

# **CITY OF BEDFORD, VIRGINIA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2005**

**DEPARTMENT OF FINANCE**



**CITY OF BEDFORD, VIRGINIA**

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# INTRODUCTORY SECTION

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November 29, 2005

**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, 2005. 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 other matters.

**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 Economic 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. During the first six months of 2005, the City's unemployment rate decreased from 4.9% to 4.6%. Much of this decrease can be attributed to expansion of existing industry and the rebirth of Rubatex. City Council's commitment to economic development and diversification has positioned 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, which has encouraged significant commercial development both inside and immediately outside the City borders. Currently, engineering design work is beginning 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, 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, currently has two tenants under long-term leases-- East Coast Fabricators/Rhino Coat, a manufacturer specializing in metal fabrication and finishing, and a branch campus of Central Virginia Community College. 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.

Recently the City of Bedford has been awarded a Virginia Enterprise Zone designation, which provides State and local incentives for investment in Centertown, the older manufacturing buildings as well as the Bedford Center for Business. State Enterprise Zone grants provide money as a reward for physical improvements to property; and in the case of manufacturing, grants for job creation above 4 employees. Local incentives are designed to reward both new and existing industries.

Tourism continues to grow in the City and surrounding area. The shared tourism effort with Bedford County stands as a testimonial to the benefits of localities working together. The new Welcome Center, at the intersection of Route 122 and US Highway 460, is a credit to the Bedford community, a beacon for travelers and cost Bedford residents a fraction of its price tag thanks to City/County joint participation and significant federal transportation funding. On October 29, 2005, the Welcome Center celebrated one year of operation. They have already seen almost 36,000 visitors.

### **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 Economic Development Authority, provides funding for a performance-based, economic incentive program and other Enterprise Zone initiatives. The City will continue to work closely with Bedford County, Virginia's Region 2000, and the Virginia Economic Development Partnership to actively encourage existing industry expansions and solicit new industries.
- The City has installed a peaking generator to "shave" electric load peaks to reduce wholesale demand charges; continues to upgrade distribution line circuits and substations; and modernize the hydroelectric plant controls to allow remote operation. With other Blue Ridge Power Authority members, the City is investigating the option of constructing a base load coal fired plant to provide diversity in our wholesale power portfolio. We are also 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 Street for the relocation of the Electric Department. After renovations are completed in May, 2006, 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 is extending the life of the landfill by constructing a solid waste transfer and composting facility. 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 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. The City completed the installation of the new utility billing system during April, 2004. The City has selected Munis as its vendor for the other applications and is scheduled to "go-live" January 1, 2006 on the financial and payroll management applications. Other modules will be deployed during the last six months of fiscal year 2006.
- 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.
- 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.

## **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 the 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, 2005 totaled \$16,185,259. 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 \$198,783 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**

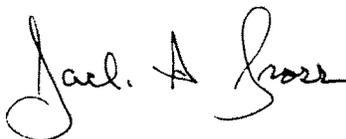
Independent Audit. Virginia Law and the Charter of the City of Bedford require that the financial statements of the City be audited by a Certified Public Accountant. Brown, Edwards, & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. The auditor's report is 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, 2004. This was the fifth 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,



Jack A. Gross  
Interim 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, 2004

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.



*Nancy L. Zjelke*

President

*Jeffrey R. Enen*

Executive Director

**CITY OF BEDFORD, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2005**

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  
Betsy Klein, Vice Chairman

Anne M. VanDerwerker  
William H. Ross  
Vacant

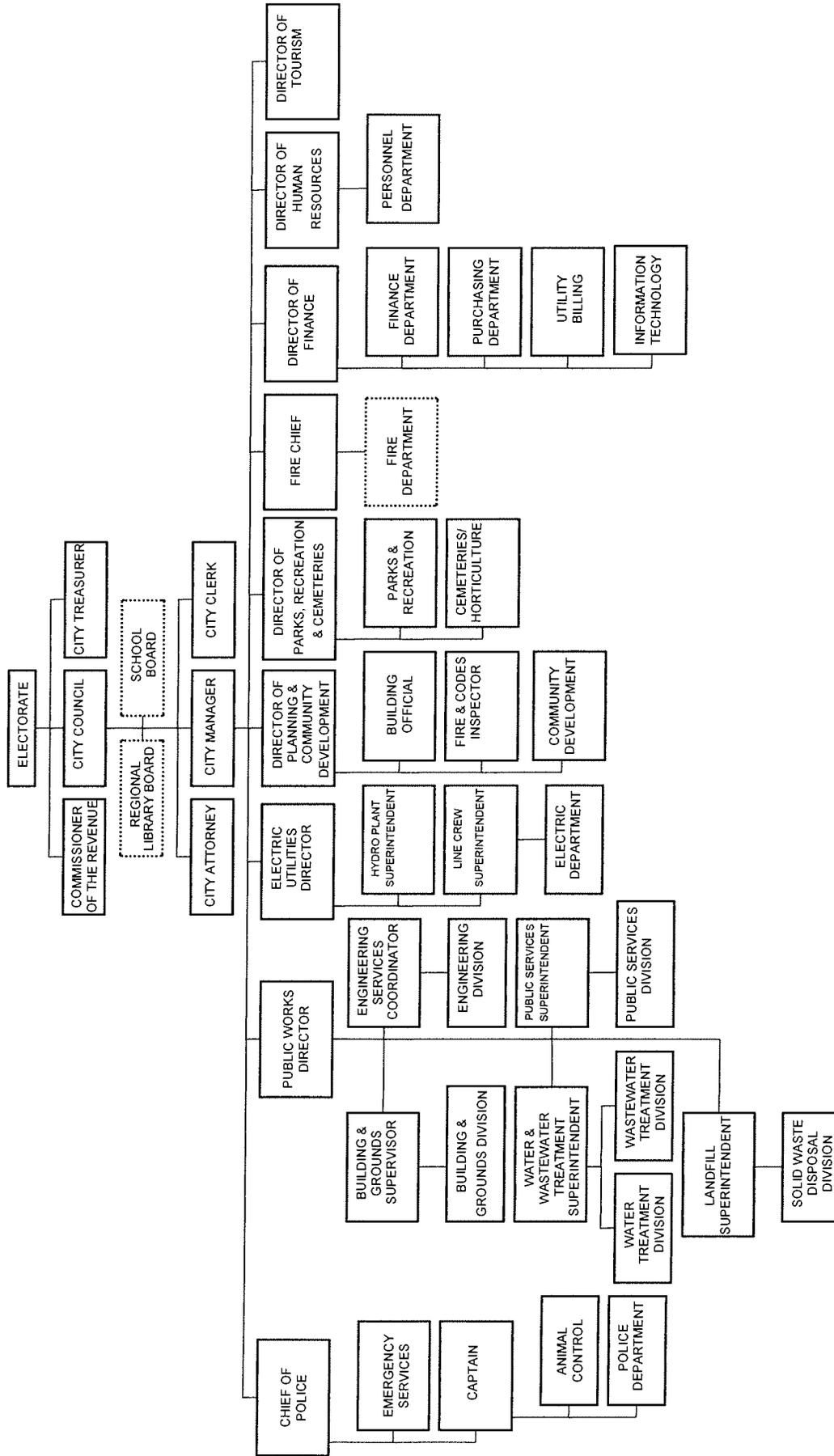
Debra Z. Bond  
Stephen C. Rush

OTHER OFFICIALS

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

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

# CITY OF BEDFORD ORGANIZATIONAL CHART



# FINANCIAL SECTION

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## 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, 2005, 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, 2005, 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 21, 2005 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 page 3 and on page 35, 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 combining and individual nonmajor fund financial statements 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 21, 2005

## 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, 2005 and 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 \$29,197,773 (net assets). Of this amount, \$15,237,078 (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 \$1,380,149, 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 \$2,417,099, a decrease of \$2,068,400 in comparison with the prior year. Approximately 34% of this total amount, \$833,599 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 \$377,825, or 2% of total general fund expenditures.
- The City's total debt decreased by \$1,042,353 (3%) 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)

**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.

**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.

**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.

**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.

## 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 \$29,197,773 at the close of the most recent fiscal year.

A portion of the City's net assets (48%) 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* (52%) 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	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 3,772,776	\$ 5,622,077	\$ 19,579,289	\$ 20,505,122	\$ 23,352,065	\$ 26,127,199
Capital assets	10,856,779	10,035,131	33,681,556	31,648,139	44,538,335	41,683,270
Total assets	14,629,555	15,657,208	53,260,845	52,153,261	67,890,400	67,810,469
Long-term liabilities outstanding	4,098,811	4,618,129	32,094,747	32,721,557	36,193,558	37,339,686
Other liabilities	1,211,753	1,016,657	1,287,316	1,636,502	2,499,069	2,653,159
Total liabilities	5,310,564	5,634,786	33,382,063	34,358,059	38,692,627	39,992,845
Net assets						
Invested in capital assets, net of related debt	6,899,006	6,506,637	7,061,689	2,655,682	13,960,695	9,162,319
Unrestricted	2,419,985	3,515,785	12,817,093	15,139,520	15,237,078	18,655,305
Total net assets	\$ 9,318,991	\$ 10,022,422	\$ 19,878,782	\$ 17,795,202	\$ 29,197,773	\$ 27,817,624

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 \$1,380,149 during the current fiscal year. This increase represents a 5% increase during the current fiscal year. The key element of this increase is the increase in net assets from the activity of the electric fund.

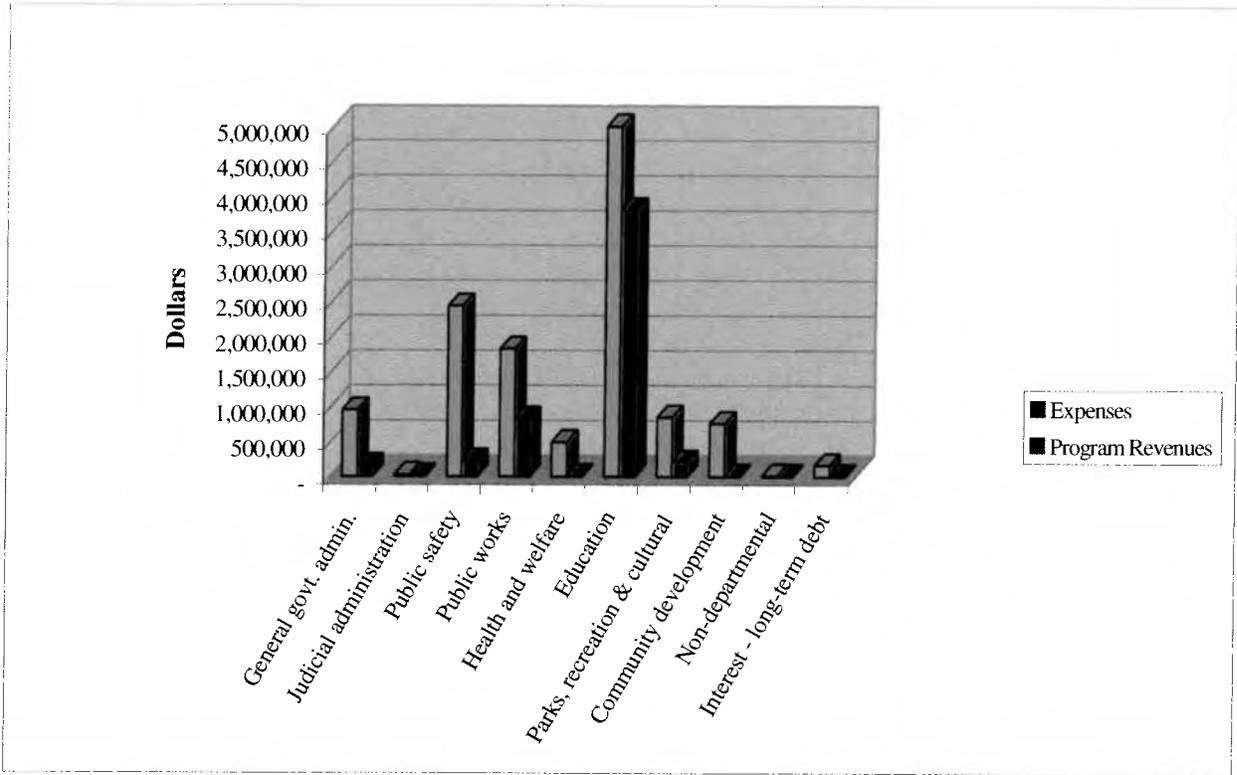
**Governmental activities** – Governmental activities decreased the City's net assets by \$703,431. A key element of this decrease (\$971,146) is the increase in the community development segment due to full operation of the Bedford Area Welcome Center, as well as the various payments made for moving utilities underground. This was considered part of an economic development project.

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 general government administration category and the public safety category. In regards to the general government administration category, the increase in expenditures of \$371,001 reflects the increase in expenditures for capital projects during the current fiscal year. The public safety category increase of \$605,376 reflects the addition of eight new positions, as well as \$240,200 expended for development of a new public safety facility.

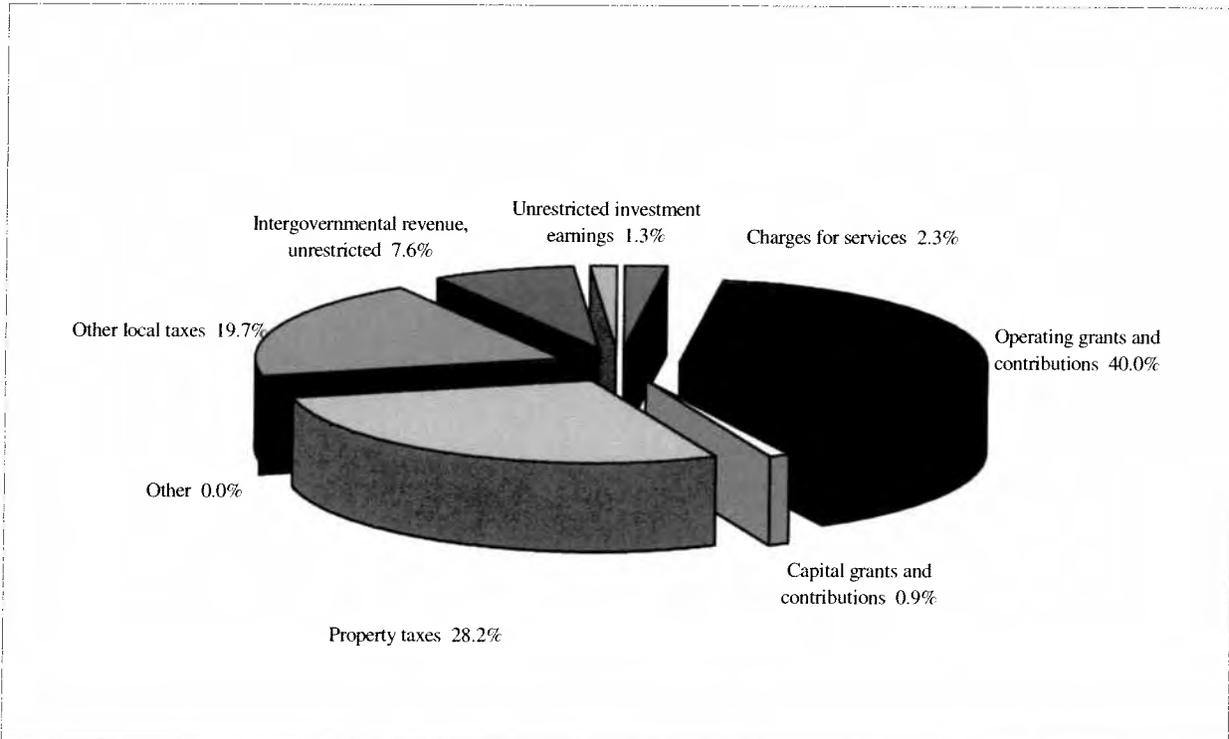
**Business-type activities** – Business-type activities increased the City's net assets by \$2,083,580. Key elements of this increase are as follows: A decrease in the expense attributable to the landfill closure liability of \$1,992,388.

<b>The City's Changes in Net Assets</b>						
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 462,278	\$ 367,771	\$ 16,608,019	\$ 15,843,817	\$ 17,070,297	\$ 16,211,588
Operating grants and contributions	5,141,468	4,996,519	-	-	5,141,468	4,996,519
Capital grants and contributions	262,155	483,588	-	-	262,155	483,588
General revenues						
Property taxes	3,568,818	3,473,488	-	-	3,568,818	3,473,488
Other taxes	2,528,155	2,394,835	-	-	2,528,155	2,394,835
Intergovernmental revenue unrestricted	903,654	977,227	-	-	903,654	977,227
Investment earnings	221,008	113,116	486,865	497,038	707,873	610,154
Other	57,333	714	201,470	299,228	258,803	299,942
Gain from sale of capital assets	15,128	-	-	-	15,128	-
<b>Total revenues</b>	<b>13,159,997</b>	<b>12,807,258</b>	<b>17,296,354</b>	<b>16,640,083</b>	<b>30,456,351</b>	<b>29,447,341</b>
<b>Expenses</b>						
General government	1,207,094	1,009,729	-	-	1,207,094	1,009,729
Judicial administration	27,097	11,587	-	-	27,097	11,587
Public safety	2,792,008	2,693,711	-	-	2,792,008	2,693,711
Public works	1,544,583	1,561,611	-	-	1,544,583	1,561,611
Health and welfare	721,935	366,032	-	-	721,935	366,032
Education	6,327,656	6,320,200	-	-	6,327,656	6,320,200
Parks, recreation, and cultural	953,698	905,957	-	-	953,698	905,957
Community development	1,123,443	370,323	-	-	1,123,443	370,323
Non-departmental	486	11,580	-	-	486	11,580
Interest on long-term debt	169,253	161,260	-	-	169,253	161,260
Water and sewer	-	-	2,906,751	2,765,384	2,906,751	2,765,384
Solid waste	-	-	1,049,661	2,989,664	1,049,661	2,989,664
Electric	-	-	10,252,537	10,125,068	10,252,537	10,125,068
<b>Total expenses</b>	<b>14,867,253</b>	<b>13,411,990</b>	<b>14,208,949</b>	<b>15,880,116</b>	<b>29,076,202</b>	<b>29,292,106</b>
Excess (deficiency) before transfers	(1,707,256)	(604,732)	3,087,405	759,967	1,380,149	155,235
Transfers	1,003,825	981,550	(1,003,825)	(981,550)	-	-
<b>Change in net assets</b>	<b>(703,431)</b>	<b>376,818</b>	<b>2,083,580</b>	<b>(221,583)</b>	<b>1,380,149</b>	<b>155,235</b>
Net assets – July 1	10,022,422	9,645,604	17,795,202	18,016,785	27,817,624	27,662,389
Net assets – June 30	\$ 9,318,991	\$ 10,022,422	\$ 19,878,782	\$ 17,795,202	\$ 29,197,773	\$ 27,817,624

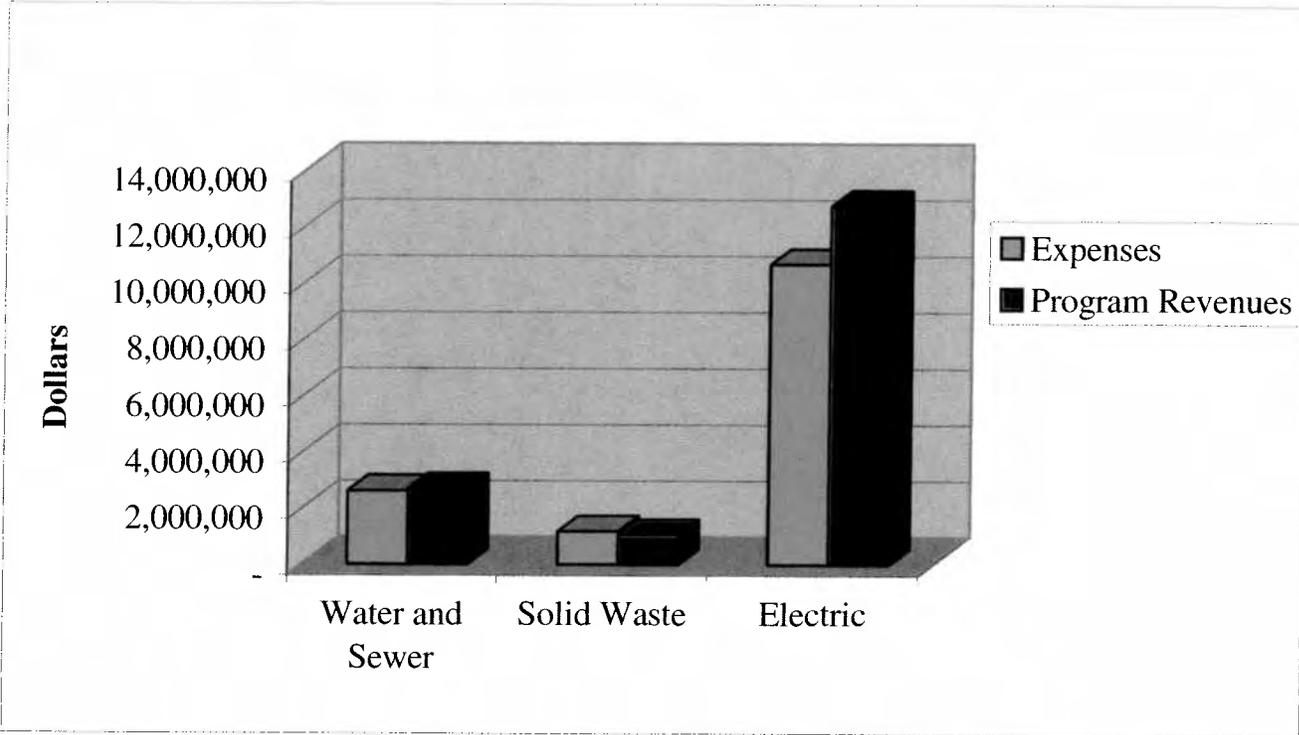
### Expenses and Program Revenues – Governmental Activities



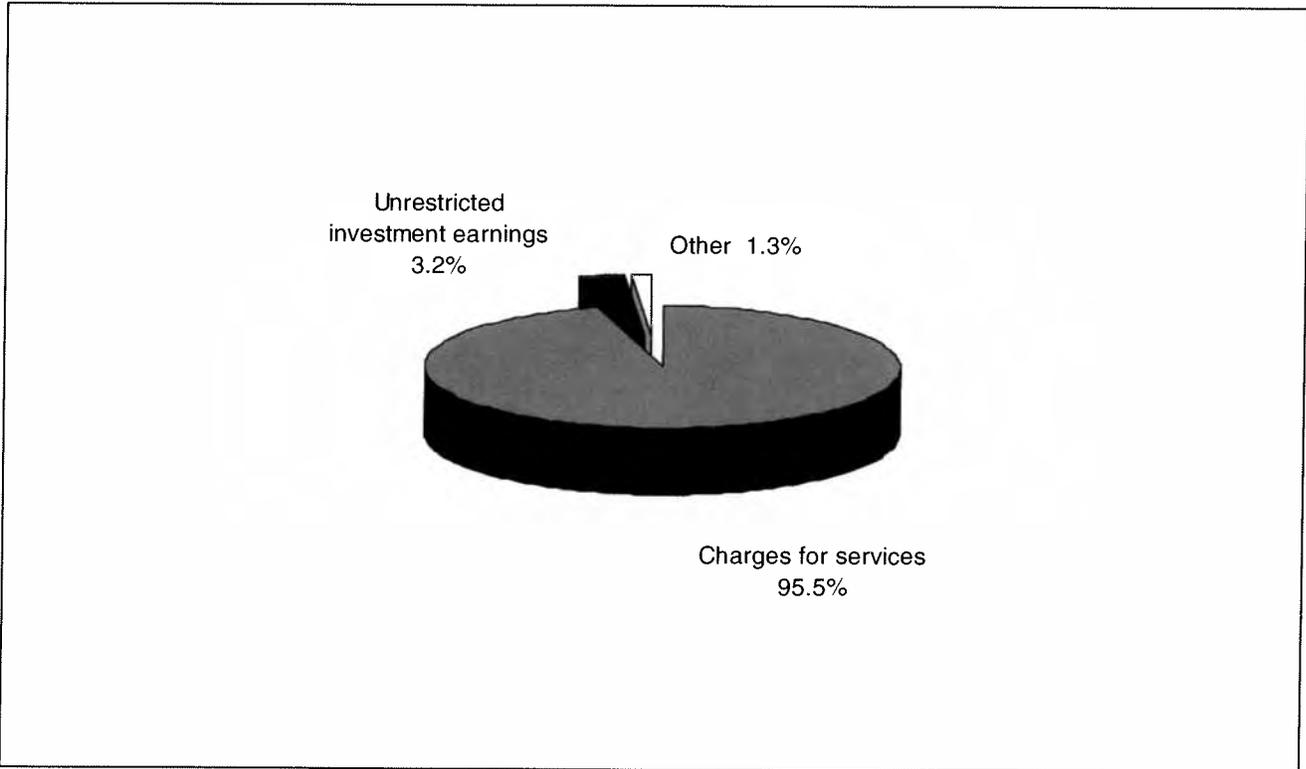
### Revenues by Source – Governmental Activities



**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 \$2,417,099, a decrease of \$2,068,400 in comparison with the prior year. Approximately 34% of this total amount – that is, \$833,599 – 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 \$619,473 or to generate income of \$551,073 to pay for the perpetual care of the City's cemeteries.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$377,825, while total fund balance reached \$1,961,325. 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 2% of total general fund expenditures, while total fund balance represents 12% of that same amount.

The fund balance of the City's general fund decreased by \$2,044,767 during the current fiscal year. The key factor to this change is the prior year included \$1,460,000 in proceeds from a bond financing for the Bedford Welcome Center.

**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 \$271,324; the solid waste fund had a deficit of \$(2,823,321) and the unrestricted net assets for the electric fund amounted to \$15,369,090. The total growth in net assets was \$2,083,580. 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 (\$389,919 increase in appropriations). Highlights are as follows:

- \$225,000 was appropriated for the purchase of land for the new Public Safety Facility.
- \$163,419 was appropriated to cover the additional expense for salaries and benefits for eight new police positions.
- \$1,500 was appropriated to Bedford Main Street in support of the Buy in Bedford campaign.

## 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, 2005, amounts to \$44,538,335 (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 7% (an 8% increase for governmental activities and a 6% increase for business-type activities).

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

	The City’s Capital Assets					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$ 1,989,260	\$ 1,759,710	\$ 994,514	\$ 994,514	\$ 2,983,774	\$ 2,754,224
Buildings and improvements	12,253,154	11,282,050	26,774,647	26,437,970	39,027,801	37,720,020
Distribution and transmission systems	-	-	26,561,685	23,464,921	26,561,685	23,464,921
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	6,242,562	5,668,421	2,640,802	2,268,195	8,883,364	7,936,616
Infrastructure	1,415,853	936,486	-	-	1,415,853	936,486
Construction in progress	312,040	1,112,626	356,608	870,649	668,648	1,983,275
Less accumulated depreciation	(11,356,090)	(10,724,162)	(26,962,645)	(25,704,055)	(38,318,735)	(36,428,217)
<b>Total</b>	<b>\$ 10,856,779</b>	<b>\$ 10,035,131</b>	<b>\$ 33,681,556</b>	<b>\$ 31,648,139</b>	<b>\$ 44,538,335</b>	<b>\$ 41,683,270</b>

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

**Long-term debt** – At the end of the current fiscal year, the City had total bonded debt outstanding of \$33,942,949. Of this amount, \$33,758,476 comprises debt backed by the full faith and credit of the government, and \$184,473 is related to capital lease obligations.

	The City’s Outstanding Debt					
	General Obligation Bonds and Capital Leases					
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 2,573,300	\$ 3,091,400	\$ 12,978,077	\$ 12,832,781	\$ 15,551,377	\$ 15,924,181
Literary fund loans	1,200,000	1,200,000	-	-	1,200,000	1,200,000
Revenue bonds	-	-	17,007,099	17,629,730	17,007,099	17,629,730
Capital leases	184,473	231,391	-	-	184,473	231,391
<b>Total</b>	<b>\$ 3,957,773</b>	<b>\$ 4,522,791</b>	<b>\$ 29,985,176</b>	<b>\$ 30,462,511</b>	<b>\$ 33,942,949</b>	<b>\$ 34,985,302</b>

### **Capital Asset and Debt Administration (Continued)**

The City's total debt decreased by \$1,042,353 (3%) during the current fiscal year. The key factor in this decrease was the payment of principal payments that exceeded new debt by \$913,358.

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 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the City is currently 4.6%, which is a decrease from a rate of 4.9% a year ago. This compares to the State's average unemployment rate of 3.8% and the national average rate of 5.2%.
- The occupancy rate of the government's central business district has remained at 95% for the past four 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**

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## CITY OF BEDFORD, VIRGINIA

## STATEMENT OF NET ASSETS

June 30, 2005

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents (Note 2)	\$ 1,323,737	\$ 11,374,555	\$ 12,698,292
Receivables, net (Note 3)	122,301	2,443,888	2,566,189
Internal balances (Note 4)	918,989	(918,989)	-
Due from other governmental units (Note 5)	821,134	38,602	859,736
Inventories	-	903,528	903,528
Restricted assets:			
Cash and cash equivalents, restricted (Note 2)	542,294	2,944,673	3,486,967
Deferred expenses	44,321	257,331	301,652
Net investment in direct financing lease (Note 14)	-	2,535,701	2,535,701
Capital assets: (Note 6)			
Nondepreciable capital assets	2,301,300	1,351,122	3,652,422
Depreciable capital assets, net	8,555,479	32,330,434	40,885,913
Total assets	<u>14,629,555</u>	<u>53,260,845</u>	<u>67,890,400</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	419,248	741,969	1,161,217
Accrued payroll and related liabilities	191,379	139,375	330,754
Accrued interest payable	113,908	162,875	276,783
Due to other governmental units (Note 5)	487,218	72,185	559,403
Customer security deposits	-	170,912	170,912
Noncurrent liabilities:			
Due within one year (Note 7)	850,226	2,607,957	3,458,183
Due in more than one year (Note 7)	3,248,585	29,486,790	32,735,375
Total liabilities	<u>5,310,564</u>	<u>33,382,063</u>	<u>38,692,627</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	6,899,006	7,061,689	13,960,695
Unrestricted (Note 9)	2,419,985	12,817,093	15,237,078
Total net assets	<u>\$ 9,318,991</u>	<u>\$ 19,878,782</u>	<u>\$ 29,197,773</u>

EXHIBIT 2

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government administration	\$ 1,207,094	\$ 279,606	\$ 219,131	\$ -	(708,357)	\$ (708,357)	
Judicial administration	27,097	-	-	-	(27,097)	(27,097)	
Public safety	2,792,008	77,334	16,153	-	(2,698,521)	(2,698,521)	
Public works	1,544,583	-	887,724	-	(656,859)	(656,859)	
Health and welfare	721,935	-	-	-	(721,935)	(721,935)	
Education	6,327,656	-	4,014,746	113,538	(2,199,372)	(2,199,372)	
Parks, recreation, and cultural	953,698	105,338	-	-	(848,360)	(848,360)	
Community development	1,123,443	-	3,714	148,617	(971,112)	(971,112)	
Non-departmental	486	-	-	-	(486)	(486)	
Interest on long-term debt	169,253	-	-	-	(169,253)	(169,253)	
Total governmental activities	14,867,253	462,278	5,141,468	262,155	(9,001,352)	(9,001,352)	
Business-type activities:							
Water and sewer	2,906,751	2,703,699	-	-	-	(203,052)	(203,052)
Solid waste	1,049,661	959,414	-	-	(90,247)	(90,247)	(90,247)
Electric	10,252,537	12,944,906	-	-	2,692,369	2,692,369	2,692,369
Total business-type activities	14,208,949	16,608,019	-	-	2,399,070	2,399,070	2,399,070
Total primary government	\$ 29,076,202	\$ 17,070,297	\$ 5,141,468	\$ 262,155	(9,001,352)	(6,602,282)	(6,602,282)
General revenues:							
Property taxes					3,568,818	3,568,818	
Sales tax					968,531	968,531	
Business license tax					637,336	637,336	
Meals tax					521,767	521,767	
Other local taxes					400,521	400,521	
Intergovernmental revenue, unrestricted					903,654	903,654	
Unrestricted investment earnings					221,008	221,008	
Other					57,333	57,333	
Gain on sale of capital assets					15,128	15,128	
Transfers (Note 4)					1,003,825	(1,003,825)	
Total general revenues and transfers					8,297,921	(315,490)	7,982,431
Change in net assets					(703,431)	2,083,580	1,380,149
Net assets at July 1					10,022,422	17,795,202	27,817,624
Net assets at June 30					\$ 9,318,991	\$ 19,878,782	\$ 29,197,773

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

## CITY OF BEDFORD, VIRGINIA

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2005**

	General	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 868,936	\$ 454,801	\$ 1,323,737
Cash and cash equivalents, restricted	542,294	-	542,294
Receivables, net (Note 3)	121,328	973	122,301
Due from other funds (Note 4)	918,989	-	918,989
Due from other governmental units (Note 5)	821,134	-	821,134
Total assets	<u>3,272,681</u>	<u>455,774</u>	<u>3,728,455</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	419,248	-	419,248
Accrued payroll and related liabilities	191,379	-	191,379
Long term debt service payments due (Note 7)	111,000	-	111,000
Due to other governmental units (Note 5)	487,218	-	487,218
Deferred revenue (Note 3)	102,511	-	102,511
Total liabilities	<u>1,311,356</u>	<u>-</u>	<u>1,311,356</u>
Fund balances: (Note 9)			
Reserved for:			
Encumbrances	619,473	-	619,473
Perpetual care	551,073	-	551,073
Due from other governmental units	412,954	-	412,954
Unreserved, reported in:			
General fund, designated	53,613	-	53,613
General fund, undesignated	324,212	-	324,212
Special revenue funds	-	455,774	455,774
Total fund balances	<u>1,961,325</u>	<u>455,774</u>	<u>2,417,099</u>
Total liabilities and fund balances	<u>\$ 3,272,681</u>	<u>\$ 455,774</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.	10,856,779
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	102,511
Bond issue costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.	44,321
Long-term liabilities, including bonds payable (\$3,753,051), compensated absences (\$161,287), capital leases (\$184,473), and accrued interest payable (\$113,908), less interest and principal payments due at June 30 (\$111,000), are not due and payable in the current period and therefore are not reported in the funds (Note 7).	(4,101,719)
Net assets of governmental activities	<u>\$ 9,318,991</u>

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2005**

	General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>			
General property taxes	\$ 3,594,117	\$ -	\$ 3,594,117
Other local taxes	2,396,901	97,788	2,494,689
Permits, privilege fees, and regulatory licenses	35,221	-	35,221
Fines and forfeitures	41,628	-	41,628
Investment earnings	220,515	493	221,008
Charges for services	215,394	-	215,394
Other	57,333	33,466	90,799
Intergovernmental	6,303,563	3,714	6,307,277
Recovered costs	170,035	-	170,035
Total revenues	<u>13,034,707</u>	<u>135,461</u>	<u>13,170,168</u>
<b>EXPENDITURES</b>			
Current:			
General government administration	1,456,413	-	1,456,413
Judicial administration	27,097	-	27,097
Public safety	3,012,379	109,745	3,122,124
Public works	2,043,948	-	2,043,948
Health and welfare	721,935	-	721,935
Education	6,111,105	-	6,111,105
Parks, recreation, and cultural	914,838	-	914,838
Community development	1,069,227	-	1,069,227
Non-departmental	486	-	486
Debt service:			
Principal retirement	593,100	46,918	640,018
Interest and fiscal charges	147,899	2,431	150,330
Total expenditures	<u>16,098,427</u>	<u>159,094</u>	<u>16,257,521</u>
Excess of expenditures over revenues	<u>(3,063,720)</u>	<u>(23,633)</u>	<u>(3,087,353)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of capital assets	15,128	-	15,128
Proceeds from refunding of capital lease	-	197,925	197,925
Principal payment of original capital lease	-	(197,925)	(197,925)
Transfers in (Note 4)	1,505,875	-	1,505,875
Transfers out (Note 4)	(502,050)	-	(502,050)
Total other financing sources and uses	<u>1,018,953</u>	<u>-</u>	<u>1,018,953</u>
Net change in fund balances	<u>(2,044,767)</u>	<u>(23,633)</u>	<u>(2,068,400)</u>
<b>FUND BALANCES AT JULY 1</b>	<u>4,006,092</u>	<u>479,407</u>	
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 1,961,325</u>	<u>\$ 455,774</u>	
<b>Adjustments for the Statement of Activities:</b>			
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 (\$1,526,619) exceeded depreciation (\$704,971) in the current period.			821,648
The net effect of the change in accrued interest expense, which is not reflected in the fund statements except for amounts due prior to year end.			(18,923)
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.			(25,299)
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 is the amount by which repayments (\$640,018) exceeded the amortization of deferred costs (\$14,355).			625,663
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.			(38,120)
<b>Change in net assets of governmental activities</b>			<u>\$ (703,431)</u>

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		Final Budget Positive (Negative)
<b>REVENUES</b>				
General property taxes	\$ 4,205,100	\$ 4,205,100	\$ 3,594,117	\$ (610,983)
Other local taxes	1,600,700	1,600,700	2,396,901	796,201
Permits, privilege fees, and regulatory licenses	801,800	801,800	35,221	(766,579)
Fines and forfeitures	60,000	60,000	41,628	(18,372)
Investment earnings	116,000	116,000	220,515	104,515
Charges for services	100,700	100,700	215,394	114,694
Other	412,000	412,000	57,333	(354,667)
Intergovernmental	5,692,150	5,743,509	6,303,563	560,054
Recovered costs	188,700	188,700	170,035	(18,665)
Total revenues	<u>13,177,150</u>	<u>13,228,509</u>	<u>13,034,707</u>	<u>(193,802)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	1,360,470	1,362,240	1,456,413	(94,173)
Judicial administration	28,200	28,200	27,097	1,103
Public safety	4,564,950	4,917,896	3,012,379	1,905,517
Public works	2,021,470	2,079,415	2,043,948	35,467
Health and welfare	805,000	805,000	721,935	83,065
Education	6,242,250	6,214,250	6,111,105	103,145
Parks, recreation, and cultural	974,100	973,858	914,838	59,020
Community development	430,550	436,050	1,069,227	(633,177)
Non-departmental	2,500	2,500	486	2,014
Debt service:				
Principal retirement	626,566	626,566	593,100	33,466
Interest and fiscal charges	304,734	304,734	147,899	156,835
Total expenditures	<u>17,360,790</u>	<u>17,750,709</u>	<u>16,098,427</u>	<u>1,652,282</u>
Excess of expenditures over revenues	<u>(4,183,640)</u>	<u>(4,522,200)</u>	<u>(3,063,720)</u>	<u>1,458,480</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from bond issue	2,449,500	2,449,500	-	(2,449,500)
Proceeds from sale of capital assets	12,000	12,000	15,128	3,128
Transfers in	1,557,400	1,557,400	1,515,498	(41,902)
Transfers out	(502,050)	(502,050)	(511,673)	(9,623)
Total other financing sources (uses)	<u>3,516,850</u>	<u>3,516,850</u>	<u>1,018,953</u>	<u>(2,497,897)</u>
Net change in fund balances	<u>\$ (666,790)</u>	<u>\$ (1,005,350)</u>	<u>\$ (2,044,767)</u>	<u>\$ (1,039,417)</u>

## CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS

June 30, 2005

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ 455,685	\$ 10,918,870	\$ 11,374,555
Receivables, net (Note 3)	461,252	168,086	1,814,550	2,443,888
Due from other governmental units (Note 5)	38,602	-	-	38,602
Inventories	-	-	903,528	903,528
Total current assets	499,854	623,771	13,636,948	14,760,573
Noncurrent assets:				
Cash and cash equivalents, restricted	953,155	327,365	1,664,153	2,944,673
Deferred expenses	-	36,489	220,842	257,331
Net investment in direct financing lease (Note 14)	-	-	2,535,701	2,535,701
Capital assets: (Note 6)				
Nondepreciable capital assets	271,913	611,571	467,638	1,351,122
Depreciable capital assets, net	17,903,493	407,190	14,019,751	32,330,434
Total noncurrent assets	19,128,561	1,382,615	18,908,085	39,419,261
Total assets	19,628,415	2,006,386	32,545,033	54,179,834
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	72,194	71,670	598,105	741,969
Accrued payroll and related liabilities	62,273	14,240	62,862	139,375
Accrued interest payable	48,527	24,059	90,289	162,875
Due to other funds (Note 4)	918,989	-	-	918,989
Due to other governmental units (Note 5)	-	-	72,185	72,185
Customer security deposits	26,308	-	144,604	170,912
Noncurrent liabilities due within a year (Note 7)	996,949	1,032,653	578,355	2,607,957
Total current liabilities	2,125,240	1,142,622	1,546,400	4,814,262
Noncurrent liabilities:				
Due in more than a year (Note 7)	10,917,825	4,350,317	14,218,648	29,486,790
Total liabilities	13,043,065	5,492,939	15,765,048	34,301,052
<b>NET ASSETS (DEFICIT)</b>				
Invested in capital assets, net of related debt (Note 9)	6,314,026	(663,232)	1,410,895	7,061,689
Unrestricted (Note 9)	271,324	(2,823,321)	15,369,090	12,817,093
Total net assets (deficit)	\$ 6,585,350	\$ (3,486,553)	\$ 16,779,985	\$ 19,878,782

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS (DEFICIT)  
PROPRIETARY FUNDS  
Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water &amp; Sewer</b>	<b>Solid Waste</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 2,703,699	\$ 959,414	\$ 12,944,906	\$ 16,608,019
Total operating revenues	<u>2,703,699</u>	<u>959,414</u>	<u>12,944,906</u>	<u>16,608,019</u>
<b>OPERATING EXPENSES</b>				
Refuse collection	-	206,799	-	206,799
Refuse disposal	-	344,683	-	344,683
Recycling	-	85,622	-	85,622
Supply and purification	438,061	-	-	438,061
Wastewater treatment	942,415	-	-	942,415
Wastewater pre-treatment	90,671	-	-	90,671
Transmission and distribution	180,852	-	1,004,176	1,185,028
Power generation	-	-	169,318	169,318
Purchased power	-	-	6,293,504	6,293,504
Meter reading	-	-	199,207	199,207
Landfill closure and postclosure care	-	25,200	-	25,200
Administration	168,444	182,809	881,930	1,233,183
Maintenance and repair	255,787	-	208,393	464,180
Depreciation	621,401	76,549	589,453	1,287,403
Amortization	-	4,518	11,114	15,632
Total operating expenses	<u>2,697,631</u>	<u>926,180</u>	<u>9,357,095</u>	<u>12,980,906</u>
Operating income	<u>6,068</u>	<u>33,234</u>	<u>3,587,811</u>	<u>3,627,113</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	5,190	13,198	468,477	486,865
Interest expense	(209,120)	(123,481)	(823,257)	(1,155,858)
Contribution to joint IDA	-	-	(72,185)	(72,185)
Miscellaneous income	-	-	2,768	2,768
Revenue sharing agreement	198,702	-	-	198,702
Net nonoperating revenue (expenses)	<u>(5,228)</u>	<u>(110,283)</u>	<u>(424,197)</u>	<u>(539,708)</u>
Income (loss) before transfers	840	(77,049)	3,163,614	3,087,405
<b>TRANSFERS IN (Note 4)</b>	-	502,050	-	502,050
<b>TRANSFERS OUT (Note 4)</b>	-	-	(1,505,875)	(1,505,875)
Change in net assets	840	425,001	1,657,739	2,083,580
<b>NET ASSETS (DEFICIT) AT JULY 1</b>	<u>6,584,510</u>	<u>(3,911,554)</u>	<u>15,122,246</u>	<u>17,795,202</u>
<b>NET ASSETS (DEFICIT) AT JUNE 30</b>	<u>\$ 6,585,350</u>	<u>\$ (3,486,553)</u>	<u>\$ 16,779,985</u>	<u>\$ 19,878,782</u>

**CITY OF BEDFORD, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**Year Ended June 30, 2005**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 2,642,811	\$ 917,854	\$ 12,710,124	\$ 16,270,789
Payments to suppliers	(1,086,798)	(867,827)	(8,895,212)	(10,849,837)
Payments to employees	(930,503)	(206,588)	(293,503)	(1,430,594)
Net cash provided by (used in) operating activities	<u>625,510</u>	<u>(156,561)</u>	<u>3,521,409</u>	<u>3,990,358</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Revenue sharing agreement	198,702	-	-	198,702
Contribution to joint IDA	-	-	(56,743)	(56,743)
Interfund borrowing	906,748	-	-	906,748
Transfers from other funds	-	1,098,892	-	1,098,892
Transfers to other funds	-	-	(1,505,875)	(1,505,875)
Net cash provided by (used in) noncapital financing activities	<u>1,105,450</u>	<u>1,098,892</u>	<u>(1,562,618)</u>	<u>641,724</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from capital debt	800,000	-	400,000	1,200,000
Purchases of capital assets	(814,851)	(74,999)	(2,429,113)	(3,318,963)
Principal paid on capital debt	(891,112)	(310,000)	(476,203)	(1,677,315)
Interest paid on capital debt	(207,991)	(110,186)	(753,680)	(1,071,857)
Net cash used in capital and related financing activities	<u>(1,113,954)</u>	<u>(495,185)</u>	<u>(3,258,996)</u>	<u>(4,868,135)</u>
<b>INVESTING ACTIVITIES</b>				
Interest received	5,190	13,198	477,806	496,194
Net cash provided by investing activities	<u>5,190</u>	<u>13,198</u>	<u>477,806</u>	<u>496,194</u>
Net increase (decrease) in cash and cash equivalents	622,196	460,344	(822,399)	260,141
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	330,959	322,706	13,405,422	14,059,087
Ending at June 30	<u>\$ 953,155</u>	<u>\$ 783,050</u>	<u>\$ 12,583,023</u>	<u>\$ 14,319,228</u>
<b>RECONCILIATION TO EXHIBIT 6</b>				
Cash and cash equivalents	\$ -	\$ 455,685	\$ 10,918,870	\$ 11,374,555
Cash and cash equivalents, restricted	953,155	327,365	1,664,153	2,944,673
	<u>\$ 953,155</u>	<u>\$ 783,050</u>	<u>\$ 12,583,023</u>	<u>\$ 14,319,228</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>				
Operating income	\$ 6,068	\$ 33,234	\$ 3,587,811	\$ 3,627,113
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	621,401	81,066	600,567	1,303,034
Landfill closure and postclosure care	-	(249,000)	-	(249,000)
Nonoperating receipts	-	-	2,768	2,768
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	(62,626)	(41,560)	(241,637)	(345,823)
(Decrease) increase in:				
Accounts payable and accrued liabilities	32,517	11,304	(457,413)	(413,592)
Accrued payroll and related liabilities	20,929	5,066	17,807	43,802
Customer security deposits	1,738	-	4,087	5,825
Compensated absences	5,483	3,329	7,419	16,231
Net cash provided by (used in) operating activities	<u>\$ 625,510</u>	<u>\$ (156,561)</u>	<u>\$ 3,521,409</u>	<u>\$ 3,990,358</u>
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital asset purchases included in accounts payable at year end	\$ 1,140	\$ 717	\$ -	\$ 1,857

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

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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 \$10,000 for an operating contribution to the Central Virginia Community Services Board for June 30, 2005.

*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, 2005**

**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*, 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 (4.64% for 2005). The City made an operating contribution of \$72,185 to the Authority for the year ended June 30, 2005. 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, 2005

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 \$184,473 are included in the Governmental Activities noncurrent liabilities. An asset in the amount of \$154,925 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 \$532,187 Program during 2005. 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, 2005**

**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, 2005

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 \$389,919 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, 2005**

**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 using historical collection data and specific account analysis.

**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, \$67,947 of interest expense was included as part of the cost of capital assets under construction.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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, 2005**

**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 2.2-4400 *et. Seq.* of the *Code of Virginia*, or covered by federal depository insurance.

**Investments**

**Investment Policy:**

In accordance with the *Code of Virginia* and other applicable law, including regulations, the City's investment policy (Policy) permits investments in Treasury Securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *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 their 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 three months from the date of purchase.

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 2. Deposits and Investments (Continued)**

**Investments (Continued)**

Credit Risk:

As required by state statute or by the City, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following; Moody's Investors Service, Standard & Poor's and Fitch Investor's Service, provided that the issuing corporation has a net worth of \$50 million and its long term debt is rated A or better by Moody's and Standard and Poor's. Banker's acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Open-end investment funds must be registered under the Securities Act of the Commonwealth or the Federal Investment Company Act of 1940, provided that they invest only in securities approved for investment herein. Commonwealth of Virginia and Virginia Local Government Obligations secured by debt service reserve funds not subject to annual appropriation must be rated AA or higher by Moody's or Standard & Poor's. Repurchase agreements require that the counterparty be rated "A" or better by Moody's and Standard & Poor's.

As of June 30, 18% of the portfolio was invested in "AAA" rated obligations and 82% was invested in a "AAAm" rated LGIP fund. All credit ratings presented in this paragraph are Standard & Poor's ratings.

Concentration of Credit Risk:

Although the intent of the Policy is for the City to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the Policy places no limit on the amount the City may invest in any one issuer.

As of June 30, the portions of the City's portfolio that exceed 5% of the total portfolio are as follows:

<u>Issuer</u>	<u>% of Portfolio</u>
Money market funds – LGIP	82%
Money market funds – Bank of New York	11%

Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Agency securities purchased must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase and banker's acceptances must mature within 180 days of the date of purchase. The City is only invested in money market funds at year end which is readily available.

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 2. Deposits and Investments (Continued)**

**Investments (Continued)**

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City shall be held in the safekeeping by a third party and evidenced by safekeeping receipts. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, all of the City’s investments are held in a bank’s trust department in the City’s name.

The above items are reflected in the statements as follows:

Deposits and investments:		
Deposits	\$	1,805,404
Investments		<u>14,379,855</u>
	\$	<u>16,185,259</u>
Statement of net assets:		
Cash and cash equivalents	\$	12,698,292
Restricted cash and cash equivalents		<u>3,486,967</u>
	\$	<u>16,185,259</u>

**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	\$ 187,309	\$ -	\$ -	\$ -	\$ -	\$ 187,309
Accounts	<u>9,700</u>	<u>973</u>	<u>521,452</u>	<u>183,634</u>	<u>2,049,484</u>	<u>2,765,243</u>
Gross receivables	197,009	973	521,452	183,634	2,049,484	2,952,552
Less: allowance for uncollectibles	<u>75,681</u>	<u>-</u>	<u>60,200</u>	<u>15,548</u>	<u>234,934</u>	<u>386,363</u>
Net total receivables	<u>\$ 121,328</u>	<u>\$ 973</u>	<u>\$ 461,252</u>	<u>\$ 168,086</u>	<u>\$ 1,814,550</u>	<u>\$ 2,566,189</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, *deferred revenue* reported in the governmental funds was as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable	<u>\$ 102,511</u>

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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	\$ 918,989

The primary purpose of the interfund balances is for negative pooled cash amounts in the Water and Sewer Fund.

Interfund transfers are as follows:

Transfer Out: Fund	Transfer In: Fund	Amount
General	Solid Waste	\$ 502,050
Electric	General	1,505,875
		\$ 2,007,925

The primary purposes of the transfers 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	\$ 38,602	\$ 38,602
Joint tourism agreement	412,954	-
Commonwealth of Virginia		
Cost reimbursements	39,315	-
Highway grants	221,931	-
State sales tax	30,855	-
Local sales tax	77,477	-
	\$ 821,134	\$ 38,602

Amounts due to other governmental units are as follows:

	Governmental Activities	Business-Type Activities
Bedford County		
Shared services	\$ 480,904	\$ -
Consumer utility tax	6,314	-
Bedford Joint Economic Development Authority contribution	-	72,185
	\$ 487,218	\$ 72,185

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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	\$ 229,550	\$ -	\$ 1,989,260
Construction in progress	1,112,626	208,849	1,009,435	312,040
Total capital assets, not depreciated	<u>2,872,336</u>	<u>438,399</u>	<u>1,009,435</u>	<u>2,301,300</u>
Capital assets, depreciated				
Buildings and improvements	11,282,050	971,104	-	12,253,154
Machinery and equipment	5,668,421	647,184	73,043	6,242,562
Infrastructure	936,486	479,367	-	1,415,853
Total capital assets, depreciated	<u>17,886,957</u>	<u>2,097,655</u>	<u>73,043</u>	<u>19,911,569</u>
Less accumulated depreciation	<u>10,724,162</u>	<u>704,971</u>	<u>73,043</u>	<u>11,356,090</u>
Total capital assets, depreciated, net	<u>7,162,795</u>	<u>1,392,684</u>	<u>-</u>	<u>8,555,479</u>
Governmental activities capital assets, net	<u>\$ 10,035,131</u>	<u>\$ 1,831,083</u>	<u>\$ 1,009,435</u>	<u>\$ 10,856,779</u>
 <u>Business-Type Activities</u>				
Capital assets, not depreciated				
Land	\$ 994,514	\$ -	\$ -	\$ 994,514
Construction in progress	870,649	161,992	676,033	356,608
Total capital assets, not depreciated	<u>1,865,163</u>	<u>161,992</u>	<u>676,033</u>	<u>1,351,122</u>
Capital assets, depreciated				
Buildings and improvements	26,437,970	336,677	-	26,774,647
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission Systems	23,464,921	3,096,764	-	26,561,685
Machinery and equipment	2,268,195	401,420	28,813	2,640,802
Total capital assets, depreciated	<u>55,487,031</u>	<u>3,834,861</u>	<u>28,813</u>	<u>59,293,079</u>
Less accumulated depreciation	<u>25,704,055</u>	<u>1,287,403</u>	<u>28,813</u>	<u>26,962,645</u>
Total capital assets, depreciated, net	<u>29,782,976</u>	<u>2,547,458</u>	<u>-</u>	<u>32,330,434</u>
Business-type activities capital assets, net	<u>\$ 31,648,139</u>	<u>\$ 2,709,450</u>	<u>\$ 676,033</u>	<u>\$ 33,681,556</u>

(Continued)

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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.

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 64,484
Public safety	150,791
Public works	98,718
Education	295,152
Parks, recreation, and cultural	44,185
Community development	51,641
	<u>\$ 704,971</u>
Business-type activities	
Water and sewer	\$ 621,401
Solid waste	76,549
Electric	589,453
	<u>\$ 1,287,403</u>

**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:

Project	Spent to Date	Remaining Commitment
Electric Facility	\$ 70,225	\$ 52,275
Transfer Station	37,506	122,994
	<u>\$ 107,731</u>	<u>\$ 175,269</u>

**Note 7. Long-Term Liabilities**

**Prior Years' Defeasance of Debt**

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

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

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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
<b>Governmental Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 3,091,400	\$ -	\$ 518,100	\$ 2,573,300	\$ 526,100
Literary fund loans	1,200,000	-	-	1,200,000	150,000
Less:					
Deferred costs	(27,829)	-	(7,580)	(20,249)	-
Total bonds payable	4,263,571	-	510,520	3,753,051	676,100
Capital leases	231,391	-	46,918	184,473	12,839
Compensated absences	123,167	161,287	123,167	161,287	161,287
Governmental activities long-term liabilities	<u>\$ 4,618,129</u>	<u>\$ 161,287</u>	<u>\$ 680,605</u>	<u>\$ 4,098,811</u>	<u>\$ 850,226</u>
<b>Business-Type Activities:</b>					
Bonds payable:					
General obligation bonds	\$ 12,832,761	\$ 1,200,000	\$ 1,054,684	\$ 12,978,077	\$ 1,127,922
Revenue bonds	17,629,730	-	622,631	17,007,099	647,631
Less:					
Deferred costs	(1,496,027)	-	(86,522)	(1,409,505)	-
Plus deferred amounts:					
Bond premiums	25,993	-	3,247	22,746	-
Total bonds payable	28,992,457	1,200,000	1,594,040	28,598,417	1,775,553
Compensated absences	105,100	121,330	105,100	121,330	121,330
Landfill closure liability:					
Open landfill	1,533,122	66,708	-	1,599,830	-
Closed landfill	2,090,878	-	315,708	1,775,170	711,074
Business-type activities long-term liabilities	<u>\$ 32,721,557</u>	<u>\$ 1,388,038</u>	<u>\$ 2,014,848</u>	<u>\$ 32,094,747</u>	<u>\$ 2,607,957</u>

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

At year end, the general fund reported a current liability of \$111,000 for a literacy loan debt service payment which was due prior to year end. This amount includes \$36,000 of accrued interest which is included in accrued interest payable on the statement of net assets. These amounts are also included in the long-term debt schedules on this and the following page.

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**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
2006	\$ 526,100	\$ 90,247	\$ 162,839	\$ 72,794	\$ 1,127,922	\$ 303,957	\$ 647,631	\$ 879,505
2007	526,600	70,668	88,051	34,332	1,145,933	273,623	667,631	856,245
2008	366,800	50,730	88,266	31,867	1,169,308	241,946	692,631	831,071
2009	373,800	35,959	88,485	29,398	1,043,055	208,863	722,631	804,287
2010	145,000	23,393	88,708	26,925	866,215	182,205	742,631	776,026
2011-2016	635,000	45,486	447,006	97,407	4,127,153	573,794	3,523,946	3,390,955
2017-2022	-	-	421,118	35,280	2,960,066	117,343	4,225,000	2,381,464
2023-2028	-	-	-	-	538,425	-	5,570,000	1,046,692
2029-2034	-	-	-	-	-	-	214,998	12,691
	<u>\$ 2,573,300</u>	<u>\$ 316,483</u>	<u>\$ 1,384,473</u>	<u>\$ 328,003</u>	<u>\$ 12,978,077</u>	<u>\$ 1,901,731</u>	<u>\$ 17,007,099</u>	<u>\$ 10,978,936</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	\$ 310,000	\$ -
Public Improvement Bonds	2.0-3.6	12/01/03	2013	\$ 1,460,000	1,335,000	-
Virginia Resources Authority Taxable G.O. Water and Sewer Bonds	2.5	06/23/98	2019	\$ 5,225,000	-	4,113,675
Virginia Resources Authority Solid Waste Disposal System Revenue Bonds	3.65-4.9	03/01/97	2008	\$ 1,230,000	-	395,000
Virginia Resources Authority Solid Waste Management G.O. Refunding Bonds	4.1-4.85	06/28/01	2013	\$ 2,375,000	-	1,695,000
Virginia Resource Authority G.O. Water and Sewer Bonds	3.1-4.85	06/06/02	2017	\$ 2,005,000	-	1,705,000
Virginia Revolving Loan Fund G.O. Water and Sewer Bonds	0.0	04/25/02	2022	\$ 2,866,300	-	2,508,012
Virginia Revolving Loan Fund G.O. Water and Sewer Bonds	0.0	09/27/01	2022	\$ 1,800,000	-	1,530,000
G.O. Refunding Bonds	3.58	06/27/02	2009	\$ 1,498,900	928,300	-
Public Improvement Bonds	3.0	10/01/04	2010	\$ 1,200,000	-	1,031,390
					2,573,300	12,978,077
				Less deferred costs	(20,249)	(116,355)
				Plus bond premium	-	22,746
					<u>\$ 2,553,051</u>	<u>\$ 12,884,468</u>

Revenue Bonds:

Virginia Resources Authority Taxable Water and Sewer Revenue Bonds	0.0	01-91	2011	\$ 3,990,672	\$ -	\$ 1,317,099
Electric System Revenue Refunding Bonds	3.0-5.4	01-94	2025	\$ 16,450,000	-	13,355,000
Taxable Lease Revenue Bonds	7.81	06-96	2026	\$ 2,630,000	-	2,335,000
					-	17,007,099
				Less deferred costs	-	(1,293,150)
					<u>\$ -</u>	<u>\$ 15,713,949</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	\$ 184,473	\$ -
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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.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**Note 8. Landfill Closure and Postclosure Care Costs**

**Closed Landfill:** 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 for a minimum of ten years after closure. The cumulative amount of estimated closure and postclosure care costs to date for this site, less cash paid for such costs to date, totals \$1,775,170. The presence of certain contaminants from the closed landfill has been detected in the groundwater on adjacent property. The estimated liability is based on the Virginia Department of Environmental Quality ("DEQ") accepting the active remedy proposed by the City as discussed below. 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, changes in regulations, or other unforeseen circumstances. This amount is included in the landfill closure and postclosure liability in the Solid Waste Enterprise Fund.

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, \$240,000, represents a commitment, and is not included in landfill closure/postclosure liability and expense. This will be paid for by the water and sewer fund.

**Open Landfill:** 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 \$1,599,830 for this site, which represents the cumulative amount of estimated closure and postclosure care costs of \$2,114,258 reported to date, based on the use of approximately 75% 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, for encumbrances related to contractual obligations for which goods or services have not been received, and for amounts due by Bedford County for the repayment of debt related to the joint tourism agreement.

**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.

**Deficit Net Assets:** At June 30, the Solid Waste Fund had a deficit in net assets of \$(3,486,553). This deficit is anticipated to be recovered through future revenues, as well as possible transfers from the General Fund.

**Deficit Invested in Capital Assets net of Related Debt:** At June 30, the Solid Waste Fund had a deficit in net assets invested in capital assets net of related debt of \$(663,232). This deficit is due to the depreciation period being shorter for fixed assets than the repayment of the debt related to those assets.

## CITY OF BEDFORD, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2005

#### 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 2005 was 17.5% 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 2005, the City's annual pension cost of \$790,351, was equal to its required and actual contributions. The required contribution was determined as part of the June 30, 2004 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, 2005**

**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, 2005	\$ 790,351	100%	\$ -
June 30, 2004	\$ 611,870	100%	\$ -
June 30, 2003	\$ 570,979	100%	\$ -

**Note 11. Service Contracts**

The following is a summary of significant service contracts:

**A. Electrical Service**

Agreement dated July 1, 1998, expired on June 30, 2005, 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 2005 was \$.82 per \$100 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 2005 and 2004 remain unchanged.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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 2005 were approximately \$96,000.

**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 approximately \$55 million. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability insurance. Total premiums for fiscal year 2005 were approximately \$199,000.

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 2005 were approximately \$2,900.

**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 2005 were \$510,390.

**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.

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

Total minimum lease payments	\$ 7,317,085
Guaranteed residual value	1,369,086
Unearned income	<u>(6,150,470)</u>
Net investment in direct financing lease	<u>\$ 2,535,701</u>

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

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**Note 15. Commitments and Contingencies**

**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.

**Note 16. Joint Economic Development and Growth Sharing Agreement**

The City 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. Subsequent Event**

Subsequent to year end the City Council approved the refunding of approximately \$14,000,000 in Electric System revenue bonds.

**Note 18. Other Post-Employment Benefits**

The City provides limited healthcare benefits to current qualifying retirees until the earlier of age 65 or reaching eligibility for Medicaid and/or Medicare. The City does not pay the retiree's health insurance premiums but allows the retiree to continue on the City's healthcare plan. The City does, however, pay the premiums of certain retired employees under a prior agreement which amounted to \$26,056 in the current year.

The Governmental Accounting Standards Board ("GASB") has issue its Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pensions*. The statement establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption. The requirements of the Statement effective for the Town for fiscal year ending June 30, 2010.

**Note 19. Commitments and Contingencies**

The City entered into an agreement dated September 22, 2004 to guarantee a line of credit for the Blue Ridge Power Agency in an amount not to exceed \$263,000 which expires on January 1, 2007.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

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## CITY OF BEDFORD, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN**  
**June 30, 2005**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Annual Covered Payroll</b>	<b>((b-a)/c) UAAL as of Percentage of Covered Payroll</b>
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	\$ 14,919,201	\$ 3,281,583	78.00%	\$ 4,144,637	79.18%
June 30, 2004	\$ 11,891,838	\$ 15,705,369	\$ 3,813,531	75.72%	\$ 4,353,790	87.59%

**OTHER SUPPLEMENTARY  
INFORMATION**

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# NONMAJOR GOVERNMENTAL FUNDS

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**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

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	Special Revenue		Total Nonmajor Governmental Funds
	VCDG Fund	E-911 Fund	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 156,339	\$ 298,462	\$ 454,801
Receivables, net	-	973	973
Total assets	<u>\$ 156,339</u>	<u>\$ 299,435</u>	<u>\$ 455,774</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Fund balances:			
Unreserved	<u>\$ 156,339</u>	<u>\$ 299,435</u>	<u>\$ 455,774</u>
Total liabilities and fund balances	<u>\$ 156,339</u>	<u>\$ 299,435</u>	<u>\$ 455,774</u>

## CITY OF BEDFORD, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**Year Ended June 30, 2005**

	<u>Special Revenue</u>		Total Nonmajor Governmental Funds
	<u>VCDG Fund</u>	<u>E-911 Fund</u>	
<b>REVENUES</b>			
Other local taxes	\$ -	\$ 97,788	\$ 97,788
Investment earnings	493	-	493
Intergovernmental	3,714	-	3,714
Other	-	33,466	33,466
	<u>4,207</u>	<u>131,254</u>	<u>135,461</u>
Total revenues			
<b>EXPENDITURES</b>			
Current:			
Public safety	-	109,745	109,745
Debt service:			
Principal retirement	-	46,918	46,918
Interest and fiscal charges	-	2,431	2,431
Total expenditures	<u>-</u>	<u>159,094</u>	<u>159,094</u>
Excess (deficiency) of revenues over expenditures	<u>4,207</u>	<u>(27,840)</u>	<u>(23,633)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from refunding of capital lease	-	197,925	197,925
Payments to escrow agent	-	(197,925)	(197,925)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	4,207	(27,840)	(23,633)
<b>FUND BALANCES AT JULY 1</b>	<u>152,132</u>	<u>327,275</u>	<u>479,407</u>
<b>FUND BALANCES AT JUNE 30</b>	<u>\$ 156,339</u>	<u>\$ 299,435</u>	<u>\$ 455,774</u>

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – E-911 FUND  
NONMAJOR GOVERNMENTAL FUND WITH A LEGALLY ADOPTED BUDGET  
Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Other local taxes	\$ 101,700	\$ 101,700	\$ 97,788	\$ (3,912)
Other	-	-	33,466	33,466
Total sources of financial resources	<u>101,700</u>	<u>101,700</u>	<u>131,254</u>	<u>29,554</u>
<b>EXPENDITURES</b>				
Current:				
Public safety	118,500	141,500	109,745	31,755
Debt service:				
Principal retirement	38,069	38,069	46,918	(8,849)
Interest and fiscal charges	2,431	2,431	2,431	-
Total expenditures	<u>159,000</u>	<u>182,000</u>	<u>159,094</u>	<u>22,906</u>
Excess of expenditures over revenues	<u>(57,300)</u>	<u>(80,300)</u>	<u>(27,840)</u>	<u>52,460</u>
Net change in fund balance	<u>\$ (57,300)</u>	<u>\$ (80,300)</u>	<u>\$ (27,840)</u>	<u>\$ 52,460</u>

## **STATISTICAL SECTION**

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

TABLE 1

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

Fiscal Year Ended June 30,	Taxes	Permits, Privilege Fees and Regulatory Licenses	Fines and Forfeitures	Investment Earnings	Charges for Services	Other	Inter-Governmental	Recovered Costs	Totals
2005	\$ 6,088,806	\$ 35,221	\$ 41,628	\$ 221,008	\$ 215,394	\$ 90,799	\$ 6,307,277	\$ 170,035	\$ 13,170,168
2004	\$ 5,920,497	\$ 31,701	\$ 71,577	\$ 122,171	\$ 251,822	\$ 4,331	\$ 6,363,359	\$ 93,974	\$ 12,859,432
2003	\$ 5,839,083	\$ 33,828	\$ 34,959	\$ 156,775	\$ 205,432	\$ 22,064	\$ 5,751,668	\$ 95,235	\$ 12,139,044
2002	\$ 5,695,811	\$ 18,686	\$ 22,478	\$ 257,035	\$ 98,070	\$ 129,782	\$ 5,747,907	\$ 75,842	\$ 12,045,611
2001	\$ 5,385,880	\$ 21,183	\$ 35,210	\$ 543,651	\$ 75,220	\$ 77,807	\$ 5,307,680	\$ 86,004	\$ 11,532,635
2000	\$ 5,476,530	\$ 24,213	\$ 41,795	\$ 430,875	\$ 72,160	\$ 162,915	\$ 5,024,264	\$ 71,573	\$ 11,304,325
1999	\$ 5,383,260	\$ 43,183	\$ 48,839	\$ 393,640	\$ 156,870	\$ 106,933	\$ 4,920,658	\$ 106,495	\$ 11,159,878
1998	\$ 4,883,768	\$ 17,986	\$ 47,321	\$ 297,078	\$ 165,899	\$ 151,646	\$ 4,181,234	\$ 86,212	\$ 9,831,144
1997	\$ 4,395,514	\$ 12,109	\$ 74,550	\$ 305,144	\$ 709,901	\$ 203,885	\$ 4,205,313	\$ 90,671	\$ 9,997,087
1996	\$ 4,232,107	\$ 9,134	\$ 62,293	\$ 268,092	\$ 653,914	\$ 235,248	\$ 3,689,812	\$ 187,617	\$ 9,338,217

(1) Includes General and Special Revenue Funds

TABLE 2

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

Fiscal Year Ended June 30,	General Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Non-Departmental	Debt Service	Capital Outlay	Totals
2005	\$ 1,335,147	\$ 27,097	\$ 3,122,124	\$ 2,043,948	\$ 721,935	\$ 6,111,105	\$ 914,838	\$ 1,069,227	\$ 486	\$ 790,348	\$ -	\$ 16,136,255
2004	\$ 1,085,412	\$ 11,587	\$ 2,516,748	\$ 1,774,348	\$ 366,032	\$ 6,301,173	\$ 953,378	\$ 1,055,270	\$ 11,580	\$ 739,517	\$ -	\$ 14,815,045
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

(1) Includes General and Special Revenue Funds

TABLE 3

CITY OF BEDFORD, VIRGINIA

ASSESSED VALUE OF TAXABLE PROPERTY  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Public Service Corporation			Totals
	Real Estate (1)	Personal Property (2)	Machinery and Tools (2)	
2005	\$ 313,729,100	\$ 41,824,870	\$ 30,194,580	\$ 396,185,711
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

(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
2004	\$ 3,650,823	\$ 3,407,560	93.34%	\$ 73,461	\$ 3,481,021	95.35%	\$ 232,210	6.36%
2003	\$ 3,577,953	\$ 3,342,430	93.42%	\$ 104,478	\$ 3,446,908	96.34%	\$ 260,505	7.28%
2001	\$ 3,455,872	\$ 3,002,760	86.89%	\$ 55,243	\$ 3,058,003	88.49%	\$ 352,991	10.21%
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%

(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

<b>Fiscal Year Ended June 30,</b>	<b>Real Estate</b>	<b>Personal Property</b>	<b>Machinery and Tools</b>	<b>Mobile Homes</b>
2005	\$ 0.82	\$ 1.80	\$ 1.30	\$ 0.82
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

Per \$100 Assessed Value

TABLE 6

## CITY OF BEDFORD, VIRGINIA

## LARGEST REAL ESTATE ASSESSMENTS

June 30, 2005

<b>Name</b>	<b>Nature of Business</b>	<b>Assessed Value</b>	<b>Tax</b>	<b>Percent of Total Levy</b>
Raintree East/Raintree Village	Apartment rental	\$ 8,034,500	\$ 65,880	2.58%
Verizon, VA, Inc.	Telecommunications	7,076,528	58,028	2.27%
Sam Moore/SM Realty	Furniture manufacturer	6,772,800	55,537	2.18%
Southgate Assoc. II, LP	Retail real estate rental	5,488,000	45,002	1.74%
BFG	Frozen food manufacturer	3,705,600	30,386	1.19%
RBX Industries, Inc.	Rubber manufacturer	3,533,400	28,974	1.14%
Roberts, Thomas & Va.	Automotive sales	3,419,800	28,042	1.10%
Carriage Hill of VA, Ltd.	Retirement center	3,348,300	27,456	1.08%
Frank Chervan, Inc.	Furniture frame manufacturer	2,960,000	24,272	95.00%
Rebkee Partners Bedford, LLC	Retail real estate rental	2,281,700	18,710	73.00%
Total		<u>\$ 46,620,628</u>	<u>\$ 382,287</u>	

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	(3) Gross Bonded Debt	Less Debt		Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
				Payable from Enterprise Revenues	Net Bonded Debt		
2005	6,299 (4)	\$ 396,288,621	\$ 15,551,377	\$ 12,978,077	\$ 2,573,300	0.65%	\$ 409
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

(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,	Principal	Interest	Total Debt Service	(1)	Percent of Debt Service to General Expenditures
				Total General Governmental Expenditures	
2005	\$ 640,018	\$ 150,330	\$ 790,348	\$ 16,136,255	4.90%
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%

(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 <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Revenue Available for Debt Service	Debt Service Requirements (3)			Coverage
				Principal	Interest	Total	
2005	\$ 17,296,354	\$11,799,137	\$ 5,497,217	\$ 622,631	\$ 901,065	\$ 1,523,696	3.61
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

(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.

CITY OF BEDFORD, VIRGINIA

PROPERTY VALUES, CONSTRUCTION, AND BANK DEPOSITS  
Last Ten Fiscal Years

Fiscal Year Ended June 30,	Property Value (1)		Exemptions	Total	(2) Commercial Construction		(2) Residential Construction	
	Commercial	Residential			Number of Units	Value	Number of Units	Value
2005	\$ 93,451,000	\$ 217,680,100	\$ 131,408,100	\$ 442,539,200	6	\$ 2,810,414	6	\$ 605,000
2004	\$ 92,014,300	\$ 215,771,300	\$ 128,235,900	\$ 436,021,500	4	\$ 3,138,500	5	\$ 475,500
2003	\$ 91,643,900	\$ 211,089,800	\$ 125,748,300	\$ 428,482,000	11	\$ 4,262,131	19	\$ 2,042,732
2002	\$ 83,211,400	\$ 194,416,100	\$ 107,947,400	\$ 385,574,900	5	\$ 1,465,000	13	\$ 1,396,700
2001	\$ 81,145,900	\$ 193,375,900	\$ 93,775,100	\$ 368,296,900	12	\$ 2,757,200	17	\$ 1,557,900
2000	\$ 79,384,600	\$ 191,739,900	\$ 81,575,200	\$ 352,699,700	1	\$ 385,553	13	\$ 1,140,000
1999	\$ 75,562,800	\$ 190,305,900	\$ 74,577,800	\$ 340,446,500	6	\$ 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	7	\$ 1,398,204	13	\$ 842,000
1996	\$ 66,497,700	\$ 150,675,500	\$ 76,626,400	\$ 293,799,600	2	\$ 134,000	20	\$ 1,678,800

(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, 2005

<u>Employer</u>	<u>Product or Service</u>	<u>Total Estimated Employment</u>
Lay-Z Boy/Sam Moore Furniture	Furniture manufacturer	393
Carilion Bedford Memorial Hospital	Health services	352
Bedford Public Schools	Education	260
Frank Chervan	Furniture frame manufacturer	200
Brooks Food Group/Golden West	Frozen food products	175
Holbrooke Enterprises	Food products	170
Cintas	Uniforms	141
Bedford Weaving Mills	Textile manufacturer	120
Smyth Company/Bedford	Lithographer	118
Longwood Industries	Textile manufacturer	100

TABLE 12

CITY OF BEDFORD, VIRGINIA

COMPUTATION OF LEGAL DEBT MARGIN

June 30, 2005

Total assessed value of real estate (1)	<u>\$ 323,745,419</u>
Legal debt limit - 10% of total assessed value of real estate	32,374,542
Less bonded debt as of June 30, 2005	<u>15,551,377</u>
Legal debt margin	<u>\$ 16,823,165</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**

<b>Fiscal Year Ended June 30,</b>	<b>Population</b>	<b>Per Capita Income (3)</b>	<b>School Enrollment (4)</b>	<b>Unemployment Rate</b>	
2005	6,299 (6)	N/A	914	4.6%	
2004	6,299 (6)	N/A	936	4.9%	(5)
2003	6,299 (6)	\$ 30,051	946	3.9%	(5)
2002	6,299 (6)	\$ 29,524	943	4.6%	(5)
2001	6,299 (6)	\$ 29,205	986	2.4%	(5)
2000	6,676 (1)	\$ 27,904	972	2.2%	(5)
1999	6,200 (2)	\$ 26,731	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)

(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, 2005**

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	42.85
Miles of Sewers:	
Storm Sewers	5
Sanitary Sewers	46
Public Utilities:	
Electric:	
Number of Customer Accounts	6,444
Sub-Stations	11
Number of Street Lights	835
Miles of Distribution Lines	350
Miles of Transmission Lines	28
Water:	
Number of Customer Accounts	3,189
Miles of Distribution Lines	63
Water Treatment Plants:	
Number	1
Capacity (million gallons per day)	3
Volume Pumped - Fiscal year 2005 (million gallons per day average)	1.1
Wastewater Treatment Plants:	
Number	1
Number of Customer Accounts	2,590
Volume Treated (million gallons per day average)	1
Elections:	
Number of Registered Voters	3,645

<u>Election</u>	<u>Date</u>	<u>Votes Cast</u>	<u>Percent of Registered Voters</u>
Republican Primary	11/02/2004	2,557	69.90%
Republican Primary	06/14/2005	83	2.28%
Republican Primary	06/14/2005	115	3.15%



## **COMPLIANCE SECTION**

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**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, 2005, which collectively comprise the City of Bedford, Virginia's basic financial statements and have issued our report thereon dated October 21, 2005. 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. This reportable condition is described below:

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.

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, we consider the reportable condition mentioned above to be a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated October 21, 2005.

## 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 instances of noncompliance and other matters that are required to be reported under *Government Auditing Standards*, which are described below:

- Highway Maintenance funds were used to purchase food items.
- The City charged equipment usage against Highway Maintenance Funds on a piece of equipment that had been purchased using Highway Maintenance Funds.
- Highway Maintenance records did not adequately identify streets on which work was performed.
- One bank account was not properly identified as public funds.

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 21, 2005

**CITY OF BEDFORD, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS**

**June 30, 2005**

As more fully described in the 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*, 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

**LOCAL COMPLIANCE MATTERS**

City Charter  
City Code