Local All Hazards Emergency Operations Planning	83.562	6,174
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
<u>Department of Emergency Management:</u>		
State Domestic Preparedness Equipment Support Program	16.007	26,942
<u>U. S. DEPARTMENT OF JUSTICE</u>		
<u>Bureau of Justice Assistance</u>		
Drug Control and System Improvement - Byrne Formula Grant	16.579	3,441
<u>U. S. DEPARTMENT OF JUSTICE</u>		
<u>Bureau of Justice Assistance</u>		
Local Law Enforcement Grant	16.592	5,393
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Department of Motor Vehicles</u>		
State and Community Highway Safety	20.000	3,367
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Department of Motor Vehicles</u>		
State and Community Highway Safety	20.600	1,139
<u>ENVIRONMENTAL PROTECTION AGENCY</u>		
<u>Virginia Resources Authority:</u>		
State Revolving Fund	66.458	<u>8,699,019</u>
Total Expenditures of Federal Awards		<u>\$ 8,752,244</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1. Significant Accounting Policy

The Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting as contemplated by generally accepted accounting principles.

Note 2. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2003, the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$10,439,240, which included \$8,699,019 of federal funds.

STATISTICAL SECTION

**THE CITY DOES NOT HAVE
ANY OVERLAPPING DEBT.**

TABLE 1

CITY OF BEDFORD, VIRGINIA
GENERAL GOVERNMENT REVENUES BY SOURCE
Last Ten Fiscal Years (1)

Fiscal Year Ended June 30,	Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services	Other	Inter-Governmental	Recovered Costs	Totals
2003	\$ 5,839,083	\$ 33,828	\$ 34,959	\$ 156,775	\$ 205,432	\$ 22,064	\$ 5,751,668	\$ 95,235	\$12,139,044
2002	\$ 5,695,811	\$ 18,686	\$ 22,478	\$ 257,035	\$ 98,070	\$ 129,782	\$ 5,747,907	\$ 75,842	\$12,045,611
2001	\$ 5,385,880	\$ 21,183	\$ 35,210	\$ 543,651	\$ 75,220	\$ 77,807	\$ 5,307,680	\$ 86,004	\$11,532,635
2000	\$ 5,476,530	\$ 24,213	\$ 41,795	\$ 430,875	\$ 72,160	\$ 162,915	\$ 5,024,264	\$ 71,573	\$11,304,325
1999	\$ 5,383,260	\$ 43,183	\$ 48,839	\$ 393,640	\$ 156,870	\$ 106,933	\$ 4,920,658	\$ 106,495	\$11,159,878
1998	\$ 4,883,768	\$ 17,986	\$ 47,321	\$ 297,078	\$ 165,899	\$ 151,646	\$ 4,181,234	\$ 86,212	\$ 9,831,144
1997	\$ 4,395,514	\$ 12,109	\$ 74,550	\$ 305,144	\$ 709,901	\$ 203,885	\$ 4,205,313	\$ 90,671	\$ 9,997,087
1996	\$ 4,232,107	\$ 9,134	\$ 62,293	\$ 268,092	\$ 653,914	\$ 235,248	\$ 3,689,812	\$ 187,617	\$ 9,338,217
1995	\$ 4,067,032	\$ 19,761	\$ 39,898	\$ 351,434	\$ 602,004	\$ 158,540	\$ 3,389,172	\$ 87,864	\$ 8,715,705
1994	\$ 3,787,533	\$ 15,621	\$ 49,051	\$ 258,521	\$ 482,548	\$ 239,315	\$ 3,466,443	\$ 140,683	\$ 8,439,715

(1) Includes General and Special Revenue Funds

TABLE 2

CITY OF BEDFORD, VIRGINIA
GENERAL GOVERNMENT EXPENDITURES BY FUNCTION
Last Ten Fiscal Years (1)

Fiscal Year Ended June 30,	General Governmental Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Non-Departmental	Debt Service	Capital Outlay	Totals
2003	\$ 953,974	\$ 22,602	\$ 2,211,078	\$ 2,062,111	\$ 491,097	\$ 5,510,608	\$ 833,436	\$ 733,458	\$ 5,663	\$ 782,857	\$ -	\$13,606,886
2002	\$ 1,056,528	\$ 22,759	\$ 2,234,097	\$ 1,981,739	\$ 688,613	\$ 5,155,699	\$ 851,716	\$ 511,929	\$ 2,665	\$ 842,517	\$ -	\$13,348,262
2001	\$ 888,906	\$ 34,594	\$ 2,267,808	\$ 2,349,870	\$ 422,997	\$ 4,828,153	\$ 919,735	\$ 287,659	\$ 237,652	\$ 961,656	\$ -	\$13,199,030
2000	\$ 919,310	\$ 29,109	\$ 1,947,134	\$ 1,611,825	\$ 356,282	\$ 4,460,758	\$ 782,351	\$ 295,258	\$ 7,828	\$ 2,351,576	\$ -	\$12,761,431
1999	\$ 806,879	\$ 26,314	\$ 2,154,991	\$ 1,628,381	\$ 231,771	\$ 4,419,987	\$ 706,469	\$ 822,078	\$ 32,041	\$ 826,866	\$ 1,528,220	\$13,183,997
1998	\$ 866,355	\$ 27,780	\$ 1,755,164	\$ 1,601,194	\$ 276,326	\$ 4,347,700	\$ 748,688	\$ 483,602	\$ 90,603	\$ 725,628	\$ 20,387	\$10,943,427
1997	\$ 823,430	\$ 19,200	\$ 1,631,412	\$ 1,971,177	\$ 194,348	\$ 4,102,507	\$ 708,101	\$ 395,187	\$ 200,258	\$ 729,523	\$ 1,622,630	\$12,397,773
1996	\$ 722,362	\$ 12,084	\$ 1,505,932	\$ 2,117,708	\$ 218,917	\$ 3,688,020	\$ 746,451	\$ 249,840	\$ 10,343	\$ 697,163	\$ 789,183	\$10,758,003
1995	\$ 757,529	\$ 27,552	\$ 1,403,864	\$ 2,074,595	\$ 199,637	\$ 3,281,799	\$ 661,038	\$ 188,649	\$ 63,989	\$ 815,597	\$ 2,517,394	\$11,991,663
1994	\$ 639,951	\$ 25,347	\$ 1,410,002	\$ 1,850,710	\$ 206,929	\$ 3,356,550	\$ 559,811	\$ 198,723	\$ 188,956	\$ 673,015	\$ 1,807,453	\$10,917,447

(1) Includes General and Special Revenue Funds

TABLE 3

CITY OF BEDFORD, VIRGINIA

ASSESSED VALUE OF TAXABLE PROPERTY
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Public Service Corporation				Totals
	Real Estate (1)	Personal Property (2)	Machinery and Tools (2)	Real Estate (1) Property (2)	
2003	\$ 303,930,500	\$ 42,865,620	\$ 32,527,560	\$ 10,994,300	\$ 390,662,201
2002	\$ 280,111,000	\$ 43,307,830	\$ 49,272,330	\$ 10,789,801	\$ 383,911,724
2001	\$ 276,036,900	\$ 42,398,867	\$ 49,506,720	\$ 11,138,111	\$ 379,351,031
2000	\$ 273,096,200	\$ 38,045,270	\$ 45,324,990	\$ 10,620,541	\$ 367,380,299
1999	\$ 270,067,216	\$ 37,510,730	\$ 42,489,190	\$ 9,241,964	\$ 359,638,056
1998	\$ 223,641,700	\$ 35,925,370	\$ 41,854,980	\$ 9,066,333	\$ 310,840,872
1997	\$ 221,100,884	\$ 34,934,680	\$ 39,440,300	\$ 9,464,764	\$ 305,198,320
1996	\$ 219,355,550	\$ 30,389,635	\$ 40,954,672	\$ 9,887,598	\$ 300,763,078
1995	\$ 215,624,100	\$ 26,818,320	\$ 36,346,280	\$ 9,028,754	\$ 287,964,036
1994	\$ 190,042,100	\$ 25,964,810	\$ 31,416,780	\$ 8,841,802	\$ 256,410,174

(1) Assessed value is as of July 1 of the current fiscal year. Real estate is assessed at 100% of fair market value.

(2) Assessed value is as of January 1 of the previous fiscal year. Personal property is assessed at 100% of average trade-in value. Machinery and tools are assessed at 60% of original cost.

TABLE 4

CITY OF BEDFORD, VIRGINIA

PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Current Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
2002	\$ 3,494,359	\$ 3,259,443	93.28%	\$ 157,463	\$ 3,416,906	97.78%	\$ 316,528	9.1%
2001	\$ 3,455,872	\$ 3,002,760	86.89%	\$ 55,243	\$ 3,058,003	88.49%	\$ 352,991	10.2%
2000	\$ 3,393,161	\$ 3,289,224	96.94%	\$ 61,455	\$ 3,350,679	98.75%	\$ 51,309	1.51%
1999	\$ 3,302,804	\$ 3,206,752	97.09%	\$ 42,324	\$ 3,249,076	98.37%	\$ 36,788	1.11%
1998	\$ 2,924,727	\$ 2,865,092	97.96%	\$ 63,089	\$ 2,928,181	100.12%	\$ 57,531	1.97%
1997	\$ 2,665,527	\$ 2,630,248	98.68%	\$ 26,375	\$ 2,656,623	99.67%	\$ 49,206	1.85%
1996	\$ 2,601,520	\$ 2,551,327	98.07%	\$ 48,726	\$ 2,600,053	99.94%	\$ 43,902	1.69%
1995	\$ 2,455,323	\$ 2,394,187	97.51%	\$ 72,653	\$ 2,466,840	100.47%	\$ 43,377	1.77%
1994	\$ 2,192,599	\$ 2,086,840	95.18%	\$ 113,132	\$ 2,199,972	100.34%	\$ 77,179	3.52%

(1) Real estate taxes are payable in four installments on or before September 30, December 31, March 31, and June 5, of the fiscal year. Personal property taxes are payable on or before December 5 if such property is titled with the City on January 1 of the tax year. The tax levy and collections are exclusive of penalty and interest.

CITY OF BEDFORD, VIRGINIA

TABLE 5

PROPERTY TAX RATES
Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Real Estate</u>	<u>Personal Property</u>	<u>Machinery and Tools</u>	<u>Mobile Homes</u>
2003	\$ 0.80	\$ 1.80	\$ 1.30	\$ 0.80
2002	\$ 0.76	\$ 1.80	\$ 1.30	\$ 0.76
2001	\$ 0.76	\$ 1.80	\$ 1.30	\$ 0.76
2000	\$ 0.76	\$ 1.80	\$ 1.30	\$ 0.76
1999	\$ 0.76	\$ 1.80	\$ 1.30	\$ 0.76
1998	\$ 0.76	\$ 1.80	\$ 1.30	\$ 0.76
1997	\$ 0.71	\$ 1.50	\$ 1.30	\$ 0.71
1996	\$ 0.71	\$ 1.50	\$ 1.30	\$ 0.71
1995	\$ 0.71	\$ 1.50	\$ 1.30	\$ 0.71
1994	\$ 0.71	\$ 1.50	\$ 1.30	\$ 0.71

Per \$100 Assessed Value

CITY OF BEDFORD, VIRGINIA

LARGEST REAL ESTATE ASSESSMENTS
June 30, 2003

TABLE 6

<u>Name</u>	<u>Nature of Business</u>	<u>Assessed Value</u>	<u>Tax</u>	<u>Percent of Total Levy</u>
Raintree Village/ Raintree East	Apartment rental	\$ 8,034,500	\$ 64,276	2.56%
Sam Moore	Furniture manufacturer	6,673,500	53,388	2.13%
Southgate Assoc. II, LP	Retail real-estate leasor	5,464,700	43,718	1.74%
RBX Industries	Rubber manufacturer	4,942,200	39,538	1.58%
Golden West Foods	Frozen food manufacturer	3,585,600	28,685	1.14%
Carriage Hill of VA, Ltd.	Retirement center	3,348,300	26,786	1.07%
Frank Chervan	Furniture frame manufacturer	2,960,000	23,680	0.94%
N Five Co., LLC	Retail rental	2,281,700	18,254	0.73%
Smyth Company/Bedford	Label manufacturer	2,069,800	16,558	0.66%
Bedford Weaving	Textile manufacturer	2,040,200	16,322	0.65%
Total		<u>\$ 41,400,500</u>	<u>\$ 331,205</u>	

CITY OF BEDFORD, VIRGINIA
RATIO OF NET GENERAL BONDED DEBT TO
ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
Last Ten Fiscal Years

TABLE 7

Fiscal Year Ended June 30,	(1) Population		Assessed Value	(3) Gross Bonded Debt	Less Debt		Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
					Payable from Enterprise Revenues	Net Bonded Debt		
2003	6,299	(4)	\$ 390,662,201	\$ 15,354,958	\$ 13,336,858	\$ 2,018,100	0.52%	\$ 320
2002	6,299	(4)	\$ 383,911,724	\$ 14,028,228	\$ 11,614,328	\$ 2,413,900	0.63%	\$ 383
2001	6,299	(4)	\$ 379,351,031	\$ 10,946,132	\$ 8,231,132	\$ 2,715,000	0.72%	\$ 431
2000	6,676	(1)	\$ 367,380,299	\$ 10,716,683	\$ 7,546,683	\$ 3,170,000	0.86%	\$ 475
1999	6,200	(2)	\$ 359,638,056	\$ 7,881,201	\$ 2,756,201	\$ 5,125,000	1.43%	\$ 827
1998	6,200	(2)	\$ 310,840,872	\$ 6,326,045	\$ 751,045	\$ 5,575,000	1.79%	\$ 899
1997	6,200	(2)	\$ 305,198,320	\$ 4,515,000	\$ -	\$ 4,515,000	1.48%	\$ 728
1996	6,200	(2)	\$ 300,763,078	\$ 4,960,000	\$ -	\$ 4,960,000	1.65%	\$ 800
1995	6,400	(2)	\$ 287,964,036	\$ 5,400,000	\$ -	\$ 5,400,000	1.88%	\$ 844
1994	6,400	(2)	\$ 256,410,174	\$ 5,830,000	\$ -	\$ 5,830,000	2.27%	\$ 911

- (1) 1999 U.S. Census
- (2) Weldon Cooper Center, University of Virginia and Salem Planning Department
- (3) Includes all general obligation debt
- (4) 2000 U.S. Census

CITY OF BEDFORD, VIRGINIA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL LONG-TERM DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
Last Ten Fiscal Years

TABLE 8

Fiscal Year Ended June 30,	Principal	Interest	Total Debt Service	(1)	Percent of Debt Service to General Expenditures
				Total General Governmental Expenditures	
2003	\$ 625,289	\$ 157,568	\$ 782,857	\$ 13,606,886	5.75%
2002	\$ 670,954	\$ 171,563	\$ 842,517	\$ 13,348,262	6.31%
2001	\$ 707,822	\$ 253,834	\$ 961,656	\$ 13,199,030	7.29%
2000	\$ 2,068,311	\$ 283,265	\$ 2,351,576	\$ 12,761,431	18.43%
1999	\$ 503,658	\$ 323,208	\$ 826,866	\$ 13,183,997	6.27%
1998	\$ 440,000	\$ 285,628	\$ 725,628	\$ 10,943,427	6.63%
1997	\$ 595,000	\$ 459,761	\$ 1,054,761	\$ 12,397,773	8.51%
1996	\$ 590,000	\$ 439,301	\$ 1,029,301	\$ 10,758,003	9.57%
1995	\$ 455,000	\$ 360,597	\$ 815,597	\$ 11,991,663	6.80%
1994	\$ 350,000	\$ 323,015	\$ 673,015	\$ 10,917,447	6.16%

- (1) Includes general and special revenue funds

Note: The City does not have any overlapping debt.

CITY OF BEDFORD, VIRGINIA
SCHEDULE OF REVENUE BOND COVERAGE
Last Ten Fiscal Years

Fiscal Year	Gross Revenues ⁽¹⁾	Operating Expenses ⁽²⁾	Net Revenue Available for Debt Service	Debt Service Requirements ⁽³⁾			Coverage
				Principal	Interest	Total	
2003	\$ 17,241,801	\$ 11,800,475	\$ 5,441,326	\$ 592,630	\$ 940,568	\$ 1,533,198	3.55
2002	16,516,255	10,503,715	6,012,540	567,631	958,346	1,525,977	3.94
2001	16,651,377	11,298,174	5,353,203	547,631	1,042,759	1,590,390	3.37
2000	16,652,149	10,942,876	5,709,273	537,631	987,945	1,525,576	3.74
1999	16,204,469	9,103,028	7,101,441	527,631	1,002,124	1,529,755	4.64
1998	15,214,253	12,345,937	2,868,316	752,631	1,285,638	2,038,269	1.41
1997	13,805,772	9,338,593	4,467,179	497,631	1,008,013	1,505,644	2.97
1996	14,069,827	10,664,943	3,404,884	457,630	922,096	1,379,726	2.47
1995	13,248,964	10,187,138	3,061,826	440,892	860,279	1,301,171	2.35
1994	13,552,483	9,979,998	3,572,485	436,394	1,397,418	1,833,812	1.95

(1) Total enterprise funds revenues (including interest).

(2) Total operating expenses exclusive of depreciation and amortization.

(3) Includes principal and interest of revenue bonds only. Does not include debt service of the general obligation bonds reported in the enterprise fund.

TABLE 10

CITY OF BEDFORD, VIRGINIA
PROPERTY VALUES, CONSTRUCTION, AND BANK DEPOSITS
 Last Ten Fiscal Years

Fiscal Year Ended June 30,	Property Value (1)		Total	(2) Commercial Construction		(2) Residential Construction	
	Commercial	Residential		Exemptions	Number of Units	Value	Number of Units
2003	\$ 91,643,900	\$ 211,089,800	\$ 125,748,300	\$ 428,482,000	\$ 4,262,131	11	\$ 2,042,732
2002	\$ 83,211,400	\$ 194,416,100	\$ 107,947,400	\$ 385,574,900	\$ 1,465,000	5	\$ 1,396,700
2001	\$ 81,145,900	\$ 193,375,900	\$ 93,775,100	\$ 368,296,900	\$ 2,757,200	12	\$ 1,557,900
2000	\$ 79,384,600	\$ 191,739,900	\$ 81,575,200	\$ 352,699,700	\$ 385,553	1	\$ 1,140,000
1999	\$ 75,562,800	\$ 190,305,900	\$ 74,577,800	\$ 340,446,500	\$ 3,111,209	6	\$ 1,377,400
1998	\$ 68,272,600	\$ 154,216,200	\$ 77,161,400	\$ 299,650,200	-	-	\$ 1,570,775
1997	\$ 67,236,500	\$ 152,829,800	\$ 76,738,400	\$ 296,804,700	\$ 1,398,204	7	\$ 842,000
1996	\$ 66,497,700	\$ 150,675,500	\$ 76,626,400	\$ 293,799,600	\$ 134,000	2	\$ 1,678,800
1995	\$ 64,847,200	\$ 148,101,200	\$ 74,535,300	\$ 287,483,700	\$ 587,000	2	\$ 2,035,150
1994	\$ 63,380,700	\$ 123,617,000	\$ 66,869,900	\$ 253,867,600	\$ 666,450	4	\$ 475,877

(1) Source: Real Estate Assessments

(2) Source: City of Bedford, Community and Economic Development Department.

N/A - Information not available

CITY OF BEDFORD, VIRGINIA

TABLE 11

PRINCIPAL EMPLOYERS

June 30, 2003

<u>Employer</u>	<u>Product or Service</u>	<u>Total Estimated Employment</u>
Lay-Z Boy/Sam Moore Furniture	Furniture manufacturer	387
Carilion Bedford Memorial Hospital	Health services	345
Brooks Food Group/Golden West	Frozen food products	188
Frank Chervan	Furniture frame manufacturer	185
Bedford Public Schools	Education	179
Bedford Weaving Mills	Textile manufacturer	175
Longwood Industries	Textile manufacturer	150
Smyth Company/Bedford	Lithographer	130
Cinatax	Uniforms	120
Elks National Home	Retirement home	85

CITY OF BEDFORD, VIRGINIA

TABLE 12

COMPUTATION OF LEGAL DEBT MARGIN
June 30, 2003

Total assessed value of real estate (1)	<u>\$ 314,924,800</u>
Legal debt limit - 10% of total assessed value of real estate	31,492,480
Less bonded debt as of June 30, 2003	<u>(15,354,958)</u>
Legal debt margin	<u>\$ 16,137,522</u>

(1) Included \$303,930,500 in General Real Estate and \$10,994,300 in Public Service Corporation Real Estate

CITY OF BEDFORD, VIRGINIA

TABLE 13

DEMOGRAPHIC STATISTICS
Last Ten Fiscal Years

<u>Fiscal Year Ended June 30,</u>	<u>Population</u>	<u>Per Capita Income (3)</u>	<u>School Enrollment (4)</u>	<u>Unemployment Rate</u>	
2003	6,299 (6)	N/A	946	3.9%	(5)
2002	6,299 (6)	N/A	943	4.6%	(5)
2001	6,299 (6)	\$ 26,852	986	2.4%	(5)
2000	6,676 (1)	\$ 26,637	972	2.2%	(5)
1999	6,200 (2)	\$ 25,782	993	2.9%	(2)
1998	6,200 (2)	\$ 24,279	1,004	2.8%	(2)
1997	6,200 (2)	\$ 23,448	1,051	3.2%	(2)
1996	6,200 (2)	\$ 21,722	1,030	3.8%	(2)
1995	6,400 (2)	\$ 21,033	1,020	3.0%	(2)
1994	6,400 (2)	\$ 19,192	961	3.0%	(2)

(1) Source - 1999 U.S. Census

(2) Source - Weldon Cooper Center, University of Virginia

(3) Source - U.S. Department of Commerce, Bureau of Economic Analysis. Amount is for County of Bedford and City of Bedford, Virginia.

(4) Source - Membership report, Bedford County Public Schools, Bedford City Membership.

(5) Source - Virginia Employment Commission, Virginia Electronic Labor Market Access

(6) Source - 2000 U.S. Census

N/A - Information not available

CITY OF BEDFORD, VIRGINIA

TABLE 14

MISCELLANEOUS DATA

June 30, 2003

Date of Incorporation	1782
Date of Present City Charter	1968
Form of Government	Council-Manager
Land Area (square miles)	6.76
Population	6,299
Parks/Athletic Fields	8
Community Centers	1
Libraries	1
Fire Protection:	
Firefighters	40
Stations	1
Law Enforcement:	
Officers	22
Stations	1
Public Works:	
Miles of Streets and Alleys	43.4
Miles of Sewers:	
Storm Sewers	5
Sanitary Sewers	46
Public Utilities:	
Electric:	
Number of Customer Accounts	6,647
Sub-Stations	11
Number of Street Lights	808
Miles of Distribution Lines	350
Miles of Transmission Lines	28
Water:	
Number of Customer Accounts	3,113
Miles of Distribution Lines	63
Water Treatment Plants:	
Number	1
Capacity (million gallons per day)	3
Volume Pumped - Fiscal year 2001 (million gallons per day average)	1.2
Wastewater Treatment Plants:	
Number	1
Number of Customer Accounts	2,559
Volume Treated (million gallons per day average)	1
Elections:	
Number of Registered Voters	3,573

<u>Election</u>	<u>Date</u>	<u>Votes Cast</u>	<u>Percent of Registered Voters</u>
General Election	11/5/2003	1,540	42.21



COMPLIANCE SECTION

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Members of the City Council
City of Bedford
Bedford, Virginia

We have audited the financial statements of the City of Bedford, Virginia, as of and for the year ended June 30, 2003, and have issued our report thereon dated September 15, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Compliance

As part of obtaining reasonable assurance about whether the City's 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 tests 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 City'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. However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. These reportable conditions are described in the accompanying schedule of findings and questioned costs as Items 03-1 and 03-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We believe the reportable conditions referred to above are material weaknesses. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 15, 2003.

This report is intended solely for the information of the audit committee, management, City Council, state and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 15, 2003

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Members of the City Council
City of Bedford
Bedford, Virginia

Compliance

We have audited the compliance of the City of Bedford, Virginia with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2003. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City of Bedford, Virginia complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2003.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the audit committee, management, City Council, state and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 15, 2003

CITY OF BEDFORD, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2003

As more fully described in the Report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City'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 Investment Laws
Conflicts of Interest Act
Local Retirement Systems
Debt Provisions
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Personal Property Tax Relief Act
Enhanced E-911 Service Taxes

State Agency Requirements:

Highway Maintenance Funds

FEDERAL COMPLIANCE MATTERS

U.S. Office of Management and Budget (OMB A-133) Compliance Supplement:

Provisions and conditions of agreements related to federal programs selected for testing.

LOCAL COMPLIANCE MATTERS

City Charter
City Code

CITY OF BEDFORD, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion on the financial statements.**
2. **Two reportable conditions** relating to the audit of the financial statements is reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. These reportable conditions were deemed to be **material weaknesses.**
3. **No instances of noncompliance** material to the financial statements of the City were disclosed.
4. **No material weaknesses** were identified during the audit of the major federal award program.
5. The auditor's report on compliance for the major federal award program expresses an **unqualified opinion.**
6. The audit disclosed **no findings related to the major program.**
7. The program tested as a major program:

State Revolving Fund	66.458
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8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The City was determined not to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

03-1: Segregation of Duties (Reportable Condition)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to payroll, accounts payable, cemetery lot sales, landfill procedures, and cash disbursements.

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible.

Management Response:

The auditee concurs with this recommendation. City management has taken all steps deemed practical and cost beneficial to minimize conflicting duties.

03-2: Inventory Control Procedures (Reportable Condition)

Condition:

There are no controls in place to ensure that inventory counts are accurate and, as a result, amounts recorded in the financial statements throughout the year are properly stated.

Recommendation:

Steps should be taken to ensure that inventory counts are accurate and amounts recorded in financial statements are correct.

Management Response

The auditee concurs with this finding and will take steps to resolve.

CITY OF BEDFORD, VIRGINIA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2003

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

None.