

CITY OF BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2006

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY OF BEDFORD, VIRGINIA
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INTRODUCTORY SECTION



City of Bedford, Virginia

Department of Finance

November 2, 2006

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, 2006. 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, 2006 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

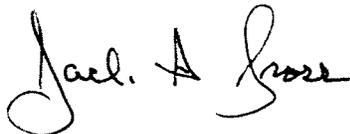
Independent Audit. Virginia Law and the Charter of the City of Bedford require that the financial statements of the City be audited by a Certified Public Accountant. Brown, Edwards, & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. The auditor's report is 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, 2005. This was the sixth 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,



Charles P. Kolakowski
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, 2005

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



President

Executive Director

CITY OF BEDFORD, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2006

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
Phyllis J. Parker

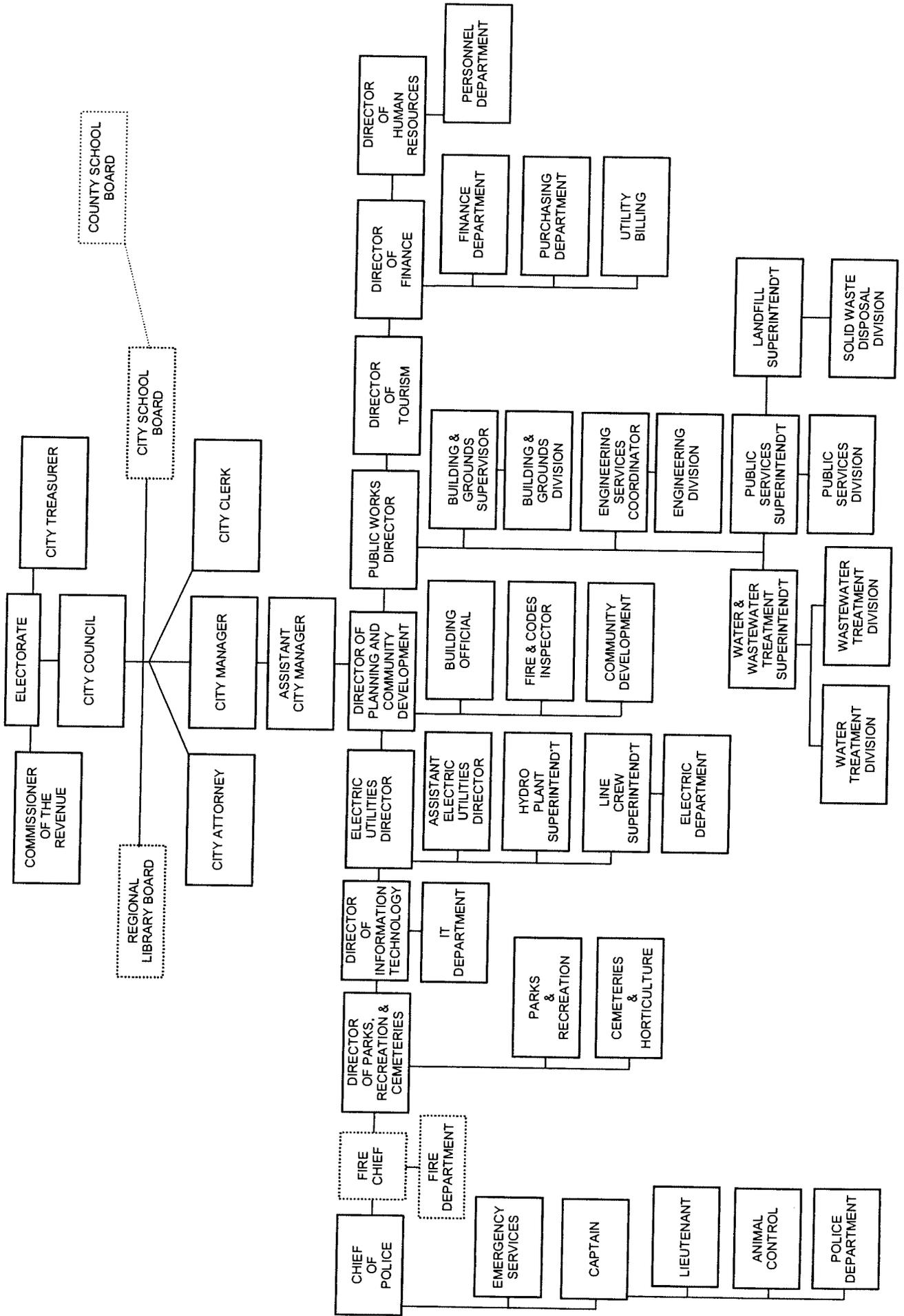
Debra Z. Bond
Stephen C. Rush

OTHER OFFICIALS

Charles P. Kolakowski
Barrett F. Warner
Teresa W. Hatcher
William W. Berry, IV
Debbie A. Roberts
Valerie N. Wilson
Milton H. Graham
S. Todd Stone
Rosemarie B. Jordan
Barrett F. Warner
Clarke W. Gibson
Randal A. Nixon
Eugene Ratzlaff
Dr. James G. Blevins
Charlene D. McFall

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

CITY OF BEDFORD ORGANIZATIONAL CHART



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Bedford, Virginia as of and for the year ended June 30, 2006, 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 opinions.

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, 2006, 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 September 29, 2006 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3a through 3i and on page 37, 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 section 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 and statistical sections 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
September 29, 2006, except for Note 8, as to
which the date is November 16, 2006.

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, 2006 and 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$27,682,369 (net assets). Of this amount, \$12,483,351 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The governments' total net assets decreased by \$1,600,203, which is primarily attributable to the operations of the electric fund and solid waste fund.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,855,333, an increase of \$438,234 in comparison with the prior year. Approximately 43% of this total amount, \$1,229,620 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 \$759,917, or 5% of total general fund expenditures.
- The City's total debt increased by \$2,362,031 (7%) 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 \$27,682,369 at the close of the most recent fiscal year.

A portion of the City's net assets (55%) 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* (45%) 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 4,035,091	\$ 3,857,575	\$ 19,136,101	\$ 19,579,289	\$ 23,171,192	\$ 23,436,864
Capital assets	10,934,163	10,856,779	35,910,045	33,681,556	46,844,208	44,538,335
Total assets	<u>14,969,254</u>	<u>14,714,354</u>	<u>55,046,146</u>	<u>53,260,845</u>	<u>70,015,400</u>	<u>67,975,199</u>
Long-term liabilities outstanding	4,121,726	4,098,811	35,018,310	32,094,747	39,140,036	36,193,558
Other liabilities	1,058,433	1,211,753	2,134,562	1,287,316	3,192,995	2,499,069
Total liabilities	<u>5,180,159</u>	<u>5,310,564</u>	<u>37,152,872</u>	<u>33,382,063</u>	<u>42,333,031</u>	<u>38,692,627</u>
Net assets						
Invested in capital assets, net of related debt	7,824,049	6,899,006	7,374,969	7,061,689	15,199,018	13,960,695
Unrestricted	1,965,046	2,504,784	10,518,305	12,817,093	12,483,351	15,321,877
Total net assets	<u>\$ 9,789,095</u>	<u>\$ 9,403,790</u>	<u>\$ 17,893,274</u>	<u>\$ 19,878,782</u>	<u>\$ 27,682,369</u>	<u>\$ 29,282,572</u>

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 decreased by \$1,600,203 during the current fiscal year. This decrease represents a 5% decrease during the current fiscal year. The key element of this decrease is due to the increase in the cost of purchased power of \$4,435,532 with a resulting increase in revenue of only \$2,369,264 in the Electric fund and the solid waste fund.

Governmental Activities – Governmental activities increased the City's net assets by \$385,305. A key element of this increase (\$521,718) is the decrease in the net expenditures from community development activities.

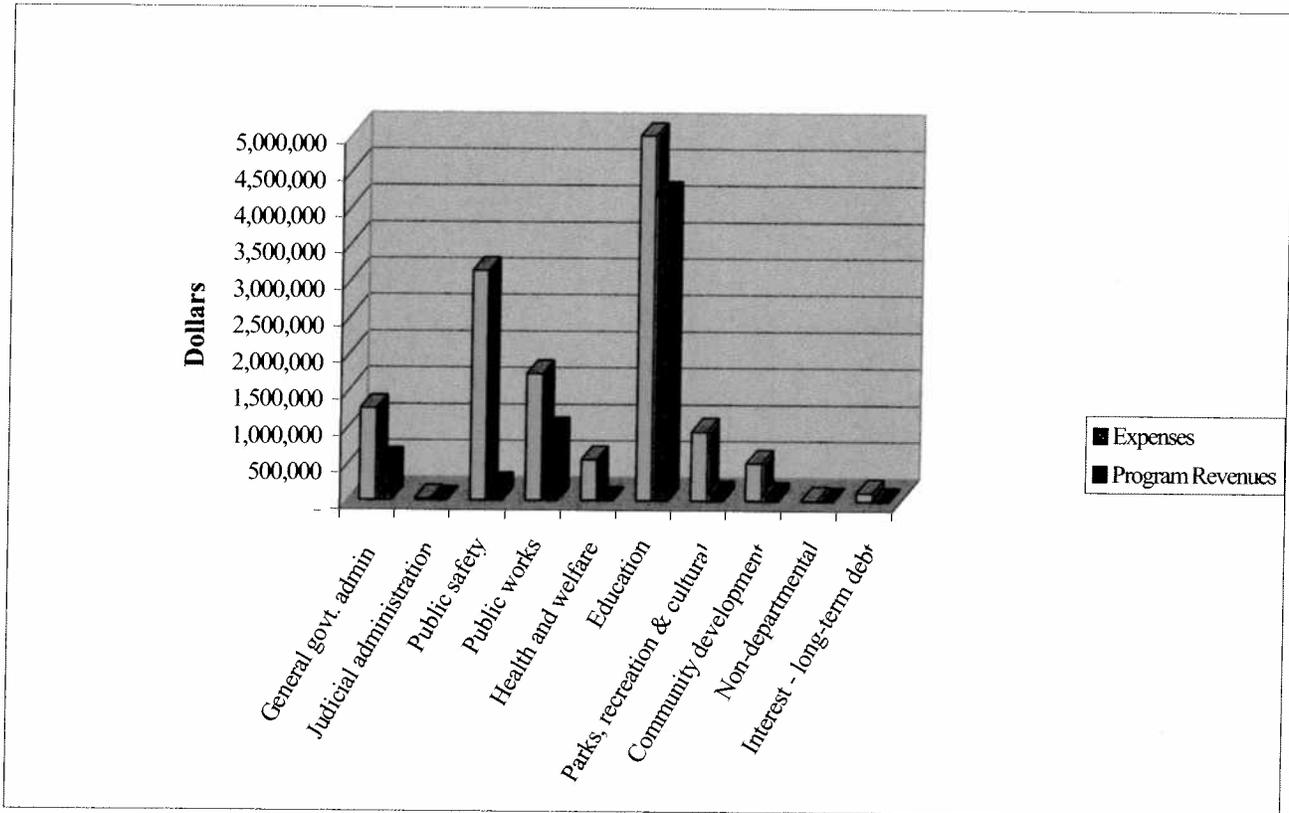
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. Two noteworthy exceptions, however, are the City's increase in the public safety category and the education category. In regards to the public safety category, the increase in expenditures of \$355,199 reflects the addition of eight new positions at the end of the prior fiscal year. The current year includes a full year of salaries and benefits. The education category increase of \$596,407 reflects the increase in the City's share of the Bedford County school system.

Business-type Activities – Business-type activities decreased the City's net assets by \$1,985,508. A key element of this decrease is as follows: An increase in the cost of purchased power in the electric fund of \$4,435,532 and an increase in the liability for the solid waste fund related to groundwater contaminant issues.

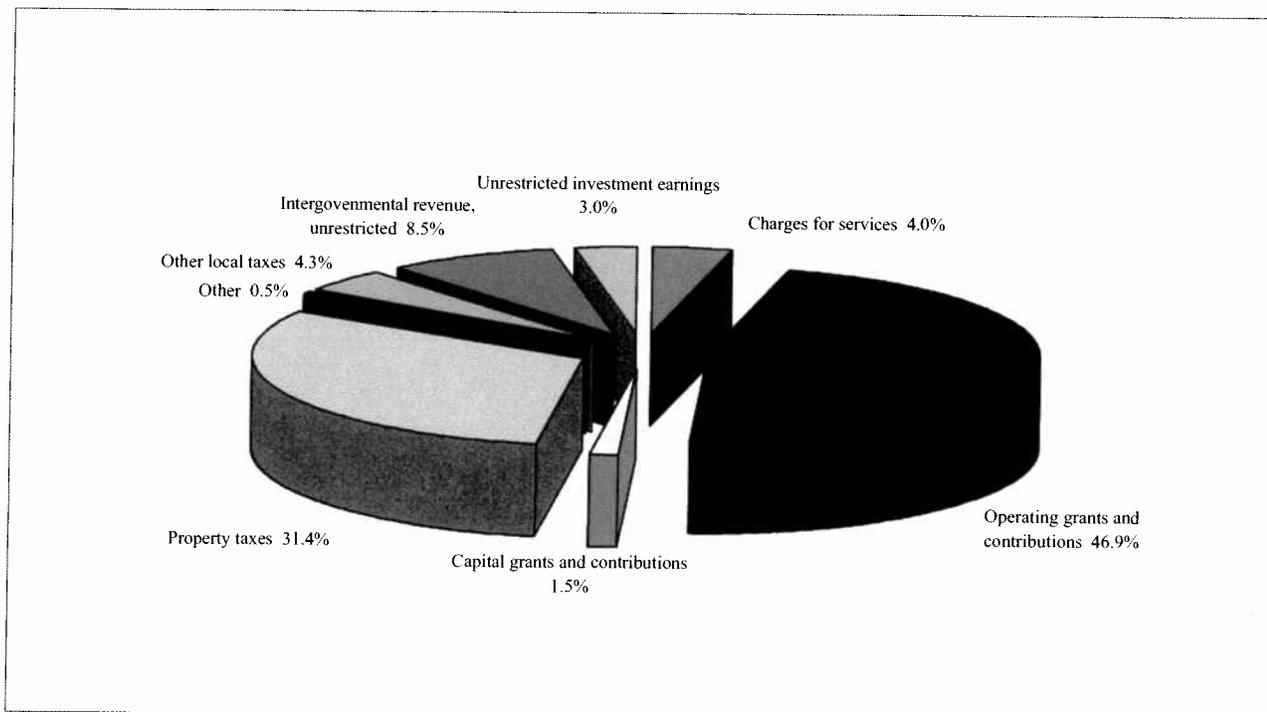
The City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program revenues						
Charges for services	\$ 462,555	\$ 462,278	\$ 19,382,324	\$ 16,608,019	\$ 19,844,879	\$ 17,070,297
Operating grants and contributions	5,403,786	5,141,468	-	-	5,403,786	5,141,468
Capital grants and contributions	171,077	262,155	-	-	171,077	262,155
General revenues						
Property taxes	3,615,417	3,568,818	-	-	3,615,417	3,568,818
Other taxes	2,597,919	2,528,155	-	-	2,597,919	2,528,155
Intergovernmental revenue unrestricted	982,103	903,654	-	-	982,103	903,654
Investment earnings	343,308	221,008	371,778	486,865	715,086	707,873
Other	57,037	57,333	663,538	201,470	720,575	258,803
Gain from sale of capital assets	26,212	15,128	-	-	26,212	15,128
Total revenues	<u>13,659,414</u>	<u>13,159,997</u>	<u>20,417,640</u>	<u>17,296,354</u>	<u>34,077,054</u>	<u>30,456,351</u>
Expenses						
General government	1,255,082	1,207,094	-	-	1,255,082	1,207,094
Judicial administration	22,108	27,097	-	-	22,108	27,097
Public safety	3,147,207	2,792,008	-	-	3,147,207	2,792,008
Public works	1,734,423	1,544,583	-	-	1,734,423	1,544,583
Health and welfare	558,469	721,935	-	-	558,469	721,935
Education	6,924,063	6,327,656	-	-	6,924,063	6,327,656
Parks, recreation, and cultural	947,889	953,698	-	-	947,889	953,698
Community development	518,251	1,123,443	-	-	518,251	1,123,443
Non-departmental	7,829	486	-	-	7,829	486
Interest on long-term debt	112,811	169,253	-	-	112,811	169,253
Water and sewer	-	-	3,046,030	2,906,751	3,046,030	2,906,751
Solid waste	-	-	2,097,695	1,049,661	2,097,695	1,049,661
Electric	-	-	15,305,400	10,252,537	15,305,400	10,252,537
Total expenses	<u>15,228,132</u>	<u>14,867,253</u>	<u>20,449,125</u>	<u>14,208,949</u>	<u>35,677,257</u>	<u>29,076,202</u>
Excess (deficiency) before transfers	(1,568,718)	(1,707,256)	(31,485)	3,087,405	(1,600,203)	1,380,149
Transfers	1,954,023	1,003,825	(1,954,023)	(1,003,825)	-	-
Change in net assets	385,305	(703,431)	(1,985,508)	2,083,580	(1,600,203)	1,380,149
Net assets – July 1	<u>9,403,790</u>	<u>10,107,221</u>	<u>19,878,782</u>	<u>17,795,202</u>	<u>29,282,572</u>	<u>27,902,423</u>
Net assets – June 30	<u>\$ 9,789,095</u>	<u>\$ 9,403,790</u>	<u>\$ 17,893,274</u>	<u>\$ 19,878,782</u>	<u>\$ 27,682,369</u>	<u>\$ 29,282,572</u>

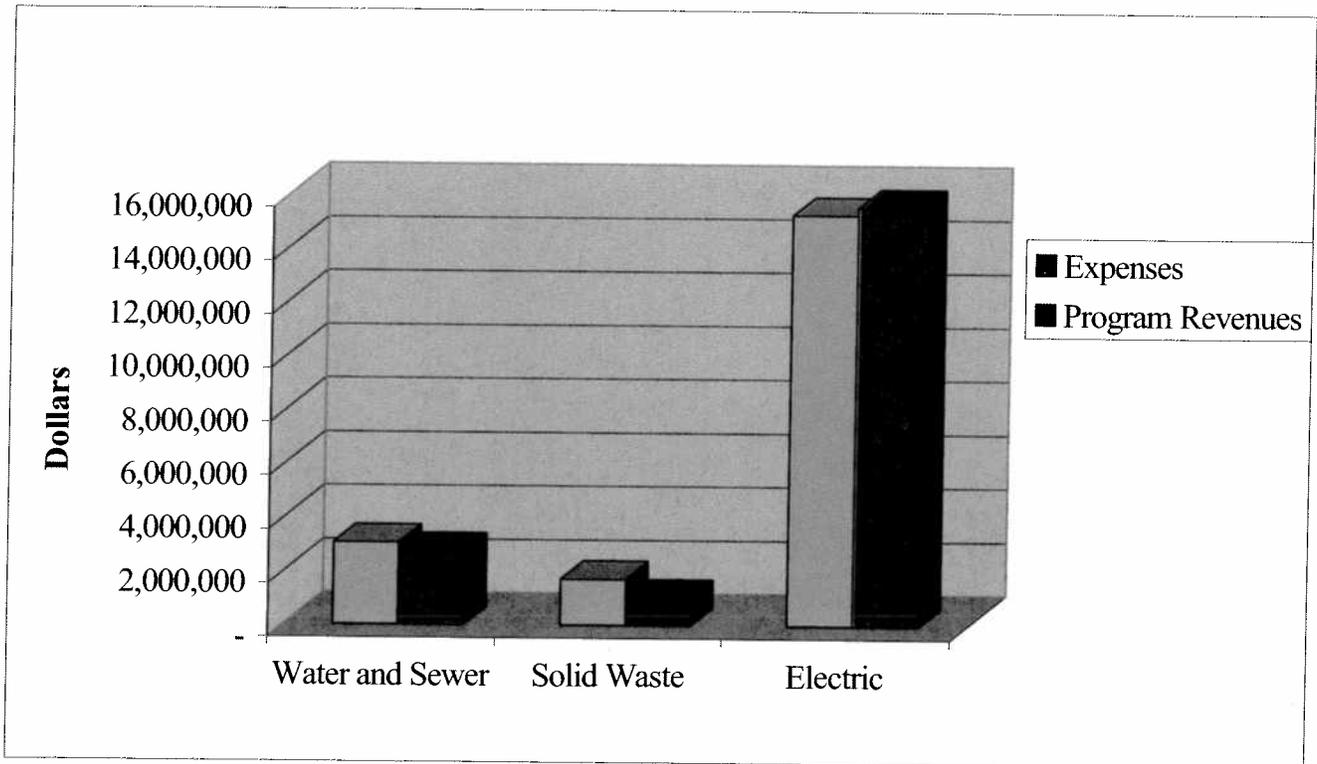
Expenses and Program Revenues – Governmental Activities



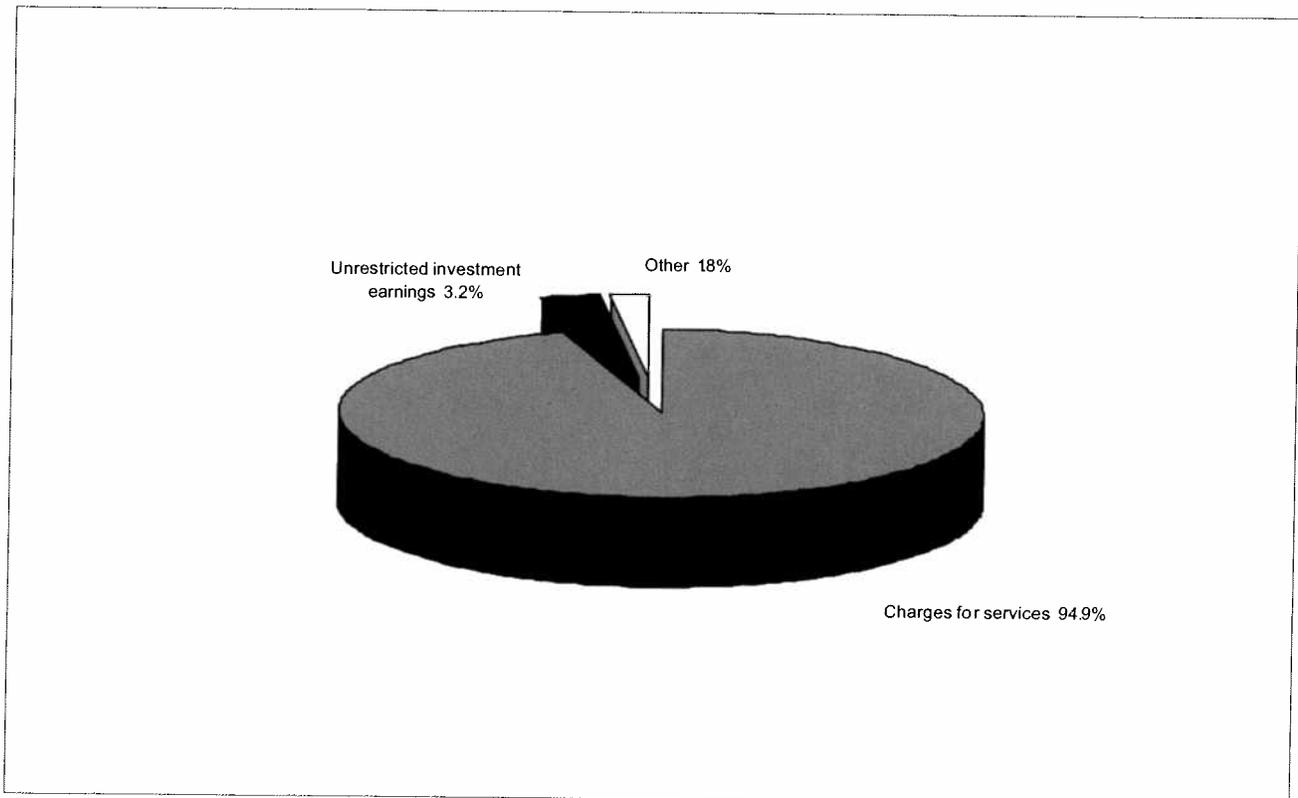
Revenues by Source – Governmental Activities



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 \$2,855,333, an increase of \$353,435 in comparison with the prior year. Approximately 43% of this total amount – that is, \$1,229,620 – 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 \$675,785 or to generate income of \$579,921 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 \$759,917, while total fund balance reached \$2,385,630. 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 5% of total general fund expenditures, while total fund balance represents 15% of that same amount.

The fund balance of the City's general fund increased by \$347,617 during the current fiscal year. The key factor to this change is the proceeds from a capital lease in the amount of \$717,885.

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 had a deficit of \$339,978; the solid waste fund had a deficit of \$4,292,729 and the unrestricted net assets for the electric fund amounted to \$15,151,012. The total decrease in net assets was \$1,985,508. 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 amounted to \$5,270,241. Highlights are as follows:

- \$4,085,660 was re-appropriated from prior years for the Public Safety facility. This project has been tabled at this point and no additional work is being completed on the project.
- \$1,161,287 was re-appropriated for other miscellaneous projects from prior year funding. This re-appropriation was necessary due to a new financial software system that did not carry over the funding for these projects to the current year.
- \$39,466 was appropriated for a law enforcement technology grant

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, 2006, amounts to \$46,844,208 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery and equipment. The total increase in the City’s investment in capital assets for the current fiscal year was 5% (a 1% increase for governmental activities and a 7% 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	
	2006	2005	2006	2005	2006	2005
Land	\$ 1,989,260	\$ 1,989,260	\$ 994,514	\$ 994,514	\$ 2,983,774	\$ 2,983,774
Buildings and improvements	12,335,196	12,253,154	28,495,231	26,774,647	40,830,427	39,027,801
Distribution and transmission systems	-	-	27,327,543	26,561,685	27,327,543	26,561,685
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	6,849,144	6,242,562	3,008,294	2,640,802	9,857,438	8,883,364
Infrastructure	1,821,706	1,415,853	-	-	1,821,706	1,415,853
Construction in progress	99,336	312,040	1,198,022	356,608	1,297,358	668,648
Less accumulated depreciation	(12,160,479)	(11,356,090)	(28,429,504)	(26,962,645)	(40,589,983)	(38,318,735)
Total	\$ 10,934,163	\$ 10,856,779	\$ 35,910,045	\$ 33,681,556	\$ 46,844,208	\$ 44,538,335

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 \$36,304,980. Of this amount, \$35,428,501 comprises debt backed by the full faith and credit of the government, and \$876,479 is related to capital lease obligations.

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

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
	General obligation bonds	\$ 2,047,200	\$ 2,573,300	\$ 14,617,123	\$ 12,978,077	\$ 16,664,323
Literary fund loans	1,050,000	1,200,000	-	-	1,050,000	1,200,000
Revenue bonds	-	-	17,714,178	17,007,099	17,714,178	17,007,099
Capital leases	876,479	184,473	-	-	876,479	184,473
	\$ 3,973,679	\$ 3,957,773	\$ 32,331,301	\$ 29,985,176	\$ 36,304,980	\$ 33,942,949

Capital Asset and Debt Administration (Continued)

The City's total debt increased by \$2,362,031 (7%) during the current fiscal year. The key factors in this increase were the issuance of \$717,885 of new debt in the general fund and the issuance of \$2,744,408 of new debt in the solid waste fund.

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 3.4%, which is a decrease from a rate of 4.6% a year ago. This compares to the State's average unemployment rate of 3.3% and the national average rate of 4.8%.
- 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 2006 fiscal year.

Requests for Information

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

**BASIC FINANCIAL
STATEMENTS**

CITY OF BEDFORD, VIRGINIA
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 1,501,954	\$ 9,493,485	\$ 10,995,439
Receivables, net (Note 3)	220,571	2,852,825	3,073,396
Internal balances (Note 4)	844,714	(844,714)	-
Due from other governmental units (Note 5)	542,749	42,986	585,735
Inventories	-	868,575	868,575
Restricted assets:			
Cash and cash equivalents, restricted (Note 2)	863,565	3,736,894	4,600,459
Deferred expenses	61,538	461,025	522,563
Net investment in direct financing lease (Note 14)	-	2,525,025	2,525,025
Capital assets: (Note 6)			
Nondepreciable capital assets	2,088,596	2,192,536	4,281,132
Depreciable capital assets, net	8,845,567	33,717,509	42,563,076
Total assets	<u>14,969,254</u>	<u>55,046,146</u>	<u>70,015,400</u>
LIABILITIES			
Accounts payable and accrued liabilities	115,375	1,588,743	1,704,118
Accrued payroll and related liabilities	211,521	150,359	361,880
Accrued interest payable	50,550	192,490	243,040
Due to other governmental units (Note 5)	680,987	20,994	701,981
Customer security deposits	-	181,976	181,976
Noncurrent liabilities:			
Due within one year (Note 7)	909,971	3,135,841	4,045,812
Due in more than one year (Note 7)	3,211,755	31,882,469	35,094,224
Total liabilities	<u>5,180,159</u>	<u>37,152,872</u>	<u>42,333,031</u>
NET ASSETS			
Invested in capital assets, net of related debt	7,824,049	7,374,969	15,199,018
Unrestricted (Note 9)	1,965,046	10,518,305	12,483,351
Total net assets	<u>\$ 9,789,095</u>	<u>\$ 17,893,274</u>	<u>\$ 27,682,369</u>

EXHIBIT 2

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

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		Total
					Governmental Activities	Business-Type Activities	
Governmental activities:							
General government administration	\$ 1,255,082	\$ 259,823	\$ 245,400	\$ 33,407	\$ (716,452)	\$	(716,452)
Judicial administration	22,108	-	-	-	(22,108)	-	(22,108)
Public safety	3,147,207	110,945	85,868	-	(2,950,394)	-	(2,950,394)
Public works	1,734,423	177	946,870	-	(787,376)	-	(787,376)
Health and welfare	558,469	-	-	-	(558,469)	-	(558,469)
Education	6,924,063	-	4,080,974	113,137	(2,729,952)	-	(2,729,952)
Parks, recreation, and cultural	947,889	91,610	350	-	(855,929)	-	(855,929)
Community development	518,251	-	44,324	24,533	(449,394)	-	(449,394)
Non-departmental	7,829	-	-	-	(7,829)	-	(7,829)
Interest on long-term debt	112,811	-	-	-	(112,811)	-	(112,811)
Total governmental activities	15,228,132	462,555	5,403,786	171,077	(9,190,714)	-	(9,190,714)
Business-type activities:							
Water and sewer	3,046,030	2,736,581	-	-	\$ (309,449)	\$	(309,449)
Solid waste	2,097,695	1,045,479	-	-	(1,052,216)	-	(1,052,216)
Electric	15,305,400	15,600,264	-	-	294,864	-	294,864
Total business-type activities	20,449,125	19,382,324	-	-	(1,066,801)	-	(1,066,801)
Total primary government	\$ 35,677,257	\$ 19,844,879	\$ 5,403,786	\$ 171,077	(9,190,714)	(1,066,801)	(10,257,515)
General revenues:							
Property taxes					3,615,417	-	3,615,417
Sales tax					927,493	-	927,493
Business license tax					617,347	-	617,347
Meals tax					557,659	-	557,659
Other local taxes					495,420	-	495,420
Intergovernmental revenue, unrestricted					982,103	371,778	1,353,881
Unrestricted investment earnings					343,308	663,538	1,006,846
Other					57,037	-	57,037
Gain on sale of capital assets					26,212	-	26,212
Transfers (Note 4)					1,954,023	(1,954,023)	-
Total general revenues and transfers					9,576,019	(918,707)	8,657,312
Change in net assets					385,305	(1,985,508)	(1,600,203)
Net assets at July 1, as restated (Note 20)					9,403,790	19,878,782	29,282,572
Net assets at June 30					\$ 9,789,095	\$ 17,893,274	\$ 27,682,369

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

CITY OF BEDFORD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

	General	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,044,779	\$ 457,175	\$ 1,501,954
Cash and cash equivalents, restricted	863,565	-	863,565
Receivables, net (Note 3)	208,043	12,528	220,571
Due from other funds (Note 4)	844,714	-	844,714
Due from other governmental units (Note 5)	542,749	-	542,749
Total assets	\$ 3,503,850	\$ 469,703	\$ 3,973,553
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 115,375	\$ -	\$ 115,375
Accrued payroll and related liabilities	211,521	-	211,521
Due to other governmental units (Note 5)	680,987	-	680,987
Deferred revenue (Note 3)	110,337	-	110,337
Total liabilities	1,118,220	-	1,118,220
Fund balances: (Note 9)			
Reserved for:			
Encumbrances	675,785	-	\$ 675,785
Perpetual care	579,921	-	579,921
Due from other governmental units	370,007	-	370,007
Unreserved, reported in:			
General fund, designated	55,534	-	55,534
General fund, undesignated	704,383	-	704,383
Special revenue funds	-	469,703	469,703
Total fund balances	2,385,630	469,703	2,855,333
Total liabilities and fund balances	\$ 3,503,850	\$ 469,703	

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.	10,934,163
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	110,337
Deferred costs that are capitalized and amortized on the government-wide basis are recorded as expenditures in the funds.	61,538
Long-term liabilities, including bonds and notes payable (\$3,084,531), compensated absences (\$160,716), capital leases (\$876,479), and accrued interest payable (\$50,550), are not due and payable in the current period and therefore are not reported in the funds (Note 7).	(4,172,276)
Net assets of governmental activities	\$ 9,789,095

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006**

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES			
General property taxes	\$ 3,607,591	\$ -	\$ 3,607,591
Other local taxes	2,494,145	103,774	2,597,919
Permits, privilege fees, and regulatory licenses	25,491	-	25,491
Fines and forfeitures	84,687	-	84,687
Investment earnings	341,857	1,451	343,308
Charges for services	275,364	-	275,364
Other	9,104	-	9,104
Intergovernmental	6,490,719	26,824	6,517,543
Recovered costs	130,972	-	130,972
Total revenues	<u>13,459,930</u>	<u>132,049</u>	<u>13,591,979</u>
EXPENDITURES			
Current:			
General government administration	1,415,552	-	1,415,552
Judicial administration	22,108	-	22,108
Public safety	3,024,362	96,336	3,120,698
Public works	2,063,237	-	2,063,237
Health and welfare	558,469	-	558,469
Education	6,583,537	-	6,583,537
Parks, recreation, and cultural	908,539	-	908,539
Community development	472,557	-	472,557
Non-departmental	7,829	-	7,829
Debt service:			
Principal retirement	601,100	25,879	626,979
Interest and fiscal charges	128,573	4,016	132,589
Debt issuance costs	24,570	-	24,570
Total expenditures	<u>15,810,433</u>	<u>126,231</u>	<u>15,936,664</u>
Excess (deficiency) of revenues over expenditures	<u>(2,350,503)</u>	<u>5,818</u>	<u>(2,344,685)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	26,212	-	26,212
Proceeds from capital lease	717,885	-	717,885
Transfers in (Note 4)	2,162,023	-	2,162,023
Transfers out (Note 4)	(208,000)	-	(208,000)
Total other financing sources and uses	<u>2,698,120</u>	<u>-</u>	<u>2,698,120</u>
Net change in fund balances	<u>347,617</u>	<u>5,818</u>	<u>353,435</u>
FUND BALANCES AT JULY 1, as restated (Note 20)	<u>2,038,013</u>	<u>463,885</u>	
FUND BALANCES AT JUNE 30	<u>\$ 2,385,630</u>	<u>\$ 469,703</u>	
Adjustments for the Statement of Activities:			
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which new capital assets (\$942,652) exceeded depreciation (\$865,268) in the current period.			77,384
The net effect of the change in accrued interest expense, which is not reflected in the fund statements except for amounts due at year end in the prior year.			27,358
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.			7,826
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.			(81,269)
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.			571
Change in net assets of governmental activities			<u>\$ 385,305</u>

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

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2006**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 4,010,000	\$ 4,010,000	\$ 3,607,591	\$ (402,409)
Other local taxes	2,573,400	2,573,400	2,494,145	(79,255)
Permits, privilege fees, and regulatory licenses	38,100	38,100	25,491	(12,609)
Fines and forfeitures	48,000	48,000	84,687	36,687
Investment earnings	186,000	186,000	341,857	155,857
Charges for services	215,000	215,000	275,364	60,364
Other	5,000	5,000	9,104	4,104
Intergovernmental	6,456,450	6,520,107	6,490,719	(29,388)
Recovered costs	188,100	188,100	130,972	(57,128)
Total revenues	<u>13,720,050</u>	<u>13,783,707</u>	<u>13,459,930</u>	<u>(323,777)</u>
EXPENDITURES				
Current:				
General government administration	1,182,975	1,669,360	1,415,552	253,808
Judicial administration	34,400	34,400	22,108	12,292
Public safety	2,950,932	7,247,300	3,024,362	4,222,938
Public works	2,044,140	2,410,046	2,063,237	346,809
Health and welfare	612,800	612,800	558,469	54,331
Education	6,460,500	6,494,058	6,583,537	(89,479)
Parks, recreation, and cultural	986,520	1,025,815	908,539	117,276
Community development	514,825	563,554	472,557	90,997
Non-departmental	3,000	3,000	7,829	(4,829)
Debt service:				
Principal retirement	601,100	601,100	601,100	-
Interest and fiscal charges	220,250	220,250	128,573	91,677
Debt issuance costs	-	-	24,570	(24,570)
Total expenditures	<u>15,611,442</u>	<u>20,881,683</u>	<u>15,810,433</u>	<u>5,071,250</u>
Excess of expenditures over revenues	<u>(1,891,392)</u>	<u>(7,097,976)</u>	<u>(2,350,503)</u>	<u>4,747,473</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	-	-	26,212	26,212
Proceeds from capital lease	174,500	174,500	717,885	543,385
Transfers in	1,467,000	1,467,000	2,162,023	695,023
Transfers out	(208,000)	(208,000)	(208,000)	-
Total other financing sources (uses)	<u>1,433,500</u>	<u>1,433,500</u>	<u>2,698,120</u>	<u>1,264,620</u>
Net change in fund balances	<u>\$ (457,892)</u>	<u>\$ (5,664,476)</u>	<u>\$ 347,617</u>	<u>\$ 6,012,093</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2006

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 9,493,485	\$ 9,493,485
Receivables, net (Note 3)	491,307	190,926	2,170,592	2,852,825
Due from other governmental units (Note 5)	42,986	-	-	42,986
Inventories	-	-	868,575	868,575
Total current assets	534,293	190,926	12,532,652	13,257,871
Noncurrent assets:				
Cash and cash equivalents, restricted	260,472	2,685,162	791,260	3,736,894
Deferred expenses	-	50,572	410,453	461,025
Net investment in direct financing lease (Note 14)	-	-	2,525,025	2,525,025
Capital assets: (Note 6)				
Nondepreciable capital assets	271,913	1,271,966	648,657	2,192,536
Depreciable capital assets, net	17,569,491	486,541	15,661,477	33,717,509
Total noncurrent assets	18,101,876	4,494,241	20,036,872	42,632,989
Total assets	18,636,169	4,685,167	32,569,524	55,890,860
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	26,215	203,940	1,358,588	1,588,743
Accrued payroll and related liabilities	61,943	15,138	73,278	150,359
Accrued interest payable	46,673	67,736	78,081	192,490
Due to other funds (Note 4)	653,803	190,911	-	844,714
Due to other governmental units (Note 5)	-	-	20,994	20,994
Customer security deposits	28,739	-	153,237	181,976
Noncurrent liabilities due within a year (Note 7)	1,011,128	1,377,297	747,416	3,135,841
Total current liabilities	1,828,501	1,855,022	2,431,594	6,115,117
Noncurrent liabilities:				
Due in more than a year (Note 7)	9,963,595	7,245,652	14,673,222	31,882,469
Total liabilities	11,792,096	9,100,674	17,104,816	37,997,586
NET ASSETS (DEFICIT) (Note 9)				
Invested in capital assets, net of related debt	7,184,051	(122,778)	313,696	7,374,969
Unrestricted	(339,978)	(4,292,729)	15,151,012	10,518,305
Total net assets (deficit)	\$ 6,844,073	\$ (4,415,507)	\$ 15,464,708	\$ 17,893,274

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
Year Ended June 30, 2006**

	Business-Type Activities - Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 2,736,581	\$ 1,045,479	\$ 15,600,264	\$ 19,382,324
Total operating revenues	<u>2,736,581</u>	<u>1,045,479</u>	<u>15,600,264</u>	<u>19,382,324</u>
OPERATING EXPENSES				
Refuse collection	-	208,907	-	208,907
Refuse disposal	-	363,661	-	363,661
Recycling	-	47,005	-	47,005
Supply and purification	470,718	-	-	470,718
Wastewater treatment	1,043,508	-	-	1,043,508
Wastewater pre-treatment	93,255	-	-	93,255
Transmission and distribution	179,058	-	1,231,342	1,410,400
Power generation	-	-	177,406	177,406
Purchased power	-	-	10,729,036	10,729,036
Meter reading	-	-	100,036	100,036
Landfill closure and postclosure care	-	981,785	-	981,785
Administration	238,446	220,618	1,141,333	1,600,397
Maintenance and repair	191,856	-	330,523	522,379
Depreciation	630,972	107,529	728,358	1,466,859
Amortization	-	8,477	26,485	34,962
Total operating expenses	<u>2,847,813</u>	<u>1,937,982</u>	<u>14,464,519</u>	<u>19,250,314</u>
Operating income (loss)	<u>(111,232)</u>	<u>(892,503)</u>	<u>1,135,745</u>	<u>132,010</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	10,628	101,028	551,882	663,538
Interest expense	(198,217)	(159,713)	(819,887)	(1,177,817)
Contribution to joint IDA	-	-	(20,994)	(20,994)
Revenue sharing agreement	371,778	-	-	371,778
Net nonoperating revenue (expenses)	<u>184,189</u>	<u>(58,685)</u>	<u>(288,999)</u>	<u>(163,495)</u>
Income (loss) before transfers	72,957	(951,188)	846,746	(31,485)
TRANSFERS IN (Note 4)	185,766	208,000	-	393,766
TRANSFERS OUT (Note 4)	-	(185,766)	(2,162,023)	(2,347,789)
Change in net assets	258,723	(928,954)	(1,315,277)	(1,985,508)
NET ASSETS (DEFICIT) AT JULY 1	<u>6,585,350</u>	<u>(3,486,553)</u>	<u>16,779,985</u>	<u>19,878,782</u>
NET ASSETS (DEFICIT) AT JUNE 30	<u>\$ 6,844,073</u>	<u>\$ (4,415,507)</u>	<u>\$ 15,464,708</u>	<u>\$ 17,893,274</u>

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

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	Business-Type Activities - Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 2,708,957	\$ 1,022,639	\$ 15,263,531	\$ 18,995,127
Payments to suppliers	(1,240,567)	(785,552)	(12,042,384)	(14,068,503)
Payments to employees	(1,017,939)	(243,115)	(1,167,084)	(2,428,138)
Net cash provided by (used in) operating activities	450,451	(6,028)	2,054,063	2,498,486
NONCAPITAL FINANCING ACTIVITIES				
Revenue sharing agreement	367,394	-	-	367,394
Contribution to joint IDA	-	-	(72,185)	(72,185)
Interfund borrowing	(265,186)	190,911	-	(74,275)
Transfers from other funds	185,766	208,000	-	393,766
Transfers to other funds	-	(185,766)	(2,162,023)	(2,347,789)
Net cash provided by (used in) noncapital financing activities	287,974	213,145	(2,234,208)	(1,733,089)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from capital debt	-	2,744,408	14,251,359	16,995,767
Purchases of capital assets	(298,110)	(737,760)	(2,241,748)	(3,277,618)
Principal paid on capital debt	(943,555)	(310,000)	(436,988)	(1,690,543)
Payments to bond escrow agent	-	-	(13,488,550)	(13,488,550)
Interest paid on capital debt	(200,071)	(116,036)	(754,088)	(1,070,195)
Net cash used in capital and related financing activities	(1,441,736)	1,580,612	(2,670,015)	(2,531,139)
INVESTING ACTIVITIES				
Interest received	10,628	114,383	551,882	676,893
Net cash provided by investing activities	10,628	114,383	551,882	676,893
Net increase (decrease) in cash and cash equivalents	(692,683)	1,902,112	(2,298,278)	(1,088,849)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	953,155	783,050	12,583,023	14,319,228
Ending at June 30	\$ 260,472	\$ 2,685,162	\$ 10,284,745	\$ 13,230,379
RECONCILIATION TO EXHIBIT 6				
Cash and cash equivalents	\$ -	\$ -	\$ 9,493,485	\$ 9,493,485
Cash and cash equivalents, restricted	260,472	2,685,162	791,260	3,736,894
	\$ 260,472	\$ 2,685,162	\$ 10,284,745	\$ 13,230,379
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES				
Operating income (loss)	\$ (111,232)	\$ (892,503)	\$ 1,135,745	\$ 132,010
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:				
Depreciation and amortization	630,972	116,006	754,843	1,501,821
Landfill closure and postclosure care	-	772,000	-	772,000
Nonoperating receipts	-	-	-	-
Change in assets and liabilities				
(Increase) decrease in:				
Receivables, net	(30,055)	(22,840)	(345,366)	(398,261)
Inventories	-	-	34,953	34,953
(Decrease) increase in:				
Accounts payable and accrued liabilities	(44,839)	22,755	451,128	429,044
Accrued payroll and related liabilities	(330)	898	10,416	10,984
Customer security deposits	2,431	-	8,633	11,064
Compensated absences	3,504	(2,344)	3,711	4,871
Net cash provided by (used in) operating activities	\$ 450,451	\$ (6,028)	\$ 2,054,063	\$ 2,498,486
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ -	\$ 110,232	\$ 309,355	\$ 419,587

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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 Board for the current year.

Blue Ridge Regional Jail Authority

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

Bedford Public Library System

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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*, 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

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, the City 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 the City 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 2006). The City made an operating contribution of \$20,994 to the Authority for the year ended June 30, 2006. 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, 2006

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 \$158,594 are included in the Governmental Activities noncurrent liabilities. An asset in the amount of \$116,193 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 \$_____ to the Program during 2006. 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, 2006

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.

Governmental 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, 2006

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 \$5,270,241 during the fiscal year ended June 30 primarily for Economic Development, the Police Department, and Finance.
- 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.

All General Fund appropriations which are not encumbered lapse at year end.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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, \$49,525 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, 2006

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Property, plant, and equipment generally are 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
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 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 are 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, 2006

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 (SNAP) 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, 2006

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

The City has invested bond proceeds subject to rebate of arbitrage earnings in the SNAP which is an open-end management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia counties, cities, and towns.

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.

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 City had the following deposits and investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Demand deposits	\$ 4,685,983	NA	30%
SNAP	2,642,967	AAA	17%
Money market accounts	8,266,948	AAAm	53%
	<u>\$ 15,595,898</u>		<u>100%</u>

The previous items are reflected in the statements as follows:

Deposits and investments:	
Cash and cash equivalents	\$ 10,995,439
Restricted cash and cash equivalents	4,600,459
	<u>\$ 15,595,898</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2. Deposits and Investments (Continued)

Investments (Continued)

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 and SNAP at year end which are readily available.

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the City be held in 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, investments are held in a bank's trust department in the City's name.

Restricted Amounts:

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

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	\$ 296,135	\$ 12,528	\$ -	\$ -	\$ -	\$ 308,663
Accounts	5,649	-	553,731	208,489	2,425,285	3,193,154
Gross receivables	301,784	12,528	553,731	208,489	2,425,285	3,501,817
Less: allowance for uncollectibles	93,741	-	62,424	17,563	254,693	428,421
Net total receivables	<u>\$ 208,043</u>	<u>\$ 12,528</u>	<u>\$ 491,307</u>	<u>\$ 190,926</u>	<u>\$ 2,170,592</u>	<u>\$ 3,073,396</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 3. Receivables (Continued)

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* was as follows:

	<u>Unavailable</u>
Delinquent taxes receivable	\$ 110,337

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	\$ 653,803
General fund	Solid waste	190,911
		\$ 844,714

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

Interfund transfers are as follows:

Transfer Out: Fund	Transfer In: Fund	Amount
Solid Waste	Water and Sewer	\$ 185,766
Electric	General	2,162,023
General	Solid Waste	208,000
		\$ 2,555,789

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. Solid Waste Fund transfers to the Water and Sewer Fund are to transfer the cost of a waterline paid for by Solid Waste Funds which is for the benefit of the Water and Sewer Fund. General Fund transfers to the Solid Waste Fund are to help pay for landfill remediation costs that the Solid Waste Fund has incurred.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 5. Due to/from other Governmental Units

Amounts due from other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Growth-sharing agreement	\$ 42,986	\$ 42,986
Joint tourism agreement	370,007	-
Commonwealth of Virginia		
Cost reimbursements	20,038	-
State sales tax	26,118	-
Local sales tax	83,600	-
	<u>\$ 542,749</u>	<u>\$ 42,986</u>

Amounts due to other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Shared services	\$ 675,552	\$ -
Consumer utility tax	5,435	-
Bedford Joint Economic Development Authority contribution	-	20,994
	<u>\$ 680,987</u>	<u>\$ 20,994</u>

Note 6. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 1,989,260	\$ -	\$ -	\$ 1,989,260
Construction in progress	312,040	28,566	241,270	99,336
Total capital assets, not depreciated	<u>2,301,300</u>	<u>28,566</u>	<u>241,270</u>	<u>2,088,596</u>
Capital assets, depreciated				
Buildings and improvements	12,253,154	82,042	-	12,335,196
Machinery and equipment	6,242,562	667,461	60,879	6,849,144
Infrastructure	1,415,853	405,853	-	1,821,706
Total capital assets, depreciated	<u>19,911,569</u>	<u>1,155,356</u>	<u>60,879</u>	<u>21,006,046</u>
Less accumulated depreciation	<u>11,356,090</u>	<u>865,268</u>	<u>60,879</u>	<u>12,160,479</u>
Total capital assets, depreciated, net	<u>8,555,479</u>	<u>290,088</u>	<u>-</u>	<u>8,845,567</u>
Governmental activities capital assets, net	<u>\$ 10,856,779</u>	<u>\$ 318,654</u>	<u>\$ 241,270</u>	<u>\$ 10,934,163</u>

(Continued)

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 6. Capital Assets (Continued)

<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 994,514	\$ -	\$ -	\$ 994,514
Construction in progress	356,608	1,069,869	228,455	1,198,022
Total capital assets, not depreciated	<u>1,351,122</u>	<u>1,069,869</u>	<u>228,455</u>	<u>2,192,536</u>
Capital assets, depreciated				
Buildings and improvements	26,774,647	1,720,584	-	28,495,231
Machinery and equipment	2,640,802	367,492	-	3,008,294
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	26,561,685	765,858	-	27,327,543
Total capital assets, depreciated	<u>59,293,079</u>	<u>2,853,934</u>	<u>-</u>	<u>62,147,013</u>
Less accumulated depreciation	<u>26,962,645</u>	<u>1,466,859</u>	<u>-</u>	<u>28,429,504</u>
Total capital assets, depreciated, net	<u>32,330,434</u>	<u>1,387,075</u>	<u>-</u>	<u>33,717,509</u>
Business-type activities capital assets, net	<u>\$ 33,681,556</u>	<u>\$ 2,456,944</u>	<u>\$ 228,455</u>	<u>\$ 35,910,045</u>

Included in Governmental Activities' capital assets is property in the amount of \$1,460,643 at June 30 financed by a capital lease. Included in Business-type Activities are capital assets in the amount of \$717,885 at June 30 financed by a capital lease.

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 77,874
Public safety	181,706
Public works	121,138
Education	363,413
Parks, recreation, and cultural	51,916
Community development	69,221
	<u>\$ 865,268</u>
Business-type activities	
Water and sewer	\$ 630,972
Solid waste	107,529
Electric	728,358
	<u>\$ 1,466,859</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 6. Capital Assets (Continued)

Construction Commitments

The City has active construction projects, including the Holcomb Rock Connection and the Solid Waste Transfer Station.

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

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Holcomb Rock Connection	\$ 195,260	\$ 420,732
Transfer Station	571,322	463,147
	<u>\$ 766,582</u>	<u>\$ 883,879</u>

Note 7. Long-Term Liabilities

Prior Year Defeasance of Debt

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.

Current Year Defeasance of Debt

In the current year, the City issued \$12,560,000 in 2005 refunding bonds. Proceeds of the bond, with an average interest rate of 4.32%, were used to advance refund the Series 1994 refunding bonds maturing between 2006 through 2025 with an average interest rate of 5.19%. The net proceeds of approximately \$12,186,649 (after payment of \$292,043 in issuance costs minus \$81,307 in bond discounts) and an additional \$1,445,402 of 1994 issue debt service reserve monies were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain future debt service payments of the 1994 bonds. As a result, a portion of the 1994 refunding bonds are considered to be defeased and the liability for those bonds have been removed from the financial statements.

The advanced refunding on the 1994 issue resulted in a difference between the reacquisition price and the net carrying value of the old debt of \$1,506,143. This difference, reported in the accompanying financial statements as a subtraction from bonds payable, is being amortized over the life of the new bonds as a component of interest expense through the year 2025. The City completed the advanced refunding to reduce its total debt service payments by \$1,457,875 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$1,244,493.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Long-Term Liabilities (Continued)

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
Bonds and notes payable:					
General obligation bonds	\$ 2,573,300	\$ -	\$ 526,100	\$ 2,047,200	\$ 526,600
Literary fund loans	1,200,000	-	150,000	1,050,000	75,000
Total bonds and notes payable	3,773,300	-	676,100	3,097,200	601,600
Capital leases	184,473	717,885	25,879	876,479	147,084
Compensated absences	161,287	160,716	161,287	160,716	161,287
Governmental activities long-term liabilities	<u>\$ 4,119,060</u>	<u>\$ 878,601</u>	<u>\$ 863,266</u>	<u>\$ 4,134,395</u>	<u>\$ 909,971</u>
Business-type Activities:					
Bonds payable:					
General obligation bonds	\$ 12,978,077	\$ 2,766,968	\$ 1,127,922	\$ 14,617,123	\$ 1,209,260
Revenue bonds	17,007,099	14,624,710	13,917,631	17,714,178	810,645
Total bonds payable	29,985,176	17,391,678	15,045,553	32,331,301	2,019,905
Compensated absences	121,330	126,201	121,330	126,201	126,201
Landfill closure liability:					
Open landfill	1,599,830	98,712	-	1,698,542	-
Closed landfill	1,775,170	673,288	-	2,448,458	989,735
Business-type activities long-term liabilities	<u>\$ 33,481,506</u>	<u>\$ 18,289,879</u>	<u>\$ 15,166,883</u>	<u>\$ 36,604,502</u>	<u>\$ 3,135,841</u>

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

In the prior year, the general fund reported a current liability of \$111,000 for a literary loan debt service payment which was due prior to year end. This amount included \$360,000 of accrued interest which was included in accrued interest payable. These amounts are also included in the long-term debt beginning balance above.

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
2007	\$ 526,600	\$ 70,668	\$ 222,084	\$ 59,388	\$ 1,209,260	\$ 386,526	\$ 810,645	\$ 733,527
2008	366,800	50,730	227,014	52,208	1,233,556	352,445	829,459	712,007
2009	373,800	35,959	232,111	44,860	1,112,255	316,927	858,423	689,452
2010	145,000	23,393	237,386	37,335	936,399	287,637	872,544	663,496
2011	150,000	19,119	242,840	29,630	879,693	264,478	911,826	633,082
2012-2016	485,000	26,367	449,394	83,770	4,685,601	912,083	3,857,697	2,734,946
2017-2021	-	-	315,650	22,759	3,277,870	368,779	4,649,613	1,834,213
2022-2026	-	-	-	-	1,282,489	124,053	4,923,971	645,368
	<u>\$ 2,047,200</u>	<u>\$ 226,236</u>	<u>\$ 1,926,479</u>	<u>\$ 329,950</u>	<u>\$ 14,617,123</u>	<u>\$ 3,012,928</u>	<u>\$ 17,714,178</u>	<u>\$ 8,646,091</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Long-Term Liabilities (Continued)

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	\$ 230,000	\$ -
Public Improvement Bonds	2.0-3.6	12/01/03	2013	\$ 1,460,000	1,200,000	-
Virginia Resources Authority Taxable						
G.O. Water and Sewer Bonds	2.5	06/23/98	2019	\$ 5,225,000	-	3,875,061
Virginia Resources Authority Solid Waste						
Disposal System Revenue Bonds	3.65-4.9	03/01/97	2008	\$ 1,230,000	-	270,000
Virginia Resources Authority Solid Waste						
Management G.O. Refunding Bonds	4.1-4.85	06/28/01	2013	\$ 2,375,000	-	1,510,000
Virginia Resource Authority						
G.O. Water and Sewer Bonds	3.1-4.85	06/06/02	2017	\$ 2,005,000	-	1,590,000
Virginia Revolving Loan Fund						
G.O. Water and Sewer Bonds	0.0	04/25/02	2022	\$ 2,866,300	-	2,364,697
Virginia Revolving Loan Fund						
G.O. Water and Sewer Bonds	0.0	09/27/01	2022	\$ 1,800,000	-	1,440,000
G.O. Refunding Bonds	3.58	06/27/02	2009	\$ 1,498,900	617,200	-
Public Improvement Bonds	3.0	10/01/04	2010	\$ 1,200,000	-	800,397
Public Improvement Bonds	3.79-4.12	11/30/05	2026	\$ 2,766,968	-	2,766,968
					2,047,200	14,617,123
				Less deferred costs	(12,669)	(99,733)
				Plus bond premium	-	19,479
					<u>\$ 2,034,531</u>	<u>\$ 14,536,869</u>

Revenue Bonds:

Virginia Resources Authority Taxable						
Water and Sewer Revenue Bonds	0.0	01-91	2011	\$ 3,990,672	\$ -	\$ 1,114,468
Electric System Revenue Refunding Bonds	3.0-4.13	08-05	2025	\$ 12,560,000	-	12,250,000
Taxable Lease Revenue Bonds	7.81	06-96	2026	\$ 2,630,000	-	2,285,000
Electric System Revenue Bonds	3.89-4.17	11-05	2026	\$ 2,064,710	-	2,064,710
					-	17,714,178
				Less deferred costs	-	(1,427,128)
				Less bond discount	-	(78,810)
					<u>\$ -</u>	<u>\$ 16,208,240</u>
<u>Other Long-Term Debt:</u>						
Literary Fund Loans	3.0	01-98	2019	\$ 1,500,000	\$ 1,050,000	\$ -
<u>Capital Leases:</u>						
Central Virginia Radio						
Communications mobile equipment	5.72	05-96	2011	\$ 387,309	\$ 158,594	\$ -
First National Exchange Bank						
Equipment Lease	3.52	11-05	2011	717,885	717,885	-
					<u>\$ 876,479</u>	<u>\$ -</u>

Bonds issued between 1991 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, 2006

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 \$2,448,458. 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.

Subsequent to year end, the City agreed to purchase certain property adjacent to the closed landfill for a price of \$725,000. The landowner had filed suit against the City for damages from groundwater contamination. As part of the purchase agreement, both parties mutually released each other from all claims. Included in the closed landfill liability and current year expense is approximately \$392,000 which is the purchase price of the property in excess of estimated fair market value.

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 \$1,698,542 for this site, which represents the cumulative amount of estimated closure and postclosure care costs of \$2,156,081 reported to date, based on the use of approximately 79% of the estimated capacity of the landfill. The City is currently in the process of constructing a solid waste transfer station and will be shipping all waste except construction debris to another locality. The City will continue to accept construction debris. The City expects to close the landfill in 2020. 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 from Bedford County for the repayment of debt related to the joint tourism agreement.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 9. Net Assets/Fund Equity (Continued)

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 \$(4,415,507). 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 \$(122,778). This deficit is due to the depreciation period being shorter for capital assets than the repayment of the debt related to those assets.

Note 10. Defined Benefit Pension Plan

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 1.70% 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 5.00% 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.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The employer has assumed this 5.00% 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 2006 was 17.50% of annual covered payroll. The City's contribution rate includes the employee's share of 5.00% paid by the employer.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 10. Defined Benefit Pension Plan (Continued)

Funding Policy (Continued)

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.

Annual Pension Cost

For fiscal year 2006, the City's annual pension cost of \$842,735, was equal to its required and actual contributions. The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases of 3.50% to 5.73% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. 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 21-year period.

Three-Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
June 30, 2006	\$ 842,735	100%	\$	-
June 30, 2005	\$ 790,351	100%	\$	-
June 30, 2004	\$ 611,870	100%	\$	-

Note 11. Service Contracts

The following is a summary of significant service contracts:

Electrical Service

Agreement dated July 1, 2005 with AEP to purchase electricity for consumption and resale to residents of the City expired on June 30, 2006. The City signed a new agreement dated July 1, 2006 with MMP-OHIO that expires on June 30, 2008. The rate increased approximately 40% from the prior contract.

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.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 11. Service Contracts (Continued)

Shared Services (Continued)

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 2006 was \$.83 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 2006 and 2005 remain unchanged.

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 2006 were approximately \$113,000.

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 2006 were approximately \$194,000.

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 2006 were approximately \$12,000.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 13. Risk Management (Continued)

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 2006 were approximately \$481,000.

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. 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.

Following are the components of the net investment in the direct financing lease:

Total minimum lease payments	\$ 6,967,265
Guaranteed residual value	1,369,086
Unearned income	<u>(5,811,326)</u>
Net investment in direct financing lease	<u>\$ 2,525,025</u>

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

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.

Litigation

A certain lawsuit is pending against the City. In the opinion of the City's management, after consulting with counsel, the potential loss, given insurance coverage, will not materially affect the City's financial position.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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; and development of a long range plan to address water and sewer needs in central 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 within 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 Smithfield Company closed their meat packing plant in the City. The City derived approximately 1% of its property taxes and enterprise fund charges for services from Smithfield. The City does not expect this to have major effect on its operations.

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 approximately \$28,000 in the current year.

The Governmental Accounting Standards Board ("GASB") has issued 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.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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.

The City is required by a regulatory agency to make significant improvements to its reservoir. The modifications mandate that a compacted concrete dam be constructed to replace the current earthen dam. The City is expected to derive an increase in the capacity and useful life of the reservoir and accordingly will not record a liability for the project. The cost is projected to be between \$5 and \$6 million. Subsequent to year end the City obtained financing in the amount of \$500,000 at an interest rate of 3.77 % to finance the design and engineering phase of construction. The remaining amount is expected to be financed by long-term debt.

Note 20. Restatement of Fund Balance/Net Assets

Opening fund balance for the General and E-911 Funds have been restated to reflect previously unrecorded taxes receivable. The addition in opening fund balance of \$76,688 in the General Fund and \$8,111 in the E-911 Fund reflects the receivable. Opening net assets for Governmental Activities have been restated at \$84,799 to reflect the unrecorded receivable.

**REQUIRED SUPPLEMENTARY
INFORMATION**

CITY OF BEDFORD, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2006

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 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%
June 30, 2005	\$ 12,380,744	\$ 17,509,112	\$ 5,128,368	70.71%	\$ 4,774,738	107.41%

**OTHER SUPPLEMENTARY
INFORMATION**



NONMAJOR GOVERNMENTAL FUNDS

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

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

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

CITY OF BEDFORD, VIRGINIA

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

June 30, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	VCDG Fund	E-911 Fund	
ASSETS			
Cash and cash equivalents	\$ 184,614	\$ 272,561	\$ 457,175
Receivables, net	-	12,528	12,528
Total assets	<u>\$ 184,614</u>	<u>\$ 285,089</u>	<u>\$ 469,703</u>
LIABILITIES AND FUND BALANCES			
Fund balances:			
Unreserved	<u>\$ 184,614</u>	<u>\$ 285,089</u>	<u>\$ 469,703</u>
Total liabilities and fund balances	<u>\$ 184,614</u>	<u>\$ 285,089</u>	<u>\$ 469,703</u>

CITY OF BEDFORD, VIRGINIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS**

Year Ended June 30, 2006

	Special Revenue		Total Nonmajor Governmental Funds
	VCDG Fund	E-911 Fund	
REVENUES			
Other local taxes	\$ -	\$ 103,774	\$ 103,774
Investment earnings	1,451	-	1,451
Intergovernmental	26,824	-	26,824
Total revenues	<u>28,275</u>	<u>103,774</u>	<u>132,049</u>
EXPENDITURES			
Current:			
Public safety	-	96,336	96,336
Debt service:			
Principal retirement	-	25,879	25,879
Interest and fiscal charges	-	4,016	4,016
Total expenditures	<u>-</u>	<u>126,231</u>	<u>126,231</u>
Net change in fund balances	<u>28,275</u>	<u>(22,457)</u>	<u>5,818</u>
FUND BALANCES AT JULY 1, as restated	<u>156,339</u>	<u>307,546</u>	<u>463,885</u>
FUND BALANCES AT JUNE 30	<u>\$ 184,614</u>	<u>\$ 285,089</u>	<u>\$ 469,703</u>

CITY OF BEDFORD, VIRGINIA

**SCHEDULE 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, 2006**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other local taxes	\$ 147,800	\$ 147,800	\$ 103,774	\$ (44,026)
Total sources of financial resources	147,800	147,800	103,774	(44,026)
EXPENDITURES				
Current:				
Public safety	142,500	142,500	96,336	46,164
Debt service:				
Principal retirement	25,900	25,900	25,879	21
Interest and fiscal charges	5,900	5,900	4,016	1,884
Total expenditures	174,300	174,300	126,231	48,069
Net change in fund balance	\$ (26,500)	\$ (26,500)	\$ (22,457)	\$ 4,043

STATISTICAL SECTION

TABLE 1

City of Bedford, Virginia
Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
Governmental activities				
Invested in capital assets, net of related debt	\$ 7,824,049	\$ 6,899,006	\$ 6,506,637	\$ 5,417,713
Unrestricted	1,965,046	2,504,784	3,515,785	4,248,602
Total governmental activities net assets	<u>\$ 9,789,095</u>	<u>\$ 9,403,790</u>	<u>\$ 10,022,422</u>	<u>\$ 9,666,315</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 7,374,969	\$ 7,061,689	\$ 2,655,682	\$ 690,640
Unrestricted	10,518,305	12,817,093	15,139,520	17,120,145
Total business-type activities net assets	<u>\$ 17,893,274</u>	<u>\$ 19,878,782</u>	<u>\$ 17,795,202</u>	<u>\$ 17,810,785</u>
Primary government				
Invested in capital assets, net of related debt	\$ 15,199,018	\$ 13,960,695	\$ 9,162,319	\$ 6,108,353
Unrestricted	12,483,351	15,321,877	18,655,305	21,368,747
Total primary government net assets	<u>\$ 27,682,369</u>	<u>\$ 29,282,572</u>	<u>\$ 27,817,624</u>	<u>\$ 27,477,100</u>

Note: The City began to report accrual information when it completed GASB Statement 34 in fiscal year 2003.

TABLE 2

City of Bedford, Virginia
Changes in Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
Expenses				
Governmental activities				
General government	\$ 1,255,082	\$ 1,207,094	\$ 1,009,729	\$ 947,472
Judicial administration	22,108	27,097	11,587	22,602
Public safety	3,147,207	2,792,008	2,693,711	2,432,172
Public works	1,734,423	1,544,583	1,561,611	1,822,153
Parks, recreation and cultural	947,889	953,698	905,957	846,373
Health and welfare	558,469	721,935	366,032	491,097
Community development	518,251	1,123,443	370,323	753,717
Education	6,924,063	6,327,656	6,320,200	5,567,031
Nondepartmental	7,829	486	11,580	5,665
Interest on long-term debt	112,811	169,253	161,260	157,533
Total governmental activities	<u>15,228,132</u>	<u>14,867,253</u>	<u>13,411,990</u>	<u>13,045,815</u>
Business-type activities				
Electric	15,305,400	10,252,537	10,125,068	10,673,208
Water and Sewer	3,046,030	2,906,751	2,765,384	2,603,408
Solid Waste	2,097,695	1,049,661	2,989,664	1,160,635
Total business-type activities expense	<u>20,449,125</u>	<u>14,208,949</u>	<u>15,880,116</u>	<u>14,437,251</u>
Total primary government expenses	<u>\$ 35,677,257</u>	<u>\$ 29,076,202</u>	<u>\$ 29,292,106</u>	<u>\$ 27,483,066</u>
Program Revenues				
Governmental activities				
Charges for services				
General government	\$ 259,823	\$ 279,606	\$ 9,053	\$ -
Public Safety	110,945	77,334	105,953	71,292
Public Works	177	-	-	-
Parks, recreation and cultural	91,610	105,338	252,765	203,145
Operating grants and contributions	5,403,786	5,141,468	4,996,519	4,815,749
Capital grants and contributions	171,077	262,155	483,588	113,318
Total governmental activities program revenues	<u>6,037,418</u>	<u>5,865,901</u>	<u>5,847,878</u>	<u>5,203,504</u>
Business-type activities				
Charges for services				
Electric	15,600,264	12,944,906	12,285,888	12,750,334
Water and Sewer	2,736,581	2,703,699	2,679,837	2,676,689
Solid Waste	1,045,479	959,414	878,092	1,037,228
Total business-type activities program revenues	<u>19,382,324</u>	<u>16,608,019</u>	<u>15,843,817</u>	<u>16,464,251</u>
Total primary government program revenues	<u>\$ 25,419,742</u>	<u>\$ 22,473,920</u>	<u>\$ 21,691,695</u>	<u>\$ 21,667,755</u>
Net (expense) revenue				
Governmental activities	\$ (9,190,714)	\$ (9,001,352)	\$ (7,564,112)	\$ (7,842,311)
Business-type activities	(1,066,801)	2,399,070	(36,299)	2,027,000
Total primary government net expense	<u>\$ (10,257,515)</u>	<u>\$ (6,602,282)</u>	<u>\$ (7,600,411)</u>	<u>\$ (5,815,311)</u>
General Revenues and Other Changes in Net Assets				
Governmental activities:				
Taxes				
Property taxes	\$ 3,615,417	\$ 3,568,818	\$ 3,473,488	\$ 3,395,115
Sales taxes	927,493	968,531	869,635	843,739
Business license tax	617,347	637,336	631,865	609,905
Meals tax	557,659	521,767	512,743	503,307
Other taxes	495,420	400,521	380,592	412,599

City of Bedford, Virginia
Changes in Net Assets by Component
Last Four Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2006	2005	2004	2003
(Continued)				
General Revenues and Other Changes in Net Assets (Continued)				
Governmental activities: (Continued)				
Intergovernmental revenue not restricted	982,103	903,654	977,227	917,835
Investment earnings	343,308	221,008	113,116	156,775
Contribution of property	-	-	-	(990,590)
Gain on sale of assets	26,212	15,128	-	-
Other	57,037	57,333	714	1,731
Transfers	1,954,023	1,003,825	981,550	1,467,000
Total governmental activities	<u>9,576,019</u>	<u>8,297,921</u>	<u>7,940,930</u>	<u>7,317,416</u>
Business-type activities:				
Investment earnings	663,538	486,865	497,038	546,077
Other	371,778	201,470	299,228	231,473
Transfers	(1,954,023)	(1,003,825)	(981,550)	(1,467,000)
Total business-type activities	<u>(918,707)</u>	<u>(315,490)</u>	<u>(185,284)</u>	<u>(689,450)</u>
Total primary government	<u>\$ 8,657,312</u>	<u>\$ 7,982,431</u>	<u>\$ 7,755,646</u>	<u>\$ 6,627,966</u>
Changes in Net Assets				
Governmental activities	\$ 385,305	\$ (703,431)	\$ 376,818	\$ (524,895)
Business-type activities	(1,985,508)	2,083,580	(221,583)	1,337,550
Total primary government	<u>\$ (1,600,203)</u>	<u>\$ 1,380,149</u>	<u>\$ 155,235</u>	<u>\$ 812,655</u>

TABLE 3

City of Bedford, Virginia
Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

General Fund	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Reserved	\$ 1,625,713	\$ 1,583,500	\$ 2,211,940	\$ 747,272	\$ 802,269	\$ 300,510	\$ 662,515	\$ 36,772	\$ -	\$ -
Unreserved	759,917	377,825	1,794,152	2,949,240	2,867,473	3,066,188	3,461,705	726,161	1,527,758	32,651
Total general fund	<u>\$ 2,385,630</u>	<u>\$ 1,961,325</u>	<u>\$ 4,006,092</u>	<u>\$ 3,696,512</u>	<u>\$ 3,669,742</u>	<u>\$ 3,366,698</u>	<u>\$ 4,124,220</u>	<u>\$ 762,933</u>	<u>\$ 1,527,758</u>	<u>\$ 32,651</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,264	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	455,774	455,774	479,407	509,050	536,662	532,812	495,367	456,927	353,336	367,455
Total all other governmental funds	<u>\$ 455,774</u>	<u>\$ 455,774</u>	<u>\$ 479,407</u>	<u>\$ 509,050</u>	<u>\$ 536,662</u>	<u>\$ 532,812</u>	<u>\$ 498,631</u>	<u>\$ 456,927</u>	<u>\$ 353,336</u>	<u>\$ 367,455</u>

City of Bedford, Virginia
Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Revenues										
Taxes	\$ 6,205,510	\$ 6,088,806	\$ 5,920,497	\$ 5,839,083	\$ 5,695,811	\$ 5,385,880	\$ 5,476,530	\$ 5,383,260	\$ 4,883,768	\$ 4,395,538
Permits, privilege fees, and licenses	25,491	35,221	31,701	33,828	18,686	21,183	24,213	43,183	17,986	12,109
Fines and forfeitures	84,687	41,628	71,577	34,959	22,478	35,210	41,795	48,839	47,321	74,550
Revenue from use of money and property	343,308	221,008	122,171	156,775	257,035	543,651	430,875	390,836	294,327	303,576
Changes for services	275,364	215,394	251,822	205,432	98,070	75,220	72,160	156,870	165,899	709,901
Other	140,076	260,834	98,305	117,299	205,624	163,811	234,488	213,428	237,858	247,422
Intergovernmental	6,517,543	6,307,277	6,363,359	5,751,668	5,747,907	5,307,680	5,024,264	4,920,658	4,181,234	4,205,313
Total revenues	13,591,979	13,170,168	12,859,432	12,139,044	12,045,611	11,532,635	11,304,325	11,157,074	9,828,393	9,948,409
Expenditures										
General government	1,415,552	1,456,413	1,085,412	953,974	1,056,528	888,906	919,310	806,879	866,355	817,430
Judicial administration	22,108	27,097	11,587	22,602	22,759	34,594	29,109	26,314	27,780	19,200
Public safety	3,120,698	3,122,124	2,516,748	2,211,078	2,234,097	2,267,808	1,947,134	2,154,991	1,755,164	1,631,412
Public works	2,063,237	2,043,948	1,774,348	2,062,111	1,981,739	2,349,870	1,611,825	1,628,381	1,601,194	1,971,177
Parks, recreation and cultural	908,539	914,838	953,378	833,436	851,716	919,735	782,351	706,469	748,688	708,101
Health and welfare	558,469	721,935	366,032	491,097	688,613	422,997	356,282	231,771	276,326	194,348
Education	6,583,537	6,111,105	6,301,173	5,510,608	5,155,699	4,828,153	4,460,758	4,419,987	4,347,700	4,102,507
Community development	472,557	1,069,227	1,055,270	733,458	511,929	287,659	295,258	822,078	483,602	395,187
Nondepartmental	7,829	486	11,580	5,665	2,665	237,652	7,828	32,041	90,603	200,258
Capital projects	-	-	-	-	-	-	-	-	20,387	1,254,998
Debt service	-	-	-	-	-	-	-	-	-	-
Bond issuance costs	24,570	-	42,431	-	-	-	-	-	-	-
Principal	626,979	640,018	555,387	625,289	581,776	707,822	2,068,311	503,658	440,000	595,000
Interest	132,589	150,330	141,699	157,568	260,741	253,834	283,265	323,208	285,628	459,761
Total expenditures	15,936,664	16,257,521	14,815,045	13,606,886	13,348,262	13,199,030	12,761,431	13,183,997	10,943,427	12,349,379
Excess of revenues over (under) expenditures	(2,344,685)	(3,087,353)	(1,955,613)	(1,467,842)	(1,302,651)	(1,666,395)	(1,457,106)	(2,026,923)	(1,115,034)	(2,400,970)
Other Financing Sources (Uses)										
Proceeds from borrowing	717,885	197,925	1,460,000	-	1,498,900	-	1,994,476	-	1,500,000	1,230,000
Payment to refunded bond escrow agent	-	-	-	-	(1,482,989)	-	-	-	-	-
Proceeds from sale of assets	26,212	15,128	-	-	-	-	-	-	-	-
Principal payment of capital lease	-	(197,925)	-	-	-	-	-	-	-	-
Transfers in	2,162,023	1,505,875	1,467,000	1,502,637	1,084,989	1,104,367	1,492,090	3,090,985	3,302,201	3,840,254
Transfers out	(208,000)	(502,050)	(485,450)	(35,637)	(18,989)	(161,313)	(226,542)	(1,991,777)	(1,795,439)	(2,335,800)
Total other financing sources (uses)	2,698,120	1,018,953	2,441,550	1,467,000	1,081,911	943,054	3,260,024	1,099,208	3,006,762	2,734,454
Net change in fund balances	\$ 353,435	\$(2,068,400)	\$ 485,937	\$(842)	\$(220,740)	\$(723,341)	\$ 1,802,918	\$(927,715)	\$ 1,891,728	\$ 333,484
Debt service as a percentage of noncapital expenditures	4.77%	4.86%	4.71%	5.75%	6.31%	7.29%	18.43%	7.09%	6.64%	9.51%

TABLE 5

City of Bedford, Virginia
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation	Mobile Homes	Total Assessed Value	Total Direct Tax Rate(1)
2006	\$ 318,993,200	\$ 43,796,730	\$ 30,216,970	\$ 8,913,570	\$ 478,800	\$ 402,399,270	\$ 0.97
2005	313,729,100	41,338,270	30,194,580	10,437,161	486,600	396,185,711	0.96
2004	310,247,885	43,485,320	33,098,380	11,620,498	520,700	398,972,783	0.97
2003	303,930,500	42,366,120	32,527,560	11,338,521	499,500	390,662,201	0.97
2002	280,111,000	42,745,030	49,272,330	11,220,564	562,800	383,911,724	0.99
2001	276,036,900	41,873,067	49,506,720	11,408,544	525,800	379,351,031	0.99
2000	273,096,200	37,570,470	45,324,990	10,913,839	474,800	367,380,299	0.97
1999	270,067,216	36,990,630	42,489,190	9,570,920	520,100	359,638,056	0.98
1998	223,641,700	35,404,770	41,854,980	9,418,822	520,600	310,840,872	1.00
1997	221,100,884	34,440,180	39,440,300	9,722,456	494,500	305,198,320	0.99

Notes: Property is assessed at full market value. Properties are reassessed once every 4 years.

(1) Per \$1,000 of assessed value.

TABLE 6

**City of Bedford, Virginia
Principal Property Tax Payers
Current Year and Nine Years Ago**

Taxpayer	Fiscal Year 2006			Fiscal Year 1997		
	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value	Assessed Value	Rank	Percentage of Total City Taxable Assessed Value
SM Realty Corporation	\$ 6,772,800	1	2.07%	\$ 4,786,900	4	2.09%
Verizon	5,861,406	2	1.79%	-	NR	0.00%
Southgate Assoc. II, LP	5,488,000	3	1.68%	-	NR	0.00%
Raintree Village LLC	5,399,800	4	1.65%	5,388,000	3	2.35%
BFG, Inc.	3,705,600	5	1.13%	3,180,400	6	1.39%
Roberts Thomas & Va.	3,419,800	6	1.04%	-	NR	0.00%
Carriage Hill of Va Ltd.	3,348,300	7	1.02%	2,570,700	7	1.12%
Frank Chervan, Inc.	2,960,000	8	0.90%	2,284,500	9	1.00%
Raintree East Reilly Mortgage Grp.	2,634,700	9	0.80%	2,420,900	8	1.05%
Norfolk & Western Railway	2,360,176	10	0.72%	2,252,244	10	0.98%
RBX-Rubatex & RBS-Waltex	-	NR	0.00%	8,663,100	1	3.77%
Bell Atlantic Va., Inc.	-	NR	0.00%	7,071,571	2	3.08%
Westgate Co.	-	NR	0.00%	4,240,000	5	1.85%
	<u>\$ 41,950,582</u>		<u>12.81%</u>	<u>\$ 42,858,315</u>		<u>18.67%</u>

Source: Land books from the Commissioner of the Revenues office.

NR - Not Ranked.

TABLE 7

**City of Bedford, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2006	\$ 3,860,961	\$ 3,552,698	92.02%	\$ -	\$ 3,552,698	92.02%
2005	3,664,491	3,445,326	94.02%	66,309	3,511,635	95.83%
2004	3,650,823	3,407,560	93.34%	127,558	3,535,118	96.83%
2003	3,577,953	3,342,430	93.42%	67,632	3,410,062	95.31%
2002	3,494,359	3,259,443	93.28%	40,860	3,300,303	94.45%
2001	3,455,872	3,002,760	86.89%	330,114	3,332,874	96.44%
2000	3,393,161	3,289,224	96.94%	47,657	3,336,881	98.34%
1999	3,302,804	3,206,752	97.09%	61,944	3,268,696	98.97%
1998	2,924,727	2,865,092	97.96%	51,462	2,916,554	99.72%
1997	2,665,527	2,630,248	98.68%	37,154	2,667,402	100.07%

Source: Tax Records of the City.

TABLE 8

**City of Bedford, Virginia
Legal Debt Margin Information
Last Ten Fiscal Years**

	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Debt limit	\$ 32,757,867	\$ 32,374,542	\$ 32,154,124	\$ 31,492,480	\$ 29,090,080	\$ 28,717,501	\$ 28,371,674	\$ 27,930,918	\$ 23,270,803	\$ 23,056,565
Total net debt applicable to limit	18,432,208	15,551,377	15,924,181	15,354,958	14,028,228	10,946,132	10,716,683	6,381,201	5,725,392	8,490,000
Legal debt margin	<u>\$ 14,325,659</u>	<u>\$ 16,823,165</u>	<u>\$ 16,229,943</u>	<u>\$ 16,137,522</u>	<u>\$ 15,061,852</u>	<u>\$ 17,771,369</u>	<u>\$ 17,654,991</u>	<u>\$ 21,549,717</u>	<u>\$ 17,545,411</u>	<u>\$ 14,566,565</u>
Total net debt applicable to the limit as a percentage of debt limit	56.27%	48.04%	49.52%	48.76%	48.22%	38.12%	37.77%	22.85%	24.60%	36.82%

Legal Debt Margin Calculation for Fiscal Year 2006

Assessed value	<u>\$ 327,578,673</u>
Debt limit (10% of assessed value)	\$ 32,757,867
Less debt applicable to limit:	
General obligation bonds	(18,432,208)
Other long-term obligations	-
Legal debt margin	<u>\$ 14,325,659</u>

City of Bedford, Virginia
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt				Percentage of Actual Value of Taxable Property	Per Capita	Other Governmental Activities Debt		
	General Obligation Bonds	Redevelopment Bonds	Less: Amounts Restricted to Repaying Principal				Notes Payable	Capital Leases	Other Debt
			General Bonds	Total Bonded Debt					
2006	\$ 2,047,200	\$ -	\$ -	\$ 2,047,200	0.51%	330	\$ -	876,479	\$ 1,050,000
2005	2,573,300	-	-	2,573,300	0.65%	414	-	184,473	1,200,000
2004	3,091,400	-	-	3,091,400	0.77%	497	-	231,391	1,200,000
2003	2,018,100	-	-	2,018,100	0.52%	323	-	325,078	1,275,000
2002	2,413,900	-	-	2,413,900	0.63%	385	-	479,565	1,350,000
2001	2,715,000	-	-	2,715,000	0.72%	430	-	626,341	1,425,000
2000	3,170,000	-	-	3,170,000	0.86%	503	38,218	765,945	1,500,000
1999	3,625,000	-	-	3,625,000	1.01%	585	74,206	348,849	1,500,000
1998	4,075,000	-	-	4,075,000	1.31%	657	150,392	-	1,500,000
1997	4,515,000	-	-	4,515,000	1.48%	728	196,400	-	-

Business-type Activities

Fiscal Year	General			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Obligation Bonds	Capital Leases			
2006	\$ 17,714,178	\$ 14,617,123	\$ -	\$ 36,304,980	NA	\$ 5,856
2005	17,007,099	12,978,077	-	33,942,949	NA	5,465
2004	17,629,730	12,832,781	-	34,985,302	1592.68%	5,623
2003	18,237,361	13,336,878	34,002	35,226,419	1714.82%	5,641
2002	18,829,991	11,614,328	99,730	34,787,514	1723.40%	5,541
2001	19,397,622	8,231,132	162,262	32,557,357	1650.83%	5,151
2000	19,945,253	7,546,683	221,787	33,187,886	1776.62%	5,265
1999	23,972,884	2,756,201	-	32,277,140	1836.26%	5,206
1998	23,605,514	1,891,045	-	31,221,951	1888.70%	5,036
1997	25,498,146	-	-	30,209,546	1957.91%	4,873

TABLE 10

**City of Bedford, Virginia
Pledged Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2006	\$ 20,417,640	\$ 17,356,493	\$ 3,061,147	\$ 562,631	\$ 577,968	2.68
2005	17,296,354	11,799,137	5,497,217	622,631	901,065	3.61
2004	16,640,083	13,242,106	3,397,977	607,631	921,345	2.22
2003	17,241,801	11,800,475	5,441,326	592,630	940,568	3.55
2002	16,516,255	10,503,715	6,012,540	567,631	958,346	3.94
2001	16,651,377	11,298,174	5,353,203	547,631	1,042,759	3.37
2000	16,652,149	10,942,876	5,709,273	537,631	987,945	3.74
1999	16,204,469	9,103,028	7,101,441	527,631	1,002,124	4.64
1998	15,214,253	12,345,937	2,868,316	752,631	1,285,638	1.41
1997	13,805,772	9,338,593	4,467,179	497,631	1,008,013	2.97

Notes: Details regarding the City's outstanding debt can be found in the Notes to Financial Statements.
Operating expenses do not include depreciation, interest, or amortization expenses.

TABLE 11

City of Bedford, Virginia
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended (1)	Population (2)	Total Personal Income (3)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate (4)
2006	6,200	NA	NA	902	4.00%
2005	6,211	NA	NA	914	4.40%
2004	6,222	2,196,637	31,317	936	4.70%
2003	6,245	2,054,229	29,761	946	4.70%
2002	6,278	2,018,540	29,622	943	5.00%
2001	6,320	1,972,182	29,205	986	4.00%
2000	6,303	1,868,032	27,898	972	2.50%
1999	6,200	1,757,761	26,731	993	2.00%
1998	6,200	1,653,096	25,525	1,004	2.50%
1997	6,200	1,542,949	24,469	1,051	3.20%

(1) Population and school enrollment figures are based on fiscal years ending June 30. Per Capita Income and unemployment figures are as of December 31.

(2) Source: Population Division, U.S. Census Bureau

(3) Source: Bureau of Economic Analysis, U.S. Department of Commerce - Bedford City & County combined

(4) Source: LAUS Unit and Bureau of Labor Statistics

NA = Not Available

TABLE 12

**City of Bedford, Virginia
Principal Employers
Current Year and Nine Years Ago**

Employer	Fiscal Year 2006			Fiscal Year 1997		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Bedford Memorial Hospital	357	1	8.73%	N/A		0.00%
Lazy Boy/Sam Moore	321	2	7.85%	330	2	7.22%
Bedford Public Schools	305	3	7.46%	N/A		0.00%
Brooks Food Group/Golden West	185	4	4.53%	165	6	3.61%
Frank Chervan	167	5	4.09%	210	3	4.60%
Smithfield/Holbrook	150	6	3.67%	N/A		0.00%
Bedford Weaving Mills	139	7	3.40%	165	5	3.61%
Cintas	136	8	3.33%	100	8	2.19%
Smyth Companies Bedford	116	9	2.84%	185	4	4.05%
Longwood Industries	96	10	2.35%	135	7	2.95%
Rubatex	55		1.35%	685	1	14.99%
Wheelabrator Abrasives, Inc.	43		1.05%	47	9	1.03%
Parkway Steel Rule Cutting Dies	25		0.61%	25	10	0.55%
	<u>\$ 2,095</u>		51.25%	<u>\$ 2,047</u>		44.79%

N/A - Not available.

TABLE 13

City of Bedford, Virginia
 Full-Time Equivalent City Government Employees by Function/Program
 Last Ten Fiscal Years

Function/Program	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General government										
Executive	2	2	2	2	2	2	2	2	2	2
Treasurer	1	1	1	1	1	1	1	1	1	1
Personnel	2	2	2	2	2	1	1	1	1	1
Finance	5	7	7	6	6	7	7	7	7	6
Information Technology	2	-	-	-	-	-	-	-	-	-
Planning	5	5	5	5	5	4	4	4	4	4
Schools	8	8	8	8	8	8	8	7	9	8
Police										
Officers	29	22	22	22	22	22	22	21	21	21
Civilians	3	2	2	2	5	6	6	6	6	6
Fire	1	1	1	1	1	1	1	1	1	1
Public works	20	20	21	22	22	22	22	22	24	26
Engineering	2	2	2	2	2	2	2	2	2	2
Parks, recreation and cemeteries	10	10	10	10	9	9	9	9	9	10
Solid waste	5	5	5	4	4	4	4	4	-	-
Water	6	6	6	6	6	6	6	6	6	6
Wastewater	11	11	11	11	10	10	10	10	10	10
Electric	19	20	20	20	20	19	19	18	18	18
Total	131	124	125	124	125	124	124	121	121	122

TABLE 14

City of Bedford, Virginia
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

Function/Program	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
General Government										
Fleet										
Pieces of equipment maintained	*	*	*	*	*	*	*	*	*	*
Public safety										
Police										
Physical arrests	1,269	1,116	926	832	790	687	*	*	*	*
Parking violations	2,601	989	1,434	1,269	1,395	895	1,228	1,844	*	*
Traffic violations	2,288	1,339	1,440	1,396	1,265	954	*	*	*	*
Fire										
Emergency responses - per calendar year	NA	666	557	533	483	482	421	445	387	370
Public works										
Refuse collection										
Refuse collected (tons per day)	*	*	*	*	*	*	*	*	*	*
Recyclables collected (tons per day)	*	*	*	*	*	*	*	*	*	*
Other public works										
Street resurfacing (miles)	*	*	*	*	*	*	*	*	*	*
Parks, recreation and cultural										
Parks and recreation										
Tournaments hosted	1	1	2	0	1	0	0	0	0	0
Electric										
Number of customer accounts	6,340	6,444	6,214	6,647	6,574	6,301	6,589	*	*	*
Miles of distribution lines	350	350	350	350	350	350	300	*	*	*
Miles of transmission lines	28	28	28	28	28	28	26.5	*	*	*
Water										
Number of customer accounts	3,215	3,189	3,122	3,113	3,199	3,202	3,165	*	*	*
Miles of distribution lines	63	63	63	63	63	63	63	*	*	*
Volume pumped (million gallons per day average)	1.2	1.1	1.1	1.2	1.1	1.1	1.2	*	*	*
Sewer										
Number of customer accounts	2,568	2,590	2,530	2,559	2,591	2,601	2,562	*	*	*
Waste/Water treated (million gallons per day)	1.0	1.0	1.1	1.0	0.9	1.0	1.0	*	*	*

* Information was not accumulated for these years and is not available at this time
 NA - Information not available at this time

TABLE 15

**City of Bedford, Virginia
Capital Asset and Infrastructure Statistics by Function/Program
Last Ten Fiscal Years**

<u>Function/Program</u>	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
Public safety										
Law enforcement vehicles	19	17	16	16	16	16	16	16	15	15
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works										
Primary streets (lane miles)	24.11	24.11	23.35	23.35	23.35	23.35	23.35	23.35	23.35	23.35
Secondary streets (lane miles)	66.47	66.47	64.45	64.45	64.45	64.45	64.45	64.45	64.45	64.45
Streetlights	875	835	835	808	788	788	770	*	*	*
Parks, recreation and cultural										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	12	12	12	12	12	12	12	12	12	12
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Transformers	3,210	*	*	*	*	*	*	*	*	*
Water and sewage										
Water treatment plants	1	1	1	1	1	1	1	1	1	1
Water mains (miles)	65	63	63	63	63	63	63	*	*	*
Storm sewers (miles)	5	5	5	5	5	5	5	*	*	*
Sanitary sewers (miles)	47	46	46	46	46	46	46	*	*	*
Catering and concessions										

Source: Information was obtained from prior year audit reports.

* Information was not accumulated for these years and is not available.



COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Bedford, Virginia, as of and for the year ended June 30, 2006, which collectively comprise the City of Bedford, Virginia's basic financial statements and have issued our report thereon dated September 29, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. **However, we noted matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.** Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. **These reportable conditions are described 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 fundamental concept of effective disbursement processing is that controls should be in place to prevent duplicate payment of invoices. The City's current controls are not effective in this regard.

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 both reportable conditions mentioned above to be material weaknesses.** We also noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated September 29, 2006.

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:**

- **The Virginia Public Depository Act requires local governments to maintain deposits in qualified depositories as defined by the Virginia Department of Treasury. The City maintained certain certificates of deposit in non-qualified depositories.**
- **The Uniform Disposition of Unclaimed Property Act requires local governments to file an annual report and remit any property greater than five years old to the state treasurer for final disposition. The City failed to remit one such check when the annual report was filed.**

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, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 29, 2006

CITY OF BEDFORD, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2006

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

LOCAL COMPLIANCE MATTERS

City Charter
City Code