

CITY OF BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2004

DEPARTMENT OF FINANCE

CITY OF BEDFORD, VIRGINIA
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CITY OF BEDFORD, VIRGINIA

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INTRODUCTORY SECTION



City of Bedford, Virginia

Department of Finance

November 1, 2004

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Bedford, Virginia 24523
Phone (540) 587-6041
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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, 2004. 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 popularly 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, 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 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 2004, the City's unemployment rate was 4.9% which was higher than the State's average unemployment rate of 3.8%. During the first six months of 2004, the City's unemployment rate increased from 3.9% to 4.9%. Much of this increase can be attributed to the closing of Rubatex, once the City's largest employer, in April. Since that time, several Rubatex successors have opened and unemployment has fallen. City Council's commitment to economic development and diversification should position the City well for economic expansion as the overall economic climate continues to improve.

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 US 460 East revenue sharing area, and has begun preliminary engineering for water and sewer service in the US 460 West corridor.

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. Two tenants have signed long-term contracts to lease space in the shell building in the past six months. East Coast Fabricators/Rhino Coat, a manufacturer specializing in metal fabrication and finishing, will occupy 60% of the building as of November 2004. In addition, a branch campus of Central Virginia Community College will open and operate in approximately 30% of the building as of January 2005. Space has also been reserved to host the Southside Virginia Regional Broadband Initiative sponsored by the Tobacco Commission, US Department of Commerce's Economic Development Administration, and the Mid Atlantic Broadband Cooperative. The remaining building area will be available as incubator space for potential new businesses.

Tourism continues to grow in the City and surrounding area. The \$25 million dollar National D-Day Memorial, constructed in the City 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 the Bedford Area Welcome Center 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 improving fund balances. As reflected in the accompanying financial statements, the City has made 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.
- The Bedford Area Welcome Center opened its doors to the public in October 2004. During the same month, the Welcome Center was notified that they were selected as a 2004 America's Crown Community Award Winner. City and County officials will accept the award at the National League of Cities Annual Convention in Indianapolis on December 2, 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 currently underway.
- 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 be addressing other revenue sources such as pole attachment agreements and right-of-way fees 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 has purchased a 50,000 square foot facility on Adam St. to provide for the relocation of the Electric Department. After renovations, this new facility will provide the ability for all Electric Department assets to be stored in one central location. This building will provide room for offices, inventory storage and vehicle storage.
- 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 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.
- City Council has funded an essential replacement of all core City software applications which include financial management, payroll management, revenue management and utility billing. As of April, 2004, the City completed the installation of our new utility billing system. The City is currently completing the review and selection of our financial and payroll software vendor. We anticipate the installation process will begin in the spring of 2005.

- The City plans to remain an active regional partner in many programs. We currently participate in many 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, 2004 totaled \$19,346,165. 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 \$105,784 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 VACo Health Trust and contributes up to \$350.70 monthly towards the 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

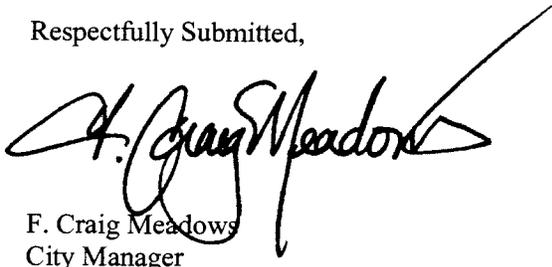
Independent Audit. Virginia Law and the Charter of the City of Bedford require that the financial statements of the City be audited by a Certified Public Accountant. Brown, Edwards, & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. The auditor's report is 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, 2003. This was the fourth 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, 2003

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, 2004**

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

Paul D. Sherman, Chairman
Debora R. Spinner, Vice Chairman

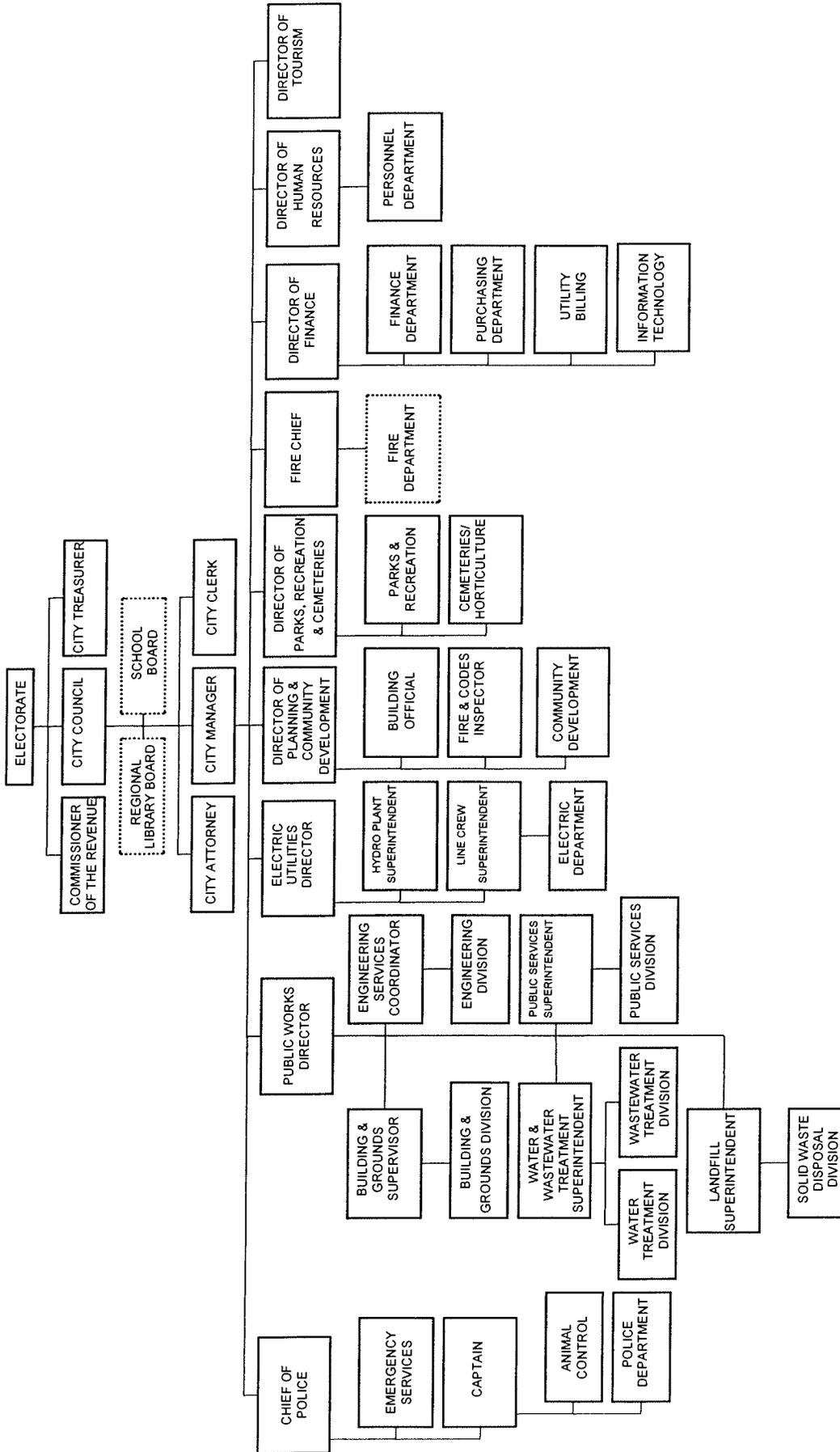
Anne M. VanDerwerker
William H. Ross

Debra Z. Bond
Stephen C. Rush

OTHER OFFICIALS

F. Craig Meadows	City Manager
Teresa W. Hatcher	City Clerk
William W. Berry, IV	City Attorney
Joanne Mitchell Caldwell	City Treasurer
Brenda A. Daniel	Commissioner of the Revenue
Milton H. Graham	Chief of Police
S. Todd Stone	Fire Chief
Rosemarie B. Jordan	Director of Finance
Barrett F. Warner	Director of Planning and Community Development
Clarke W. Gibson	Director of Public Works
Randal A. Nixon	Director of Parks, Recreation and Cemeteries
Eugene Ratzlaff	Director of Electric Utilities
Dr. James G. Blevins	Superintendent of Schools
Jan Johnston	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, 2004, 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, 2004, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2004 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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.

The 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 accounting principles generally accepted in the United States of America. 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 opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the City's basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 12, 2004

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, 2004. 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 \$27,817,624 (net assets). Of this amount, \$18,655,305 (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 \$340,524, 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 \$4,485,499, an increase of \$279,937 in comparison with the prior year. Approximately 51% of this total amount, \$2,273,559 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 \$1,794,152, or 12% of total general fund expenditures.
- The City's total debt decreased by \$241,117 (1%) during the current fiscal year.

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 15 and 16 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 \$27,817,624 at the close of the most recent fiscal year.

A portion of the City's net assets (33%) 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* (67%) 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	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 5,622,077	\$ 5,047,562	\$ 20,505,122	\$ 20,442,801	\$ 26,127,199	\$ 25,490,363
Capital assets	10,035,131	9,000,482	31,648,139	30,745,554	41,683,270	39,746,036
Total assets	15,657,208	14,048,044	52,153,261	51,188,355	67,810,469	65,236,399
Long-term liabilities outstanding	4,618,129	3,693,607	32,721,557	32,021,762	37,339,686	35,715,369
Other liabilities	1,016,657	688,122	1,636,502	1,355,808	2,653,159	2,043,930
Total liabilities	5,634,786	4,381,729	34,358,059	33,377,570	39,992,845	37,759,299
Net assets						
Invested in capital assets, net of related debt	6,506,637	5,417,713	2,655,682	690,640	9,162,319	6,108,353
Unrestricted	3,515,785	4,248,602	15,139,520	17,120,145	18,655,305	21,368,747
Total net assets	\$ 10,022,422	\$ 9,666,315	\$ 17,795,202	\$ 17,810,785	\$ 27,817,624	\$ 27,477,100

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 \$340,524 during the current fiscal year. This increase represents a 1% increase during the current fiscal year. A few key elements of this increase are the increase in the net assets of the Electric Fund of \$1,203,668 due to the strength of the system, a decrease in the net assets of the Solid Waste Fund of \$1,620,621 due to the increase in the landfill closure liability, and the increase in the General Fund net assets of \$356,107 due to receipt of a grant for the Bedford Area Welcome Center in the amount of \$370,357.

Governmental activities – Governmental activities increased the City's net assets by \$356,107. A key element of this increase is the amount received as a grant for the Bedford Area Welcome Center in the amount of \$370,357.

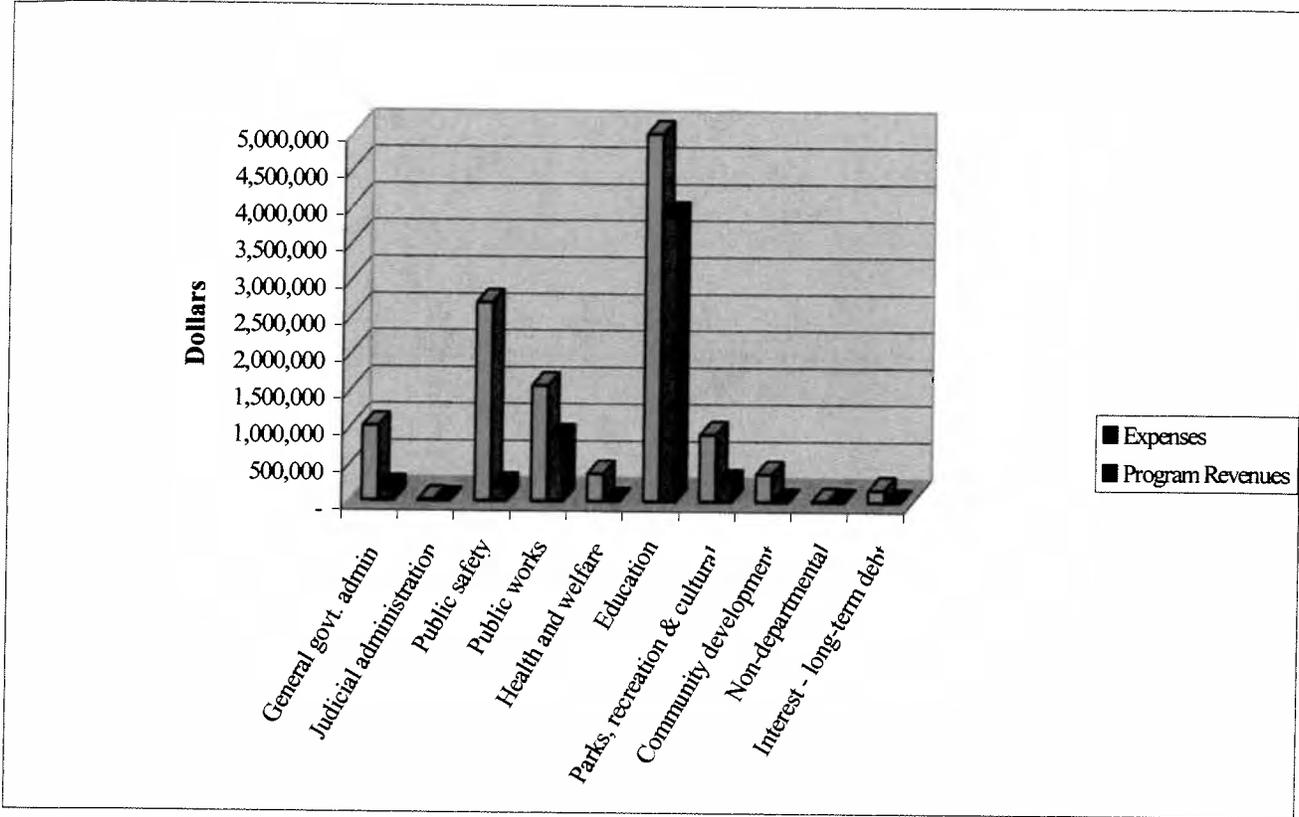
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Two noteworthy exceptions, however, are the City's increase in the education category and the community development category. In regards to the education category, the growth in expenses of \$735,169 (13%) reflects the higher cost paid to Bedford County for the City's share of educational expenditures. The community development category decrease of \$383,394 (51%) is due to the repayment of an Industrial Access Grant during the prior year.

Business-type activities – Business-type activities decreased the City's net assets by \$15,583. The key elements of this decrease are the increase in the net assets of the Electric Fund of \$1,203,668 due to the strength of the system, a decrease in the net assets of the Solid Waste Fund of \$1,620,621 due to the increase in the landfill closure liability and an increase in the net assets of the Water and Sewer Fund of \$195,010 due to the increase in the rates during 2001.

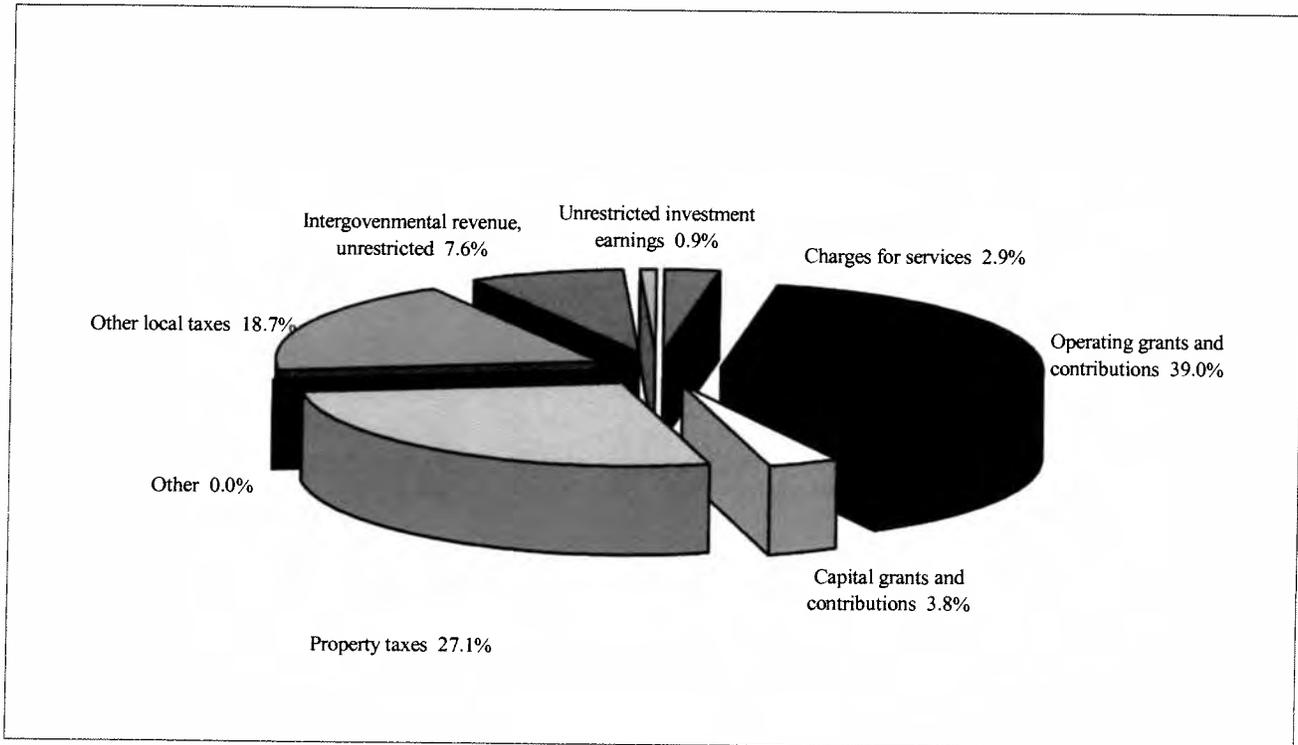
The City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues						
Charges for services	\$ 367,771	\$ 274,437	\$ 15,843,817	\$ 16,464,251	\$ 16,211,588	\$ 16,738,688
Operating grants and contributions	4,996,519	4,815,749	-	-	4,996,519	4,815,749
Capital grants and contributions	483,588	113,318	-	-	483,588	113,318
General revenues						
Property taxes	3,473,488	3,395,115	-	-	3,473,488	3,395,115
Other taxes	2,394,835	2,369,550	-	-	2,394,835	2,369,550
Intergovernmental revenue unrestricted	977,227	917,835	-	-	977,227	917,835
Investment earnings	113,116	156,775	497,038	546,077	610,154	702,852
Other	714	1,731	299,228	231,473	299,942	233,204
Total revenues	12,807,258	12,044,510	16,640,083	17,241,801	29,447,341	29,286,311
Expenses						
General government	1,009,729	947,472	-	-	1,009,729	947,472
Judicial administration	11,587	22,602	-	-	11,587	22,602
Public safety	2,693,711	2,432,172	-	-	2,693,711	2,432,172
Public works	1,561,611	1,822,153	-	-	1,561,611	1,822,153
Health and welfare	366,032	491,097	-	-	366,032	491,097
Education	6,320,200	5,567,031	-	-	6,320,200	5,567,031
Parks, recreation, and cultural	905,957	846,373	-	-	905,957	846,373
Community development	370,323	753,717	-	-	370,323	753,717
Non-departmental	11,580	5,665	-	-	11,580	5,665
Interest on long-term debt	161,260	157,533	-	-	161,260	157,533
Water and sewer	-	-	2,765,384	2,603,408	2,765,384	2,603,408
Solid waste	-	-	2,989,664	1,160,635	2,989,664	1,160,635
Electric	-	-	10,125,068	10,673,208	10,125,068	10,673,208
Total expenses	13,411,990	13,045,815	15,880,116	14,437,251	29,292,106	27,483,066
Excess (deficiency) before special items and transfers	(604,732)	(1,001,305)	759,967	2,804,550	155,235	1,803,245
Special item - Contribution of property to Joint IDA	-	(990,590)	-	-	-	(990,590)
Transfers	981,550	1,467,000	(981,550)	(1,467,000)	-	-
Change in net assets	376,818	(524,895)	(221,583)	1,337,550	155,235	812,655
Net assets – July 1, 2003 (as restated in Note 17)	9,645,604	10,191,210	18,016,785	16,473,235	27,662,389	26,664,445
Net assets – June 30, 2004	\$ 10,022,422	\$ 9,666,315	\$ 17,795,202	\$ 17,810,785	\$ 27,817,624	\$ 27,477,100

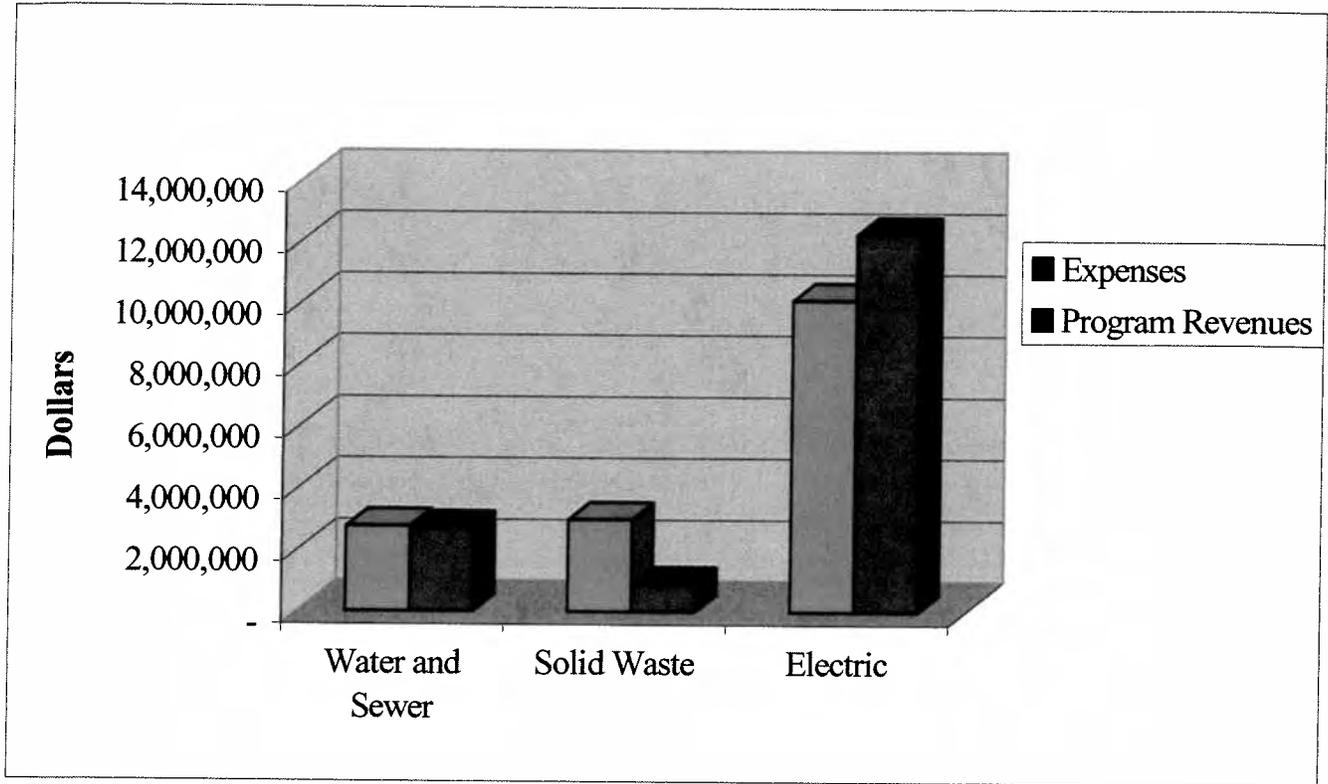
Expenses and Program Revenues – Governmental Activities



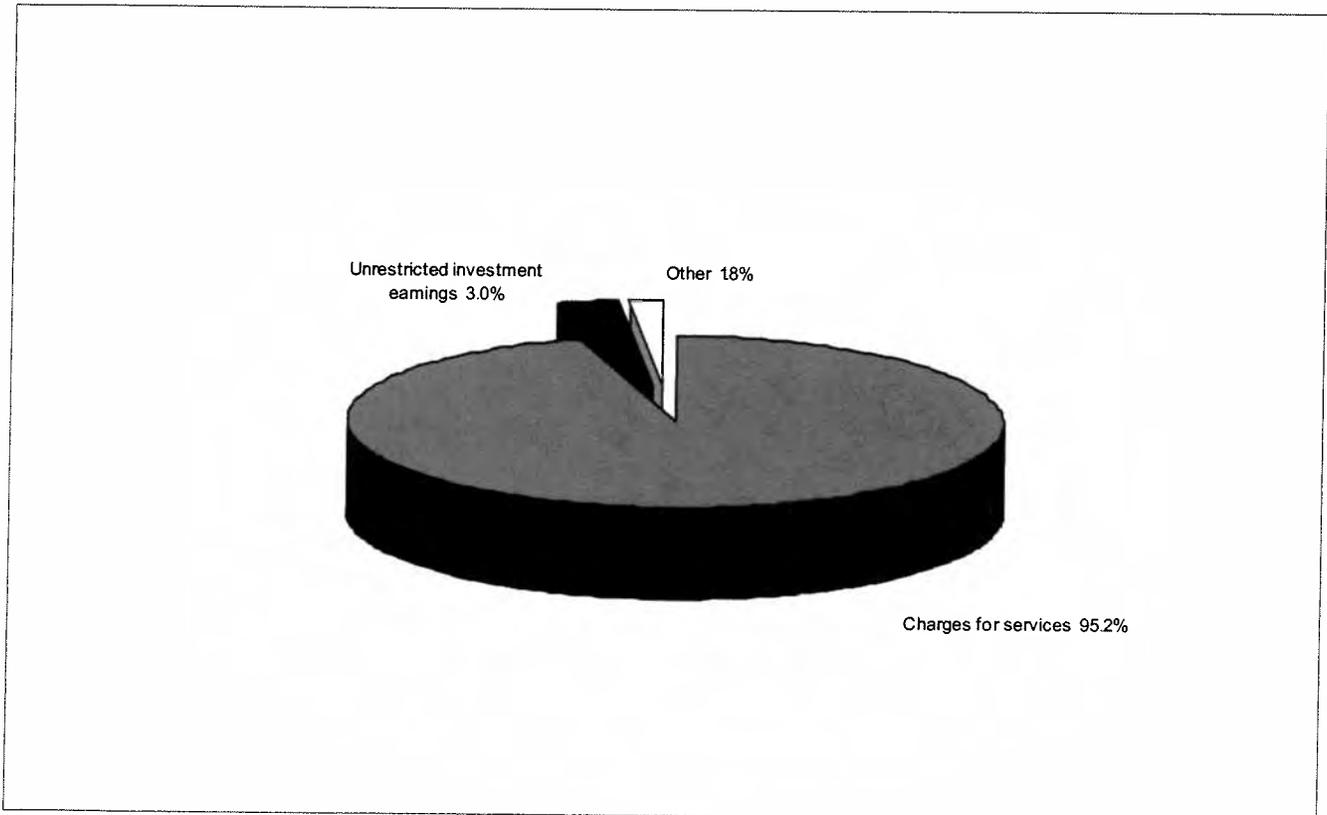
Revenues by Source – Governmental Activities



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 \$4,485,499, an increase of \$279,937 in comparison with the prior year. Approximately 51% of this total amount – that is, \$2,273,559 – 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 \$340,030 or to generate income of \$578,605 to pay for the perpetual care of the City's cemeteries or to purchase capital assets related to the Bedford Area Welcome Center of \$966,468.

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 \$1,794,152, while total fund balance reached \$4,006,092. 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 12% 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 \$309,580 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 and to provide funds for an operational transfer to the Solid Waste 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 \$556,186; the solid waste fund had a deficit of \$(2,638,1333) and the net assets for the electric fund amounted to \$17,221,467. The total decrease in net assets was \$15,583. 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 (\$329,080 increase in appropriations) and can be summarized as follows:

- \$229,000 was appropriated for an additional transfer to the Solid Waste Fund to cover additional expenses of the old landfill.
- \$5,000 was appropriated to the Bedford County 250th Anniversary Committee.
- \$95,080 was appropriated for the Police Department to cover the expenditure of grant funds received by the department.

Differences between the final amended budget and actual revenues and expenditures amounted to \$1,779,437 and can be summarized as follows:

- Funds amounting to \$1,790,000 were budgeted but not expended for the new public safety facility.

General Fund Budgetary Highlights (Continued)

- Expenditures for the Bedford Area Welcome Center of \$697,460 and grants for the Center of \$370,357 were not included in the final budget.
- Expenditures for Welfare Administration were \$176,817 lower than the budget due to lower utilization of the services by City residents.
- Expenditures for the replacement of financial and utility software was \$99,989 lower than the budget because the City had not completed the purchase of new financial software before the end of the fiscal year.

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, 2004, amounts to \$41,683,270 (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 5% (an 11% decrease for governmental activities and a 3% increase for business-type activities).

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

- \$528,606 for the purchase of a building to relocate the Electric Department operations.
- \$2,476,263 for the new water and sewer lines in the 460 East revenue sharing area..
- \$279,887 was spent on the paving overlay program during the current fiscal year.

	The City’s Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	\$ 1,759,710	\$ 1,759,710	\$ 994,514	\$ 973,779	\$ 2,754,224	\$ 2,733,489
Buildings and improvements	11,282,050	11,199,422	26,437,970	25,779,137	37,720,020	36,978,559
Distribution and transmission systems	-	-	23,464,921	20,766,498	23,464,921	20,766,498
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	5,668,421	5,556,053	2,268,195	2,062,152	7,936,616	7,618,205
Infrastructure	936,486	528,548	-	-	936,486	528,548
Construction in progress	1,112,626	26,185	870,649	2,308,498	1,983,275	2,334,683
Less accumulated depreciation	(10,724,162)	(10,069,436)	(25,704,055)	(24,460,455)	(36,428,217)	(34,529,891)
Total	\$ 10,035,131	\$ 9,000,482	\$ 31,648,139	\$ 30,745,554	\$ 41,683,270	\$ 39,746,036

Additional information on the City’s capital assets can be found in Note 6 on pages 32 through 33 of this report.

Long-term debt – At the end of the current fiscal year, the City had total bonded debt outstanding of \$34,985,302. Of this amount, \$34,753,911 comprises debt backed by the full faith and credit of the government, and \$231,391 is related to capital lease obligations.

Capital Asset and Debt Administration (Continued)

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

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 3,091,400	\$ 2,018,100	\$ 12,832,781	\$ 13,336,878	\$ 15,924,181	\$ 15,354,978
Literary fund loans	1,200,000	1,275,000	-	-	1,200,000	1,275,000
Revenue bonds	-	-	17,629,730	18,237,361	17,629,730	18,237,361
Capital leases	231,391	325,078	-	34,002	231,391	359,080
	<u>\$ 4,522,791</u>	<u>\$ 3,618,178</u>	<u>\$ 30,462,511</u>	<u>\$ 31,608,241</u>	<u>\$ 34,985,302</u>	<u>\$ 35,226,419</u>

The City's total debt decreased by \$241,117 (1%) during the current fiscal year. The City incurred additional debt from the issuance of General Obligation Public Improvement Bonds and General Obligation Water and Sewer Bonds through the Virginia Resources Authority. Without the additional debt incurred, the total City debt would have decreased by \$2,060,382.

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 4.9%, which is an increase from a rate of 3.9% a year ago. This compares to the State's average unemployment rate of 3.8% and the national average rate of 5.8%.
- 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 2005 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, 2004

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 4,272,930	\$ 11,773,598	\$ 16,046,528
Receivables, net (Note 3)	148,898	2,103,238	2,252,136
Internal balances (Note 4)	(584,601)	584,601	-
Due from other governmental units (Note 5)	719,153	33,429	752,582
Inventories	-	903,528	903,528
Deferred expenses	51,096	276,209	327,305
Restricted assets:			
Cash and cash equivalents, restricted (Note 2)	1,014,601	2,285,489	3,300,090
Net investment in direct financing lease (Note 14)	-	2,545,030	2,545,030
Capital assets: (Note 6)			
Nondepreciable capital assets	2,872,336	1,865,163	4,737,499
Depreciable capital assets, net	7,162,795	29,782,976	36,945,771
Total assets	<u>15,657,208</u>	<u>52,153,261</u>	<u>67,810,469</u>
LIABILITIES			
Accounts payable and accrued liabilities	126,314	1,153,704	1,280,018
Accrued payroll and related liabilities	120,134	95,573	215,707
Accrued interest payable	58,985	165,396	224,381
Due to other governmental units (Note 5)	711,224	56,742	767,966
Customer security deposits	-	165,087	165,087
Noncurrent liabilities:			
Due within one year (Note 7)	729,718	2,239,805	2,969,523
Due in more than one year (Note 7)	3,888,411	30,481,752	34,370,163
Total liabilities	<u>5,634,786</u>	<u>34,358,059</u>	<u>39,992,845</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,506,637	2,655,682	9,162,319
Unrestricted (Note 9)	3,515,785	15,139,520	18,655,305
Total net assets	<u>\$ 10,022,422</u>	<u>\$ 17,795,202</u>	<u>\$ 27,817,624</u>

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

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2004

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	Total
Governmental activities:							
General government administration	\$ 1,009,729	\$ 9,053	\$ 151,317	\$ -	\$ (849,359)	\$ -	\$ (849,359)
Judicial administration	11,587	-	-	-	(11,587)	-	(11,587)
Public safety	2,693,711	105,953	92,713	-	(2,495,045)	-	(2,495,045)
Public works	1,561,611	-	859,095	-	(702,516)	-	(702,516)
Health and welfare	366,032	-	-	-	(366,032)	-	(366,032)
Education	6,320,200	-	3,893,394	113,231	(2,313,575)	-	(2,313,575)
Parks, recreation, and cultural	905,957	252,765	-	-	(653,192)	-	(653,192)
Community development	370,323	-	-	370,357	34	-	34
Non-departmental	11,580	-	-	-	(11,580)	-	(11,580)
Interest on long-term debt	161,260	-	-	-	(161,260)	-	(161,260)
Total governmental activities	13,411,990	367,771	4,996,519	483,588	(7,564,112)	-	(7,564,112)
Business-type activities:							
Water and sewer	2,765,384	2,679,837	-	-	-	\$ (85,547)	(85,547)
Solid waste	2,989,664	878,092	-	-	-	(2,111,572)	(2,111,572)
Electric	10,125,068	12,285,888	-	-	-	2,160,820	2,160,820
Total business-type activities	15,880,116	15,843,817	-	-	-	(36,299)	(36,299)
Total primary government	\$ 29,292,106	\$ 16,211,588	\$ 4,996,519	\$ 483,588	(7,564,112)	(36,299)	(7,600,411)
General revenues:							
Property taxes					3,473,488	-	3,473,488
Sales tax					869,635	-	869,635
Business license tax					631,865	-	631,865
Meals tax					512,743	-	512,743
Other local taxes					380,592	-	380,592
Intergovernmental revenue, unrestricted					977,227	-	977,227
Unrestricted investment earnings					113,116	497,038	610,154
Other					714	299,228	299,942
Transfers (Note 4)					981,550	(981,550)	-
Total general revenues and transfers					7,940,930	(185,284)	7,755,646
Change in net assets					376,818	(221,583)	155,235
Net assets at July 1 (as restated, Note 17)					9,645,604	18,016,785	27,662,389
Net assets at June 30					\$ 10,022,422	\$ 17,795,202	\$ 27,817,624

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

CITY OF BEDFORD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2004

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,794,496	\$ 478,434	\$ 4,272,930
Cash and cash equivalents, restricted	1,014,601	-	1,014,601
Receivables, net (Note 3)	147,925	973	148,898
Due from other funds (Note 4)	106,849	-	106,849
Due from other governmental units (Note 5)	719,153	-	719,153
Total assets	<u>\$ 5,783,024</u>	<u>\$ 479,407</u>	<u>\$ 6,262,431</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 126,314	\$ -	\$ 126,314
Accrued payroll and related liabilities	120,134	-	120,134
Due to other funds (Note 4)	691,450	-	691,450
Due to other governmental units (Note 5)	711,224	-	711,224
Deferred revenue (Note 3)	127,810	-	127,810
Total liabilities	<u>1,776,932</u>	<u>-</u>	<u>1,776,932</u>
Fund balances: (Note 9)			
Reserved for:			
Future capital projects	966,468	-	966,468
Encumbrances	340,030	-	340,030
Perpetual care	578,605	-	578,605
Due from other governmental units (Note 5)	326,837	-	326,837
Unreserved, reported in:			
General fund, designated	52,491	-	52,491
General fund, undesignated	1,741,661	-	1,741,661
Special revenue funds	-	479,407	479,407
Total fund balances	<u>4,006,092</u>	<u>479,407</u>	<u>4,485,499</u>
Total liabilities and fund balances	<u>\$ 5,783,024</u>	<u>\$ 479,407</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.

10,035,131

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.

127,810

Bond issue costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.

51,096

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.

(4,677,114)

Net assets of governmental activities

\$ 10,022,422

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, 2004**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 3,525,662	\$ -	\$ 3,525,662
Other local taxes	2,291,834	103,001	2,394,835
Permits, privilege fees, and regulatory licenses	31,701	-	31,701
Fines and forfeitures	71,577	-	71,577
Investment earnings	121,167	1,004	122,171
Charges for services	251,822	-	251,822
Other	4,331	-	4,331
Intergovernmental	6,360,318	3,041	6,363,359
Recovered costs	93,974	-	93,974
Total revenues	<u>12,752,386</u>	<u>107,046</u>	<u>12,859,432</u>
EXPENDITURES			
Current:			
General government administration	1,085,412	-	1,085,412
Judicial administration	11,587	-	11,587
Public safety	2,420,641	96,107	2,516,748
Public works	1,774,348	-	1,774,348
Health and welfare	366,032	-	366,032
Education	6,301,173	-	6,301,173
Parks, recreation, and cultural	953,378	-	953,378
Community development	1,055,213	57	1,055,270
Non-departmental	11,580	-	11,580
Debt service:			
Principal retirement	529,207	26,180	555,387
Interest and fiscal charges	127,354	14,345	141,699
Bond issuance costs	42,431	-	42,431
Total expenditures	<u>14,678,356</u>	<u>136,689</u>	<u>14,815,045</u>
Excess (deficiency) of revenues over expenditures	<u>(1,925,970)</u>	<u>(29,643)</u>	<u>(1,955,613)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from bond issue	1,460,000	-	1,460,000
Transfers in (Note 4)	1,467,000	-	1,467,000
Transfers out (Note 4)	(485,450)	-	(485,450)
Total other financing sources and uses	<u>2,441,550</u>	<u>-</u>	<u>2,441,550</u>
Net change in fund balances	<u>515,580</u>	<u>(29,643)</u>	<u>485,937</u>
FUND BALANCES AT JULY 1 (as restated, Note 17)	<u>3,490,512</u>	<u>509,050</u>	
FUND BALANCES AT JUNE 30	<u>\$ 4,006,092</u>	<u>\$ 479,407</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.	849,360
The net effect of the change in accrued interest expense, which is not reflected in the fund statements.	(19,561)
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.	(52,174)
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.	(874,415)
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.	(12,329)
Change in net assets of governmental activities	<u>\$ 376,818</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 - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2004**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive
	Original	Final		(Negative)
REVENUES				
General property taxes	\$ 3,842,000	\$ 3,842,000	\$ 3,525,662	\$ (316,338)
Other local taxes	2,277,300	2,277,300	2,291,834	14,534
Permits, privilege fees, and regulatory licenses	29,600	29,600	31,701	2,101
Fines and forfeitures	33,000	33,000	71,577	38,577
Investment earnings	171,500	171,500	121,167	(50,333)
Charges for services	177,900	177,900	251,822	73,922
Other	10,000	10,000	4,331	(5,669)
Intergovernmental	5,921,000	6,016,080	6,360,318	344,238
Recovered costs	99,300	99,300	93,974	(5,326)
Total revenues	<u>12,561,600</u>	<u>12,656,680</u>	<u>12,752,386</u>	<u>95,706</u>
EXPENDITURES				
Current:				
General government administration	1,268,090	1,268,090	1,085,412	182,678
Judicial administration	38,400	38,400	11,587	26,813
Public safety	4,235,563	4,352,353	2,420,641	1,931,712
Public works	1,875,685	1,855,197	1,774,348	80,849
Health and welfare	559,500	559,500	366,032	193,468
Education	6,028,078	6,028,078	6,301,173	(273,095)
Parks, recreation, and cultural	1,032,924	1,032,924	953,378	79,546
Community development	420,005	424,795	1,055,213	(630,418)
Non-departmental	-	-	11,580	(11,580)
Debt service:				
Principal retirement	675,000	675,000	529,207	145,793
Interest and fiscal charges	127,750	127,750	127,354	396
Bond issuance costs	-	-	42,431	
Total expenditures	<u>16,260,995</u>	<u>16,362,087</u>	<u>14,678,356</u>	<u>1,683,731</u>
Excess (deficiency) of revenues over expenditures	<u>(3,699,395)</u>	<u>(3,705,407)</u>	<u>(1,925,970)</u>	<u>1,779,437</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issue	2,306,000	2,306,000	1,460,000	(846,000)
Transfers in	1,467,000	1,467,000	1,467,000	-
Transfers out	(256,450)	(485,450)	(485,450)	-
Total other financing sources and uses	<u>3,516,550</u>	<u>3,287,550</u>	<u>2,441,550</u>	<u>(846,000)</u>
Net change in fund balances	<u>\$ (182,845)</u>	<u>\$ (417,857)</u>	<u>\$ 515,580</u>	<u>\$ 933,437</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 11,773,598	\$ 11,773,598
Receivables, net (Note 3)	403,799	126,526	1,572,913	2,103,238
Due from other funds (Note 4)	-	691,450	-	691,450
Due from other governmental units (Note 5)	33,429	-	-	33,429
Inventories	-	-	903,528	903,528
Total current assets	<u>437,228</u>	<u>817,976</u>	<u>14,250,039</u>	<u>15,505,243</u>
Noncurrent assets:				
Cash and cash equivalents, restricted	330,959	322,706	1,631,824	2,285,489
Deferred expenses	-	53,973	222,236	276,209
Net investment in direct financing lease (Note 14)	-	-	2,545,030	2,545,030
Capital assets: (Note 6)				
Nondepreciable capital assets	257,500	533,328	1,074,335	1,865,163
Depreciable capital assets, net	<u>17,723,316</u>	<u>486,266</u>	<u>11,573,394</u>	<u>29,782,976</u>
Total noncurrent assets	<u>18,311,775</u>	<u>1,396,273</u>	<u>17,046,819</u>	<u>36,754,867</u>
Total assets	<u>18,749,003</u>	<u>2,214,249</u>	<u>31,296,858</u>	<u>52,260,110</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	38,537	59,649	1,055,518	1,153,704
Accrued payroll and related liabilities	41,344	9,174	45,055	95,573
Accrued interest payable	47,398	27,386	90,612	165,396
Due to other funds (Note 4)	12,241	94,608	-	106,849
Due to other governmental units (Note 5)	-	-	56,742	56,742
Customer security deposits	24,570	-	140,517	165,087
Noncurrent liabilities due within a year (Note 7)	<u>826,616</u>	<u>944,250</u>	<u>468,939</u>	<u>2,239,805</u>
Total current liabilities	<u>990,706</u>	<u>1,135,067</u>	<u>1,857,383</u>	<u>3,983,156</u>
Noncurrent liabilities:				
Due in more than a year (Note 7)	<u>11,173,787</u>	<u>4,990,736</u>	<u>14,317,229</u>	<u>30,481,752</u>
Total liabilities	<u>12,164,493</u>	<u>6,125,803</u>	<u>16,174,612</u>	<u>34,464,908</u>
NET ASSETS				
Invested in capital assets, net of related debt	6,028,324	(1,273,421)	(2,099,221)	2,655,682
Unrestricted (Note 9)	<u>556,186</u>	<u>(2,638,133)</u>	<u>17,221,467</u>	<u>15,139,520</u>
Total net assets	<u>\$ 6,584,510</u>	<u>\$ (3,911,554)</u>	<u>\$ 15,122,246</u>	<u>\$ 17,795,202</u>

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
Year Ended June 30, 2004**

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 2,679,837	\$ 878,092	\$ 12,285,888	\$ 15,843,817
Total operating revenues	<u>2,679,837</u>	<u>878,092</u>	<u>12,285,888</u>	<u>15,843,817</u>
OPERATING EXPENSES				
Refuse collection	-	176,732	-	176,732
Refuse disposal	-	313,906	-	313,906
Recycling	-	49,712	-	49,712
Supply and purification	394,079	-	-	394,079
Wastewater treatment	871,784	-	-	871,784
Wastewater pre-treatment	92,226	-	-	92,226
Transmission and distribution	194,972	-	934,719	1,129,691
Power generation	-	-	134,385	134,385
Purchased power	-	-	6,127,813	6,127,813
Meter reading	-	-	186,671	186,671
Landfill closure and postclosure care	-	2,017,588	-	2,017,588
Administration	140,879	174,474	983,368	1,298,721
Maintenance and repair	294,307	-	154,491	448,798
Depreciation	580,460	116,342	546,798	1,243,600
Amortization	-	4,518	11,114	15,632
Total operating expenses	<u>2,568,707</u>	<u>2,853,272</u>	<u>9,079,359</u>	<u>14,501,338</u>
Operating income (loss)	<u>111,130</u>	<u>(1,975,180)</u>	<u>3,206,529</u>	<u>1,342,479</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	3,629	5,861	487,548	497,038
Interest expense	(196,677)	(136,392)	(988,967)	(1,322,036)
Contribution to joint IDA	-	-	(56,742)	(56,742)
Miscellaneous income	-	-	22,300	22,300
Revenue sharing agreement	276,928	-	-	276,928
Net nonoperating revenue (expenses)	<u>83,880</u>	<u>(130,531)</u>	<u>(535,861)</u>	<u>(582,512)</u>
Income (loss) before transfers	195,010	(2,105,711)	2,670,668	759,967
TRANSFERS IN (Note 4)	-	485,450	-	485,450
TRANSFERS OUT (Note 4)	-	-	(1,467,000)	(1,467,000)
Change in net assets	195,010	(1,620,261)	1,203,668	(221,583)
NET ASSETS (DEFICIT) AT JULY 1 (as restated, Note 17)	<u>6,389,500</u>	<u>(2,291,293)</u>	<u>13,918,578</u>	<u>18,016,785</u>
NET ASSETS (DEFICIT) AT JUNE 30	<u>\$ 6,584,510</u>	<u>\$ (3,911,554)</u>	<u>\$ 15,122,246</u>	<u>\$ 17,795,202</u>

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

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 2,641,425	\$ 966,530	\$ 12,203,309	\$ 15,811,264
Payments to suppliers	(1,351,401)	(756,481)	(7,637,368)	(9,745,250)
Payments to employees	(609,310)	(169,393)	(939,428)	(1,718,131)
Net cash provided by operating activities	680,714	40,656	3,626,513	4,347,883
NONCAPITAL FINANCING ACTIVITIES				
Revenue sharing agreement	269,558	-	-	269,558
Contribution to joint IDA	-	-	(53,945)	(53,945)
Interfund borrowing	(27,036)	94,608	-	67,572
Transfers to other funds	-	-	(1,467,000)	(1,467,000)
Net cash provided by (used in) noncapital financing activities	242,522	94,608	(1,520,945)	(1,183,815)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	361,265	-	-	361,265
Purchases of capital assets	(526,431)	(20,735)	(1,303,572)	(1,850,738)
Principal paid on capital debt	(772,452)	(303,543)	(431,000)	(1,506,995)
Interest paid on capital debt	(198,927)	(123,157)	(922,358)	(1,244,442)
Other receipts	-	-	22,300	22,300
Net cash used in capital and related financing activities	(1,136,545)	(447,435)	(2,634,630)	(4,218,610)
INVESTING ACTIVITIES				
Interest received	3,629	5,861	487,548	497,038
Net cash provided by investing activities	3,629	5,861	487,548	497,038
Net increase (decrease) in cash and cash equivalents	(209,680)	(306,310)	(41,514)	(557,504)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	540,639	629,016	13,446,936	14,616,591
Ending at June 30	\$ 330,959	\$ 322,706	\$ 13,405,422	\$ 14,059,087
RECONCILIATION TO EXHIBIT 6:				
Cash and cash equivalents	\$ -	\$ -	\$ 11,773,598	\$ 11,773,598
Cash and cash equivalents, restricted	330,959	322,706	1,631,824	2,285,489
	\$ 330,959	\$ 322,706	\$ 13,405,422	\$ 14,059,087
RECONCILIATION OF OPERATING (LOSS) INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 111,130	\$ (1,975,180)	\$ 3,206,529	\$ 1,342,479
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	580,460	120,860	557,912	1,259,232
Landfill closure and postclosure care	-	1,741,525	-	1,741,525
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	(40,217)	88,438	(19,753)	28,468
Inventories	-	-	(35,925)	(35,925)
(Decrease) increase in:				
Accounts payable and accrued liabilities	10,803	59,124	(40,592)	29,335
Accrued payroll and related liabilities	8,249	4,197	10,617	23,063
Customer security deposits	1,805	-	(62,826)	(61,021)
Compensated absences	8,484	1,692	10,551	20,727
Net cash provided by operating activities	\$ 680,714	\$ 40,656	\$ 3,626,513	\$ 4,347,883
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ -	\$ -	\$ 523,887	\$ 523,887

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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 U.S. 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, 2004

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 (4.16% for 2004). The City made an operating contribution of \$56,742 to the Authority for the year ended June 30, 2004. 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, 2004

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 \$231,391 are included in the Governmental Activities noncurrent liabilities. An asset in the amount of \$193,655 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 \$128,255 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, 2004

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 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 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, 2004

Note 1. Summary of 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 \$330,092 during the fiscal year ended June 30 primarily for Economic Development, the Police Department, and Transfers.
- 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, 2004

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, no interest expense was capitalized.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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, 2004

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, 2004

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	\$ 286,081	\$ -	\$ -	\$ 286,081
Bank of New York:				
U.S. Government securities	285,103	-	-	285,103
Repurchase agreements	-	1,206,204	-	1,206,204
	\$ 571,184	\$ 1,206,204	\$ -	1,777,388
Investments not subject to categorization:				
LGIP				14,695,656
SNAP				281,279
Deposits				2,591,842
Total deposits and investments				\$ 19,346,165
Reconciliation to statement of net assets – Exhibit 1:				
Cash and cash equivalents, excluding \$453 cash on hand				\$ 16,046,075
Cash and cash equivalents, restricted				3,300,090
Total deposits and investments				\$ 19,346,165

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, 2004

Note 3. Receivables

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

	General	Other Governmental Funds	Water and Sewer	Solid Waste	Electric	Total
Receivables						
Taxes	\$ 232,210	\$ -	\$ -	\$ -	\$ -	\$ 232,210
Accounts	6,254	973	450,428	135,564	1,748,964	2,342,183
Gross receivables	238,464	973	450,428	135,564	1,748,964	2,574,393
Less: allowance for uncollectibles	90,539	-	46,629	9,038	176,051	322,257
Net total receivables	<u>\$ 147,925</u>	<u>\$ 973</u>	<u>\$ 403,799</u>	<u>\$ 126,526</u>	<u>\$ 1,572,913</u>	<u>\$ 2,252,136</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, 2004, *deferred revenue* reported in the governmental funds was as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable	<u>\$ 127,810</u>

Note 4. Interfund Receivables, Payables and Transfers

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

Receivable Fund	Payable Fund	Amount
General Fund	Water and Sewer	\$ 12,241
General Fund	Solid Waste	94,608
Solid Waste	General Fund	<u>691,450</u>
		<u>\$ 798,299</u>

The primary purposes of interfund balances is for negative pooled cash amounts in the Water and Sewer Fund and the Solid Waste Fund, and an authorized transfer from the General Fund to the Solid Waste Fund that had not been paid as of June 30.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 4. Interfund Receivables, Payables and Transfers (Continued)

Interfund transfers are as follows:

Transfer Out: Fund	Transfer In: Fund	Amount
General	Solid Waste	\$ 485,450
Electric	General	1,467,000
		\$ 1,952,450

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. General Fund transfers to the Solid Waste Fund are to provide partial funding for landfill remediation activities.

Note 5. Due to/from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Business-Type Activities
Bedford County		
Growth-sharing agreement	\$ 33,429	\$ 33,429
Joint tourism agreement	326,837	-
Commonwealth of Virginia		
Cost reimbursements	32,823	-
Highway grants	214,774	-
State sales tax	28,756	-
Local sales tax	82,534	-
	\$ 719,153	\$ 33,429

Amounts due from Bedford County for joint tourism agreement are not due currently. Accordingly, fund balance is reserved for this amount.

Amounts due to other governmental units are as follows:

	Governmental Activities	Business-Type Activities
Bedford County		
Shared services	\$ 490,066	\$ -
Joint tourism agreement	209,758	-
Consumer utility tax	11,400	-
Bedford Joint IDA		
Shared revenue	-	56,742
	\$ 711,224	\$ 56,742

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

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	\$ 1,759,710	\$ -	\$ -	\$ 1,759,710
Construction in progress	26,185	1,118,628	32,187	1,112,626
Total capital assets, not depreciated	<u>1,785,895</u>	<u>1,118,628</u>	<u>32,187</u>	<u>2,872,336</u>
Capital assets, depreciated				
Buildings and improvements	11,199,422	82,628	-	11,282,050
Machinery and equipment	5,556,053	112,368	-	5,668,421
Infrastructure	528,548	407,938	-	936,486
Total capital assets	<u>17,284,023</u>	<u>602,934</u>	<u>-</u>	<u>17,886,957</u>
Less accumulated depreciation	<u>10,069,436</u>	<u>654,726</u>	<u>-</u>	<u>10,724,162</u>
Total capital assets, depreciated, net	<u>7,214,587</u>	<u>(51,792)</u>	<u>-</u>	<u>7,162,795</u>
Governmental activities capital assets, net	<u>\$ 9,000,482</u>	<u>\$ 1,066,836</u>	<u>\$ 32,187</u>	<u>\$ 10,035,131</u>
<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	\$ 20,735	\$ -	\$ 994,514
Construction in progress	2,308,498	964,243	2,402,092	870,649
Total capital assets, not depreciated	<u>3,282,277</u>	<u>984,978</u>	<u>2,402,092</u>	<u>1,865,163</u>
Capital assets, depreciated				
Buildings and improvements	25,779,137	658,833	-	26,437,970
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission Systems	20,766,498	2,698,423	-	23,464,921
Machinery and equipment	2,062,152	206,043	-	2,268,195
Total capital assets, depreciated	<u>51,923,732</u>	<u>3,563,299</u>	<u>-</u>	<u>55,487,031</u>
Less accumulated depreciation	<u>24,460,455</u>	<u>1,243,600</u>	<u>-</u>	<u>25,704,055</u>
Total capital assets, depreciated, net	<u>27,463,277</u>	<u>2,319,699</u>	<u>-</u>	<u>29,782,976</u>
Business-type activities capital assets, net	<u>\$ 30,745,554</u>	<u>\$ 3,304,677</u>	<u>\$ 2,402,092</u>	<u>\$ 31,648,139</u>

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2004**

Note 6. Capital Assets (Continued)

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	\$ 26,189
Public safety	242,249
Public works	150,587
Education	163,681
Parks, recreation, and cultural	52,378
Community development	19,642
	<hr/>
	\$ 654,726
	<hr/>
Business-type activities	
Water and sewer	\$ 580,460
Solid waste	116,342
Electric	546,798
	<hr/>
	\$ 1,243,600
	<hr/>

Construction Commitments

The City has active construction projects, including the Hydro Control upgrade, Main Substation upgrade, and the Bedford Middle School elevator.

At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Hydro Control upgrade	\$ 53,152	\$ 96,848
Main Substation Upgrade	120,841	1,004,901
Bedford Middle School Elevator	71,005	25,238
	<hr/>	<hr/>
	\$ 244,998	\$ 1,126,987
	<hr/>	<hr/>

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, 2004

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	\$ 2,018,100	\$ 1,460,000	\$ 386,700	\$ 3,091,400	\$ 518,100
Literary fund loans	1,275,000	-	75,000	1,200,000	75,000
Less:					
Deferred costs	(35,409)	-	(7,580)	(27,829)	-
Total bonds payable	3,257,691	1,460,000	454,120	4,263,571	593,100
Capital leases	325,078	-	93,687	231,391	13,451
Compensated absences	110,838	123,167	110,838	123,167	123,167
Governmental activities long-term liabilities	<u>\$ 3,693,607</u>	<u>\$ 1,583,167</u>	<u>\$ 658,645</u>	<u>\$ 4,618,129</u>	<u>\$ 729,718</u>
Business-Type Activities:					
Bonds payable:					
General obligation bonds	\$ 13,336,878	\$ 361,265	\$ 865,362	\$ 12,832,781	\$ 886,074
Revenue bonds	18,237,361	-	607,631	17,629,730	622,631
Less:					
Deferred costs	(1,582,549)	-	(86,522)	(1,496,027)	-
Plus deferred amounts:					
Bond premiums	29,222	-	3,249	25,973	-
Total bonds payable	30,020,912	361,265	1,389,720	28,992,457	1,508,705
Capital leases	34,002	-	34,002	-	-
Compensated absences	84,373	105,100	84,373	105,100	105,100
Landfill closure liability:					
Open landfill	1,467,014	66,108	-	1,533,122	-
Closed landfill	415,461	1,951,480	276,063	2,090,878	626,000
Business-type activities long-term liabilities	<u>\$ 32,021,762</u>	<u>\$ 2,483,953</u>	<u>\$ 1,784,158</u>	<u>\$ 32,721,557</u>	<u>\$ 2,239,805</u>

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 518,100	\$ 111,917	\$ 88,451	\$ 48,845	\$ 886,074	\$ 298,330	\$ 622,631	\$ 901,065
2006	526,100	90,247	90,057	44,986	896,929	275,603	647,631	879,504
2007	526,600	70,668	91,759	41,033	907,932	252,277	667,631	856,245
2008	366,800	50,730	93,259	29,431	924,086	227,820	692,629	831,071
2009-2013	1,153,800	104,838	917,865	180,863	4,343,289	806,849	3,599,208	3,721,247
2014-2018	-	-	150,000	13,500	3,372,081	255,698	3,785,000	2,818,626
2019-2023	-	-	-	-	1,502,390	12,489	4,985,000	1,626,523
2024-2027	-	-	-	-	-	-	2,630,000	245,719
	<u>\$ 3,091,400</u>	<u>\$ 428,400</u>	<u>\$ 1,431,391</u>	<u>\$ 358,658</u>	<u>\$ 12,832,781</u>	<u>\$ 2,129,066</u>	<u>\$ 17,629,730</u>	<u>\$ 11,880,000</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	\$ 390,000	\$ -
Public Improvement Bonds	3.7-5.3	07/01/93	2008	1,750,000	130,000	-
Public Improvement Bonds	2.0-3.6	12/01/03	2013	1,460,000	1,460,000	-
Virginia Resources Authority Taxable						
G.O. Water and Sewer Bonds	2.5	06/23/98	2019	5,225,000	-	4,346,454
Virginia Resources Authority Solid Waste						
Disposal System Revenue Bonds	3.65-4.9	03/01/97	2008	1,230,000	-	515,000
Virginia Resources Authority Solid Waste						
Management G.O. Refunding Bonds	4.1-4.85	06/28/01	2013	2,375,000	-	1,885,000
Virginia Resource Authority						
G.O. Water and Sewer Bonds	3.1-4.85	06/06/02	2017	2,005,000	-	1,815,000
Virginia Revolving Loan Fund						
G.O. Water and Sewer Bonds	0.0	04/25/02	2022	2,866,300	-	2,651,327
Virginia Revolving Loan Fund						
G.O. Water and Sewer Bonds	0.0	09/27/01	2022	1,800,000	-	1,620,000
G.O. Refunding Bonds	3.58	06/27/02	2009	\$ 1,498,900	1,111,400	-
					<u>3,091,400</u>	<u>12,832,781</u>
				Less deferred costs	(27,829)	(132,977)
				Plus bond premium	-	25,973
					<u>\$ 3,063,571</u>	<u>\$ 12,725,777</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	\$ -	\$ 1,519,730
Electric System Revenue Refunding Bonds	3.0-5.4	01-94	2025	16,450,000	-	13,735,000
Taxable Lease Revenue Bonds	7.81	06-96	2026	2,630,000	-	2,375,000
						<u>17,629,730</u>
				Less deferred costs	-	(1,363,050)
					<u>\$ -</u>	<u>\$ 16,266,680</u>

Other Long-Term Debt:

Literary Fund Loans	3.0	01-98	2019	1,500,000	\$ 1,200,000	\$ -
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Capital Leases:

Central Virginia Radio						
Communications mobile equipment	5.72	05-96	2011	\$ 387,309	\$ 231,391	\$ -

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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 was required to perform certain maintenance and monitoring functions at this site for a minimum of ten years after closure. The cumulative amount of estimated closure and postclosure care costs to date for this site of \$2,678,883, less cash paid for such costs to date, totals \$2,090,878. 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 presence of certain contaminants from the closed landfill have been detected in the groundwater on adjacent property. Management believes remediation will be achieved in part through the acquisition and installation of certain assets that will have future utility unrelated to the landfill. Accordingly, the estimated cost of these assets, \$750,000, represents a commitment, and is not included in landfill closure/postclosure liability and expense. An additional \$250,000 of acquisition cost for assets that will not have future utility aside from landfill remediation is included in landfill closure/postclosure liability.

The costs referred to in the preceding paragraph could be significantly higher depending on unforeseen circumstances.

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 \$1,533,122 for this site, which represents the cumulative amount of estimated closure and postclosure care costs of \$1,925,991 reported to date, based on the use of 72% of the estimated capacity of the landfill. 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 \$3,911,554. This deficit is anticipated to be recovered through future revenues, as well as possible transfers from the General Fund.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

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”).

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 2004 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 2004, the City’s annual pension cost of \$611,870 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, 2004**

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, 2004	\$ 611,870	100	\$ -
June 30, 2003	\$ 570,979	100 %	\$ -
June 30, 2002	\$ 539,629	100 %	\$ -

Note 11. Service Contracts

The following is a summary of significant service contracts:

A. Electrical Service

Agreement dated July 1, 1998, expiring June 30, 2004, with Cinergy, Inc. to purchase electricity for consumption and resale to residents of the City.

Subsequent to year end, the City signed an agreement with AEP effective July 1, 2005 to purchase electricity at a rate increase of approximately 60%.

B. 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 2004 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 2004 and 2003 remain unchanged.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

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 2004 were \$70,542.

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 \$1,000,000. The City maintains an additional \$10,000,000 umbrella policy over all forms of liability insurance. Total premiums for fiscal year 2004 were \$137,229.

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 2004 were \$9,738.

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 2004 were \$491,465.

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, 2004

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	\$	7,666,905
Guaranteed residual value		1,369,086
Unearned income		<u>(6,490,961)</u>
 Net investment in direct financing lease	 \$	 <u>2,545,030</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 has implemented the I/I project in accordance with the requirements of its permit and consent order.

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, all draws have been made on the loan and the project is complete.

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, 2004

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).

Note 17. Restatement of Net Assets

Opening net assets for the Solid Waste Fund and General Fund have been restated to reflect a previously authorized transfer from the General Fund to the Solid Waste Fund that had not been recorded. The reduction in opening net assets of \$206,000 in the General Fund and an increase of \$206,000 in the Solid Waste Fund reflects the transfer.

Opening net assets for Governmental Activities have been restated to reflect capital assets related to the Bedford Area Welcome Center not previously recorded. The increase in net assets and capital assets of \$185,289 reflects the adjustment.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BEDFORD, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2004

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, 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%
June 30, 2003	\$ 11,637,618	\$ 14,701,522	\$ 3,063,904	79.16%	\$ 3,747,925	81.75%

**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:

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, 2004**

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	<u>VCDG Fund</u>	<u>E-911 Fund</u>	
ASSETS			
Cash and cash equivalents	\$ 152,132	\$ 326,302	\$ 478,434
Receivables, net	-	973	973
Total assets	<u>\$ 152,132</u>	<u>\$ 327,275</u>	<u>\$ 479,407</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Unreserved	<u>\$ 152,132</u>	<u>\$ 327,275</u>	<u>\$ 479,407</u>
Total fund balances	<u>152,132</u>	<u>327,275</u>	<u>479,407</u>
Total liabilities and fund balances	<u>\$ 152,132</u>	<u>\$ 327,275</u>	<u>\$ 479,407</u>

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

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Year Ended June 30, 2004**

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	<u>VCDG Fund</u>	<u>E-911 Fund</u>	
REVENUES			
Other local taxes	\$ -	\$ 103,001	\$ 103,001
Investment earnings	1,004	-	1,004
Intergovernmental	3,041	-	3,041
	<u>4,045</u>	<u>103,001</u>	<u>107,046</u>
Total revenues			
EXPENDITURES			
Current:			
Public safety	-	96,107	96,107
Community development	57	-	57
Debt service:			
Principal retirement	-	26,180	26,180
Interest and fiscal charges	-	14,345	14,345
Total expenditures	<u>57</u>	<u>136,632</u>	<u>136,689</u>
Excess (deficiency) of revenues over expenditures	<u>3,988</u>	<u>(33,631)</u>	<u>(29,643)</u>
Net change in fund balances	3,988	(33,631)	(29,643)
FUND BALANCES AT JULY 1	<u>148,144</u>	<u>360,906</u>	<u>509,050</u>
FUND BALANCES AT JUNE 30	<u>\$ 152,132</u>	<u>\$ 327,275</u>	<u>\$ 479,407</u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – E-911 FUND

Year Ended June 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other local taxes	\$ 106,200	\$ 106,200	\$ 103,001	\$ (3,199)
Total sources of financial resources	106,200	106,200	103,001	(3,199)
EXPENDITURES				
Current:				
Public safety	118,000	118,000	96,107	21,893
Debt service:				
Principal retirement	26,200	26,200	26,180	20
Interest and fiscal charges	14,400	14,400	14,345	55
Total expenditures	158,600	158,600	136,632	21,968
Excess of expenditures over revenues	(52,400)	(52,400)	(33,631)	18,769
Net change in fund balance	(52,400)	(52,400)	(33,631)	18,769
FUND BALANCE AT JULY 1	360,906	360,906	360,906	-
FUND BALANCE AT JUNE 30	<u>\$ 308,506</u>	<u>\$ 308,506</u>	<u>\$ 327,275</u>	<u>\$ 18,769</u>

SUPPORTING SCHEDULE

CITY OF BEDFORD, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2004

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Federal Expenditures
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>		
<u>Department of Emergency Management:</u>		
Disaster Relief Public Assistance	83.544	17,396
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
<u>Department of Emergency Management:</u>		
State Homeland Security Grant Program	97.004	87,080
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>		
<u>Department of Emergency Management:</u>		
Emergency Management Preparedness Grant	97.042	7,204
<u>DEPARTMENT OF TRANSPORTATION</u>		
<u>Department of Motor Vehicles</u>		
State and Community Highway Safety	20.000	5,633
<u>ENVIRONMENTAL PROTECTION AGENCY</u>		
<u>Virginia Resources Authority:</u>		
State Revolving Fund	66.458	<u>4,888,274</u>
Total Expenditures of Federal Awards		<u>\$ 5,005,587</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 U.S. generally accepted accounting principles.

Note 2. Virginia Revolving Loan Fund (CFDA 66.458)

At June 30, 2004, the City had an outstanding loan balance through the Virginia Revolving Loan Fund in the amount of \$5,866,164, which included \$4,888,274 of federal funds.

STATISTICAL SECTION

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

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

Fiscal Year Ended June 30,	Permits, Privilege Fees and Regulatory Licenses		Taxes	Fines and Forfeitures	Investment Earnings	Charges for Services		Other	Inter-Governmental	Recovered Costs	Totals
	Public Safety	Public Works				Health and Welfare	Education				
2004	\$ 31,701	\$ 71,577	\$ 5,920,497	\$ 71,577	\$ 122,171	\$ 251,822	\$ 4,331	\$ 6,363,359	\$ 93,974	\$ 12,859,432	
2003	\$ 33,828	\$ 34,959	\$ 5,839,083	\$ 34,959	\$ 156,775	\$ 205,432	\$ 22,064	\$ 5,751,668	\$ 95,235	\$ 12,139,044	
2002	\$ 18,686	\$ 22,478	\$ 5,695,811	\$ 22,478	\$ 257,035	\$ 98,070	\$ 129,782	\$ 5,747,907	\$ 75,842	\$ 12,045,611	
2001	\$ 21,183	\$ 35,210	\$ 5,385,880	\$ 35,210	\$ 543,651	\$ 75,220	\$ 77,807	\$ 5,307,680	\$ 86,004	\$ 11,532,635	
2000	\$ 24,213	\$ 41,795	\$ 5,476,530	\$ 41,795	\$ 430,875	\$ 72,160	\$ 162,915	\$ 5,024,264	\$ 71,573	\$ 11,304,325	
1999	\$ 43,183	\$ 48,839	\$ 5,383,260	\$ 48,839	\$ 393,640	\$ 156,870	\$ 106,933	\$ 4,920,658	\$ 106,495	\$ 11,159,878	
1998	\$ 17,986	\$ 47,321	\$ 4,883,768	\$ 47,321	\$ 297,078	\$ 165,899	\$ 151,646	\$ 4,181,234	\$ 86,212	\$ 9,831,144	
1997	\$ 12,109	\$ 74,550	\$ 4,395,514	\$ 74,550	\$ 305,144	\$ 709,901	\$ 203,885	\$ 4,205,313	\$ 90,671	\$ 9,997,087	
1996	\$ 9,134	\$ 62,293	\$ 4,232,107	\$ 62,293	\$ 268,092	\$ 653,914	\$ 235,248	\$ 3,689,812	\$ 187,617	\$ 9,338,217	
1995	\$ 19,761	\$ 39,898	\$ 4,067,032	\$ 39,898	\$ 351,434	\$ 602,004	\$ 158,540	\$ 3,389,172	\$ 87,864	\$ 8,715,705	

(1) Includes General and Special Revenue Funds

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	\$ 5,665	\$ 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	\$ 661,058	\$ 188,649	\$ 63,989	\$ 815,597	\$ 2,517,394	\$ 11,991,663

(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			
	Real Estate (1)	Personal Property (2)	Machinery and Tools (2)	Totals
2004	\$ 310,247,885	\$ 44,006,020	\$ 33,098,380	\$ 398,972,783
2003	\$ 303,930,500	\$ 42,865,620	\$ 32,527,560	\$ 390,662,201
2001	\$ 276,036,900	\$ 42,398,867	\$ 49,506,720	\$ 379,351,031
2000	\$ 273,096,200	\$ 38,045,270	\$ 45,324,990	\$ 367,380,299
1999	\$ 270,067,216	\$ 37,510,730	\$ 42,489,190	\$ 359,638,056
1998	\$ 223,641,700	\$ 35,925,370	\$ 41,854,980	\$ 310,840,872
1997	\$ 221,100,884	\$ 34,934,680	\$ 39,440,300	\$ 305,198,320
1996	\$ 219,355,550	\$ 30,389,635	\$ 40,954,672	\$ 300,763,078
1995	\$ 215,624,100	\$ 26,818,320	\$ 36,346,280	\$ 287,964,036

(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
2003	\$ 3,577,953	\$ 3,342,430	93.42%	\$ 104,478	\$ 3,446,908	96.34%	\$ 260,505	7.3%
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%

(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.

TABLE 5

CITY OF BEDFORD, VIRGINIA
PROPERTY TAX RATES
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Real Estate	Personal Property	Machinery and Tools	Mobile Homes
2004	\$ 0.80	\$ 1.80	\$ 1.30	\$ 0.80
2003	\$ 0.80	\$ 1.80	\$ 1.30	\$ 0.80
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

Per \$100 Assessed Value

TABLE 6

CITY OF BEDFORD, VIRGINIA
LARGEST REAL ESTATE ASSESSMENTS
June 30, 2004

Name	Nature of Business	Assessed Value	Tax	Percent of Total Levy
Verizon, VA, Inc.	Telecommunications	\$ 8,057,118	\$ 64,457	2.52%
Raintree East/Raintree Village	Apartment rental	8,034,500	64,276	2.51%
Sam Moore/SM Realty	Furniture manufacturer	6,772,800	54,182	2.12%
Southgate Assoc. II, LP	Retail real estate rental	5,485,000	43,880	1.71%
RBX Industries, Inc.	Rubber manufacturer	4,836,900	38,695	1.51%
Roberts, Thomas & Va.	Automotive sales	3,777,200	30,218	1.18%
BFG	Frozen food manufacturer	3,705,600	29,645	1.16%
Carriage Hill of VA, Ltd.	Retirement center	3,348,300	26,786	1.05%
Frank Chervan, Inc.	Furniture frame manufacturer	2,960,000	23,680	0.92%
N Five Co., LLC	Retail real estate rental	2,281,700	18,254	0.71%
Total		\$ 49,259,118	\$ 394,073	

TABLE 7

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

Fiscal Year Ended June 30,	(1) Population	Assessed Value	Less		Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
			(3) Gross Bonded Debt	Debt Payable from Enterprise Revenues			
2004	6,299 (4)	\$ 398,972,783	\$ 15,924,181	\$ 12,832,781	\$ 3,091,400	0.77%	\$ 491
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

(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

TABLE 8

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

Fiscal Year Ended June 30,	Total			(1) Total General Governmental Expenditures	Percent of Debt Service to General Expenditures
	Principal	Interest	Debt Service		
2004	\$ 555,387	\$ 141,699	\$ 697,086	\$ 14,815,045	4.71%
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%

(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	
2004	\$ 16,640,083	\$13,242,106	\$ 3,397,977	\$ 607,631	\$ 921,345	\$ 1,528,976	2.22
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

(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	Value
	2004	\$ 92,014,300		\$ 215,771,300	\$ 128,235,900	\$ 436,021,500	\$ 3,138,500	5
2003	\$ 91,643,900	\$ 211,089,800	\$ 125,748,300	\$ 428,482,000	\$ 4,262,131	19	\$ 2,042,732	
2002	\$ 83,211,400	\$ 194,416,100	\$ 107,947,400	\$ 385,574,900	\$ 1,465,000	13	\$ 1,396,700	
2001	\$ 81,145,900	\$ 193,375,900	\$ 93,775,100	\$ 368,296,900	\$ 2,757,200	17	\$ 1,557,900	
2000	\$ 79,384,600	\$ 191,739,900	\$ 81,575,200	\$ 352,699,700	\$ 385,553	13	\$ 1,140,000	
1999	\$ 75,562,800	\$ 190,305,900	\$ 74,577,800	\$ 340,446,500	\$ 3,111,209	17	\$ 1,377,400	
1998	\$ 68,272,600	\$ 154,216,200	\$ 77,161,400	\$ 299,650,200	\$ -	21	\$ 1,570,775	
1997	\$ 67,236,500	\$ 152,829,800	\$ 76,738,400	\$ 296,804,700	\$ 1,398,204	13	\$ 842,000	
1996	\$ 66,497,700	\$ 150,675,500	\$ 76,626,400	\$ 293,799,600	\$ 134,000	20	\$ 1,678,800	
1995	\$ 64,847,200	\$ 148,101,200	\$ 74,535,300	\$ 287,483,700	\$ 587,000	24	\$ 2,035,150	

(1) Source: Real Estate Assessments

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

N/A - Information not available

TABLE 11

CITY OF BEDFORD, VIRGINIA

PRINCIPAL EMPLOYERS

June 30, 2004

<u>Employer</u>	<u>Product or Service</u>	<u>Total Estimated Employment</u>
Lay-Z Boy/Sam Moore Furniture	Furniture manufacturer	390
Carilion Bedford Memorial Hospital	Health services	347
Brooks Food Group/Golden West	Frozen food products	230
Frank Chervan	Furniture frame manufacturer	188
Bedford Public Schools	Education	175
Bedford Weaving Mills	Textile manufacturer	163
Longwood Industries	Textile manufacturer	138
Smyth Company/Bedford	Lithographer	122
Cinatax	Uniforms	100
Elks National Home	Retirement home	82

TABLE 12

CITY OF BEDFORD, VIRGINIA

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2004

Total assessed value of real estate (1)	<u>\$ 321,541,239</u>
Legal debt limit - 10% of total assessed value of real estate	32,154,124
Less bonded debt as of June 30, 2004	<u>15,924,181</u>
Legal debt margin	<u>\$ 16,229,943</u>

(1) Included \$310,247,885 in General Real Estate and \$11,293,354 in Public Service Corporation Real Estate

TABLE 13

CITY OF BEDFORD, VIRGINIA

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>	
2004	6,299 (6)	N/A	936	4.9%	(5)
2003	6,299 (6)	N/A	946	3.9%	(5)
2002	6,299 (6)	\$ 29,228	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)

(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

TABLE 14

CITY OF BEDFORD, VIRGINIA

MISCELLANEOUS DATA

June 30, 2004

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	44
Miles of Sewers:	
Storm Sewers	5
Sanitary Sewers	46
Public Utilities:	
Electric:	
Number of Customer Accounts	6,214
Sub-Stations	11
Number of Street Lights	835
Miles of Distribution Lines	350
Miles of Transmission Lines	28
Water:	
Number of Customer Accounts	3,122
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)	1.1
Wastewater Treatment Plants:	
Number	1
Number of Customer Accounts	2,530
Volume Treated (million gallons per day average)	1.1
Elections:	
Number of Registered Voters	3,576

<u>Election</u>	<u>Date</u>	<u>Votes Cast</u>	<u>Percent of Registered Voters</u>
City Council Election	05/04/2004	171	4.78%



COMPLIANCE SECTION

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

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

We have audited the 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, 2004, which collectively comprise the City of Bedford, Virginia's basic financial statements and have issued our report thereon dated October 12, 2004. 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.

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 an opinion 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 04-1, 04-2, 04-3, 04-4, 04-5, and 04-6.

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 caused by error or fraud 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. However, of the reportable conditions described above, we consider items 04-1, 04-2, 04-5, and 04-6 to be 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 October 12, 2004.

Compliance and Other Matters

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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying Schedule of Findings and Questioned Costs as item 04-7.

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
October 12, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND 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, 2004. 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, 2004.

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
October 12, 2004

CITY OF BEDFORD, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2004

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, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an **unqualified opinion on the financial statements**.
2. **Six reportable conditions** relating to the audit of the financial statements are 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*. Items 04-1, 04-2, 04-5, and 04-6 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

04-1: Segregation of Duties (Reportable Condition) (Material Weakness)

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.

04-2: Inventory Control Procedures (Reportable Condition) (Material Weakness)

Condition:

There are no controls in place to ensure that inventory counts are accurate.

Recommendation:

Steps should be taken to ensure that inventory counts are accurate.

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, 2004

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

04-3: Inventory Pricing Procedures (Reportable Condition)

Condition:

Controls are not adequate to ensure inventory pricing is accurate.

Recommendation:

Steps should be taken to ensure that inventory pricing is accurate.

Management Response:

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

04-4: Fixed Asset Classification (Reportable Condition)

Condition:

Controls are not adequate to ensure assets are removed from construction in progress, and depreciation started, when the assets are placed in service.

Recommendation:

Steps should be taken to ensure assets placed in service are removed from construction in progress and depreciation is recorded.

Management Response:

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

04-5: Unreconciled Cash (Reportable Condition) (Material Weakness)

Condition:

We noted in the monthly bank reconciliations, differences exist between the reconciliation and the amounts recorded on the general ledger at the fund level.

Recommendation:

Steps should be taken to ensure that bank reconciliations tie to the general ledger at the fund level.

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, 2004**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

04-6: Unrecorded Transfers (Reportable Condition) (Material Weakness)

Condition:

There are no controls in place to ensure that transfers authorized by Council have been recorded.

Recommendation:

Steps should be taken to ensure that transfers authorized by Council are recorded.

Management Response:

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

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

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

04-7: Commonwealth of Virginia: Urban Highway Manual

Condition:

The annual U-3 report for the year ended June 30, 2004 was not submitted within 60 days after the end of the fiscal year.

Recommendation:

Procedures should be implemented to ensure that the U-3 report is submitted timely.

Management Response:

The auditee concurs with this recommendation and will take the necessary steps to resolve this matter.

