

# **CITY OF BEDFORD, VIRGINIA**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2013**

**DEPARTMENT OF FINANCE AND ADMINISTRATION**



# **CITY OF BEDFORD, VIRGINIA**



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**DEPARTMENT OF FINANCE AND ADMINISTRATION**



**CITY OF BEDFORD, VIRGINIA**  
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# INTRODUCTORY SECTION

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# City of Bedford, Virginia

## Office of the City Manager

November 6, 2013

215 East Main Street  
Bedford, VA 24523  
Phone (540) 587-6001  
Fax (540) 587-6143

### **The Honorable Mayor, Members of Town 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 (the "City") for the fiscal year ended June 30, 2013, on July 1, 2013 the City's constitutional status changed to that of a Town; the Town of Bedford is the legal and statutory successor to the City. Future reports will reflect this change in status as well as the change in the level of services provided by the Town (as compared to the City). 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 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, the City includes all funds, agencies, boards, commissions and authorities that were controlled by or were financially dependent upon the City within the reporting period. 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. The Town 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 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 provided 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 provided 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 provided public school services and educational programs for the students of the City of Bedford. The City reimbursed 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 were in place 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.

## **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 was a separate, independent, political entity during the reporting period, it served as the County seat for administrative and judicial affairs. This strategic location between two urban centers and surrounded by Bedford County allowed 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 manufacturing (21%), educational, health, and social services (17%), and retail trade (12%). 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 2012/2013 the City's unemployment rate decreased from 8.3% to 7.9%. This decrease can be attributed to a slight increase in employment by several companies. City Council's commitment to economic development and diversification positioned the City well for expansion when the overall economic climate improves.

Bedford also enjoys a healthy mix in real estate values with approximately 62 percent coming from residential property, while approximately 38 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 four (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.

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 pursued the option of "transitioning" to Town status within Bedford County. On September 14, 2011, the City Council and the Bedford County Board of Supervisors adopted a Voluntary Settlement of Transition to Town Status and Other Related Issues. This Voluntary Settlement is the instrument that both parties used as the City pursued a change in constitutional status from that of a City to that of a Town. The provisions of the Voluntary Settlement were reviewed and approved by the Commission on Local Government and a specially appointed three judge panel. The Commission on Local Government issued its finding that the transition would be in the best interest of all parties on July 9, 2012, and the three judge panel conducted a hearing and issued an order on December 18, 2012. The effective date for the reversion to Town status was July 1, 2013.

Related to the transition process, the City negotiated with Bedford County and the Bedford County Public Service Authority (PSA) to create a new regional water and sewer authority known as the Bedford Regional Water Authority (BRWA). This was accomplished by merging the operations of the City water and sewer systems with those of the PSA under the oversight of a new Board of Directors that was initially appointed by the City Council and the Bedford County Board of Supervisors. The Board of the BRWA then appointed an executive director and began operation as of July 1, 2013

### **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:

- As a result of the change in constitutional status, there is a major focus on the organizational structure of the Town as well as the basic level of services that it will provide to its citizens and customers.

- Maintaining the Town’s financial stability with a goal of improving fund balances remains an ongoing effort. As reflected in the accompanying financial statements, the City 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 risk to the financial stability of the Town.
- The Town Council continues to provide support for economic development initiatives, and through the Town’s Industrial Development Authority, provides funding for a performance-based, economic incentive program and other Enterprise Zone initiatives.
- The City previously 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 was implemented and a series of physical improvements have been completed. Further physical improvements related to pedestrian safety are scheduled to be undertaken in the coming year. In addition the Town, in cooperation with Bedford Main Street and service provider Shentel, provides a free, public “wireless hotspot” in Centertown Plaza similar to facilities at the Bedford Welcome Center.
- The Town will continue to upgrade and build new distribution line circuits. With other American Municipal Power members, the Town will continue its participation in projects designed 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 Town will also continue to focus on providing exemplary customer service and reliability for our customers.
- The Town remains 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 Power Association of Virginia.

### **Financial Information**

During the reporting period, the City of Bedford managed 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 (GAAP). 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, 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.

During the reporting period, City management was 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 GAAP. 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 maintained budgetary controls during the reporting period. These controls ensured compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund 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 maintained 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 has continued 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). On July 12, 2011, City Council adopted an Investment Policy that governs the specific criteria for all investments handled by the City.

There were no other policies that significantly impacted the current year financial statements for the City.

### **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, 2012. This was the thirteenth 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 GAAP 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 Bart Warner 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  
Town Manager



Barrett F. Warner  
Assistant Town Manager



Government Finance Officers Association

**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, 2012**

Executive Director/CEO

**CITY OF BEDFORD, VIRGINIA**

**DIRECTORY OF PRINCIPAL OFFICIALS**  
**June 30, 2013**

**CITY COUNCIL**

Robert T. Wandrei, Mayor  
James A. Vest, Vice Mayor

C. G. Stanley  
William D. "Skip" Tharp  
Robert Carson

Stephen C. Rush  
Stacey L. Hailey

**SCHOOL BOARD**

Phyllis J. Parker, Chairman  
Paul Sherman, Vice Chairman

Tara Warner  
Tabitha King  
Betsy Klein

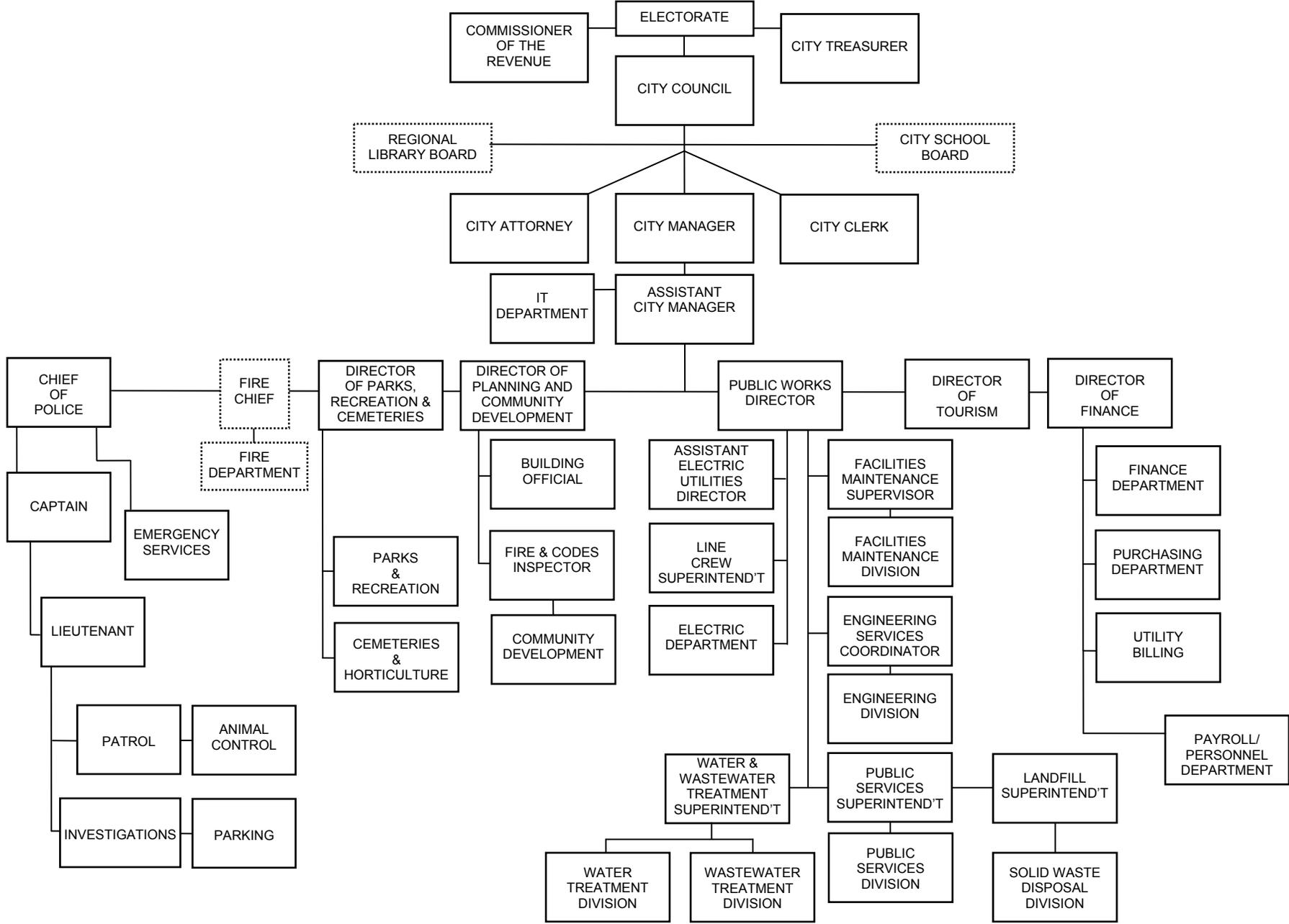
Ann Duncan  
Andrea Trotter

**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  
Vacant  
N. Jeff Weddle  
Dr. Douglas Schuch  
Mary Wingfield

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 Public Services  
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 City Council  
City of Bedford, Virginia  
Bedford, Virginia

### Report on the Financial Statements

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 (the "City") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express opinions 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; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

## **Report on the Financial Statements (Continued)**

### *Auditor's Responsibility (Continued)*

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *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, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

As discussed in Note 19 to the financial statements, the City reverted to town status on July 1, 2013. Our opinion is not modified with respect to that matter.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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 do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2013 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 grant agreements 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 18, 2013

## Management's Discussion and Analysis

As management of the City of Bedford, Virginia (the "City"), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2013 and 2012. 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.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of current fiscal year by \$41,488,443 (net position). Of this amount, \$9,164,606 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$390,858 which is primarily attributable to the operations of the electric fund.
- At the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$4,375,592, a decrease of \$345,828 in comparison with the prior year. Approximately 59% of this total amount, \$2,573,798 is available for spending at the City's discretion (unassigned fund balance).
- The City's total debt decreased by \$3,765,114 (12.2%) 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, which 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 position presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 City's net position changed during the most recent fiscal year. All changes in net position 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 include general government, judicial administration, public safety, public works, health and welfare, education, parks, recreation, and cultural and community development. The business-type activities are the water and sewer, solid waste, and electric funds.

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

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

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.

Fund balances are the differences between assets and liabilities in a governmental fund.

- Nonspendable fund balance includes amounts that are not in spendable form, or amounts that are required to be maintained intact.
- Restricted fund balance include amounts that can be spent only for the specific purposes stipulated by external providers, such as grantors or bondholders, as well as amounts that are restricted through enabling legislation.
- Committed fund balance includes amounts that can be used only for the specific purposes that are determined by a formal action of the government’s highest level of decision making authority.
- Assigned fund balance applies to amounts that are intended for specific purposes as expressed by the governing body or authorized official and applies to remaining resources in any governmental funds other than the general fund.
- Unassigned fund balance includes all amounts not contained in other classifications for the general fund, and deficit fund balances in any other governmental funds.

At June 30, 2013, the City’s governmental fund reported an ending fund balance of \$4,375,592, a decrease of \$345,828 in comparison with the prior year. Of that amount, \$880,907 was nonspendable, \$893,642 was restricted, \$27,245 was assigned, and \$2,573,798 was unassigned.

As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 16.2% of total general fund expenditures, while total fund balance represents 27.5% of that same amount.

**Proprietary Funds** – Proprietary 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.

**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 its defined benefit pension plan and other post-employment benefits.

## Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$41,488,443 at the close of the most recent fiscal year.

A portion of the City's net position (74%) 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 restricted balance (4%) represents funds received from the Commonwealth of Virginia for highway maintenance, nonexpendable cemetery perpetual care, and debt service. The remaining balance of *unrestricted net position* (22%) may be used to meet the government's ongoing obligations to citizens and creditors.

### The City's Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,246,428	\$ 5,632,469	\$ 15,706,028	\$ 15,874,938	\$ 20,952,456	\$ 21,507,407
Capital assets	14,843,880	15,664,470	40,494,498	41,413,822	55,338,378	57,078,292
Total assets	20,090,308	21,296,939	56,200,525	57,288,760	76,290,834	78,585,699
Long-term liabilities	5,128,902	5,116,798	26,800,516	29,771,340	31,929,418	34,888,138
Other liabilities	690,921	726,822	2,182,052	1,873,154	2,872,973	2,599,976
Total liabilities	5,819,823	5,843,620	28,982,568	31,644,494	34,802,391	37,488,114
Net position						
Net investment in capital assets	12,802,057	13,580,468	17,821,614	19,684,925	30,623,671	33,265,393
Restricted	893,641	905,566	806,525	422,208	1,700,166	1,327,774
Unrestricted	574,787	967,285	8,589,819	5,537,133	9,164,606	6,504,418
Total net position	\$ 14,270,485	\$ 15,453,319	\$ 27,217,958	\$ 25,644,266	\$ 41,448,443	\$ 41,097,585

At June 30, 2013, the City is able to report positive balances in all categories of net position.

The City's net position increased by \$390,858 or .95% during the current fiscal year. See the Governmental Activities and Business-type Activities paragraphs below for the details of the increase in net position.

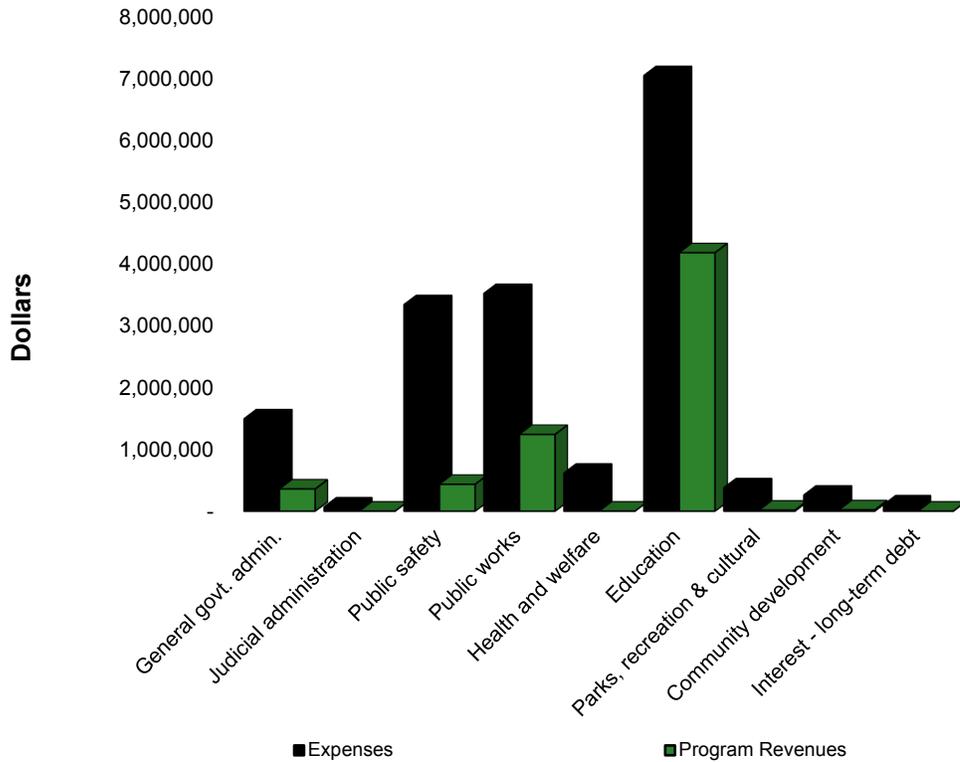
**Governmental Activities** – Governmental activities decreased the City's net position by \$1,182,834. This decrease is lower than the prior year increase of \$46,115. For the most part, increases in revenues and expenses closely paralleled inflation and growth in the demand for services. Three noteworthy exceptions include: an increase in the City-share to Bedford County for education by \$692,389, an increase in public works expenses by \$396,217 for engineering projects, and an increase in City-share of Department of Social Services and Community Services Act by \$113,528.

**Business-type Activities** – Business-type activities increased the City's net position by \$1,573,692. Key elements of this increase are as follows: the electric fund had an increase in revenues of \$1,102,444 due an increase in sales to customers and the water and sewer fund had an increase in operating grants and sales to customers of \$190,834.

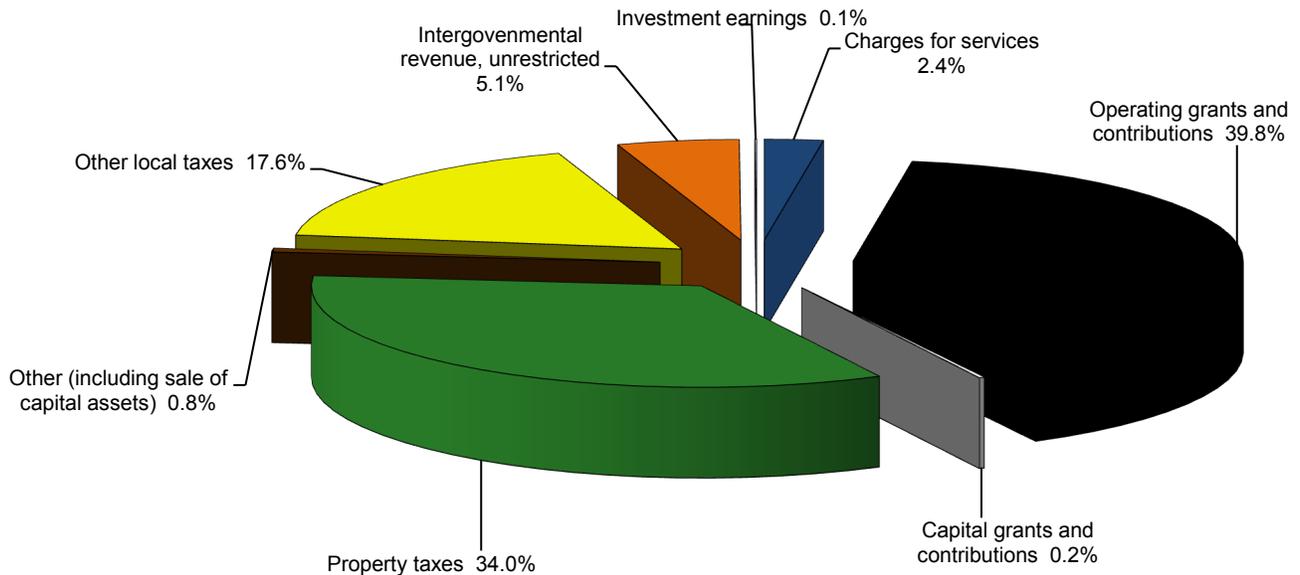
### The City's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 355,988	\$ 381,189	\$ 25,751,980	\$ 24,571,680	\$ 26,107,968	\$ 24,952,869
Operating grants and contributions	5,840,890	5,675,008	410,416	383,853	6,251,306	6,058,861
Capital grants and contributions	32,474	38,022	61,303	2,699,315	93,777	2,737,337
General revenues						
Property taxes	5,001,731	4,941,170	-	-	5,001,731	4,941,170
Other taxes	2,587,235	2,540,639	-	-	2,587,235	2,540,639
Intergovernmental revenue unrestricted	741,161	771,718	-	-	741,161	771,718
Investment earnings	10,887	56,106	338,795	342,248	349,682	398,354
Other	88,641	77,768	-	-	88,641	77,768
Gain from sale of capital assets	24,707	4,102	-	-	24,707	4,102
<b>Total revenues</b>	<b>14,683,714</b>	<b>14,485,722</b>	<b>26,562,494</b>	<b>27,997,096</b>	<b>41,246,208</b>	<b>42,482,818</b>
<b>Expenses</b>						
General government	1,486,378	1,372,155	-	-	1,486,378	1,372,155
Judicial administration	66,994	64,599	-	-	66,994	64,599
Public safety	3,328,885	3,268,702	-	-	3,328,885	3,268,702
Public works	3,510,226	2,783,359	-	-	3,510,226	2,783,359
Health and welfare	611,757	661,680	-	-	611,757	661,680
Education	7,027,650	6,329,561	-	-	7,027,650	6,329,561
Parks, recreation, and cultural	375,631	414,045	-	-	375,631	414,045
Community development	258,210	320,829	-	-	258,210	320,829
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	100,817	97,101	-	-	100,817	97,101
Water and sewer	-	-	3,514,595	3,288,441	3,514,595	3,288,441
Solid waste	-	-	864,030	1,011,584	864,030	1,011,584
Electric	-	-	19,710,177	19,557,948	19,710,177	19,557,948
<b>Total expenses</b>	<b>16,766,548</b>	<b>15,312,031</b>	<b>24,088,802</b>	<b>23,857,973</b>	<b>40,855,350</b>	<b>39,170,004</b>
Excess (deficiency) before transfers	(2,082,834)	(826,309)	2,473,692	4,139,123	390,858	3,312,814
Transfers	900,000	872,424	(900,000)	(872,424)	-	-
Change in net position	(1,182,834)	46,115	1,573,692	3,266,699	390,858	3,312,814
Net position – July 1	15,453,319	15,407,204	25,644,266	22,377,567	41,097,585	37,784,771
Net position – June 30	<u>\$ 14,270,485</u>	<u>\$ 15,453,319</u>	<u>\$ 27,217,958</u>	<u>\$ 25,644,266</u>	<u>\$ 41,488,443</u>	<u>\$ 41,097,585</u>

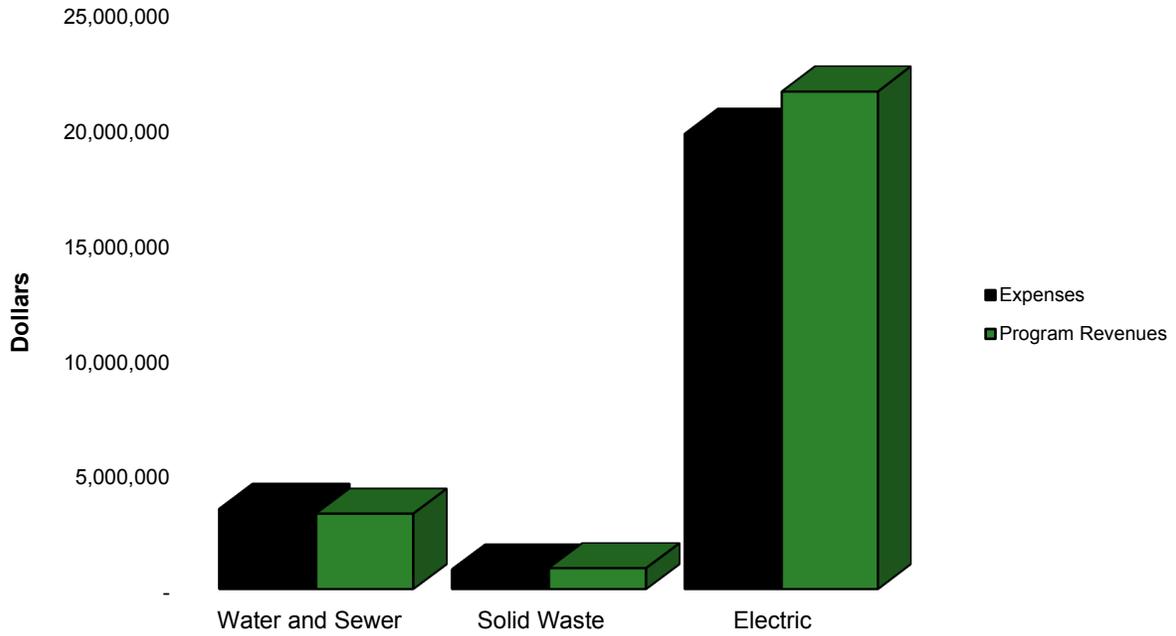
### Expenses and Program Revenues – Governmental Activities



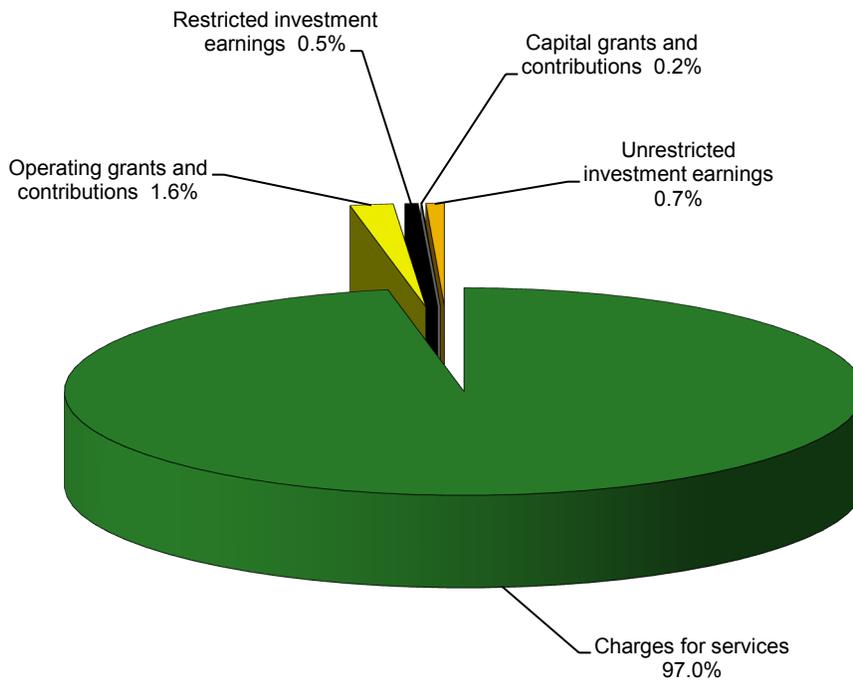
### Revenues by Source – Governmental Activities



### 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 \$4,375,592, a decrease of \$345,828 in comparison with the prior year. Approximately 59% of this total amount – that is, \$2,573,798 constitutes *unassigned fund balance*, which is available for spending at the City's discretion. Approximately .6%, \$27,245, constitutes *assigned fund balance*, which the government intends to use for specific purposes. Approximately 20%, \$893,642, constitutes *restricted fund balance*, which have been constrained by their providers. The remainder of fund balance is *nonspendable*, which are not in spendable form and must be maintained intact.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 16.15% of total general fund expenditures, while total fund balance represents 27.50% of that same amount.

The fund balance of the City's general fund decreased by \$345,828 during the current fiscal year. Factors contributing to this decrease were increases in a couple of expenditure categories. Public works expenditures increased by \$728,112 from the prior year. In addition the city's share of education expenses increased by \$558,839.

**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 position of the water and sewer fund at the end of the year had a deficit of \$(438,532); the solid waste fund had a deficit of \$(1,397,439); and the unrestricted net position for the electric fund amounted to \$10,425,790. The total increase in net position was \$1,573,692. 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 \$1,274,856. Highlights include the following:

- \$217,049 was re-appropriated for economic development payments as well as centertown improvement.
- \$222,343 was re-appropriated for paving and various highway maintenance projects.
- \$57,000 was re-appropriated for radios for the police and fire departments.
- \$30,896 was re-appropriated for police department grants.
- \$565,787 was re-appropriated for purchase orders that were carried over from the prior fiscal year.
- \$175,543 was re-appropriated for engineering projects.
- \$13,336 was re-appropriated for infrastructure.

Differences between the final amended budget and actual results amounted to \$1,989,796. Highlights are as follows:

- The budget for two Community Development projects, Economic Development Fund and Centertown Improvement Projects, was \$786,004. As of June 30, 2013, \$10,311 was expended which resulted in a positive variance of \$775,693. This variance is the result of funding that was not needed during the current fiscal year or improvement projects that were postponed.
- The budget included funding for Public Safety radio replacements for \$57,000. This funding was not expended by June 30, 2013, resulting in a positive variance of \$57,000. This funding will be carried over to fiscal year 2014.
- The budget for various operating line items in Public Works was \$994,105. This includes work on guardrails, street supplies, paving, milling, crosswalk improvements, storm drainage projects, curbs and sidewalks. As of June 30, 2013, only \$596,527 was expended, resulting in a positive variance of \$397,578. This lower expenditure is the result of several projects that the contractors were unable to complete by June 30, 2013. The lower expenditure was the result of projects coming in under budget and work that was not completed as of June 30, 2013.
- The budget for several capital project items in the general fund reflected a positive variance or available budget of \$529,995 as of June 30, 2013 as a result of being moved to fixed assets.
- The budget included funding for building improvements at the Bedford Middle School for \$30,000. This funding was not expended by June 30, 2013, resulting in a positive variance of \$30,000.

### 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, 2013, amounts to \$55,338,378 (net of accumulated depreciation). This includes land, buildings and system improvements, and machinery, equipment, and infrastructure. The total decrease in the investment in capital assets for the current fiscal year was 3.0% (a 5.2% decrease for governmental activities and a 2.2% decrease for business-type activities).

The City’s investment in capital assets as of June 30 amounts to \$55,338,378, as summarized below:

	The City’s Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 2,211,447	\$ 2,211,447	\$ 968,017	\$ 968,017	\$ 3,179,464	\$ 3,179,464
Buildings and improvements	13,215,610	13,122,407	36,469,406	36,532,109	49,685,016	49,654,516
Distribution and transmission systems	-	-	34,341,502	34,497,111	34,341,502	34,497,111
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	8,225,267	8,136,125	3,767,158	3,764,965	11,992,425	11,901,090
Infrastructure	12,817,159	12,778,204	-	-	12,817,159	12,778,204
Construction in progress	31,799	80,674	40,461	40,461	72,260	121,135
Less accumulated depreciation	(21,657,402)	(20,664,387)	(38,407,991)	(37,704,786)	(60,065,393)	(58,369,173)
<b>Total</b>	<b>\$ 14,843,880</b>	<b>\$ 15,664,470</b>	<b>\$ 40,494,498</b>	<b>\$ 41,413,822</b>	<b>\$ 55,338,378</b>	<b>\$ 57,078,292</b>

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

**Long-term Debt** – At June 30, 2012, the City had total debt outstanding of \$27,159,612. Of this amount, \$15,249,190 comprises debt backed by the full faith and credit of the government and \$11,910,422 is related to pledged revenue bonds.

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

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
General obligation bonds	\$ 1,570,080	\$ 2,034,572	\$12,027,953	\$13,476,563	\$13,598,033	\$15,511,135
Literary fund loans	525,000	600,000	-	-	525,000	600,000
Revenue bonds	-	-	11,910,422	12,634,273	11,910,422	12,634,273
Obligations – AMP Partners bonds	-	-	1,126,157	2,179,318	1,126,157	2,179,318
Capital leases	-	-	-	-	-	-
Total	<u>\$ 2,095,080</u>	<u>\$ 2,634,572</u>	<u>\$25,064,532</u>	<u>\$28,290,154</u>	<u>\$27,159,612</u>	<u>\$30,924,726</u>

The City’s total debt decreased by \$3,765,114 or 12.2% during the current fiscal year due to regular debt payments.

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

Additional information on the City’s long-term debt can be found in Note 7 of this report.

**Economic Factors and Next Year’s Budgets and Rates**

- The unemployment rate for the City is currently 7.9%, which is a decrease from the prior year’s rate of 8.3%. This compares to the State’s average rate of 5.8% and the national average rate of 7.3%.
- The occupancy rate of the City’s central business district remains constant at approximately 85%.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City’s budget for the 2014 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.

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# **BASIC FINANCIAL STATEMENTS**

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## CITY OF BEDFORD, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2013

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents (Note 2)	\$ 4,127,034	\$ 5,087,143	\$ 9,214,177
Receivables, net (Note 3)	376,166	2,516,817	2,892,983
Internal balances (Note 4)	5,246	(5,246)	-
Due from other governmental units (Note 5)	243,183	61,615	304,798
Inventories	-	1,100,989	1,100,989
Cash and cash equivalents, restricted (Note 2)	441,542	4,189,545	4,631,087
Deferred expenses	53,257	363,064	416,321
Net investment in direct financing lease (Note 15)	-	2,392,101	2,392,101
Capital assets: (Note 6)			
Nondepreciable	2,243,246	1,008,478	3,251,724
Depreciable, net	12,600,634	39,486,020	52,086,654
	<u>20,090,308</u>	<u>56,200,526</u>	<u>76,290,834</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	62,928	1,400,451	1,463,379
Accrued payroll and related liabilities	106,762	75,949	182,711
Accrued interest payable	23,676	144,331	168,007
Due to other governmental units (Note 5)	497,555	141,309	638,864
Customer security deposits	-	420,012	420,012
Noncurrent liabilities: (Note 7)			
Due within one year	901,258	2,099,732	3,000,990
Due in more than one year	4,227,644	24,700,784	28,928,428
	<u>5,819,823</u>	<u>28,982,568</u>	<u>34,802,391</u>
<b>NET POSITION</b>			
Net investment in capital assets	12,802,057	17,821,614	30,623,671
Restricted for:			
Debt service	-	806,525	806,525
Other grant and debt restrictions	441,541	-	441,541
Highway maintenance projects	452,100	-	452,100
Unrestricted	574,787	8,589,819	9,164,606
	<u>\$ 14,270,485</u>	<u>\$ 27,217,958</u>	<u>\$ 41,488,443</u>

## CITY OF BEDFORD, VIRGINIA

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government administration	\$ 1,486,378	\$ 240,274	\$ 116,483	\$ -	\$ (1,129,621)		\$ (1,129,621)
Judicial administration	66,994	-	-	-	(66,994)		(66,994)
Public safety	3,328,885	99,357	333,305	-	(2,896,223)		(2,896,223)
Public works	3,510,226	-	1,202,464	32,474	(2,275,288)		(2,275,288)
Health and welfare	611,757	-	-	-	(611,757)		(611,757)
Education	7,027,650	-	4,167,627	-	(2,860,023)		(2,860,023)
Parks, recreation, and cultural	375,631	16,357	-	-	(359,274)		(359,274)
Community development	258,210	-	21,011	-	(237,199)		(237,199)
Interest on long-term debt	100,817	-	-	-	(100,817)		(100,817)
Total governmental activities	16,766,548	355,988	5,840,890	32,474	(10,537,196)		(10,537,196)
Business-type activities:							
Water and sewer	3,514,595	3,304,287	410,416	8,781		\$ 208,889	208,889
Solid waste	864,030	913,436	-	15,000		64,406	64,406
Electric	19,710,177	21,534,257	-	37,522		1,861,602	1,861,602
Total business-type activities	24,088,802	25,751,980	410,416	61,303		2,134,897	2,134,897
Total primary government	\$ 40,855,350	\$ 26,107,968	\$ 6,251,306	\$ 93,777	(10,537,196)	2,134,897	(8,402,299)
General revenues:							
Property taxes					5,001,731	-	5,001,731
Sales tax					842,139	-	842,139
Business license tax					674,058	-	674,058
Meals tax					680,651	-	680,651
Other local taxes					390,387	-	390,387
Intergovernmental revenue, unrestricted					741,161	-	741,161
Unrestricted investment earnings					9,662	197,678	207,340
Restricted investment earnings					1,225	141,117	142,342
Other					88,641	-	88,641
Gain on sale of capital assets					24,707	-	24,707
Transfers (Note 4)					900,000	(900,000)	-
Total general revenues and transfers					9,354,362	(561,205)	8,793,157
Change in net position					(1,182,834)	1,573,692	390,858
<b>NET POSITION AT JULY 1</b>					15,453,319	25,644,266	41,097,585
<b>NET POSITION AT JUNE 30</b>					\$ 14,270,485	\$ 27,217,958	\$ 41,488,443

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

## CITY OF BEDFORD, VIRGINIA

**BALANCE SHEET –  
GOVERNMENTAL FUND  
June 30, 2013**

	<b>General</b>
<b>ASSETS</b>	
Cash and cash equivalents (Note 2)	\$ 4,127,034
Receivables, net (Note 3)	376,166
Due from other funds (Note 4)	5,246
Due from other governmental units (Note 5)	243,183
Cash and cash equivalents, restricted (Note 2)	441,542
Total assets	\$ 5,193,171
<b>LIABILITIES AND FUND BALANCE</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 62,928
Accrued payroll and related liabilities	106,762
Deferred revenue (Note 3)	150,334
Due to other governmental units (Note 5)	497,555
Total liabilities	817,579
Fund balance: (Note 9)	
Nonspendable	880,907
Restricted	893,642
Assigned	27,245
Unassigned	2,573,798
Total fund balance	4,375,592
Total liabilities and fund balance	\$ 5,193,171

## CITY OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
June 30, 2013**

**Total Fund Balance – Governmental Fund** \$ 4,375,592

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.

Nondepreciable capital assets	\$ 2,243,246	
Depreciable capital assets, net	12,600,634	
		14,843,880

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 in the Statement of Net Position:

Issuance costs total \$120,136 and accumulated amortization is \$66,879		53,257
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Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.		150,334
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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	(1,570,080)	
Literary fund loans	(525,000)	
Accrued interest payable	(23,676)	
Compensated absences	(168,822)	
Landfill post closure liability	(2,865,000)	
		(5,152,578)

**Total Net Position – Governmental Activities** \$ 14,270,485

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE – GOVERNMENTAL FUND  
Year Ended June 30, 2013**

	<b>General</b>
<b>REVENUES</b>	
General property taxes	\$ 5,005,347
Other local taxes	2,587,235
Permits, privilege fees, and regulatory licenses	12,321
Fines and forfeitures	87,035
Investment earnings	10,887
Charges for services	122,028
Other	88,640
Intergovernmental	6,614,525
Recovered costs	134,604
	<b>14,662,622</b>
<b>EXPENDITURES</b>	
Current:	
General government administration	1,456,493
Judicial administration	66,994
Public safety	3,187,608
Public works	2,856,280
Health and welfare	611,757
Education	6,617,245
Parks, recreation, and cultural	318,399
Community development	178,769
Debt service:	
Principal retirement	539,491
Interest and fiscal charges	100,121
	<b>15,933,157</b>
Total expenditures	<b>15,933,157</b>
Excess of expenditures over revenues	<b>(1,270,535)</b>
<b>OTHER FINANCING SOURCES</b>	
Proceeds from sale of capital assets	24,707
Transfers in (Note 4)	900,000
	<b>924,707</b>
Total other financing sources	<b>924,707</b>
Net change in fund balance	<b>(345,828)</b>
<b>FUND BALANCE AT JULY 1</b>	<b>4,721,420</b>
<b>FUND BALANCE AT JUNE 30</b>	<b>\$ 4,375,592</b>

## 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, 2013**

**Net Change in Fund Balance – Governmental Fund** \$ (345,828)

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	\$ 172,425	
Depreciation expense	(993,015)	
		(820,590)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (3,616)

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 position.

Principal repayments and other long-term debt reductions:

General obligation bonds repayment	464,491	
Literary fund loans repayment	75,000	
Landfill postclosure (net change)	(548,000)	
		(8,509)

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:

Amortization of deferred amounts	(8,231)	
Interest expense	7,536	
		(695)

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. (3,596)

**Change in Net Position – Governmental Activities** \$ (1,182,834)

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
Year Ended June 30, 2013**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
General property taxes	\$ 4,866,664	\$ 4,866,664	\$ 5,005,347	\$ 138,683
Other local taxes	2,548,950	2,548,950	2,587,235	38,285
Permits, privilege fees, and regulatory licenses	12,250	12,250	12,321	71
Fines and forfeitures	91,300	91,300	87,035	(4,265)
Investment earnings	45,500	45,500	10,887	(34,613)
Charges for services	112,000	112,000	122,028	10,028
Other	77,200	77,200	88,640	11,440
Intergovernmental	6,831,907	6,852,115	6,614,525	(237,590)
Recovered costs	132,161	132,161	134,604	2,443
Total revenues	14,717,932	14,738,140	14,662,622	(75,518)
<b>EXPENDITURES</b>				
Current:				
General government administration	1,855,218	1,876,869	1,456,493	420,376
Judicial administration	74,530	74,530	66,994	7,536
Public safety	3,135,629	3,244,887	3,187,608	57,279
Public works	2,572,377	3,468,155	2,856,280	611,875
Health and welfare	802,620	802,620	611,757	190,863
Education	6,520,126	6,561,454	6,617,245	(55,791)
Parks, recreation, and cultural	342,877	352,877	318,399	34,478
Community development	754,369	971,418	178,769	792,649
Debt service:				
Principal retirement	544,751	544,751	539,491	5,260
Interest and fiscal charges	100,910	100,910	100,121	789
Total expenditures	16,703,407	17,998,471	15,933,157	2,065,314
Excess of expenditures over revenues	(1,985,475)	(3,260,331)	(1,270,535)	1,989,796
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	10,000	10,000	24,707	14,707
Proceeds from financing	403,500	403,500	-	(403,500)
Transfers in	900,000	900,000	900,000	-
Total other financing sources	1,313,500	1,313,500	924,707	(388,793)
Net change in fund balance	\$ (671,975)	\$ (1,946,831)	\$ (345,828)	\$ 1,601,003

## CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET POSITION –  
PROPRIETARY FUNDS

June 30, 2013

	<b>Business-Type Activities – Enterprise Funds</b>			
	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Electric</b>	<b>Total</b>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents (Note 2)	\$ -	\$ -	\$ 5,087,143	\$ 5,087,143
Receivables, net (Note 3)	453,665	140,952	1,922,200	2,516,817
Due from other funds (Note 4)	-	-	2,183,916	2,183,916
Due from other governmental units (Note 5)	54,083	-	7,532	61,615
Inventories	-	-	1,100,989	1,100,989
Total current assets	<u>507,748</u>	<u>140,952</u>	<u>10,301,780</u>	<u>10,950,480</u>
Noncurrent assets:				
Cash and cash equivalents, restricted (Note 2)	1,727,228	1,597,476	864,841	4,189,545
Deferred expenses	88,668	8,050	266,346	363,064
Net investment in direct financing lease (Note 15)	-	-	2,392,101	2,392,101
Capital assets: (Note 6)				
Nondepreciable	257,500	506,831	244,147	1,008,478
Depreciable, net	<u>22,797,525</u>	<u>890,233</u>	<u>15,798,262</u>	<u>39,486,020</u>
Total noncurrent assets	<u>24,870,921</u>	<u>3,002,590</u>	<u>19,565,697</u>	<u>47,439,208</u>
Total assets	<u>25,378,669</u>	<u>3,143,542</u>	<u>29,867,477</u>	<u>58,389,688</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	9,183	12,344	1,378,924	1,400,451
Accrued payroll and related liabilities	26,958	7,294	41,697	75,949
Accrued interest payable	62,266	10,180	71,885	144,331
Due to other funds (Note 4)	1,611,448	577,714	-	2,189,162
Due to other governmental units (Note 5)	49,095	-	92,214	141,309
Customer security deposits	74,770	-	345,242	420,012
Noncurrent liabilities due within one year (Note 7)	<u>860,552</u>	<u>90,458</u>	<u>1,148,722</u>	<u>2,099,732</u>
Total current liabilities	<u>2,694,272</u>	<u>697,990</u>	<u>3,078,684</u>	<u>6,470,946</u>
Noncurrent liabilities:				
Due in more than one year (Note 7)	<u>8,049,934</u>	<u>3,276,283</u>	<u>13,374,567</u>	<u>24,700,784</u>
Total liabilities	<u>10,744,206</u>	<u>3,974,273</u>	<u>16,453,251</u>	<u>31,171,730</u>
<b>NET POSITION</b>				
Net investment in capital assets	14,266,470	566,708	2,988,436	17,821,614
Restricted for:				
Debt service	806,525	-	-	806,525
Unrestricted	<u>(438,532)</u>	<u>(1,397,439)</u>	<u>10,425,790</u>	<u>8,589,819</u>
Total net position	<u>\$ 14,634,463</u>	<u>\$ (830,731)</u>	<u>\$ 13,414,226</u>	<u>\$ 27,217,958</u>

## CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION –  
PROPRIETARY FUNDS  
Year Ended June 30, 2013**

	<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	\$ 3,304,287	\$ 913,436	\$ 21,534,257	\$ 25,751,980
<b>OPERATING EXPENSES</b>				
Refuse collection	-	224,131	-	224,131
Refuse disposal	-	301,109	-	301,109
Recycling	-	29,293	-	29,293
Supply and purification	549,465	-	-	549,465
Wastewater treatment	1,070,993	-	-	1,070,993
Wastewater pre-treatment	76,950	-	-	76,950
Transmission and distribution	197,053	-	1,019,555	1,216,608
Power generation	-	-	187,407	187,407
Purchased power	-	-	15,707,473	15,707,473
Meter reading	-	-	34,833	34,833
Landfill closure and postclosure care	-	188,000	-	188,000
Administration	238,446	52,700	1,041,960	1,333,106
Maintenance and repair	272,926	-	194,103	467,029
Depreciation	782,457	28,138	680,765	1,491,360
Amortization	9,829	1,618	107,802	119,249
Total operating expenses	3,198,119	824,989	18,973,898	22,997,006
Operating income	106,168	88,447	2,560,359	2,754,974
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Interest income	1,224	6,692	330,879	338,795
Interest expense	(202,454)	(39,041)	(644,065)	(885,560)
Contribution to other governments	(49,095)	-	(92,214)	(141,309)
Loss on disposal of assets	(64,927)	-	-	(64,927)
Revenue sharing	410,416	-	-	410,416
Net nonoperating revenue (expenses)	95,164	(32,349)	(405,400)	(342,585)
Income before contributions and transfers	201,332	56,098	2,154,959	2,412,389
<b>TRANSFERS OUT (Note 4)</b>	-	-	(900,000)	(900,000)
<b>CAPITAL CONTRIBUTIONS</b>	8,781	15,000	37,522	61,303
Change in net position	210,113	71,098	1,292,481	1,573,692
<b>NET POSITION AT JULY 1,</b>	14,424,350	(901,829)	12,121,745	25,644,266
<b>NET POSITION AT JUNE 30</b>	\$ 14,634,463	\$ (830,731)	\$ 13,414,226	\$ 27,217,958

## CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
Year Ended June 30, 2013

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
<b>OPERATING ACTIVITIES</b>				
Receipts from customers	\$ 3,265,722	\$ 928,464	\$ 21,765,266	\$ 25,959,452
Payments to suppliers	(1,180,420)	(378,279)	(17,329,358)	(18,888,057)
Payments to employees	(1,305,567)	(226,130)	(1,252,546)	(2,784,243)
Net cash provided by operating activities	<u>779,735</u>	<u>324,055</u>	<u>3,183,362</u>	<u>4,287,152</u>
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Revenue sharing	407,669	-	-	407,669
Contribution to Joint EDA	-	-	(92,431)	(92,431)
Interfund borrowing	516,820	122,937	(634,511)	5,246
Transfers to other funds	-	-	(900,000)	(900,000)
Net cash provided by (used in) noncapital financing activities	<u>924,489</u>	<u>122,937</u>	<u>(1,626,942)</u>	<u>(579,516)</u>
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital contributions received	8,781	-	-	8,781
Purchases of capital assets	(324,573)	-	(312,390)	(636,963)
Principal paid on capital debt	(817,950)	(416,093)	(938,418)	(2,172,461)
Intergovernmental capital grants	-	15,000	37,522	52,522
Interest paid on capital debt	(206,459)	(45,901)	(648,242)	(900,602)
Net cash used in capital and related financing activities	<u>(1,340,201)</u>	<u>(446,994)</u>	<u>(1,861,528)</u>	<u>(3,648,723)</u>
<b>INVESTING ACTIVITIES</b>				
Interest received	<u>1,224</u>	<u>6,692</u>	<u>330,879</u>	<u>338,795</u>
Net cash provided by investing activities	<u>1,224</u>	<u>6,692</u>	<u>330,879</u>	<u>338,795</u>
Net increase in cash and cash equivalents	365,247	6,690	25,771	397,708
<b>CASH AND CASH EQUIVALENTS</b>				
Beginning at July 1	<u>1,361,981</u>	<u>1,590,786</u>	<u>5,926,213</u>	<u>8,878,980</u>
Ending at June 30	<u>\$ 1,727,228</u>	<u>\$ 1,597,476</u>	<u>\$ 5,951,984</u>	<u>\$ 9,276,688</u>
<b>RECONCILIATION TO EXHIBIT 8</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 5,087,143	\$ 5,087,143
Cash and cash equivalents, restricted	<u>1,727,228</u>	<u>1,597,476</u>	<u>864,841</u>	<u>4,189,545</u>
	<u>\$ 1,727,228</u>	<u>\$ 1,597,476</u>	<u>\$ 5,951,984</u>	<u>\$ 9,276,688</u>

(Continued)

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

## CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS  
Year Ended June 30, 2013

	<u>Business-Type Activities – Enterprise Funds</u>			
	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Electric</u>	<u>Total</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>				
Operating income	\$ 106,168	\$ 88,447	\$ 2,560,359	\$ 2,754,974
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	792,286	29,756	788,567	1,610,609
Landfill closure and postclosure care	-	188,000	-	188,000
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	(42,027)	15,028	384,515	357,516
Inventories	-	-	164,660	164,660
(Decrease) increase in:				
Accounts payable and accrued liabilities	(40,981)	519	(744,172)	(784,634)
Accrued payroll and related liabilities	(8,861)	1,282	1,036	(6,543)
Customer security deposits	3,462	-	7,356	10,818
Compensated absences	(30,312)	1,023	21,041	(8,248)
Net cash provided by operating activities	<u>\$ 779,735</u>	<u>\$ 324,055</u>	<u>\$ 3,183,362</u>	<u>\$ 4,287,152</u>

## CITY OF BEDFORD, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS June 30, 2013

#### 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. Effective July 1, 2013, the City reverted to town status, as more fully described in Note 19. 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 (the “County”) (see Note 12). The financial statements of the reporting entity include only those of the City (the primary government). The City has no 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, Nelson, and Appomattox, and the City of Lynchburg, created the Region 2000 Services Authority (the “Authority”). The Authority commenced operations on July 1, 2008. Each member jurisdiction pays 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. The City paid \$85,584 to the Authority during the current year.

###### *Horizon Behavioral Health*

The City, in conjunction with the Counties of Amherst, Appomattox, Bedford, and Campbell, and the City of Lynchburg, participates in the Horizon Behavioral Health, which is composed of two members from each of the participating localities. The City contributed \$6,825 to the Board during 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. The City paid \$215,199 to the Authority during the current 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. 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. The City contributed \$161,407 to the Library during the current year.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**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 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 1970, City Council activated the City of Bedford Redevelopment and Housing Authority (the "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, the City is not financially accountable for the Authority.

*Industrial Development Authority of the City of Bedford*

City Council passed an ordinance in 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 Economic Development Authority*

The City, in conjunction with the County, created a Joint Economic Development Authority (the "Joint EDA"), 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 Joint EDA 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 (8.07% for 2013). The City made an operating contribution of \$92,214 to the Joint EDA for the current year. The City and County have agreed to share equally any additional amounts necessary to cover the Joint EDA's costs. Complete financial statements of the Joint EDA can be obtained from the City.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Jointly Governed Organization:

*Joint Tourism Program*

The City, in conjunction with the County, 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 in the annual operating and capital expenses of the program according to the schedule included in the reversion agreement. The City contributed approximately \$30,964 to the program during the current year. Separate financial statements are not available.

Only July 1, 2013 the County had sole responsibility for operation of the tourism program. The City agreed to provide funding to the program through June 30, 2015. Any additional operational funding, if necessary, will be paid for by the County.

*Region 2000 Radio Communications Board*

The City, along with the Counties of Amherst and Bedford and the City of Lynchburg, is a participant in the development and operation of a regional radio communication system. During 2012, The Central Virginia Radio Communications Board was dissolved and replaced by the Region 2000 Radio Communications Board (the “Board”), which has the same participants as its predecessor. Each participant has agreed to contribute its pro rata share of annual capital and operational costs, as well as any annual deficit. The City’s pro rata share is 3.9% through July 1, 2013. The Board issued debt of \$13.1 million in May 2012 for the upgrade and replacement of the existing system. Each participant has also agreed to contribute its pro rata share towards debt service payments of the Board. The City’s share will be 5.1%, and annual contributions for debt service will approximate \$56,600. An asset or obligation is not reflected at June 30 because the system has yet to be constructed.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information 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*.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

**B. Government-Wide and Fund Financial Statements (Continued)**

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's only governmental fund is the general fund.

**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 City 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.

Intergovernmental revenues, consisting principally of categorical aid from federal and state agencies, are recognized when earned or at the time of the specific expenditure. Sales, communication sales and use, and public utility taxes, which are collected by the Commonwealth of Virginia and public utilities, respectively, and subsequently remitted to the City, are recognized as revenues and receivables when measurable and available.

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 water and sewer operations.

The *solid waste fund* accounts for solid waste operations.

The *electric fund* accounts for electric distribution operations.

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, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

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

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.

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 \$1,295,064 during the current fiscal year primarily for unanticipated expenditures in public works and potential grant expenditures in community development.
- 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.

Appropriations lapse on June 30, for all City funds, except for carry-forward requests approved by Council.

E. **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.

F. **Investments**

Investments are stated at fair value.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Allowance for Uncollectible Accounts**

The City calculates its allowance for uncollectible accounts using historical collection data and specific account analysis.

**H. 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.

**I. 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 City 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.

Capital assets 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.

**J. Deferred Expenses**

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS  
June 30, 2013

Note 1. Summary of Significant Accounting Policies (Continued)

**K. 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. Management believes long-term portion of compensated absences are immaterial.

**L. 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 position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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.

**M. Net Position/Fund Balance**

Net position in government-wide and proprietary financial statements are classified net investment in capital assets, restricted, and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through state statute.

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**M. Net Position/Fund Balance (Continued)**

- **Committed** – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the highest level of decision making authority – City Council. Formal Council action includes the annual adoption of the City’s Budget Ordinance/Resolution, Council Resolutions appropriating funds and/or resources, budget amendments appropriating funds, and budget amendments to carry forward appropriations that were unexpected at fiscal year end.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body or management of the City.
- **Unassigned** – Amounts that are available for any purpose.

**N. Restricted Amounts**

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**O. Minimum Fund Balance Policy**

Governmental funds of the City do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by Council.

**P. 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 governmental funds. Significant encumbrances as of June 30 total \$27,245 in the general fund.

**Q. 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.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 2. Deposits and Investments**

**Deposits**

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et. seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

**Investments**

**Investment Policy:**

Statutes authorize the City to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; obligations of the International Bank for Reconstruction and Development (World Bank); the Asian Development Bank; the African Development Bank; "prime quality" commercial paper and certain corporate notes; banker's acceptances; repurchase agreements; the Virginia State Non-Arbitrage Program (SNAP); and the State Treasurer's Local Government Investment Pool (LGIP).

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.

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 tax-exempt financing.

**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.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

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

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, or (iii) maturity, the policy places no limit on the amount the City may invest in any one issuer.

Interest Rate Risk:

The Policy limits certain investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Agency securities purchased must mature within five years of the date of purchase. Prime commercial paper must mature within 270 days of the date of purchase, and banker's acceptances must mature within 180 days of the date of purchase.

As of June 30, the fair value, credit rating, percentage of portfolio and weighted average maturity of investments are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard &amp; Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity*</u>
LGIP	\$ 23,591	AAAm	0.68%	-
SNAP	2,388,938	AAAm	68.53	-
First American Prime Obligations Fund	142,607	AAAm	4.09	0.13
Federated Treasury Obligations Fund	170,901	AAAm	4.90	0.06
Scott & Stringfellow Money Market Trust	4,215	AAAm	0.12	0.08
Government National Mortgage Association	755,835	AAA	21.68	0.64
	<u>\$ 3,486,087</u>		<u>100.00%</u>	

\*Weighted average maturity in years

Custodial Credit Risk:

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

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

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

Custodial Credit Risk: (Continued)

Deposits and investments consist of the following:

Deposits	\$ 10,359,177
Investments	<u>3,486,087</u>
Total deposits and investments	<u>\$ 13,845,264</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 9,214,177
Cash and cash equivalents, restricted	<u>4,631,087</u>
Total deposits and investments	<u>\$ 13,845,264</u>

Restricted cash consists of the following:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Unspent bond proceeds	\$ 22,412	\$ 939,473	\$ 961,885
Maintained as a condition of certain bond instruments	189,033	1,551,789	1,740,822
Utility deposits	-	420,012	420,012
Debt service	-	806,525	806,525
Other purpose restrictions	230,097	471,746	701,843
	<u>\$ 441,542</u>	<u>\$ 4,189,545</u>	<u>\$ 4,631,087</u>

**Note 3. Receivables**

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

	<b>General</b>	<b>Water and Sewer</b>	<b>Solid Waste</b>	<b>Electric</b>	<b>Total</b>
Receivables					
Taxes	\$ 245,744	\$ -	\$ -	\$ -	\$ 245,744
Accounts	<u>215,294</u>	<u>523,188</u>	<u>166,145</u>	<u>2,315,234</u>	<u>3,219,861</u>
Gross receivables	461,038	523,188	166,145	2,315,234	3,465,605
Less: allowance for uncollectibles	<u>(84,872)</u>	<u>(69,523)</u>	<u>(25,193)</u>	<u>(393,034)</u>	<u>(572,622)</u>
Net receivables	<u>\$ 376,166</u>	<u>\$ 453,665</u>	<u>\$ 140,952</u>	<u>\$ 1,922,200</u>	<u>\$ 2,892,983</u>

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 3. Receivables (Continued)**

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, *deferred revenue* was as follows:

	<b>General</b>
Delinquent taxes receivable	\$ 96,251
Revenue sharing	54,083
Total deferred revenue	\$ 150,334

**Note 4. Interfund Receivables, Payables, and Transfers**

Amounts due from/to other funds are as follows:

<b>Receivable Fund</b>	<b>Payable Fund</b>	<b>Amount</b>
Electric	Water and Sewer	\$ 1,611,448
Electric	Solid Waste	572,468
General	Solid Waste	5,246
		\$ 2,189,162

The primary purposes of the interfund balances are to fund negative pooled cash amounts in the water and sewer and solid waste funds.

Interfund transfers were as follows:

<b>Transfer Out Fund</b>	<b>Transfer In Fund</b>	<b>Amount</b>
Electric	General	\$ 900,000

The primary purpose of this transfer is to use unrestricted electric revenues to finance general fund programs in accordance with budgetary authorizations.

**Note 5. Due To/From Other Governmental Units**

Amounts due from other governmental units are as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Bedford County		
Growth-sharing agreement	\$ 54,084	\$ 61,615
Joint tourism agreement	12,840	-
Local sales tax	140,234	-
State of Virginia		
Communications tax	22,806	-
Other	13,219	-
	\$ 243,183	\$ 61,615

(Continued)

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 5. Due To/From Other Governmental Units (Continued)**

Amounts due to other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Shared services	\$ 472,372	\$ -
Blue Ridge Regional Jail	25,183	-
Bedford Regional Water Authority	-	49,095
Bedford Joint Economic Development Authority contribution	-	92,214
	<u>497,555</u>	<u>141,309</u>

**Note 6. Capital Assets**

Capital asset activity for the year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,211,447	\$ -	\$ -	\$ 2,211,447
Construction in progress	80,674	-	48,875	31,799
Total capital assets, not depreciated	<u>2,292,121</u>	<u>-</u>	<u>48,875</u>	<u>2,243,246</u>
Capital assets, depreciated				
Buildings and improvements	13,122,407	93,203	-	13,215,610
Machinery and equipment	8,136,125	89,142	-	8,225,267
Infrastructure	12,778,204	38,955	-	12,817,159
Total capital assets, depreciated	34,036,736	221,300	-	34,258,036
Less accumulated depreciation	<u>20,664,387</u>	<u>993,015</u>	<u>-</u>	<u>21,657,402</u>
Total capital assets, depreciated, net	<u>13,372,349</u>	<u>(771,715)</u>	<u>-</u>	<u>12,600,634</u>
Governmental activities capital assets, net	<u>\$ 15,664,470</u>	<u>\$ (771,715)</u>	<u>\$ 48,875</u>	<u>\$ 14,843,880</u>

(Continued)

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 6. Capital Assets (Continued)**

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 968,017	\$ -	\$ -	\$ 968,017
Construction in progress	40,461	-	-	40,461
Total capital assets, not depreciated	<u>1,008,478</u>	<u>-</u>	<u>-</u>	<u>1,008,478</u>
Capital assets, depreciated				
Buildings and improvements	36,532,109	242,980	305,683	36,469,406
Machinery and equipment	3,764,965	288,049	285,856	3,767,158
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	34,497,111	105,934	261,543	34,341,502
Total capital assets, depreciated	78,110,130	636,963	853,082	77,894,011
Less accumulated depreciation	<u>37,704,786</u>	<u>1,491,360</u>	<u>788,155</u>	<u>38,407,991</u>
Total capital assets, depreciated, net	<u>40,405,344</u>	<u>(854,397)</u>	<u>(64,927)</u>	<u>39,486,020</u>
Business-type activities capital assets, net	<u>\$ 41,413,822</u>	<u>\$ (854,397)</u>	<u>\$ (64,927)</u>	<u>\$ 40,494,498</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 89,371
Public safety	208,533
Public works	139,022
Education	417,067
Parks, recreation, and cultural	59,581
Community development	79,441
	<u>\$ 993,015</u>
Business-type activities	
Water and sewer	\$ 782,457
Solid waste	28,138
Electric	680,765
	<u>\$ 1,491,360</u>

(Continued)

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 7. Long-Term Liabilities**

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

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
General obligation bonds	\$ 2,034,572	\$ -	\$ 464,491	\$ 1,570,080	\$ 370,935
Literary fund loans	600,000	-	75,000	525,000	75,000
Compensated absences	165,226	168,823	165,227	168,822	168,823
Landfill liability:					
Closed landfill	2,317,000	642,000	94,000	2,865,000	286,500
Governmental activities long-term liabilities	<u>\$ 5,116,798</u>	<u>\$ 716,823</u>	<u>\$ 798,718</u>	<u>\$ 5,128,902</u>	<u>\$ 901,258</u>
<b>Business-Type Activities</b>					
General obligation bonds	\$ 13,476,563	\$ -	\$ 1,448,610	\$ 12,027,953	\$ 1,126,566
Revenue bonds	12,634,273	-	723,851	11,910,422	747,139
Adjust for deferred amounts:					
Deferred costs	(962,944)	-	(80,125)	(882,819)	-
Issuance premiums	36,563	-	7,312	29,251	-
Issuance discounts	(53,135)	-	(4,279)	(48,856)	-
Obligations payable – AMP	2,179,318	-	1,053,161	1,126,157	102,619
Compensated absences	133,702	123,408	133,702	123,408	123,408
Landfill liability:					
Active landfill	2,327,000	188,000	-	2,515,000	-
Business-type activities long-term liabilities	<u>\$ 29,771,340</u>	<u>\$ 311,408</u>	<u>\$ 3,282,232</u>	<u>\$ 26,800,516</u>	<u>\$ 2,099,732</u>

Governmental activities long-term liabilities are liquidated by the general fund.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 7. Long-Term Liabilities (Continued)**

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

Year Ended June 30	Governmental Activities				Business-Type Activities					
	General Obligation Bonds		Other Long-Term Debt		General Obligation Bonds		Revenue Bonds		Obligations Payable – AMP	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 370,935	\$ 44,181	\$ 75,000	\$ 15,750	\$ 1,126,566	\$ 300,440	\$ 747,139	\$ 549,753	\$ 102,619	\$ 32,586
2015	207,114	35,125	75,000	13,500	1,156,448	274,461	775,564	519,193	59,904	30,706
2016	76,956	28,962	75,000	11,250	1,123,470	245,699	814,133	481,401	61,701	28,909
2017	79,288	26,692	75,000	9,000	1,147,760	216,950	852,849	446,242	63,552	27,058
2018-2022	432,003	96,999	225,000	13,500	4,571,099	740,995	4,865,656	1,622,510	347,528	105,522
2023-2027	403,784	29,427	-	-	2,902,610	206,087	3,855,081	410,829	402,881	50,169
2028	-	-	-	-	-	-	-	-	87,972	2,639
	<u>\$ 1,570,080</u>	<u>\$ 261,386</u>	<u>\$ 525,000</u>	<u>\$ 63,000</u>	<u>\$ 12,027,953</u>	<u>\$ 1,984,632</u>	<u>\$ 11,910,422</u>	<u>\$ 4,029,928</u>	<u>\$ 1,126,157</u>	<u>\$ 277,589</u>

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
Public improvement	2.0-3.6%	12/01/03	2013	\$ 1,460,000	\$ 170,000	\$ -
Virginia Resources Authority:						
Taxable water and sewer	2.5	06/23/98	2019	5,225,000	-	2,027,979
Water and sewer refunding	3.2-3.5	06/01/10	2017	1,015,000	-	685,000
Virginia Revolving Loan Fund:						
Water and sewer	0.0	04/25/02	2022	2,866,300	-	1,361,492
Water and sewer	0.0	09/27/01	2022	1,800,000	-	810,000
Public improvement	2.8-3.6	04/29/08	2023	5,472,438	261,170	3,124,392
Public improvement	2.9	03/27/11	2026	5,485,000	1,138,910	4,019,090
					<u>\$ 1,570,080</u>	<u>\$ 12,027,953</u>

Revenue Bonds:

Virginia Resources Authority:

Electric system refunding	3.0-4.1%	08/2005	2025	\$ 12,560,000	\$ -	\$ 8,695,000
Taxable lease	7.8	06/1996	2026	2,630,000	-	1,835,000
Electric system	3.8-4.1	11//2005	2026	2,064,710	-	1,380,422
					<u>\$ -</u>	<u>\$ 11,910,422</u>

Other Long-Term Debt:

Literary fund loans	3.0%	01/1998	2019	\$ 1,500,000	<u>\$ 525,000</u>	<u>\$ -</u>
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(Continued)

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 7. Long-Term Liabilities (Continued)**

Obligations Payable – AMP:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
City's rate levelization	2.5%	03/2011	2013	\$ 1,350,000	\$ -	\$ 44,460
Generating station contract	3.0	06/2011	2027	1,081,697	-	1,081,697
					<u>\$ -</u>	<u>\$ 1,126,157</u>

**Obligations Payable – AMP**

**City's Rate Levelization:**

On March 6, 2011 the City entered into an agreement with American Municipal Power, Inc. (AMP) to provide a rate levelization loan to the City for power delivered from July 1, 2010 through June 30, 2011. Through June 30, 2011, AMP loaned the City \$1,350,000. The principal and accrued interest, at a rate of 2.5%, is being repaid over the power delivery period of December 1, 2011 through July 31, 2013. Monthly payments are \$75,000, with a final true-up payment, if needed, in June 2013.

**Generating Station Contract:**

During 2008, the City entered into a power sales contract with AMP whereby it agreed to participate in the guaranteed purchase of electric generation capacity from a coal-fired generating facility in southwestern Illinois. The participants authorized AMP to acquire ownership interest in the project, and the City agreed to purchase 1.89% of the power generated under that ownership interest. This project has now been cancelled, which resulted in stranded costs that are owed by each participant. The City elected to participate in a new project, the AMP Fremont Energy Center (AFEC) natural gas combined cycle project, which reduced the stranded costs to \$1,081,697, due to certain development costs being transferred to the AFEC project. Once the AFEC project starts, the City will be required to pay an annual amount of \$90,610, including interest at 3%, over a 15 year period. Payments started in July 2013 once the City's rate levelization loan was paid in full.

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

**Closed Landfill**

The City closed its former landfill site in 1994. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure. The cumulative amount of estimated closure and postclosure care costs for this site, less costs paid to date, totals \$2,865,000. The presence of certain contaminants has been detected in the groundwater on adjacent property. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 8. Landfill Closure and Postclosure Care Costs (Continued)**

**Open Landfill**

This landfill site began accepting waste in 1994. State and federal laws require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used. The \$2,515,000 reported as landfill closure and postclosure liability as of June 30 represents the cumulative amount reported to date based on use of approximately 93% of estimated capacity. The remaining estimated cost of closure and post closure care of \$188,000 will be recognized as remaining capacity is filled. The City is shipping most waste, except construction debris, to the Region 2000 Services Authority (see Note 1A). The City expects to close the landfill in 2020. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

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

**Note 9. Net Position/Fund Equity**

Fund balance is classified below based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources. The constraints placed on fund balance for the general fund are presented below:

<b>Fund Equity</b>	<b>General</b>
Nonspendable:	
Cemetery perpetual care	\$ 880,907
Restricted for:	
General governmental administration	246,838
Public works	452,100
Public safety	5,671
Debt service reserves	189,033
	893,642
Assigned to:	
General governmental administration	18,372
Public safety	6,093
Health and welfare	2,780
	27,245
Unassigned	2,573,798
Total fund balance	\$ 4,375,592

**Deficit Net Position**

At June 30, the solid waste fund had a deficit in net position of \$830,731, which is anticipated to be recovered through future revenues, as well as possible transfers from the general fund or electric fund.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 10. Defined Benefit Pension Plan**

**Plan Description**

The City contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member’s plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member’s average final compensation multiplied by the member’s total service credit. Under Plan 1, average final compensation is the average of the member’s 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member’s 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 10. Defined Benefit Pension Plan (Continued)**

**Plan Description (Continued)**

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS Web site at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 13.28% of annual covered payroll.

**Annual Pension Cost**

For the fiscal year ended June 30, 2013, the City's annual pension cost of \$926,444 was equal to the required and actual contributions.

**Three-Year Trend Information**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of (APC) Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2013	\$ 926,444	100%	\$ -
June 30, 2012	\$ 831,475	100%	\$ -
June 30, 2011	\$ 780,964	100%	\$ -

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 10. Defined Benefit Pension Plan (Continued)**

**Annual Pension Cost (Continued)**

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumption at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00% (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

**Funded Status and Funding Progress**

As of June 30, 2012, the most recent actuarial valuation date, the plan was 64.14% funded. The actuarial accrued liability for benefits was \$25,639,520, and the actuarial value of assets was \$16,445,451, resulting in an unfunded actuarial accrued liability (UAAL) of \$9,194,069. The covered payroll (annual payroll of active employees covered by the plan) was \$4,531,110, and the ratio of the UAAL to the covered payroll was 202.91%.

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

**Note 11. Other Post-Employment Benefits**

The cost of other post-employment healthcare benefits (OPEB) is associated with the periods in which employees provide services, rather than in the future years when the costs will be paid.

**Plan Description**

The City provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of City Council, which may also amend the plan as deemed appropriate. Participants in the City's OPEB plan must meet the eligibility requirements based on service earned with the City to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for the benefit.

- General government with membership dates before July 1, 2010 (Plan 1) – Participants must have attained age 50 with a minimum of 30 years of service.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 11. Other Post-Employment Benefits (Continued)**

**Plan Description (Continued)**

- General government with membership dates on or after July 1, 2010 (Plan 2) – receive reduced retirement after attaining 90 points (age plus service) with VRS.
- Law enforcement officers – Participants must have attained age 50 with a minimum of 25 years of service.

Health benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the City’s insurance plans. Benefits end at the earlier of the retiree’s death or attainment of age 65.

The number of participants at January 1, 2012 was as follows:

Retirees currently receiving benefits	5
Active employees	112
Total	117

**Funding Policy**

The City currently funds post-employment health care benefits on a pay-as-you-go basis.

**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation**

For 2013 the City’s OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	\$ 20,300
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	20,300
Contributions made	20,300
Change in net OPEB obligation	-
Net OPEB obligation – beginning of year	-
Net OPEB obligation – end of year	\$ -

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 11. Other Post-Employment Benefits (Continued)**

**Annual Other Post-Employment Benefit Cost and Net OPEB Obligation (Continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows.

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2013	\$ 20,300	100%	\$ -
June 30, 2012	\$ 18,300	100%	\$ -
June 30, 2011	\$ 12,700	100%	\$ -

**Funded Status and Funding Progress**

The funded status of the plan as of January 1, 2012 was as follows:

Actuarial Accrued Liability (AAL)	\$ 171,800
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 171,800
Funded Ratio (Actuarial Value of Plan Assets/AAL)	- %
Covered Payroll (Active Plan Members)	\$ 4,582,100
UAAL as a Percentage of Covered Payroll	3.75 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 11. Other Post-Employment Benefits (Continued)**

**Actuarial Methods and Assumptions (Continued)**

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4.0% discount rate, a 3.75% inflation rate, and an initial annual healthcare cost trend of 7.20% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.80%. The unfunded accrued liability is being amortized as a level percent of payroll. The amortization period for 2013 was 11.8 years.

**Note 12. Service Contracts**

**Power Purchase Contracts**

*Holcomb Rock and Coleman Falls*

In 2011, the City entered into an agreement through 2018 to purchase all of the energy generated from two hydroelectric facilities. The agreement includes one-year extensions subsequent to the 2018 expiration date. The amount purchased by the City varies according to current hydrologic conditions but is estimated to be 10,000,000 kilowatt-hours per year. The City pays a fixed rate of \$0.05 per kilowatt-hour for all energy produced by the facilities.

*AMP – Master Service Agreement*

In 2006, the City signed a power sales agreement with AMP which extends through 2017. The agreement requires the City to purchase a minimum amount of power which varies based on expected usage. The City is charged for this power at various adjustable rates based on current market conditions.

*AMP – Prairie State Energy Project*

During 2008, the City entered into a power sales contract with AMP whereby it and others agreed to participate in the guaranteed purchase of electric generation from a coal-fired generating facility in southwestern Illinois. The participants authorized AMP to acquire ownership interest in the project, and the City agreed to purchase 1.89% of the power generated under that ownership interest. The contract is on a "take-or-pay" basis which means the City is required to pay its guaranteed portion whether or not it is used and is not conditioned on the performance by AMP under the contract. The obligations are required to be paid whether or not the project is completed, operable, or operating and as long as bonds issued by AMP remain outstanding. The ultimate amounts payable under the contract are currently undeterminable. The contract extends through 2057. Payments under the agreement began in 2012.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 12. Service Contracts (Continued)**

**Power Purchase Contracts (Continued)**

*AMP – Fremont Energy Center*

During 2011, the City entered into a power sales contract with AMP whereby it and others agreed to participate in the guaranteed purchase of a natural gas-fired combined cycle power generating plant located in the City of Fremont, Ohio. The participants authorized AMP to acquire ownership interest in the project, and the City agreed to purchase 1.25% of the power generated under that ownership interest. The contract is on a “take-or-pay” basis which means the City is required to pay its guaranteed portion whether or not it is used and is not conditioned on the performance by AMP under the contract. The obligations are required to be paid whether or not the project is completed, operable, or operating and as long as bonds issued by AMP remain outstanding. The amount payable under the contract is currently undeterminable. The contract extends through 2047. Payments under the agreement began in 2012.

**Shared Services**

Bedford County provides courthouse facilities and a centralized dispatching facility, as well as the services of the Sheriff, Commonwealth Attorney and Clerk of the Circuit Court to the City. The City reimburses the County for these services based on the total population of both localities as reported in the most recent census. For the current fiscal year, the City’s population was 8.31% of the total population. In addition, the County provides health and welfare services to the City through the Departments of Health and Social Services, respectively. The City reimburses the County for these services based on the actual caseload. Further, the City provides fire services to the County and the County reimburses the City for these services based on the number of fire calls answered.

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

**Note 13. Property Taxes**

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. The assessed value is as of July 1 for real property and January 1 for personal property. Real estate taxes are payable in four quarterly installments on September 30, December 31, March 31, and June 5. The real estate tax rate was \$0.86 per \$100 of assessed value for fiscal years 2013 and 2012, respectively.

Personal property taxes are payable on December 5. The personal property tax rate was \$2.43 per \$100 for 2013 and 2012, respectively. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS  
June 30, 2013**

**Note 14. Risk Management**

The Risk Management programs of the City are as follows:

**Workers' Compensation**

The City is a member of the Virginia Municipal League Insurance Programs for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates, and claims experience. Total premiums for fiscal year 2013 were \$132,352.

**General Liability and Other**

The City purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from Virginia Municipal League Insurance Programs. The City's property and contents are insured up to a limit of approximately \$63 million. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability insurance. The City's Public Officials and Law Enforcement Liability and the School Board Legal Liability coverages, with a \$1,000,000 limit for each, are provided through a policy with the Commonwealth of Virginia. Total premiums for fiscal year 2013 were \$176,643.

**Healthcare**

The City provides healthcare coverage for employees through a policy with Anthem. The City contributed towards the premium for each employee that elects to be covered. Dependents of employees are also covered by the policy provided they pay the additional premium to the City. Total premiums for fiscal year 2013 were \$874,103.

**Other**

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

**Note 15. Direct Financing Lease**

The City's electric fund is the lessor of certain equipment relating to an electric substation for a thirty-year term through 2026. The lessee provides all maintenance and repairs. The lease is a direct financing lease since the lessee will purchase the equipment at the end of the lease term.

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

Total minimum lease payments	\$ 4,518,518
Guaranteed residual value	1,369,086
Unearned income	<u>(3,495,503)</u>
Net investment in direct financing lease	<u>\$ 2,392,101</u>

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

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 16. Commitments and Contingencies**

**Grant Programs**

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

**Note 17. Joint Economic Development and Growth Sharing Agreement**

The City and Bedford County entered an agreement in 1998 titled “Joint Economic Development and Growth Sharing Agreement.” The agreement provides for the development of a jointly owned 10-acre industrial park within the City; designation of four economic development areas located in the County adjacent to the City for which water and sewer will be made available; and development of a long-range plan to address water and sewer needs in central Bedford County.

The City and County agreed to share equally all local taxes on real estate, personal property and machinery and tools, merchant’s capital, sales and use taxes, and all business, professional and occupational taxation, and any other taxes generated in respect to properties and activities within the economic development areas.

In conjunction with the City’s reversion to Town status (Note 19), this agreement is terminated.

**Note 18. New Accounting Standards**

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

*GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

*GASB Statement No. 66, Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends *GASB Statement No. 10* by removing the provision that limits fund-based reporting of an entity’s risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends *GASB Statement No. 62* by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

**CITY OF BEDFORD, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2013**

**Note 18. New Accounting Standards (Continued)**

*GASB Statement No. 67, Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

*GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

Management has not yet evaluated the effects, if any, of adopting these standards.

**Note 19. Reversion to Town Status**

On July 1, 2013 the City reverted to town status. The goals of the reversion are to (1) provide long-term benefits to the citizens by increased opportunities for more efficient delivery of needed services; (2) expand cooperation in pursuing economic development and employment for the region; (3) realize substantial financial incentives offered by the Commonwealth for the implementation of such a partial consolidation; (4) simplify boundary adjustments for the new town; and (5) create a new water and sewer authority to combine City and County water and sewer services as described below. The Town possesses all powers and has authority as granted by the general law to other towns in the Commonwealth and such other power and authority as granted by charter or other special acts of the General Assembly.

In conjunction with the reversion, the Town of Bedford (the “Town”) and the Bedford County Public Service Authority (BCPSA) entered into a consolidation agreement to form the Bedford Regional Water Authority (BRWA) in order to transfer all services provided by BCPSA and the water and sewer services of the Town to the BRWA effective July 1, 2013.

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# **REQUIRED SUPPLEMENTARY INFORMATION**

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## CITY OF BEDFORD, VIRGINIA

**SCHEDULES OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN  
AND OTHER POST-EMPLOYMENT BENEFITS**

**June 30, 2013**

<b>Actuarial Valuation Date</b>	<b>(a) Actuarial Value of Assets</b>	<b>(b) Actuarial Accrued Liability (AAL)</b>	<b>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>(a/b) Funded Ratio</b>	<b>(c) Annual Covered Payroll</b>	<b>(b-a)/c UAAL as of Percentage of Covered Payroll</b>
<b>DEFINED BENEFIT PLAN (VRS)</b>						
June 30, 2012	\$ 16,445,451	\$ 25,639,520	\$ 9,194,069	64.14%	\$ 4,531,110	202.91%
June 30, 2011	\$ 16,591,680	\$ 24,534,060	\$ 7,942,380	67.63%	\$ 4,380,252	181.32%
June 30, 2010	\$ 16,476,907	\$ 23,086,000	\$ 6,609,093	71.37%	\$ 4,334,264	152.48%
<b>OTHER POST-EMPLOYMENT BENEFITS</b>						
January 1, 2012	\$ -	\$ 171,800	\$ 171,800	0.00%	\$ 4,582,100	3.75%
January 1, 2009	\$ -	\$ 162,500	\$ 162,500	0.00%	\$ 4,727,100	3.44%

# STATISTICAL SECTION

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*This part of the City of Bedford's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.*

<b><u>Contents</u></b>	<b><u>Table</u></b>
<b>Financial Trends</b> These tables contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	<b>1-4</b>
<b>Revenue Capacity</b> These tables contain information to help the reader assess the factors affecting the City's ability to generate its property and sales taxes.	<b>5-7</b>
<b>Debt Capacity</b> These tables present information to help the reader assess the affordability of the City's current levels of outstanding debt and its ability to issue additional debt in the future.	<b>8-10</b>
<b>Demographic and Economic Information</b> These tables offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	<b>11-12</b>
<b>Operating Information</b> These schedules contain information about the City's operations and resources to help the reader understand how its financial information relates to the services it provides and the activities it performs.	<b>13-15</b>

**Sources:** Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

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**TABLE 1**

**CITY OF BEDFORD, VIRGINIA  
NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Governmental activities</b>										
Net investment in capital assets	\$ 12,802,057	\$ 13,580,468	\$ 13,928,863	\$ 15,167,250	\$ 15,362,995	\$ 15,245,441	\$ 14,745,115	\$ 14,470,547	\$ 13,545,504	\$ 13,153,135
Restricted	893,641	905,566	1,275,857	-	-	-	-	-	-	-
Unrestricted	574,787	967,285	202,484	(539,263)	(1,517,998)	(1,934,063)	2,042,536	1,965,046	2,504,784	35,515,785
Total governmental activities net position	<u>\$ 14,270,485</u>	<u>\$ 15,453,319</u>	<u>\$ 15,407,204</u>	<u>\$ 14,627,987</u>	<u>\$ 13,844,997</u>	<u>\$ 13,311,378</u>	<u>\$ 16,787,651</u>	<u>\$ 16,435,593</u>	<u>\$ 16,050,288</u>	<u>\$ 48,668,920</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 17,821,614	\$ 19,684,925	\$ 16,310,638	\$ 14,469,590	\$ 13,809,254	\$ 13,137,264	\$ 11,813,722	\$ 8,371,842	\$ 8,058,562	\$ 3,652,555
Restricted	806,525	422,208	-	-	-	-	-	-	-	-
Unrestricted	8,589,819	5,537,133	5,972,814	8,114,890	10,062,241	10,469,136	6,880,977	10,518,305	12,817,093	15,139,520
Total business-type activities net position	<u>\$ 27,217,958</u>	<u>\$ 25,644,266</u>	<u>\$ 22,283,452</u>	<u>\$ 22,584,480</u>	<u>\$ 23,871,495</u>	<u>\$ 23,606,400</u>	<u>\$ 18,694,699</u>	<u>\$ 18,890,147</u>	<u>\$ 20,875,655</u>	<u>\$ 18,792,075</u>
<b>Primary government</b>										
Net investment in capital assets	\$ 30,623,671	\$ 33,265,393	\$ 30,239,501	\$ 29,636,840	\$ 29,172,249	\$ 28,382,705	\$ 26,558,837	\$ 22,842,389	\$ 21,604,066	\$ 16,805,690
Restricted	1,700,166	1,327,774	1,275,857	-	-	-	-	-	-	-
Unrestricted	9,164,606	6,504,418	6,175,298	7,575,627	8,544,243	8,535,073	8,923,513	12,483,351	15,321,877	18,655,305
Total primary government net position	<u>\$ 41,488,443</u>	<u>\$ 41,097,585</u>	<u>\$ 37,690,656</u>	<u>\$ 37,212,467</u>	<u>\$ 37,716,492</u>	<u>\$ 36,917,778</u>	<u>\$ 35,482,350</u>	<u>\$ 35,325,740</u>	<u>\$ 36,925,943</u>	<u>\$ 35,460,995</u>

**TABLE 2**

**CITY OF BEDFORD, VIRGINIA  
CHANGES IN NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>Expenses</b>										
<b>Governmental activities:</b>										
General government administration	1,486,378	\$ 1,372,155	\$ 1,243,932	\$ 1,263,022	\$ 1,285,276	\$ 1,157,362	\$ 1,108,975	\$ 1,255,082	\$ 1,207,094	\$ 1,009,729
Judicial administration	66,994	64,599	69,749	73,925	54,638	45,844	20,269	22,108	27,097	11,587
Public safety	3,328,885	3,268,702	3,221,404	3,234,418	3,531,246	3,551,640	3,491,536	3,147,207	2,792,008	2,693,711
Public works	3,510,226	2,783,359	2,381,402	2,238,273	2,002,857	1,800,835	1,870,534	1,734,423	1,544,583	1,561,611
Health and welfare	611,757	661,680	684,699	615,447	679,222	859,833	675,828	558,469	721,935	366,032
Education	7,027,650	6,329,561	6,637,708	6,312,843	7,400,863	7,521,071	7,280,991	6,924,063	6,327,656	6,320,200
Parks, recreation, and cultural	375,631	414,045	443,092	505,520	732,067	968,399	990,201	947,889	953,698	905,957
Community development	258,210	320,829	312,424	419,959	521,281	525,207	464,080	518,251	1,123,443	370,323
Nondepartmental	-	-	-	-	3,578	10,923	1,208	7,829	486	11,580
Interest on long-term debt	100,817	97,101	120,140	150,360	167,716	224,815	137,765	112,811	169,253	161,260
Total governmental activities	16,766,548	15,312,031	15,114,550	14,813,767	16,378,744	16,665,929	16,041,387	15,228,132	14,867,253	13,411,990
<b>Business-type activities:</b>										
Water and sewer	3,514,595	3,288,441	3,008,301	3,057,530	3,012,009	2,889,286	3,074,722	3,046,030	2,906,751	2,765,384
Solid waste	864,030	1,011,584	1,114,103	979,974	1,141,850	1,225,962	1,789,163	2,097,695	1,049,661	2,989,664
Electric	19,710,177	19,557,948	23,366,909	22,855,580	23,372,403	19,353,950	18,798,435	15,305,400	10,252,537	10,125,068
Total business-type activities expense	24,088,802	23,857,973	27,489,313	26,893,084	27,526,262	23,469,198	23,662,320	20,449,125	14,208,949	15,880,116
Total primary government expenses	40,855,350	39,170,004	42,603,863	41,706,851	43,905,006	40,135,127	39,703,707	35,677,257	29,076,202	29,292,106
<b>Program Revenues</b>										
<b>Governmental activities:</b>										
Charges for services:										
General government	240,274	191,469	267,863	346,196	299,493	265,733	276,964	259,823	279,606	9,053
Public safety	99,357	170,578	129,156	94,192	117,681	125,533	125,411	111,122	77,334	105,953
Parks, recreation, and cultural	16,357	19,142	20,962	28,133	89,320	105,913	105,283	91,610	105,338	252,765
Operating grants and contributions	5,840,890	5,675,008	5,728,339	5,542,630	6,493,199	6,036,954	5,916,844	5,403,786	5,141,468	4,996,519
Capital grants and contributions	32,474	38,022	216,354	68,807	258,533	610,115	229,931	171,077	262,155	483,588
Total governmental activities program revenues	6,229,352	6,094,219	6,362,674	6,079,958	7,258,226	7,144,248	6,654,433	6,037,418	5,865,901	5,847,878
<b>Business-type activities:</b>										
Charges for services:										
Water and sewer	3,304,287	3,140,016	3,108,582	3,249,909	3,131,495	3,316,832	2,823,034	2,736,581	2,703,699	2,679,837
Solid waste	913,436	999,851	1,010,196	1,000,078	1,032,705	1,091,627	1,130,918	1,045,479	959,414	878,092
Electric	21,534,257	20,431,813	22,615,629	21,620,435	24,188,620	20,393,092	19,686,578	15,600,264	12,944,906	12,285,888
Operating grants and contributions	410,416	383,853	397,679	389,336	381,015	333,872	330,314	371,778	201,470	299,228
Capital grants and contributions	61,303	2,699,315	840,092	136,236	57,500	102,100	-	-	-	-
Total business-type activities program revenues	26,223,699	27,654,848	27,972,178	26,395,994	28,791,335	25,237,523	23,970,844	19,754,102	16,809,489	16,143,045
Total primary government program revenues	32,453,051	33,749,067	34,334,852	32,475,952	36,049,561	32,381,771	30,625,277	25,791,520	22,675,390	21,990,923
<b>Net (expense) revenue</b>										
Governmental activities	(10,537,196)	(9,217,812)	(8,751,876)	(8,733,809)	(9,120,518)	(9,521,681)	(9,386,954)	(9,190,714)	(9,001,352)	(7,564,112)
Business-type activities	2,134,897	3,796,875	482,865	(497,090)	1,265,073	1,768,325	308,524	(695,023)	2,600,540	262,929
Total primary government net expense	(8,402,299)	(5,420,937)	(8,269,011)	(9,230,899)	(7,855,445)	(7,753,356)	(9,078,430)	(9,885,737)	(6,400,812)	(7,301,183)

(Continued)

**TABLE 2**

**CITY OF BEDFORD, VIRGINIA  
CHANGES IN NET POSITION BY COMPONENT  
LAST TEN FISCAL YEARS  
(ACCRUAL BASIS OF ACCOUNTING)**

	Fiscal Year									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental activities:</b>										
<b>Taxes</b>										
Property taxes	\$ 5,001,731	\$ 4,941,170	\$ 4,866,945	\$ 4,863,006	\$ 4,492,230	\$ 4,300,745	\$ 4,269,862	\$ 3,615,417	\$ 3,568,818	\$ 3,473,488
Sales taxes	842,139	830,064	857,218	854,574	894,826	998,680	1,017,547	927,493	968,531	869,635
Business license tax	674,058	663,146	657,475	599,269	637,671	656,230	671,322	617,347	637,336	631,865
Meals tax	680,651	671,404	655,365	643,868	663,141	681,216	650,068	557,659	521,767	512,743
Other local taxes	390,387	376,025	408,407	390,096	400,801	540,166	537,283	495,420	400,521	380,592
Intergovernmental revenue, unrestricted	741,161	771,718	707,804	955,354	924,651	939,102	971,695	982,103	903,654	977,227
Investment earnings	9,662	56,106	55,553	23,447	143,365	247,573	404,158	343,308	221,008	113,116
Contribution of property	1,225	-	-	-	-	-	-	-	-	-
Gain on sale of assets	88,641	4,102	24,224	10,544	3,078	-	4,621	26,212	15,128	-
Other	24,707	77,768	21,963	37,692	27,374	25,457	22,720	57,037	57,333	714
Transfers	900,000	872,424	1,300,000	1,138,949	1,467,000	(2,343,761)	1,189,736	1,954,023	1,003,825	981,550
Total governmental activities	9,354,362	9,263,927	9,554,954	9,516,799	9,654,137	6,045,408	9,739,012	9,576,019	8,297,921	7,940,930
<b>Business-type activities:</b>										
Investment earnings	338,795	342,248	340,479	349,024	467,022	631,292	685,764	663,538	486,865	497,038
Gain on sale of capital assets	-	-	-	-	-	168,323	-	-	-	-
Transfers	(900,000)	(872,424)	(1,300,000)	(1,138,949)	(1,467,000)	2,343,761	(1,189,736)	(1,954,023)	(1,003,825)	(981,550)
Total business-type activities	(561,205)	(530,176)	(959,521)	(789,925)	(999,978)	3,143,376	(503,972)	(1,290,485)	(516,960)	(484,512)
Total primary government	8,793,157	8,733,751	8,595,433	8,726,874	8,654,159	9,188,784	9,235,040	8,285,534	7,780,961	7,456,418
<b>Changes in Net Position</b>										
Governmental activities	(1,182,834)	46,115	803,078	782,990	533,619	(3,476,273)	352,058	385,305	(703,431)	376,818
Business-type activities	1,573,692	3,266,699	(476,656)	(1,287,015)	265,095	4,911,701	(195,448)	(1,985,508)	2,083,580	(221,583)
Total primary government	\$ 390,858	\$ 3,312,814	\$ 326,422	\$ (504,025)	\$ 798,714	\$ 1,435,428	\$ 156,610	\$ (1,600,203)	\$ 1,380,149	\$ 155,235

**TABLE 3**

**CITY OF BEDFORD, VIRGINIA  
FUND BALANCES – GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<b>Post-GASB 54</b>			<b>Pre-GASB 54</b>						
	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
General Fund										
Nonspendable	\$ 880,907	\$ 881,387	\$ 828,714							
Restricted	893,642	905,566	904,160							
Assigned	27,245	565,787	354,146							
Unassigned	2,573,798	2,368,680	1,916,649							
Total general fund	<u>\$ 4,375,592</u>	<u>\$ 4,721,420</u>	<u>\$ 4,003,669</u>							
General Fund										
Reserved	\$ 1,966,581	\$ 1,840,352	\$ 2,352,425	\$ 2,431,433	\$ 1,625,713	\$ 1,583,500	\$ 2,211,940			
Unreserved	1,719,613	1,000,010	453,160	611,421	759,917	377,825	1,794,152			
Total general fund	<u>\$ 3,686,194</u>	<u>\$ 2,840,362</u>	<u>\$ 2,805,585</u>	<u>\$ 3,042,854</u>	<u>\$ 2,385,630</u>	<u>\$ 1,961,325</u>	<u>\$ 4,006,092</u>			
All Other Governmental Funds										
Unreserved, reported in:										
Special revenue funds	\$ -	\$ -	\$ -	\$ -	\$ 469,703	\$ 455,774	\$ 479,407			
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,703</u>	<u>\$ 455,774</u>	<u>\$ 479,407</u>			

Note: GASB 54 was adopted in FY 2011.

**TABLE 4**

**CITY OF BEDFORD, VIRGINIA  
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS  
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
<b>Revenues</b>										
Taxes	\$ 7,592,582	\$ 7,555,727	\$ 7,416,138	\$ 7,258,677	\$ 7,097,542	\$ 7,189,990	\$ 7,107,098	\$ 6,205,510	\$ 6,088,806	\$ 5,920,497
Permits, privilege fees, and licenses	12,321	26,166	23,359	23,261	38,843	36,827	33,833	25,491	35,221	31,701
Fines and forfeitures	87,035	94,468	77,935	65,813	65,802	88,201	91,148	84,687	41,628	71,577
Revenue from use of money and property	10,887	56,106	55,553	23,447	143,365	247,573	404,157	343,308	221,008	122,171
Charges for services	122,028	125,951	155,067	175,270	212,939	260,756	278,926	275,364	215,394	251,822
Other	88,640	77,768	183,583	241,868	216,284	137,233	8,832	140,076	260,834	98,305
Intergovernmental	6,749,129	6,619,353	6,577,499	6,566,791	7,676,383	7,492,240	7,257,145	6,517,543	6,307,277	6,363,359
Total revenues	<u>14,662,622</u>	<u>14,555,539</u>	<u>14,489,134</u>	<u>14,355,127</u>	<u>15,451,158</u>	<u>15,452,820</u>	<u>15,181,139</u>	<u>13,591,979</u>	<u>13,170,168</u>	<u>12,859,432</u>
<b>Expenditures</b>										
General government	1,456,493	1,289,938	1,151,035	1,156,296	1,176,391	1,095,027	1,041,035	1,415,552	1,456,413	1,085,412
Judicial administration	66,994	64,599	69,749	73,925	54,638	45,844	20,269	22,108	27,097	11,587
Public safety	3,187,608	3,130,237	3,021,780	3,034,104	3,374,816	4,529,012	3,305,259	3,120,698	3,122,124	2,516,748
Public works	2,856,280	2,567,995	2,900,284	2,273,460	2,313,259	2,186,661	2,039,525	2,063,237	2,043,948	1,774,348
Parks, recreation, and cultural	318,399	348,542	381,331	436,653	663,122	906,368	980,295	908,539	914,838	953,378
Health and welfare	611,757	661,680	684,699	615,447	679,222	859,833	675,828	558,469	721,935	366,032
Education	6,617,245	5,888,862	6,189,655	5,923,094	6,950,962	7,142,290	6,849,211	6,583,537	6,111,105	6,301,173
Community development	178,769	203,823	260,011	330,515	617,783	443,771	381,138	472,557	1,069,227	1,055,270
Nondepartmental	-	-	-	-	3,578	10,923	1,208	7,829	486	11,580
Debt service:										
Bond issuance costs	-	-	12,533	-	-	7,178	-	24,570	-	42,431
Principal	539,491	469,185	681,164	664,029	879,780	736,949	762,152	626,979	640,018	555,387
Interest	100,121	89,453	132,314	153,843	173,994	185,569	132,055	132,589	150,330	141,699
Total expenditures	<u>15,933,157</u>	<u>14,714,314</u>	<u>15,484,555</u>	<u>14,661,366</u>	<u>16,887,545</u>	<u>18,149,425</u>	<u>16,187,975</u>	<u>15,936,664</u>	<u>16,257,521</u>	<u>14,815,045</u>
Excess of revenues over (under) expenditures	<u>(1,270,535)</u>	<u>(158,775)</u>	<u>(995,421)</u>	<u>(306,239)</u>	<u>(1,436,387)</u>	<u>(2,696,605)</u>	<u>(1,006,836)</u>	<u>(2,344,685)</u>	<u>(3,087,353)</u>	<u>(1,955,613)</u>
<b>Other Financing Sources</b>										
Proceeds from borrowing	-	-	1,282,911	-	-	946,774	-	717,885	197,925	1,460,000
Payment to refunded bond escrow agent	-	-	(1,270,378)	-	-	-	-	-	-	-
Proceeds from sale of assets	24,707	4,102	24,224	13,122	4,164	45,562	4,621	26,212	15,128	-
Principal payment of capital lease	-	-	-	-	-	-	-	-	(197,925)	-
Transfers in	900,000	872,424	1,300,000	1,138,949	1,467,000	1,467,000	1,904,366	2,162,023	1,505,875	1,467,000
Transfers out	-	-	-	-	-	-	(714,630)	(208,000)	(502,050)	(485,450)
Total other financing sources	<u>924,707</u>	<u>876,526</u>	<u>1,336,757</u>	<u>1,152,071</u>	<u>1,471,164</u>	<u>2,459,336</u>	<u>1,194,357</u>	<u>2,698,120</u>	<u>1,018,953</u>	<u>2,441,550</u>
Net change in fund balances	<u>(345,828)</u>	<u>\$ 717,751</u>	<u>\$ 341,336</u>	<u>\$ 845,832</u>	<u>\$ 34,777</u>	<u>\$ (237,269)</u>	<u>\$ 187,521</u>	<u>\$ 353,435</u>	<u>\$ (2,068,400)</u>	<u>\$ 485,937</u>
Debt service as a percentage of noncapital expenditures	<u>4.06%</u>	<u>3.86%</u>	<u>5.60%</u>	<u>5.74%</u>	<u>6.24%</u>	<u>5.08%</u>	<u>5.52%</u>	<u>4.77%</u>	<u>4.86%</u>	<u>4.71%</u>

**TABLE 5**

**CITY OF BEDFORD, VIRGINIA  
 ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY  
 LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Real Estate</b>	<b>Personal Property</b>	<b>Machinery and Tools</b>	<b>Public Service Corporation</b>	<b>Mobile Homes</b>	<b>Total Assessed Value</b>	<b>Total Direct Tax Rate(1)</b>
2013	\$ 427,414,000	\$ 48,740,600	\$ 35,756,980	\$ 9,270,300	\$ 353,000	\$ 521,534,880	1.04
2012	426,408,500	46,608,260	34,809,690	8,896,880	407,900	517,131,230	1.03
2011	426,484,700	45,780,775	35,757,860	8,173,800	420,700	516,617,835	1.03
2010	406,184,200	45,604,044	36,509,350	8,502,100	415,000	497,214,694	0.97
2009	403,819,100	48,686,689	31,436,013	8,440,200	421,600	492,803,602	0.93
2008	396,308,300	47,144,412	33,851,260	9,845,100	416,600	487,565,672	0.93
2007	395,464,300	46,294,050	31,804,750	7,716,900	425,900	481,705,900	0.96
2006	318,993,200	43,796,730	30,216,970	8,913,570	478,800	402,399,270	0.95
2005	313,729,100	41,338,270	30,194,580	10,437,161	486,600	396,185,711	0.96
2004	310,247,885	43,485,320	33,098,380	11,620,498	520,700	398,972,783	0.96

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

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

**TABLE 6**

**CITY OF BEDFORD, VIRGINIA  
PRINCIPAL ELECTRICAL CUSTOMERS  
CURRENT YEAR AND LAST YEAR**

<b>Customer</b>	<b>Fiscal Year 2013</b>			<b>Fiscal Year 2012</b>		
	<b>Revenue</b>	<b>Rank</b>	<b>Percentage of Total City Electrical Revenue</b>	<b>Revenue</b>	<b>Rank</b>	<b>Percentage of Total City Electrical Revenue</b>
Wheelabrator Abrasives	\$ 1,687,781	1	9.74 %	\$ 1,913,379	1	11.04 %
Bedford Weaving	828,954	2	4.78	837,095	2	4.83
Golden West now Trident	612,568	3	3.54	664,748	3	3.84
City of Bedford	436,171	4	2.52	421,640	4	2.43
The Matrix Group	407,855	5	2.35	340,770	6	1.97
Smyth Companies	399,742	6	2.31	412,122	5	2.38
Wal-Mart	298,206	7	1.72	298,604	7	1.72
Bedford Memorial Hospital	261,084	8	1.51	260,744	8	1.50
Liberty High School	251,542	9	1.45	250,434	9	1.45
Bedford Storage Investment LLC	213,007	10	1.23	197,578	10	1.14
	<u>\$ 5,396,910</u>		<u>31.15 %</u>	<u>\$ 5,597,114</u>		<u>32.30 %</u>

Source: City's Public Utility Billing System (PUBS).

**TABLE 7**

**CITY OF BEDFORD, VIRGINIA  
PROPERTY TAX LEVIES AND COLLECTIONS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended June 30</b>	<b>Taxes Levied for the Fiscal Year</b>	<b>Collected within the Fiscal Year of the Levy</b>		<b>Collections in Subsequent Years</b>	<b>Total Collections to Date</b>	
		<b>Amount</b>	<b>Percentage of Levy</b>		<b>Amount</b>	<b>Percentage of Levy</b>
2013	\$ 5,261,090	\$ 5,149,132	97.87 %	\$ -	5,149,132	97.87 %
2012	5,181,486	5,059,795	97.65	78,143	5,137,938	99.16
2011	5,095,003	5,051,869	99.15	43,134	5,095,003	100.00
2010	5,002,964	4,934,386	98.63	67,112	5,001,498	99.97
2009	4,723,553	4,665,545	98.77	50,572	4,716,117	99.84
2008	4,555,494	4,540,584	99.67	14,910	4,555,494	100.00
2007	4,416,965	4,251,913	96.26	55,856	4,307,769	97.53
2006	3,860,961	3,552,698	92.02	78,446	3,631,144	94.05
2005	3,664,491	3,445,326	94.02	66,309	3,511,635	95.83
2004	3,650,823	3,407,560	93.34	127,558	3,535,118	96.83

Source: Tax Records of the City.

**TABLE 8**

**CITY OF BEDFORD, VIRGINIA  
LEGAL DEBT MARGIN INFORMATION  
LAST TEN FISCAL YEARS**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Debt limit	\$ 43,668,430	\$ 43,530,538	\$ 43,465,850	\$ 41,468,630	\$ 41,225,930	\$ 40,615,340	\$ 40,289,520	\$ 32,757,867	\$ 32,374,542	\$ 32,154,124
Total net debt applicable to limit	<u>14,123,033</u>	<u>16,111,135</u>	<u>17,718,481</u>	<u>16,502,823</u>	<u>18,036,255</u>	<u>20,213,861</u>	<u>15,377,542</u>	<u>16,664,323</u>	<u>15,551,377</u>	<u>15,924,181</u>
Legal debt margin	<u>\$ 29,545,397</u>	<u>\$ 27,419,403</u>	<u>\$ 25,747,369</u>	<u>\$ 24,965,807</u>	<u>\$ 23,189,675</u>	<u>\$ 20,401,479</u>	<u>\$ 24,911,978</u>	<u>\$ 16,093,544</u>	<u>\$ 16,823,165</u>	<u>\$ 16,229,943</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>32.34%</u>	<u>37.01%</u>	<u>40.76%</u>	<u>39.80%</u>	<u>43.75%</u>	<u>49.77%</u>	<u>38.17%</u>	<u>50.87%</u>	<u>48.04%</u>	<u>49.52%</u>

**Legal Debt Margin Calculation for Fiscal Year 2013**

Assessed value	<u>\$ 436,684,300</u>
Debt limit (10% of assessed value)	\$ 43,668,430
Less debt applicable to limit:	
General obligation bonds	(13,598,033)
Other long-term obligations	<u>(525,000)</u>
Legal debt margin	<u>\$ 29,545,397</u>

**TABLE 9**

**CITY OF BEDFORD, VIRGINIA  
RATIOS OF OUTSTANDING DEBT BY TYPE  
LAST TEN FISCAL YEARS**

Fiscal Year	General Bonded Debt				Percentage of Actual Value of Taxable Property	Per Capita	Other Governmental Activities Debt		
	General Obligation Bonds	Redevelopment Bonds	Less: Amounts Restricted to Repaying Principal	Total General Bonded Debt			Notes Payable	Capital Leases	Other Debt
2013	\$ 1,570,080	\$ -	\$ -	\$ 1,570,080	0.30%	NA	\$ -	\$ -	\$ 525,000
2012	2,034,572	-	-	2,034,572	0.39%	329	-	-	600,000
2011	2,428,757	-	-	2,428,757	0.47%	393	-	-	675,000
2010	2,819,927	-	-	2,819,927	0.57%	448	-	184,882	750,000
2009	3,230,546	-	-	3,230,546	0.66%	509	-	363,292	825,000
2008	3,932,140	-	-	3,932,140	0.81%	623	-	674,209	900,000
2007	1,520,600	-	-	1,520,600	0.32%	242	-	715,927	975,000
2006	2,047,200	-	-	2,047,200	0.51%	328	-	576,479	1,050,000
2005	2,573,300	-	-	2,573,300	0.65%	414	-	184,473	1,200,000
2004	3,091,400	-	-	3,091,400	0.77%	492	-	231,391	1,200,000

Fiscal Year	Business-Type Activities				Total Primary Government	Per Capita <sup>(1)</sup>	Percentage of Personal Income <sup>(1)</sup>
	Revenue Bonds	General Obligation Bonds	Other Debt	Capital Leases			
2013	\$ 11,910,422	\$ 11,125,529	\$ 1,126,157	\$ -	\$ 26,257,188	NA	NA
2012	12,634,273	13,476,563	2,179,318	-	30,924,726	\$ 4,691	12.05%
2011	13,431,282	14,614,724	2,570,674	-	33,720,437	5,455	14.01%
2010	14,343,108	12,932,896	-	-	31,030,813	4,933	12.67%
2009	15,215,652	14,020,836	-	-	33,655,326	5,300	13.61%
2008	19,074,075	15,381,721	-	-	39,962,145	6,331	16.19%
2007	16,903,533	13,856,942	-	-	33,972,002	5,404	15.04%
2006	17,714,178	14,617,123	-	-	36,004,980	5,762	17.11%
2005	17,007,099	12,978,077	-	-	33,942,949	5,457	16.90%
2004	17,629,730	12,832,781	-	-	34,985,302	5,572	18.00%

NA – Not Available

(1) See Table 11 for population and per capita personal income information. For FY2012 - FY2009 amount for per capita personal income of \$38,937 was utilized to calculate the Percentage of Personal Income.

**TABLE 10**

**CITY OF BEDFORD, VIRGINIA  
PLEGDED REVENUE COVERAGE  
LAST TEN FISCAL YEARS**

<b>Fiscal Year</b>	<b>Gross Revenue</b>	<b>Less: Operating Expenses</b>	<b>Net Available Revenue</b>	<b>Debt Service</b>		<b>Coverage</b>
				<b>Principal</b>	<b>Interest</b>	
2013	\$ 26,562,494	\$ 23,046,101	\$ 3,516,393	\$ 723,851	\$ 578,499	2.70
2012	27,997,096	22,836,959	5,160,137	797,009	606,101	3.68
2011	28,312,657	25,441,311	2,871,346	911,826	633,082	1.86
2010	26,745,018	24,260,882	2,484,136	872,544	663,496	1.62
2009	29,223,857	24,644,159	4,579,698	858,423	689,452	2.96
2008	25,935,038	20,743,649	5,191,389	829,459	712,007	3.37
2007	24,656,608	20,913,218	3,743,390	810,645	733,527	2.42
2006	20,417,640	17,356,493	3,061,147	562,631	577,968	2.68
2005	17,296,354	11,799,137	5,497,217	622,631	901,065	3.61
2004	16,640,083	13,242,106	3,397,977	607,631	921,345	2.22

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

TABLE 11

**CITY OF BEDFORD, VIRGINIA  
DEMOGRAPHIC AND ECONOMIC STATISTICS  
LAST TEN FISCAL YEARS**

<b>Fiscal Year Ended (1)</b>	<b>Population (2)</b>	<b>Total Personal Income (3)</b>	<b>Per Capita Personal Income</b>	<b>Public School Enrollment</b>	<b>Unemployment Rate (4)</b>
2013	NA	NA	NA	NA	7.90 %
2012	6,593	NA	\$ 32,167	809	8.30
2011	6,181	\$ 2,911,097	33,040	784	8.10
2010	6,291	2,836,787	37,827	830	9.70
2009	6,350	2,772,227	38,937	827	6.90
2008	6,312	2,846,751	39,114	813	5.30
2007	6,286	2,618,524	35,934	888	4.10
2006	6,249	2,421,037	33,674	902	3.70
2005	6,220	2,304,368	32,282	914	4.40
2004	6,279	2,169,646	30,961	936	4.70

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

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

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

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

NA = Not Available

**TABLE 12**

**CITY OF BEDFORD, VIRGINIA  
PRINCIPAL EMPLOYERS  
CURRENT YEAR AND TEN YEARS AGO**

Employer	Fiscal Year 2013			Fiscal Year 2004		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Frank Chervan	NA		NA	163	4	3.57 %
Bedford Memorial Hospital	352	1	4.99 %	347	2	7.59
Bedford Public Schools	319	2	4.52	230	5	5.03
Sam Moore Furniture LLC	230	3	3.26	390	1	8.53
Cintas	130	4	1.84	138	9	3.02
Bedford Weaving Mills	109	5	1.55	175	6	3.83
Smyth Companies Bedford	106	6	1.50	122	8	2.67
Longwood Industries	82	7	1.66	100	7	2.19
Trident Seafood Inc (Brooks Foods/Golden West)	64	8	0.91	188	3	4.11
Elks National Home	52	9	0.74	82	10	1.79
Winoa (Wheeibrator)	41	10	0.58	NA		NA
	<u>1,485</u>		<u>21.55 %</u>	<u>1,935</u>		<u>42.33 %</u>

Source: HR Departments of Employers.

TABLE 13

**CITY OF BEDFORD, VIRGINIA  
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

<u>Function/Program</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General government										
Executive	2	2	2	2	2	2	2	2	2	2
Treasurer	2	2	1	1	1	1	1	1	1	1
Personnel	-	-	-	-	-	-	-	2	2	2
Finance	5	5	5	5	5	6	6	5	7	7
Information Technology	2	2	2	2	2	2	1	2	-	-
Planning	2	3	3	3	3	5	5	5	5	5
Schools	9	9	9	9	8	6	8	8	8	8
Police										
Officers	23	24	24	24	21	25	28	29	22	22
Civilians	3	3	5	3	2	3	3	3	2	2
Fire	1	1	1	1	1	1	1	1	1	1
Public works	20	19	20	18	21	15	18	20	20	21
Engineering	2	2	2	2	2	2	2	2	2	2
Parks and recreation	1	2	2	3	3	9	10	10	10	10
Solid waste	2	2	2	3	4	4	5	5	5	5
Water	6	6	6	6	6	6	6	6	6	6
Wastewater	10	10	11	11	11	11	11	11	11	11
Electric	*17	*14	*14	*13	*15	*18	19	19	20	20
<b>Total</b>	<b>107</b>	<b>106</b>	<b>109</b>	<b>106</b>	<b>107</b>	<b>116</b>	<b>126</b>	<b>131</b>	<b>124</b>	<b>125</b>

\*Jeff Weddle is included in the Electric number instead of Public Works

TABLE 14

**CITY OF BEDFORD, VIRGINIA  
OPERATING INDICATORS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

<u>Function/Program</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
General Government:										
Fleet:										
Pieces of equipment maintained	132	132	130	127	129	129	135	*	*	*
Public safety:										
Police:										
Physical arrests	964	1,137	902	943	1,116	1,129	1,124	1,269	1,116	926
Parking violations	1,093	1,128	1,937	1,235	1,381	1,359	2,432	2,601	989	1,434
Traffic violations	1,762	2,135	1,319	1,334	1,535	1,579	1,842	2,288	1,339	1,440
Fire:										
Emergency responses - per calendar year	741	NA	821	919	913	886	948	853	666	557
Public works:										
Refuse collection:										
Refuse collected (tons per day)	40	40	40	27	25	30	43	*	*	*
Recyclables collected (tons per day)	1	1.1	1.5	1.0	1.5	2	1	*	*	*
Other public works:										
Street resurfacing (miles)	6	6	4.2	3.6	1.8	-	5.3	*	*	*
Parks, recreation and cultural:										
Parks and recreation:										
Tournaments hosted	-	2	3	2	2	1	1	1	1	2
Electric:										
Number of customer accounts	6,531	6,519	6,499	7,091	6,986	6,937	6,919	6,340	6,444	6,214
Miles of distribution lines	353	353	353	353	352	350	350	350	350	350
Miles of transmission lines	29	29	29	29	29	28	28	28	28	28
Water:										
Number of customer accounts	3,328	3,306	3,289	3,583	3,509	3,466	3,468	3,215	3,189	3,122
Miles of distribution lines	65	65	65	65	65	65	65	65	63	63
Volume pumped (million gallons per day average)	1	0.9	1.0	1.0	1.2	1.2	1.2	1.2	1.1	1.1
Sewer:										
Number of customer accounts	2,698	2,679	2,664	2,929	2,856	2,836	2,842	2,568	2,590	2,530
Waste/Water treated (million gallons per day)	1	1.0	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.1

Source:

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

NA - Information not available at this time

**TABLE 15**

**CITY OF BEDFORD, VIRGINIA  
CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION/PROGRAM  
LAST TEN FISCAL YEARS**

<b><u>Function/Program</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>	<b><u>2004</u></b>
Public safety:										
Law enforcement vehicles	18	18	19	18	19	19	19	19	17	16
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works:										
Primary streets (lane miles)	24.11	24.11	24.11	24.11	24.11	24.11	24.11	24.11	24.11	23.35
Secondary streets (lane miles)	71.51	71.51	71.51	71.51	66.47	66.47	66.47	66.47	66.47	64.45
Streetlights	974	974	897	897	875	875	875	875	835	835
Parks, recreation and cultural:										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	12	12	12	12	12	12	12	12	12	12
Electric:										
Substations	10	10	10	10	11	11	11	11	11	11
Transformers	3,340	3,340	3,340	3,340	3,340	3,340	3,210	3,210	*	*
Water and sewage:										
Water treatment plants	1	1	1	1	1	1	1	1	1	1
Water mains (miles)	65	65	65	65	65	65	65	65	63	63
Storm sewers (miles)	5	5	5	5	5	5	5	5	5	5
Sanitary sewers (miles)	47	47	47	47	47	47	47	47	46	46

Source: Information was obtained from prior year audit reports.

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

# COMPLIANCE SECTION

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

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

We have audited, 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 the *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia (the “City”), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 18, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City’s internal control. Accordingly, we do not express an opinion on the effectiveness of City’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 07-1 and 12-2 that we consider to be material weaknesses.**

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. **The results of our tests disclosed no instance of noncompliance or other matters that is required to be reported under *Governmental Auditing Standards*.**

## City of Bedford, Virginia's Response to Findings

The City's responses to the findings identified in our audits are described in the accompanying schedule of findings and responses. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 18, 2013

**CITY OF BEDFORD, VIRGINIA**

**SUMMARY OF COMPLIANCE MATTERS  
June 30, 2013**

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the City's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

**STATE COMPLIANCE MATTERS**

Code of Virginia:

- Budget and Appropriation Laws
- Cash and Investment Laws
- Conflicts of Interest Act
- Local Retirement Systems
- Debt Provisions
- Procurement Laws
- Uniform Disposition of Unclaimed Property Act
- Highway Maintenance

**LOCAL COMPLIANCE MATTERS**

- City Charter
- City Code

**CITY OF BEDFORD, VIRGINIA**

**SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2013**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT**

**07-1: Segregation of Duties (Material Weakness)**

*Condition:*

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

*Recommendation:*

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

*Management's Response:*

Agree. Management agrees with the finding and recommendation regarding the need for ensuring compliance with separation of duties. Due to the City's size and funding limitations, the City does not anticipate adding any additional personnel at this time. However, management feels that there are ways to mitigate this issue by implementing a mechanism of effective internal controls with an adequate division of responsibilities to diminish the potential for error or misappropriation. The Finance Department in conjunction with the auditors will undertake a self-assessment to identify opportunities for improvement to ensure compliance with separate duties including but not limited to: authorizing, approving and recording transactions; issuing and receiving assets; making payments; and reviewing or auditing transactions.

**12-2: Audit Adjustments (Material Weakness)**

*Condition:*

We proposed several adjustments which were deemed, in our judgment, to be evidence of a material weakness in the City's internal control over the financial reporting. Such adjustments included the adjustment of inventory's year end balance, the due to/from Bedford County true-up, and amounts due to other governments.

*Recommendation:*

We recommend reconciliations of all significant assets and liability accounts especially at year end. The City should implement steps to improve its financial reporting process.

**CITY OF BEDFORD, VIRGINIA**

**SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2013**

**A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**12-2: Audit Adjustments (Material Weakness) (Continued)**

*Management's Response:*

Agree. Management agrees with the finding and recommendation regarding the need for reconciliations of all significant assets and liability accounts. The Finance Department will focus on working with the vendor of its Financial Management System to create a standardized protocol and reporting function for reconciliations of the aforementioned accounts.

**B. FINDINGS – COMMONWEALTH OF VIRGINIA**

**None.**