

# **CITY OF BEDFORD, VIRGINIA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2008**

**DEPARTMENT OF FINANCE AND ADMINISTRATION**



**CITY OF BEDFORD, VIRGINIA**

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# **INTRODUCTORY SECTION**

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# City of Bedford, Virginia

## Department of Finance

November 3, 2008

### **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, 2008. 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 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 and community development, code enforcement, cemetery management, recreational activities and tourism. The City also provides and maintains electrical, water and sewer utilities, and handles solid waste disposal 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 primarily comprised of health care and social services (37%), manufacturing (30%), and retail sales, food service and lodging (17%). Bedford's industrial base includes major employers involved in food processing, furniture manufacturing, lithographed labels, plastics, weaving, polyurethane products, steel abrasives, closed-cell rubber products and steel cutting dies. During 2007/2008 the City's unemployment rate increased from 3.6% to 5.3%. Much of this increase can be attributed to growth in the civilian labor force coupled with continued reduction in the number of manufacturing jobs and a general slowdown in the economy. City Council's commitment to economic development and diversification has positioned the City well for expansion when the overall economic climate improves.

Bedford also enjoys a healthy mix in real estate values with approximately 72 percent coming from residential property, while approximately 28 percent is commercial and industrial. Increases resulted from new construction and revenue sharing areas, while personal property and machinery and tools tax 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 underway for water and sewer service in the US 460 West corridor.

The City and County have developed a 100-acre business park in the City -- The Bedford Center for Business, which 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 to temporarily house court and social services while Centertown's historic courthouse was renovated and expanded, has two tenants under long-term leases -- East Coast Fabricators/Rhino Coat, a manufacturer specializing in metal fabrication and finishing, and the Bedford Campus of Central Virginia Community College. The Mid-Atlantic Broadband Cooperative, in conjunction with the Virginia Tobacco Commission and US Department of Commerce's Economic Development Administration, provides reasonably low-cost access to high-speed broadband from facilities in the park. . Most recently, The Matrixx Group, a developer, manufacturer and distributor of thermoplastic materials, began operation in a 37,000 sq. ft. facility in the Bedford Center for Business.

In 2005, the City of Bedford was 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 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. In October, the Welcome Center will celebrate four years of operation and approximately 120,000 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 Industrial Development Authority, provides funding for a performance-based, economic incentive program and other Enterprise Zone initiatives. The City economic development staff 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 focused on improving the connectivity between the National D-Day Memorial/Bedford Welcome Center and Centertown. With partial funding from the

Department of Transportation Enhancement Funds, a comprehensive Wayfinder Signage Program is being implemented and a series of physical improvements are scheduled for the US 460/122 interchange, as well as, the Burks Hill Road/Crenshaw entrance to Centertown. The City, in cooperation with Bedford Main Street and service provider JetBroadband, provide a free, public “wireless hotspot” in Centertown Plaza similar to facilities at the Bedford Welcome Center.

- The City continues to upgrade and build new distribution line circuits and a new substation. With other AMP-Ohio members, the City is participating in the construction of a base load coal fired plant to provide diversity in our wholesale power portfolio. Currently, approximately 8% of the City’s electricity is from renewable sources. We have addressed 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 constructed a solid waste transfer and composting facility and is extending the life of the landfill by limiting its use to construction materials. 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. As a long term solution, the City is participating in the new Region 2000 Solid Waste Authority.
- The City plans to remain an active regional partner in many programs. We currently participate in 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 and the new Region 2000 Solid Waste Authority.
- With the increasing challenges of stretching scarce revenues to accommodate ever increasing costs of doing business without the authority to physically expand its tax base, the City is investigating the option of “transitioning” to town status with Bedford County. In April, 2008, the City and County officials began talks aimed at returning the City to Town status.

### **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 judgments 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 re-appropriated 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, 2008 totaled \$16,142,646. 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 \$247,573 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, 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 Piedmont Community Health Plan and contributes up to \$370.70 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, 2007. This was the eighth 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.

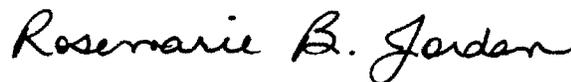
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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. 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, 2007

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.



*Oliver S. Cox*

President

*Jeffrey R. Emer*

Executive Director

**CITY OF BEDFORD, VIRGINIA**  
**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2008**

MEMBERS OF CITY COUNCIL

Willard D. "Skip" Tharp, Mayor  
Robert T. Wandrei, Vice Mayor

C. G. Stanley  
James A. Vest  
Mary L. Flood

Thomas M. Padgett  
Jeffrey B. Hubbard

MEMBERS OF CITY SCHOOL BOARD

Paul D. Sherman, Chairman  
Phyllis J. Parker, Vice Chairman

Anne M. VanDerwerker  
William H. Ross  
Betsy Klein

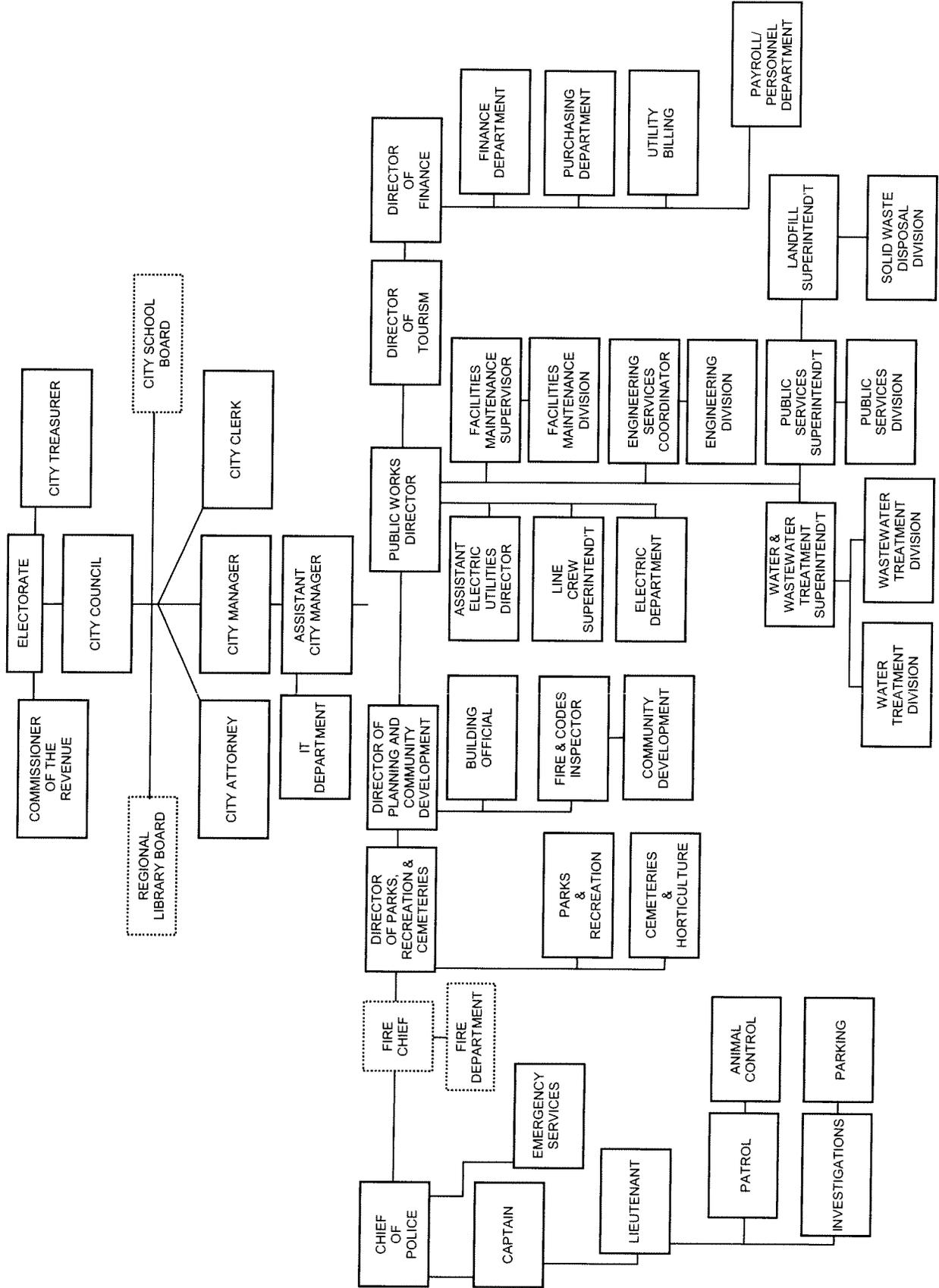
Debra Z. Bond  
Stephen C. Rush

OTHER OFFICIALS

Charles P. Kolakowski  
Barrett F. Warner  
Teresa W. Hatcher  
William W. Berry, IV  
Debbie A. Roberts  
Valerie N. Wilson  
James E. Day  
Brad Creasy  
Rosemarie B. Jordan  
Barrett F. Warner  
N. Jeff Weddle  
Randal A. Nixon  
Dr. James G. Blevins  
Charlene D. McFall

City Manager  
Assistant 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 Services  
Director of Parks, Recreation and Cemeteries  
Superintendent of Schools  
Clerk of the School Board

**CITY OF BEDFORD ORGANIZATIONAL CHART**



## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia as of and for the year ended June 30, 2008, 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 the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia, as of June 30, 2008, 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 November 3, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3 through 11 and on page 49, 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 and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. 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, S. L. P.*

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 3, 2008

## 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, 2008 and 2007. 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 current fiscal year by \$36,917,778 (net assets). Of this amount, \$8,535,073 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,435,428, which is primarily attributable to the operations of the water and sewer fund and the electric fund.
- At the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$2,805,585, a decrease of \$(237,269) in comparison with the prior year. Approximately 16% of this total amount, \$453,160, or 2.50% of total general fund expenditures is available for spending at the government's discretion (unreserved) fund balance.
- The City's total debt increased by \$3,210,101 (8.71%) during the current fiscal year.

### Overview of the Financial Statements

This discussion and analysis is 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:

**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 one individual governmental fund. Information is presented 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.

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 three proprietary funds. *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 statements.

**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 \$36,917,778 at the close of the most recent fiscal year.

A portion of the City's net assets (77%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); 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* (23%) 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 4,238,587	\$ 4,300,502	\$ 20,727,430	\$ 17,343,926	\$ 24,966,017	\$ 21,644,428
Capital assets	18,127,151	16,990,378	36,995,180	36,670,897	55,122,331	53,661,275
Total assets	<u>22,365,738</u>	<u>21,290,880</u>	<u>57,722,610</u>	<u>54,014,823</u>	<u>80,088,348</u>	<u>75,305,703</u>
Long-term liabilities	7,930,301	3,386,725	32,133,661	33,467,136	40,063,962	36,853,861
Other liabilities	1,124,059	1,116,504	1,982,549	1,852,988	3,106,608	2,969,492
Total liabilities	<u>9,054,360</u>	<u>4,503,229</u>	<u>34,116,210</u>	<u>35,320,124</u>	<u>43,170,570</u>	<u>39,823,353</u>
Net assets						
Invested in capital assets, net of related debt	15,245,441	14,745,115	13,137,264	11,813,722	28,382,705	26,558,837
Unrestricted	<u>(1,934,063)</u>	<u>2,042,536</u>	<u>10,469,136</u>	<u>6,880,977</u>	<u>8,535,073</u>	<u>8,923,513</u>
Total net assets	<u>\$ 13,311,378</u>	<u>\$ 16,787,651</u>	<u>\$ 23,606,400</u>	<u>\$ 18,694,699</u>	<u>\$ 36,917,778</u>	<u>\$ 35,482,350</u>

At the end of the current fiscal year, the City is able to report positive balances in all but one category of net assets.

The government's net assets increased by \$1,435,428 during the current fiscal year. This increase represents a 4.05% increase during the current fiscal year. The key elements of this increase are an increase of 20% in water and sewer rates that was effective on July 1, 2007 and a decrease in solid waste expenses due to moving the costs of the old City landfill to the General Fund.

**Governmental Activities** – Governmental activities decreased the City's net assets by \$(3,476,273). A key element of this decrease or \$2,390,245 is due to moving the activity related to the closed City landfill from the Solid Waste Fund to the General Fund.

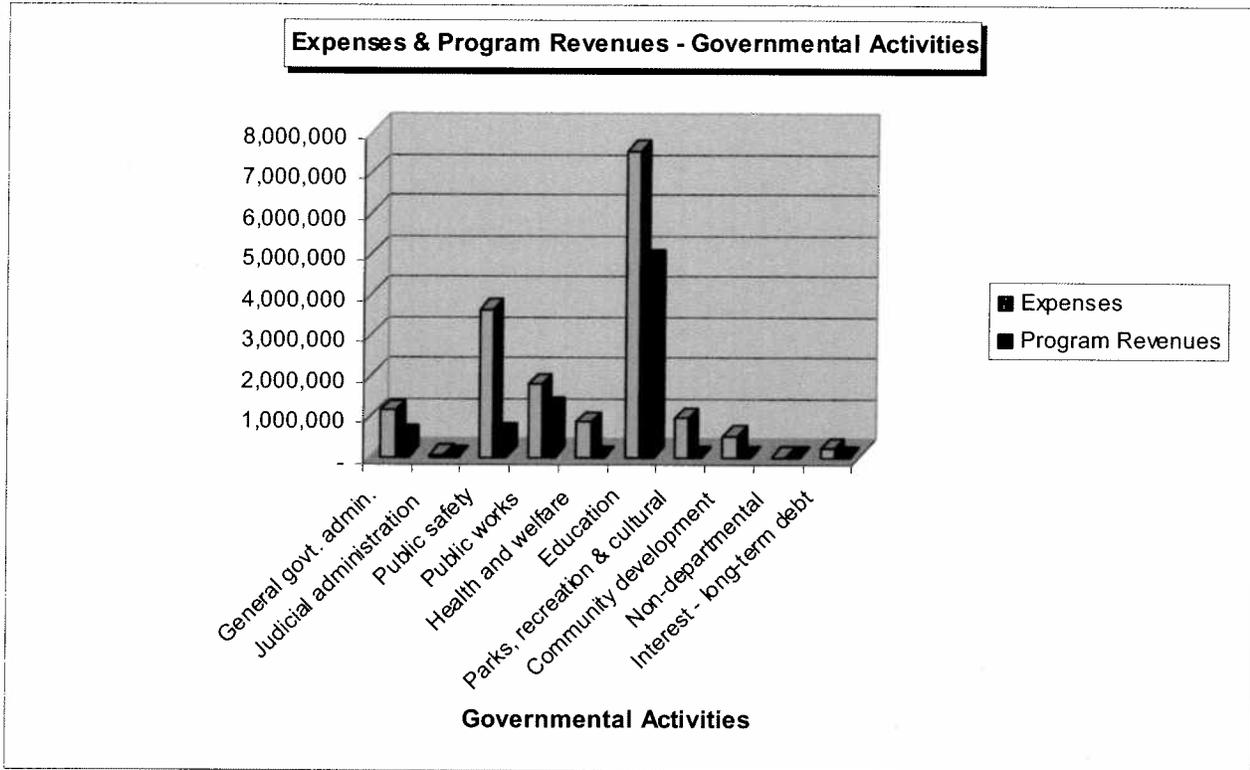
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. A few noteworthy exceptions, however, are the increases in the health and welfare and the education category. The health and welfare category increase of \$184,005 includes the increase in the amount paid for the City's share of services from Bedford County. The increase in the education category of \$240,080 is also a reflection of the increase in the amount paid for the City's share of education services from Bedford County.

**Business-type Activities** – Business-type activities increased the City's net assets by \$4,911,701. A key element of this increase is as follows: The Solid Waste Fund included an increase of \$2,390,245 due to moving the activity for the closed City landfill to the General Fund.

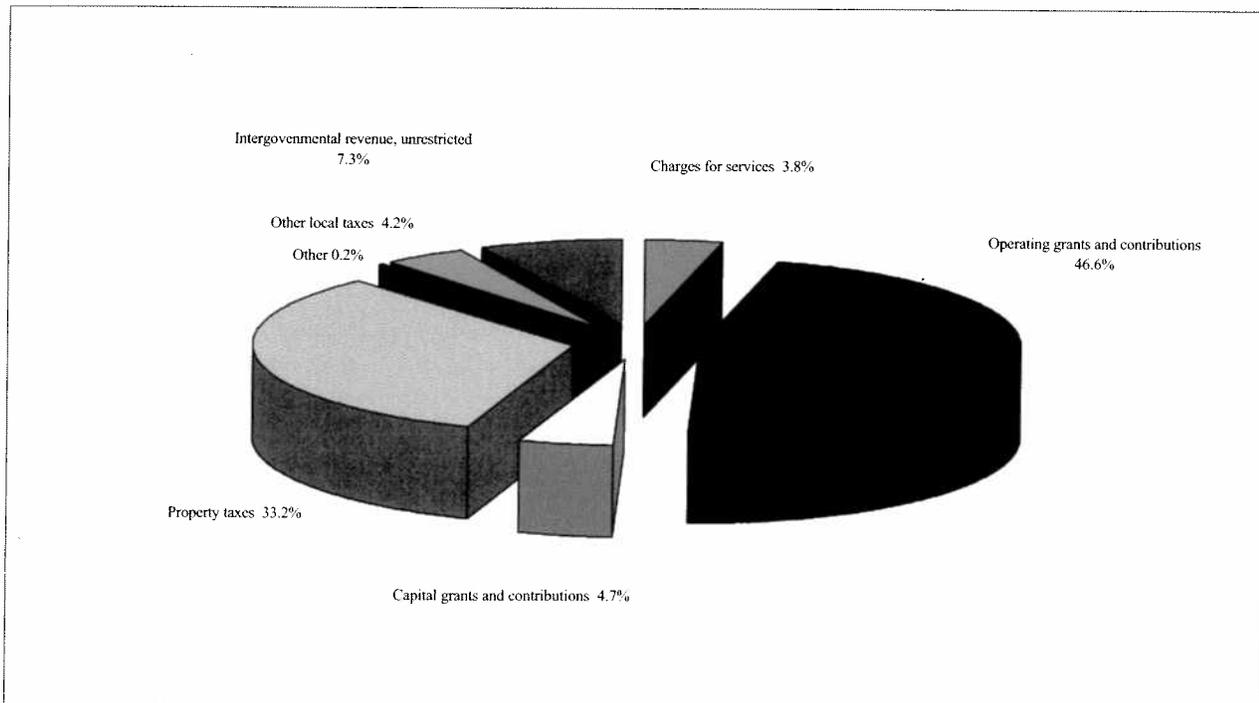
**The City's Changes in Net Assets**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 497,179	\$ 507,658	\$ 24,801,551	\$ 23,640,530	\$ 25,298,730	\$ 24,148,188
Operating grants and contributions	6,036,954	5,916,844	333,872	330,314	6,370,826	6,247,158
Capital grants and contributions	610,115	229,931	102,100	-	712,215	229,931
General revenues						
Property taxes	4,300,745	4,269,862	-	-	4,300,745	4,269,862
Other taxes	2,876,292	2,876,220	-	-	2,876,292	2,876,220
Intergovernmental revenue unrestricted	939,102	971,695	-	-	939,102	971,695
Investment earnings	247,573	404,158	631,292	685,764	878,865	1,089,922
Other	25,457	22,720	-	-	25,457	22,720
Gain from sale of capital assets	-	4,621	168,323	-	168,323	4,621
<b>Total revenues</b>	<b>15,533,417</b>	<b>15,203,709</b>	<b>26,037,138</b>	<b>24,656,608</b>	<b>41,570,555</b>	<b>39,860,317</b>
<b>Expenses</b>						
General government	1,157,362	1,108,975	-	-	1,157,362	1,108,975
Judicial administration	45,844	20,269	-	-	45,844	20,269
Public safety	3,551,640	3,491,536	-	-	3,551,640	3,491,536
Public works	1,800,835	1,870,534	-	-	1,800,835	1,870,534
Health and welfare	859,833	675,828	-	-	859,833	675,828
Education	7,521,071	7,280,991	-	-	7,521,071	7,280,991
Parks, recreation, and cultural	968,399	990,201	-	-	968,399	990,201
Community development	525,207	464,080	-	-	525,207	464,080
Non-departmental	10,923	1,208	-	-	10,923	1,208
Interest on long-term debt	224,815	137,765	-	-	224,815	137,765
Water and sewer	-	-	2,889,286	3,074,722	2,889,286	3,074,722
Solid waste	-	-	1,225,962	1,789,163	1,225,962	1,789,163
Electric	-	-	19,353,950	18,798,435	19,353,950	18,798,435
<b>Total expenses</b>	<b>16,665,929</b>	<b>16,041,387</b>	<b>23,469,198</b>	<b>23,662,320</b>	<b>40,135,127</b>	<b>39,703,707</b>
Excess (deficiency) before transfers	(1,132,512)	(837,678)	2,567,940	994,288	1,435,428	156,610
Transfers	(2,343,761)	1,189,736	2,343,761	(1,189,736)	-	-
Change in net assets	(3,476,273)	352,058	4,911,701	(195,448)	1,435,428	156,610
Net assets – July 1	16,787,651	16,435,593	18,694,699	18,890,147	35,482,350	35,325,740
Net assets – June 30	<u>\$ 13,311,378</u>	<u>\$ 16,787,651</u>	<u>\$ 23,606,400</u>	<u>\$ 18,694,699</u>	<u>\$ 36,917,778</u>	<u>\$ 35,482,350</u>

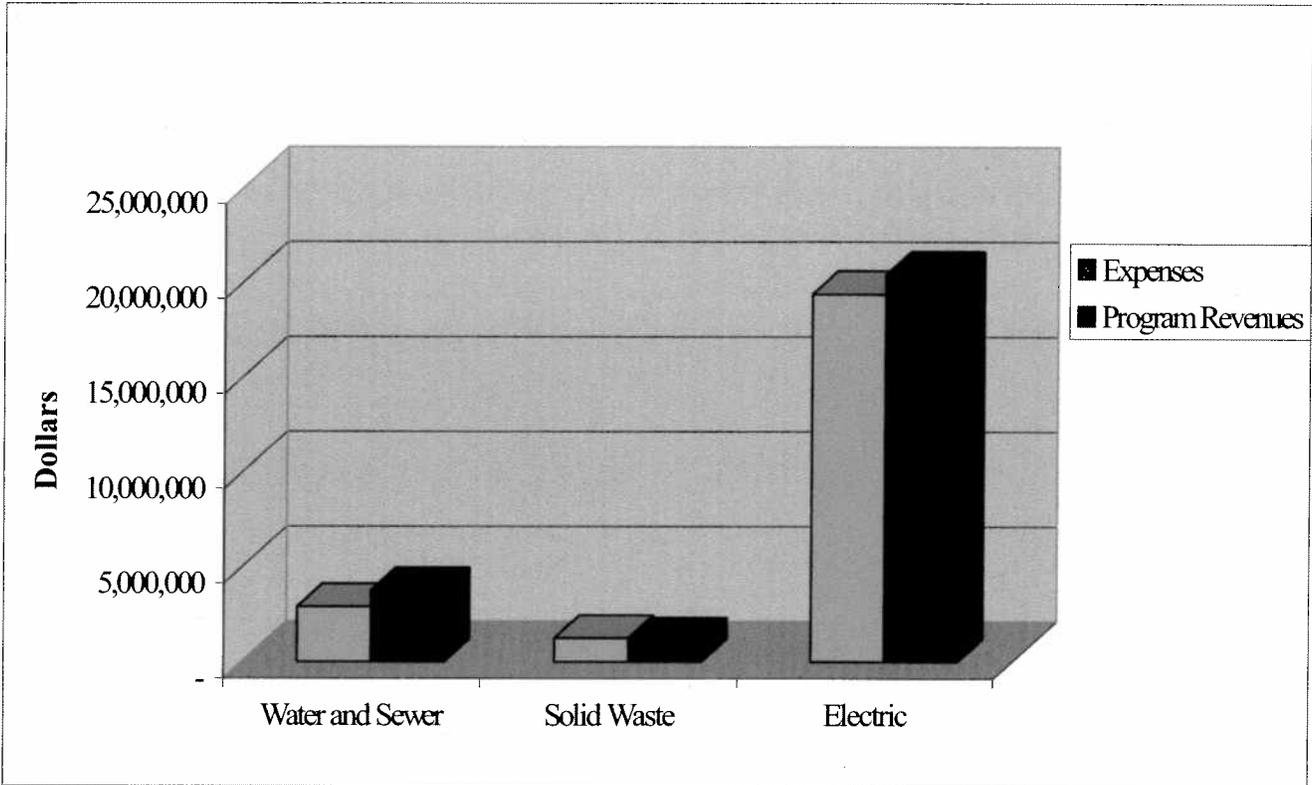
**Expenses and Program Revenues – Governmental Activities**



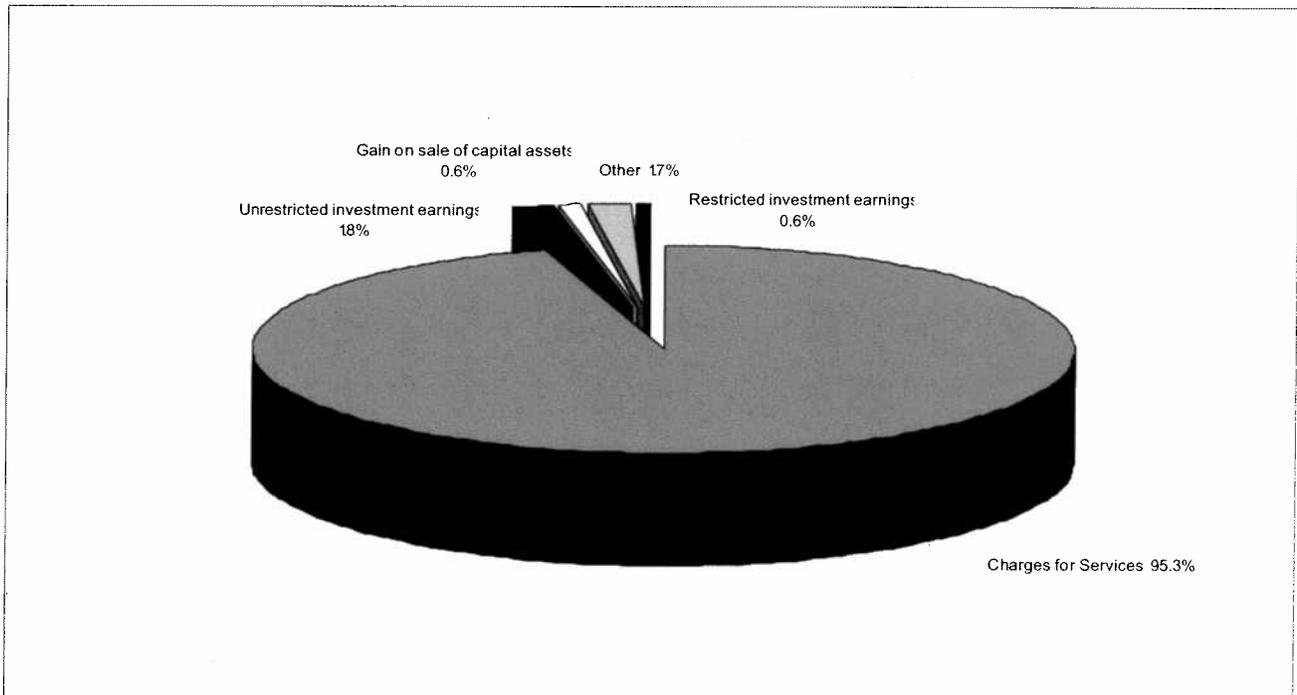
**Revenues by Source – Governmental Activities**



**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 Fund** – The focus of the City's *governmental fund* 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 fund reported an ending fund balance of \$2,805,585, a decrease of \$(237,269) in comparison with the prior year. Approximately 16% of this total amount – that is, \$453,160 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.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 2.50% of total general fund expenditures, while total fund balance represents 15.46% of that same amount.

The fund balance of the City's general fund decreased by \$(237,269) during the current fiscal year. The key factor to this change is the amount expended for capital projects in public safety of \$1,079,318 for a ladder truck and a burn building facility.

**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 \$(612,561); the solid waste fund had a deficit of \$(2,178,250); and the unrestricted net assets for the electric fund amounted to \$13,259,947. The total increase in net assets was \$4,911,701. 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 \$(1,319,992). Highlights are as follows:

- \$399,756 was re-appropriated for the purchase of a ladder truck for the Fire Department.
- \$426,347 was re-appropriated for community development projects, such as the bicycle trail, economic development fund, Centertown Improvement Project and Centertown Marketing Plan update.
- \$103,386 was re-appropriated for software replacement project in Finance.
- \$427,027 was re-appropriated for various miscellaneous projects from prior year funding.

Differences between the final amended budget and actual results amounted to \$1,039,388. Highlights are as follows:

- The budget for the Centertown Improvement Project was \$863,000. As of June 30, 2008, only \$2,971 had been expended for the project.
- The budget for Public Works included \$228,235 for blacktop, milling and guardrail replacement. This funding was carried over to the next fiscal year to be expended.

### 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, 2008, amounts to \$55,122,331 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery, equipment, and infrastructure. The total increase in the City’s investment in capital assets for the current fiscal year was 2.7% (a 6.7% increase for governmental activities and a 0.8% 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	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,351,960	\$ 1,989,260	\$ 968,017	\$ 1,330,717	\$ 3,319,977	\$ 3,319,977
Buildings and improvements	12,927,409	12,372,150	29,741,805	29,618,193	42,669,214	41,990,343
Distribution and transmission systems	-	-	29,539,787	29,339,989	29,539,787	29,339,989
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	7,971,265	7,106,285	3,606,646	3,103,055	11,577,911	10,209,340
Infrastructure	11,422,147	11,143,442	-	-	11,422,147	11,143,442
Construction in progress	133,452	120,356	1,246,593	110,659	1,380,045	231,015
Less accumulated depreciation	(16,679,082)	(15,741,115)	(31,423,613)	(30,147,661)	(48,102,695)	(45,888,776)
<b>Total</b>	<b>\$ 18,127,151</b>	<b>\$ 16,990,378</b>	<b>\$ 36,995,180</b>	<b>\$ 36,670,897</b>	<b>\$ 55,122,331</b>	<b>\$ 53,661,275</b>

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

**Long-term Debt** – At the end of the current fiscal year, the City had total debt outstanding of \$36,962,145. Of this amount, \$20,213,861 comprises debt backed by the full faith and credit of the government, \$674,209 is related to capital lease obligations, and \$16,074,075 is related to pledged revenue bonds.

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

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
	General obligation bonds	\$ 3,932,140	\$ 1,520,600	\$ 15,381,721	\$ 13,856,942	\$ 19,313,861
Literary fund loans	900,000	975,000	-	-	900,000	975,000
Revenue bonds	-	-	16,074,075	16,903,533	16,074,075	16,903,533
Capital leases	674,209	715,927	-	-	674,209	715,927
<b>Total</b>	<b>\$ 5,506,349</b>	<b>\$ 3,211,527</b>	<b>\$ 31,455,796</b>	<b>\$ 30,760,475</b>	<b>\$ 36,962,145</b>	<b>\$ 33,972,002</b>

The City's total debt increased by \$2,990,143 or 8.8% during the current fiscal year. The key factor in this increase is the new debt that was issued on May 1, 2008 for \$5,472,438.

The City maintains an 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 5.3%, which is an increase from a rate of 3.6% a year ago. This compares to the State's average unemployment rate of 4.2% and the national average rate of 5.7%.
- The occupancy rate of the government's central business district stands at 93%, reflecting a slight drop from 95% for the past 6 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 2008 fiscal year.

### **Requests for Information**

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

**BASIC FINANCIAL  
STATEMENTS**

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**CITY OF BEDFORD, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**June 30, 2008**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents (Note 2)	\$ 1,990,693	\$ 7,184,705	\$ 9,175,398
Investments (Note 2)	176,782	-	176,782
Receivables, net (Note 3)	251,888	3,688,600	3,940,488
Due from other governmental units (Note 5)	743,950	44,681	788,631
Inventories	-	1,105,130	1,105,130
Cash and cash equivalents, restricted (Note 2)	1,021,976	5,768,490	6,790,466
Deferred expenses	53,298	437,077	490,375
Net investment in direct financing lease (Note 14)	-	2,498,747	2,498,747
Capital assets: (Note 6)			
Nondepreciable	2,485,412	2,214,610	4,700,022
Depreciable, net	15,641,739	34,780,570	50,422,309
Total assets	<u>22,365,738</u>	<u>57,722,610</u>	<u>80,088,348</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	81,995	1,425,182	1,507,177
Accrued payroll and related liabilities	197,964	127,018	324,982
Accrued interest payable	109,341	176,711	286,052
Due to other governmental units (Note 5)	734,759	42,757	777,516
Customer security deposits	-	210,881	210,881
Noncurrent liabilities: (Note 7)			
Due within one year	2,645,043	2,587,215	5,232,258
Due in more than one year	5,285,258	29,546,446	34,831,704
Total liabilities	<u>9,054,360</u>	<u>34,116,210</u>	<u>43,170,570</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	15,245,441	13,137,264	28,382,705
Unrestricted	(1,934,063)	10,469,136	8,535,073
Total net assets	<u>\$ 13,311,378</u>	<u>\$ 23,606,400</u>	<u>\$ 36,917,778</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government administration	\$ 1,157,362	\$ 265,733	\$ 255,878	\$ -	\$ (635,751)	\$ -	\$ (635,751)
Judicial administration	45,844	-	-	-	(45,844)	-	(45,844)
Public safety	3,551,640	125,533	47,069	400,000	(2,979,038)	-	(2,979,038)
Public works	1,800,835	-	1,015,691	93,550	(691,594)	-	(691,594)
Health and welfare	859,833	-	-	-	(859,833)	-	(859,833)
Education	7,521,071	-	4,718,316	112,992	(2,689,763)	-	(2,689,763)
Parks, recreation, and cultural	968,399	105,913	-	-	(862,486)	-	(862,486)
Community development	525,207	-	-	3,573	(521,634)	-	(521,634)
Non-departmental	10,923	-	-	-	(10,923)	-	(10,923)
Interest on long-term debt	224,815	-	-	-	(224,815)	-	(224,815)
<b>Total governmental activities</b>	<b>16,665,929</b>	<b>497,179</b>	<b>6,036,954</b>	<b>610,115</b>	<b>(9,521,681)</b>		<b>(9,521,681)</b>
<b>Business-type activities:</b>							
Water and sewer	2,889,286	3,316,832	333,872	102,100		\$ 863,518	\$ 863,518
Solid waste	1,225,962	1,091,627	-	-		(134,335)	(134,335)
Electric	19,353,950	20,393,092	-	-		1,039,142	1,039,142
<b>Total business-type activities</b>	<b>23,469,198</b>	<b>24,801,551</b>	<b>333,872</b>	<b>102,100</b>		<b>1,768,325</b>	<b>1,768,325</b>
<b>Total primary government</b>	<b>\$ 40,135,127</b>	<b>\$ 25,298,730</b>	<b>\$ 6,370,826</b>	<b>\$ 712,215</b>	<b>(9,521,681)</b>		<b>(7,753,356)</b>
<b>General revenues:</b>							
Property taxes					4,300,745		4,300,745
Sales tax					998,680		998,680
Business license tax					656,230		656,230
Meals tax					681,216		681,216
Other local taxes					540,166		540,166
Intergovernmental revenue, unrestricted					939,102		939,102
Unrestricted investment earnings					213,805	469,295	683,100
Restricted investment earnings					33,768	161,997	195,765
Other					25,457	-	25,457
Gain on sale of capital assets					-	168,323	168,323
Transfers (Note 4)					(2,343,761)	2,343,761	-
<b>Total general revenues and transfers</b>					<b>6,045,408</b>	<b>3,143,376</b>	<b>9,188,784</b>
<b>Change in net assets</b>					<b>(3,476,273)</b>	<b>4,911,701</b>	<b>1,435,428</b>
<b>Net assets at July 1</b>					<b>16,787,651</b>	<b>18,694,699</b>	<b>35,482,350</b>
<b>Net assets at June 30</b>					<b>\$ 13,311,378</b>	<b>\$ 23,606,400</b>	<b>\$ 36,917,778</b>

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

## CITY OF BEDFORD, VIRGINIA

**BALANCE SHEET**  
**GOVERNMENTAL FUND**  
**June 30, 2008**

	<b>General</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,990,693
Investments	176,782
Cash and cash equivalents, restricted	1,021,976
Receivables, net (Note 3)	251,888
Due from other governmental units (Note 5)	743,950
Total assets	\$ 4,185,289
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 81,995
Accrued payroll and related liabilities	197,964
Long term debt service payments due (Note 7)	249,653
Deferred revenue (Note 3)	115,333
Due to other governmental units (Note 5)	734,759
Total liabilities	1,379,704
Fund balance: (Note 9)	
Reserved	2,352,425
Unreserved, reported in:	
General fund, designated	13,539
General fund, undesignated	439,621
Total fund balance	2,805,585
Total liabilities and fund balance	\$ 4,185,289

## CITY OF BEDFORD, VIRGINIA

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2008

<b>Total Fund Balance - Governmental Fund</b>	<b>\$ 2,805,585</b>
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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.

Nondepreciable capital assets	\$ 2,485,412	
Depreciable capital assets, net	<u>15,641,739</u>	18,127,151

Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets:

Issuance costs total \$90,024 and accumulated amortization is \$36,726	53,298
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Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	115,333
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds	(3,932,140)	
Literary fund loans	(900,000)	
Capital leases	(674,209)	
Accrued interest payable	(109,341)	
Compensated absences	(166,952)	
Landfill post-closure liability	<u>(2,257,000)</u>	(8,039,642)

Principal and interest payments due and payable at year end and reported in the funds are also included in long-term liabilities in the statement of net assets. (Note 7)	<u>249,653</u>
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<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 13,311,378</u></u></b>
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## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – GOVERNMENTAL FUND  
Year Ended June 30, 2008**

	<b>General</b>
<b>REVENUES</b>	
General property taxes	\$ 4,313,698
Other local taxes	2,876,292
Permits, privilege fees, and regulatory licenses	36,827
Fines and forfeitures	88,201
Investment earnings	247,573
Charges for services	260,756
Other	2,767
Intergovernmental	7,492,240
Recovered costs	134,466
Total revenues	15,452,820
<b>EXPENDITURES</b>	
Current:	
General government administration	1,095,027
Judicial administration	45,844
Public safety	4,529,012
Public works	2,186,661
Health and welfare	859,833
Education	7,142,290
Parks, recreation, and cultural	906,368
Community development	443,771
Non-departmental	10,923
Debt service:	
Principal retirement	736,949
Interest and fiscal charges	185,569
Bond issuance costs	7,178
Total expenditures	18,149,425
Excess of expenditures over revenues	(2,696,605)
<b>OTHER FINANCING SOURCES</b>	
Proceeds from bond issuances	946,774
Proceeds from sale of capital assets	45,562
Transfers in (Note 4)	1,467,000
Total other financing sources	2,459,336
Net change in fund balance	(237,269)
<b>FUND BALANCE AT JULY 1</b>	3,042,854
<b>FUND BALANCE AT JUNE 30</b>	\$ 2,805,585

## CITY OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
Year Ended June 30, 2008**

**Net Change in Fund Balance – Governmental Fund** **\$ (237,269)**

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

Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlays	\$ 1,929,568	
Depreciation expense	<u>(1,205,645)</u>	723,923

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, insurance proceeds, and donations) is to increase net assets.		50,150
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(12,953)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction has an effect on net assets.

Proceeds from issuance of debt	(946,774)	
Principal repayments and other long-term debt reductions:		
General obligation bonds	412,500	
Literary fund loans	75,000	
Capital leases	41,718	
Landfill post-closure	<u>39,195</u>	(378,361)

The amount of principal on long-term debt due and payable at year end is shown as a reduction in fund balance; however, this transaction has no effect on net assets.		207,731
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Governmental funds report the effect of bond issuance costs and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:

Capitalization of bond issuance costs	7,178	
Amortization of bond issuance costs	(7,660)	
Amortization of deferred amounts	(5,089)	
Interest expense, except for amounts due prior to year end	<u>(26,497)</u>	(32,068)

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.		13,335
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The transfer of various long-term items from the solid waste fund to governmental activities affects net assets. However, since none of these items constitute current financial resources, they are not reported in the general fund.

Capital assets	362,700	
General obligation bonds	(1,877,266)	
Landfill post-closure liability	<u>(2,296,195)</u>	(3,810,761)

**Change in Net Assets - Governmental Activities** **\$ (3,476,273)**

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 4,308,500	\$ 4,308,500	\$ 4,313,698	\$ 5,198
Other local taxes	2,874,000	2,874,000	2,876,292	2,292
Permits, privilege fees, and regulatory licenses	27,300	27,300	36,827	9,527
Fines and forfeitures	96,500	96,500	88,201	(8,299)
Investment earnings	341,000	341,000	247,573	(93,427)
Charges for services	244,700	244,700	260,756	16,056
Other	8,025	8,025	2,767	(5,258)
Intergovernmental	8,280,950	8,317,475	7,492,240	(825,235)
Recovered costs	102,825	102,825	134,466	31,641
Total revenues	<u>16,283,800</u>	<u>16,320,325</u>	<u>15,452,820</u>	<u>(867,505)</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	1,072,913	1,216,981	1,095,027	121,954
Judicial administration	41,473	41,473	45,844	(4,371)
Public safety	3,604,904	4,198,649	4,529,012	(330,363)
Public works	2,482,412	2,580,430	2,186,661	393,769
Health and welfare	878,076	878,076	859,833	18,243
Education	7,204,496	7,274,363	7,142,290	132,073
Parks, recreation, and cultural	1,037,716	1,058,188	906,368	151,820
Community development	1,124,195	1,554,542	443,771	1,110,771
Non-departmental	3,000	3,000	10,923	(7,923)
Debt service:				
Principal retirement	709,800	709,800	736,949	(27,149)
Interest and fiscal charges	184,280	184,280	185,569	(1,289)
Bond issuance costs	-	-	7,178	(7,178)
Total expenditures	<u>18,343,265</u>	<u>19,699,782</u>	<u>18,149,425</u>	<u>1,550,357</u>
Excess of expenditures over revenues	<u>(2,059,465)</u>	<u>(3,379,457)</u>	<u>(2,696,605)</u>	<u>682,852</u>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	4,000	4,000	45,562	41,562
Proceeds from bond issuances	319,400	319,400	946,774	627,374
Transfers in	1,709,400	1,709,400	1,467,000	(242,400)
Total other financing sources	<u>2,032,800</u>	<u>2,032,800</u>	<u>2,459,336</u>	<u>426,536</u>
Net change in fund balances	<u>\$ (26,665)</u>	<u>\$ (1,346,657)</u>	<u>\$ (237,269)</u>	<u>\$ 1,109,388</u>

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF NET ASSETS (DEFICIT)**  
**PROPRIETARY FUNDS**  
**June 30, 2008**

	<b>Business-type Activities - Enterprise Funds</b>			
	<b>Water &amp; Sewer</b>	<b>Solid Waste</b>	<b>Electric</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 7,184,705	\$ 7,184,705
Receivables, net (Note 3)	698,287	228,857	2,761,456	3,688,600
Due from other funds (Note 4)	-	-	1,457,357	1,457,357
Due from other governmental units (Note 5)	44,681	-	-	44,681
Inventories	-	-	1,105,130	1,105,130
<b>Total current assets</b>	<b>742,968</b>	<b>228,857</b>	<b>12,508,648</b>	<b>13,480,473</b>
Noncurrent assets:				
Cash and cash equivalents, restricted	1,676,221	1,171,686	2,920,583	5,768,490
Deferred expenses	14,254	35,287	387,536	437,077
Net investment in direct financing lease (Note 14)	-	-	2,498,747	2,498,747
Capital assets: (Note 6)				
Nondepreciable capital assets	565,602	506,831	1,142,177	2,214,610
Depreciable capital assets, net	17,727,794	1,712,597	15,340,179	34,780,570
<b>Total noncurrent assets</b>	<b>19,983,871</b>	<b>3,426,401</b>	<b>22,289,222</b>	<b>45,699,494</b>
<b>Total assets</b>	<b>20,726,839</b>	<b>3,655,258</b>	<b>34,797,870</b>	<b>59,179,967</b>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	42,949	38,133	1,344,100	1,425,182
Accrued payroll and related liabilities	51,068	14,907	61,043	127,018
Accrued interest payable	53,478	51,493	71,740	176,711
Due to other funds (Note 4)	1,112,055	345,302	-	1,457,357
Due to other governmental units (Note 5)	-	-	42,757	42,757
Customer security deposits	38,287	-	172,594	210,881
Noncurrent liabilities due within a year (Note 7)	1,544,157	247,832	795,226	2,587,215
<b>Total current liabilities</b>	<b>2,841,994</b>	<b>697,667</b>	<b>2,487,460</b>	<b>6,027,121</b>
Noncurrent liabilities:				
Due in more than a year (Note 7)	9,031,845	3,789,909	16,724,692	29,546,446
<b>Total liabilities</b>	<b>11,873,839</b>	<b>4,487,576</b>	<b>19,212,152</b>	<b>35,573,567</b>
<b>NET ASSETS (DEFICIT) (Note 9)</b>				
Invested in capital assets, net of related debt	9,465,561	1,345,932	2,325,771	13,137,264
Unrestricted	(612,561)	(2,178,250)	13,259,947	10,469,136
<b>Total net assets (deficit)</b>	<b>\$ 8,853,000</b>	<b>\$ (832,318)</b>	<b>\$ 15,585,718</b>	<b>\$ 23,606,400</b>

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS (DEFICIT)  
PROPRIETARY FUNDS  
Year Ended June 30, 2008**

	<b>Business-Type Activities - Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Electric</b>	<b>Total</b>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 3,316,832	\$ 1,091,627	\$ 20,393,092	\$ 24,801,551
Total operating revenues	3,316,832	1,091,627	20,393,092	24,801,551
<b>OPERATING EXPENSES</b>				
Refuse collection	-	190,579	-	190,579
Refuse disposal	-	476,791	-	476,791
Recycling	-	11,376	-	11,376
Supply and purification	506,850	-	-	506,850
Wastewater treatment	1,037,319	-	-	1,037,319
Wastewater pre-treatment	77,599	-	-	77,599
Transmission and distribution	125,126	-	1,034,368	1,159,494
Power generation	-	-	148,111	148,111
Purchased power	-	-	14,981,393	14,981,393
Meter reading	-	-	50,213	50,213
Landfill closure and postclosure care	-	181,000	-	181,000
Administration	225,311	98,117	1,318,426	1,641,854
Maintenance and repair	93,596	-	187,474	281,070
Depreciation	624,410	151,868	766,601	1,542,879
Amortization	6,852	7,606	22,973	37,431
Total operating expenses	2,697,063	1,117,337	18,509,559	22,323,959
Operating income (loss)	619,769	(25,710)	1,883,533	2,477,592
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	34,050	123,003	474,239	631,292
Interest expense	(192,223)	(108,625)	(801,634)	(1,102,482)
Contribution to joint IDA	-	-	(42,757)	(42,757)
Gain on sale of capital assets	-	-	168,323	168,323
Revenue sharing	333,872	-	-	333,872
Net nonoperating revenue (expenses)	175,699	14,378	(201,829)	(11,752)
Income (loss) before transfers and capital contributions	795,468	(11,332)	1,681,704	2,465,840
<b>TRANSFERS IN (Note 4)</b>	-	3,810,761	-	3,810,761
<b>TRANSFERS OUT (Note 4)</b>	-	-	(1,467,000)	(1,467,000)
<b>CAPITAL CONTRIBUTIONS</b>	102,100	-	-	102,100
Change in net assets	897,568	3,799,429	214,704	4,911,701
<b>NET ASSETS (DEFICIT) AT JULY 1</b>	7,955,432	(4,631,747)	15,371,014	18,694,699
<b>NET ASSETS (DEFICIT) AT JUNE 30</b>	<b>\$ 8,853,000</b>	<b>\$ (832,318)</b>	<b>\$ 15,585,718</b>	<b>\$ 23,606,400</b>

## CITY OF BEDFORD, VIRGINIA

## STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year Ended June 30, 2008

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,223,522	\$ 1,081,751	\$ 20,082,677	\$ 24,387,950
Payments to suppliers	(1,161,191)	(571,669)	(16,687,765)	(18,420,625)
Payments to employees	(914,936)	(178,745)	(1,077,997)	(2,171,678)
Net cash provided by operating activities	1,147,395	331,337	2,316,915	3,795,647
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Revenue sharing	329,160	-	-	329,160
Contribution to joint IDA	-	-	(53,335)	(53,335)
Interfund borrowing	20,439	(1,463,157)	1,442,718	-
Transfers to other funds	-	-	(1,467,000)	(1,467,000)
Net cash provided by (used in) noncapital financing activities	349,599	(1,463,157)	(77,617)	(1,191,175)
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds from issuance of debt	1,024,913	168,014	3,332,933	4,525,860
Proceeds from sale of capital assets	-	-	137,503	137,503
Purchases of capital assets	(489,375)	(309,186)	(1,344,443)	(2,143,004)
Principal paid on capital debt	(970,197)	(274,496)	(708,580)	(1,953,273)
Debt issuance costs	(7,773)	(1,273)	(22,776)	(31,822)
Interest paid on capital debt	(188,724)	(106,044)	(720,292)	(1,015,060)
Net cash provided by (used in) capital and related financing activities	(631,156)	(522,985)	674,345	(479,796)
<b>INVESTING ACTIVITIES</b>				
Interest received	34,050	123,003	474,239	631,292
Net cash provided by investing activities	34,050	123,003	474,239	631,292
Net increase (decrease) in cash and cash equivalents	899,888	(1,531,802)	3,387,882	2,755,968
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	776,333	2,703,488	6,717,406	10,197,227
Ending at June 30	\$ 1,676,221	\$ 1,171,686	\$ 10,105,288	\$ 12,953,195
<b>RECONCILIATION TO EXHIBIT 8</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 7,184,705	\$ 7,184,705
Cash and cash equivalents, restricted	1,676,221	1,171,686	2,920,583	5,768,490
	\$ 1,676,221	\$ 1,171,686	\$ 10,105,288	\$ 12,953,195
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ 619,769	\$ (25,710)	\$ 1,883,533	\$ 2,477,592
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	631,262	159,474	789,574	1,580,310
Landfill closure and postclosure care	-	181,195	-	181,195
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	(100,420)	(9,876)	(319,451)	(429,747)
Inventories	-	-	(148,686)	(148,686)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(13,610)	17,223	111,628	115,241
Accrued payroll and related liabilities	3,362	4,666	6,304	14,332
Customer security deposits	7,110	-	9,036	16,146
Compensated absences	(78)	4,365	(15,023)	(10,736)
Net cash provided by operating activities	\$ 1,147,395	\$ 331,337	\$ 2,316,915	\$ 3,795,647
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital asset purchases included in accounts payable at year end	\$ 11,507	\$ -	\$ 27,016	\$ 38,523
Capital contribution from developer	\$ 102,100	\$ -	\$ -	\$ 102,100
Note receivable on sale of capital asset included in receivables at year end	\$ -	\$ -	\$ 50,000	\$ 50,000
Transfer of long term assets and liabilities to governmental activities	\$ -	\$ 3,810,761	\$ -	\$ 3,810,761

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**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 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:

*Region 2000 Services Authority*

During 2008, the City, in conjunction with the Counties of Campbell and Nelson and the City of Lynchburg, created the Regional 2000 Services Authority (the "Authority"). The Authority commenced operations on July 1, 2008. The Authority will purchase and operate three landfills currently owned and operated by other member jurisdictions. The Authority will utilize these landfills to their full operating capabilities. Each member jurisdiction will pay a per-ton disposal charge for all waste transferred to the Authority. 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-ton charge is based upon an assumed number of tons and is subject to adjustment at the end of each year. The governing board is composed of one member from each of the participating localities.

*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 \$10,967 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, 2008**

**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. The percentage is determined by expressing the revenue earned in the economic development area as a percentage of total revenue (5.12% for 2008). The City made an operating contribution of \$42,757 to the Authority for the year ended June 30, 2008. The City and County have agreed to share equally any additional amounts necessary to cover the Authority’s 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, 2008

**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 \$90,143 are included in the Governmental Activities noncurrent liabilities. An asset in the amount of \$38,731 is shown in the Governmental Activities capital assets net of accumulated depreciation. Separate financial statements for this joint venture are not available.

*Joint Tourism Program*

The City, in conjunction with the County of Bedford, created a joint tourism program (the "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 approximately \$226,000 to the program during 2008. Separate financial statements for this joint venture are 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, 2008**

**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 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 City'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 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, 2008**

**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 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 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 \$1,356,517 during the fiscal year ended June 30 primarily for unanticipated grant expenditures in the public safety and community development categories.
- 5) Formal budgetary integration is employed as a management control device for all funds.
- 6) The budget for the general fund is adopted on the modified accrual basis of accounting.

All appropriations which are not encumbered lapse at year end.

**CITY OF BEDFORD, VIRGINIA**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**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. 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 expensed 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 three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, no interest expense was included as part of the cost of capital assets under construction.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2008

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. The retroactive reporting of infrastructure placed into service between January 1, 1980 and July 1, 2001 was subject to an extended implementation period and was effective for the prior fiscal year.

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 revenues consist 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 are reported in the governmental funds only 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, 2008**

**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 laws, including regulations, the City's investment 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, 2008**

**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-ended 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 or 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-ended 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.