

TOWN OF BEDFORD, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2014

DEPARTMENT OF FINANCE AND ADMINISTRATION

TOWN OF BEDFORD, VIRGINIA



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TOWN OF BEDFORD, VIRGINIA
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INTRODUCTORY SECTION



Town of Bedford, Virginia

Office of the Town Manager

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

October 3, 2014

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 Town of Bedford for the fiscal year ended June 30, 2014. The Town of Bedford is the legal and statutory successor to the City of Bedford. This report 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 Town of Bedford, both of which require an annual independent audit and report of financial activity of the Town. 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 Town. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the Town. All disclosures necessary to enable the reader to gain an understanding of the Town's financial activities have been included.

The Reporting Entity and Services Provided

For financial reporting purposes, in accordance with the Governmental Accounting Standards Board (GASB) criteria, the Town of Bedford includes funds, agencies, boards, commissions and authorities that were controlled by or were financially dependent upon the Town within the reporting period. Control by or financial dependence was determined on the basis of obligation of the Town 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 provides an extensive range of services for its citizens including general administration, public safety, public works, planning, zoning, economic and community development, code enforcement, and cemetery management. The Town also provides and maintains electrical utilities, and handles solid waste disposal for the benefit of its citizens.

Organization of Government

The Town of Liberty was established in October 1782. In September 1968, the Town of Liberty adopted a city charter and became the City of Bedford. In April 2013, the City of Bedford reverted to the Town of Bedford and adopted its present Town Charter. The Town is organized under a Council-Manager form of government with a seven member Town Council as the governing body. The Town Council is popularly elected and the Mayor is selected by Town Council from its membership. Council is responsible for adopting an annual budget, passing ordinances, establishing policies, appointing committees, and appointing the Town Manager, Town Attorney and Town Clerk. The Town Manager is responsible for carrying out the policies and ordinances of the Town Council, for the day-to-day operations of the Town, and for appointing Town department heads.

Economic Condition and Outlook

The Town 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 Town is within the physical boundaries of Bedford County and serves as the County seat for administrative and judicial affairs. This strategic location between two urban centers and surrounded by Bedford County allows the Town 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, services, and retail trade. 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 2013/2014 the Town's unemployment rate decreased from 7.9% to 7.2%. This decrease can be attributed to a slight increase in employment by several companies. Town Council's commitment to economic development and diversification positioned the Town 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 Town of Bedford has enjoyed a relatively stable economic status as a result of several factors. The Town 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.

The Town and County have developed a 100-acre business park in the Town - The Bedford Center for Business, which provides the Town 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 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 Town 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 Town 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 Town/County joint participation and significant federal transportation funding.

Major Initiatives

In the coming year, several major initiatives are planned which will assist the Town Council, management and staff in preparing for the continued growth and prosperity of the Town. 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. However, maintaining financial stability with ever-challenging State mandates and reduced State funding of required services is perhaps the greatest short-term threat to the financial stability of the 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 Town 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 Town'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 Town of Bedford managed its financial affairs using Generally Accepted Accounting Principles (GAAP) and maintains its accounting records on a modified accrual basis. The Town's enterprise funds are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred. Additional information can be found in Note 1 of this report.

During the reporting period, Town management was responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Town are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits require estimates and judgments by management. In addition, the Town maintained budgetary controls during the reporting period. The controls in place ensure compliance with legal provisions embodied in the annual appropriated budget approved by Town Council. Additional information can be found in Note 1 of this report.

As demonstrated by the financial statements and supplemental schedules included in the financial section of this report, the Town 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 Town'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, Town Council adopted an Investment Policy that governs the specific criteria for all investments handled by the Town.

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

Other Information

Independent Audit. Virginia Law and the Charter of the Town of Bedford require that the financial statements of the Town 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 Town of Bedford for its comprehensive annual financial report for the fiscal year ended June 30, 2013. This was the fourteenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements. The preparation of this report is a very intensive project, and could not have been accomplished without the assistance and dedication of the Finance Department staff and other personnel from various departments, who assisted in the preparation. The Mayor and Town Council continue to be very supportive of our efforts to produce the best financial

The Honorable Mayor, Members of Town Council
And the Citizens of Bedford, Virginia
October 3, 2014
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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



Sonia Jammes
Director of Finance



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, 2013

Executive Director/CEO

TOWN OF BEDFORD, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2014

TOWN COUNCIL

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

C. G. Stanley
Willard D. “Skip” Tharp
Robert Carson

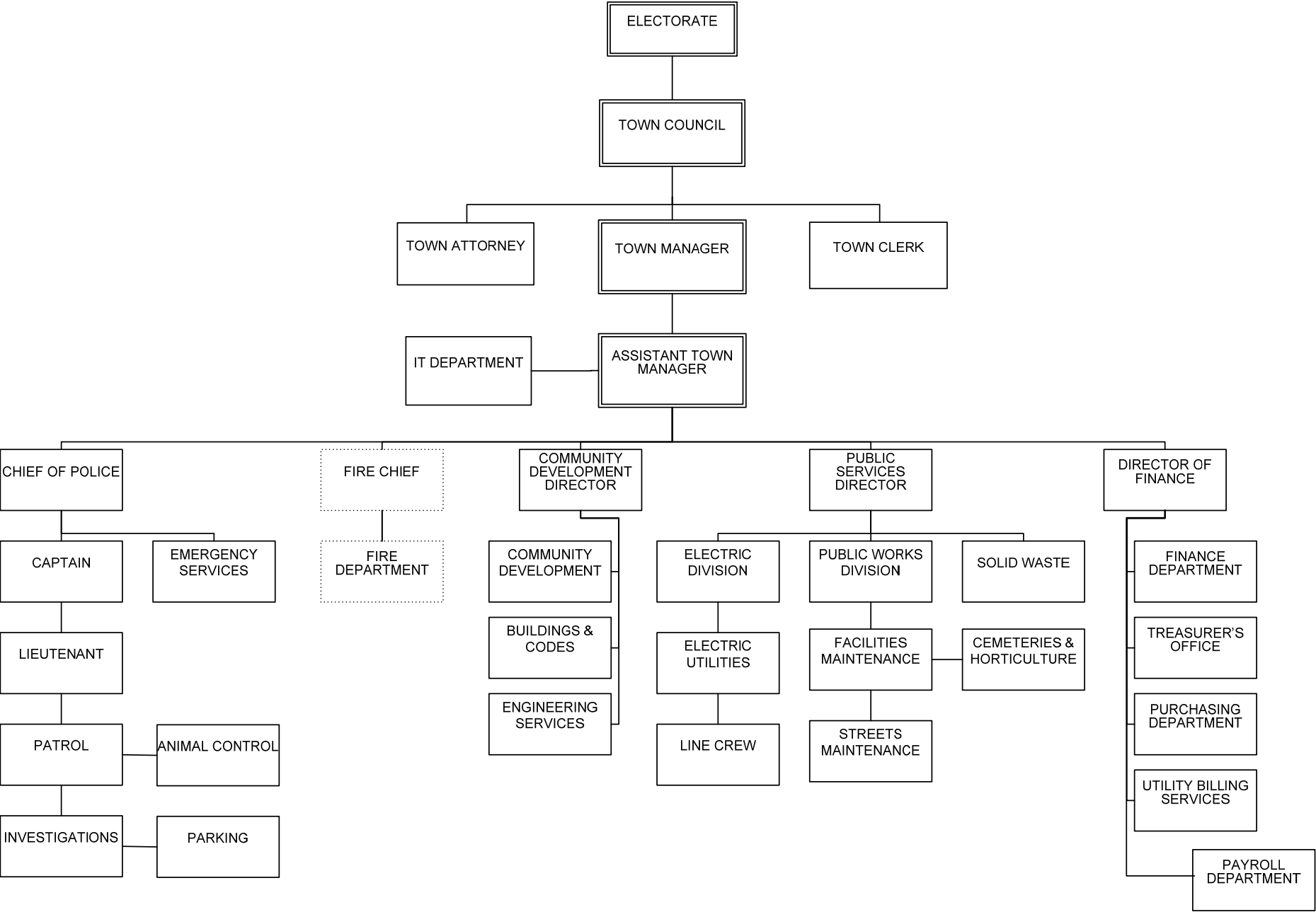
Stephen C. Rush
Stacey L. Hailey

OTHER OFFICIALS

Charles P. Kolakowski
Barrett F. Warner
Teresa W. Hatcher
William W. Berry, IV
Debbie A. Roberts
James E. Day
Brad Creasy
Sonia M. Jammes
N. Jeff Weddle

Town Manager
Assistant Town Manager
Town Clerk
Town Attorney
Town Treasurer
Chief of Police
Fire Chief
Director of Finance
Director of Public Services

TOWN OF BEDFORD ORGANIZATIONAL CHART



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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of Town Council
Town 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 Town of Bedford, Virginia (the "Town") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town'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; 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.

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

Report on the Financial Statements (Continued)

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 Town of Bedford, Virginia, as of June 30, 2014, 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.

Reversion

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

Change in Accounting Principle

As described in Note 20 to the financial statements, during 2014, the Town adopted new accounting guidance, *GASB Statement 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this 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 Town'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 October 3, 2014 on our consideration of the Town'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 Town's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 3, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Bedford, Virginia (the "Town"), we offer readers this narrative overview and analysis of the financial activities of the Town for the fiscal years ended June 30, 2014 and 2013. On July 1, 2013 the City of Bedford reverted to town status. We encourage readers to consider this when comparing 2014 and 2013 data. Additional information can be found in Note 19 of this report. Please consider the information presented here in conjunction with information that we have furnished in our letter of transmittal found on pages i through vi.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of current fiscal year by \$25,322,319 (net position). Of this amount, \$8,476,411 (unrestricted net position) may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's total net position decreased by \$16,237,314 which is primarily attributable to the closing of the Water and sewer fund per the Reversion Agreement.
- At the end of the current fiscal year, the Town's governmental fund reported an ending fund balance of \$6,134,259, an increase of \$1,286,243 in comparison with the prior year. Approximately 47% of this total amount, \$2,880,569 is available for spending at the Town's discretion (unassigned fund balance).
- The Town's total debt decreased by \$2,369,099 (8.7%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town'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 Town's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Town'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 Town is improving or deteriorating.

The statement of activities presents information showing how the Town'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 Town 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, and cultural and community development. The business-type activities are the solid waste and electric funds.

As noted earlier, the Town 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 Town, 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 Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Fund – The focus of the Town’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town’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 Town 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 Town 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, 2014, the Town’s governmental fund reported an ending fund balance of \$6,134,259, an increase of \$1,286,243 in comparison with the prior year. Of that amount, \$887,603 was nonspendable, \$2,173,623 was restricted, \$192,464 was assigned, and \$2,880,569 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 30.1% of total general fund expenditures, while total fund balance represents 64.2% 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 Town uses enterprise funds to account for its 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 Town’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 Town, assets exceeded liabilities by \$25,322,319 at the close of the most recent fiscal year.

A portion of the Town's net position (61.6%) 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 Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Town'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 (5.0%) represents funds received from the Commonwealth of Virginia for highway maintenance, nonexpendable cemetery perpetual care, other grant restrictions, and 2010 GO Bond restriction. The remaining balance of *unrestricted net assets* (33.5%) may be used to meet the government's ongoing obligations to citizens and creditors.

The Town's Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 14,432,814	\$ 5,246,428	\$ 12,914,260	\$ 15,706,028	\$ 27,347,074	\$ 20,952,456
Capital assets	13,467,229	14,843,880	16,976,503	40,494,498	30,443,732	55,338,378
Total assets	27,900,043	20,090,308	29,890,763	56,200,526	57,790,806	76,290,834
Deferred outflow of resources	-	-	792,849	-	792,849	-
Long-term liabilities	12,648,300	5,128,902	17,743,488	26,800,516	30,391,788	31,929,418
Other liabilities	826,065	690,921	2,043,483	2,182,052	2,869,548	2,872,973
Total liabilities	13,474,365	5,819,823	19,786,971	28,982,568	33,261,336	34,802,391
Net position						
Invested in capital assets, net of related debt	11,818,082	12,802,057	3,769,941	17,821,614	15,588,023	30,623,671
Restricted	1,257,885	893,641	-	806,525	1,257,885	1,700,166
Unrestricted	1,349,711	574,787	7,126,700	8,589,819	8,476,411	9,164,606
Total net position	\$ 14,425,678	\$ 14,270,485	\$ 10,896,641	\$ 27,217,958	\$ 25,322,319	\$ 41,488,443

At June 30, 2014, the Town is able to report positive balances in all categories of net position.

The Town's net position decreased by \$16,237,314 or (39.2%) during the current fiscal year. The key element of this change is a decrease of \$15,923,758 due to the disposal of operations in the water and sewer fund net assets per the Reversion Agreement. An additional element of this change \$2,138,673 of assets were transferred to Bedford County per the Reversion Agreement.

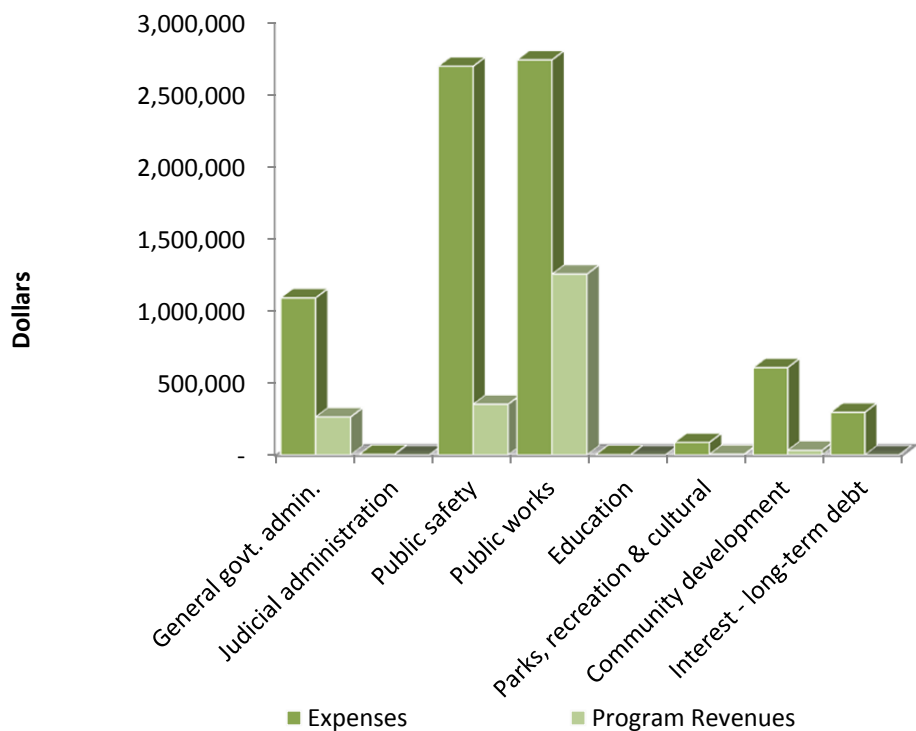
Governmental Activities – Governmental activities decreased the Town's net position by \$175,306. This decrease is less than the prior year decrease of \$1,182,834. For the most part, increases in revenues and expenses closely paralleled inflation and growth in the demand for services. No major exceptions were noted in the change in revenues or expenditures. However, there is one noteworthy exception in that the closing of the Water and sewer fund moved existing payments on debt service into the general fund per the Reversion Agreement to be reimbursed by the Bedford Regional Water Authority (BRWA).

Business-type Activities – Business-type activities decreased the Town's net position by \$16,062,008. The key element of this decrease was primarily attributable to the closing of the Water and sewer fund per the Reversion Agreement.

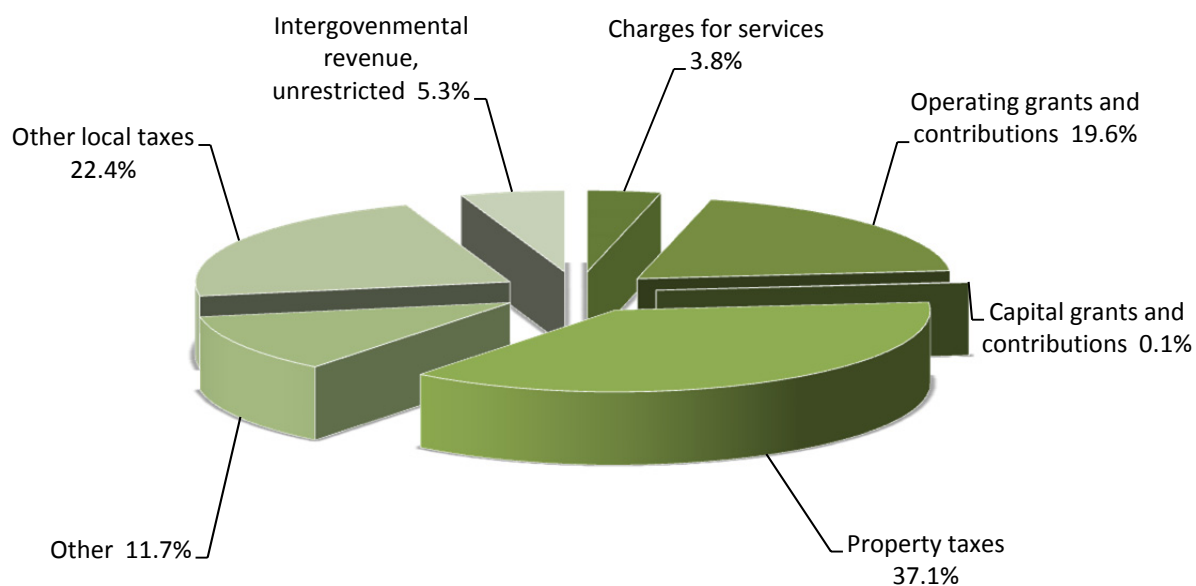
The Town's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program revenues						
Charges for services	\$ 330,309	\$ 355,988	\$ 23,066,453	\$ 25,751,980	\$ 23,396,762	\$ 26,107,968
Operating grants and contributions	1,713,909	5,840,890	-	410,416	1,713,909	6,251,306
Capital grants and contributions	5,753	32,474	-	61,303	5,753	93,777
General revenues						
Property taxes	3,246,201	5,001,731	-	-	3,246,201	5,001,731
Other taxes	1,960,295	2,587,235	-	-	1,960,295	2,587,235
Intergovernmental revenue unrestricted	467,240	741,161	-	-	467,240	741,161
Investment earnings	-	10,887	323,709	338,795	323,709	349,682
Other	191,492	88,641	-	-	191,492	88,641
County reversion payments	821,050	-	-	-	821,050	-
Gain from sale of capital assets	10,850	24,707	-	-	10,850	24,707
Total revenues	8,747,099	14,683,714	23,390,162	26,562,494	32,137,261	41,246,208
Expenses						
General government	1,087,365	1,486,378	-	-	1,087,365	1,486,378
Judicial administration	4,200	66,994	-	-	4,200	66,994
Public safety	2,690,606	3,328,885	-	-	2,690,606	3,328,885
Public works	2,734,693	3,510,226	-	-	2,734,693	3,510,226
Health and welfare	-	611,757	-	-	-	611,757
Education	2,048	6,555,278	-	-	2,048	6,555,278
Parks, recreation, and cultural	86,971	375,631	-	-	86,971	375,631
Community development	604,569	258,210	-	-	604,569	258,210
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	295,433	242,690	-	-	295,433	242,690
Water and sewer	-	-	-	3,514,595	-	3,514,595
Solid waste	-	-	1,041,820	881,231	1,041,820	881,231
Electric	-	-	21,764,439	19,952,285	21,764,439	19,952,285
Total expenses	7,505,885	16,436,049	22,806,259	24,348,111	30,312,144	40,784,160
Excess (deficiency) before transfers	1,241,214	(1,752,335)	583,903	2,214,383	1,825,117	462,048
Transfers	722,153	900,000	(722,153)	(900,000)	-	-
Disposal of operations	(2,138,673)	-	(15,923,758)	-	(18,062,431)	-
Change in net position	(175,306)	(852,335)	(16,062,008)	1,314,383	(16,237,314)	462,048
Net position – July 1 (as restated)	14,600,984	15,453,319	26,958,649	25,644,266	41,559,633	41,097,585
Net position – June 30	\$ 14,425,678	\$ 14,600,984	\$ 10,896,641	\$ 26,958,649	\$ 25,322,319	\$ 41,559,633

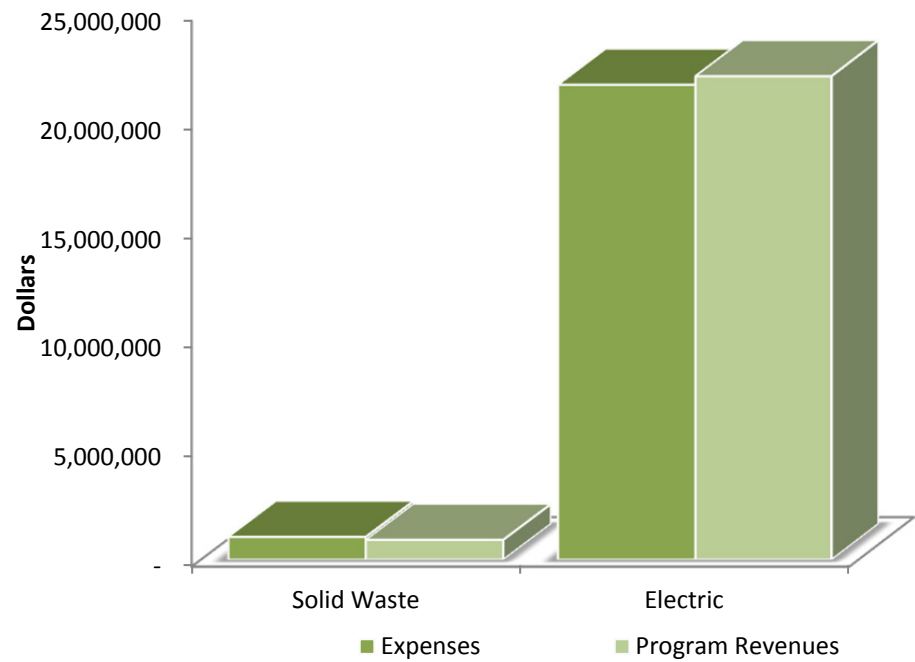
Expenses and Program Revenues – Governmental Activities



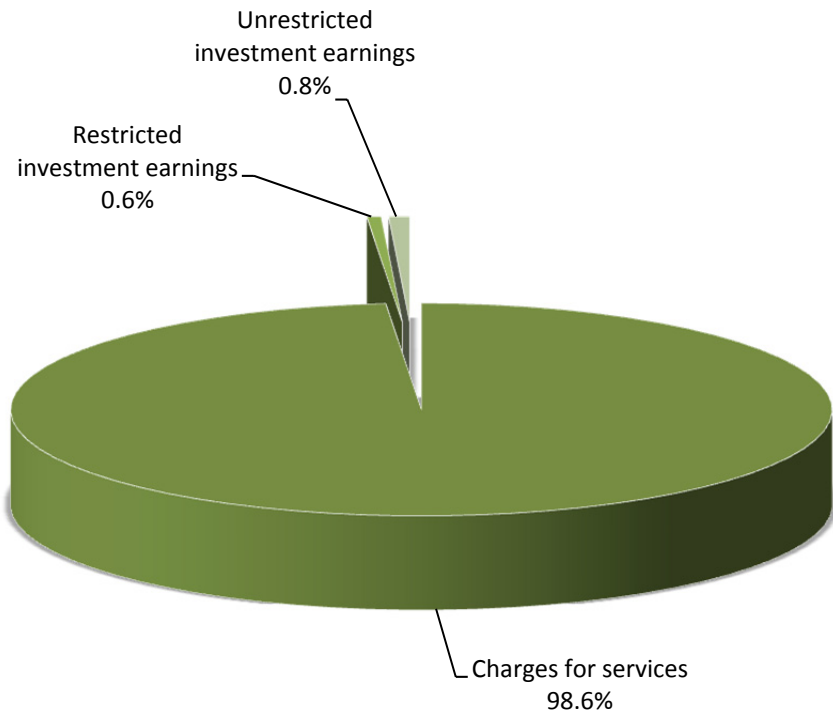
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

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

Governmental Fund – The focus of the Town's *governmental fund* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town'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 Town's governmental fund reported an ending fund balance of \$6,134,259, an increase of \$1,286,243 in comparison with the prior year. Approximately 47% of this total amount – that is, \$2,880,569 constitutes *unassigned fund balance*, which is available for spending at the Town's discretion. Approximately 3%, \$192,464, constitutes *assigned fund balance*, which the government intends to use for specific purposes. Approximately 35%, \$2,173,623, 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 30% of total general fund expenditures, while total fund balance represents 64% of that same amount.

The fund balance of the Town's general fund increased by \$1,286,243 during the current fiscal year. The primary factor contributing to this increase were decreases in various expenditure categories as a result of reversion from a City to a Town.

Proprietary Funds – The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the solid waste fund had a deficit of \$(1,506,803); and the unrestricted net assets for the electric fund amounted to \$8,633,503. The total decrease in net assets was \$16,062,008. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$1,911,582. Highlights include the following:

- \$205,978 was re-appropriated for economic development payments.
- \$591,150 was re-appropriated for Centertown improvement.
- \$348,726 was re-appropriated for paving and various highway maintenance projects.
- \$57,000 was re-appropriated for radios for the police and fire departments.
- \$43,842 was re-appropriated for police department grants.
- \$387,350 was re-appropriated for purchase orders that were carried over from the prior fiscal year.
- \$25,000 was re-appropriated for engineering projects.
- \$56,261 was re-appropriated for infrastructure.

Differences between the final amended budget and actual results amounted to \$2,501,875. Highlights are as follows:

- The budget for three Community Development projects, Economic Development Fund, Centertown Improvement Projects, and Enterprise Zone Maintenance was \$897,128. As of June 30, 2014, \$51,778 was expended which resulted in a positive variance of \$845,350. 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 new Utility Software for \$97,318. As of June 30, 2014, \$48,943 was expended which resulted in a positive variance of \$48,375. This funding will be carried over to fiscal year 2015 to pay for the second installment on the software system.
- The budget for various operating line items in Public Works was \$948,509. This included work on crosswalk improvements, Ole Turnpike Road, Macon Street Construction, and community improvements. As of June 30, 2014, only \$390,180 was expended, resulting in a positive variance of \$558,329. This lower expenditure is the result of several projects that the contractors were unable to complete and invoice by June 30, 2014.
- The budget for Economic Development projects totaled \$551,500. As of June 30, 2014, \$408,287 was expended, resulting in a positive variance of \$143,213. This variance is the result of funding that was not needed during the current fiscal year.
- The budget included funding for building improvements at the Bedford Middle School for \$60,000. Building improvements that were made in 2014 were offset by a return of savings from the 2003D refunding to localities.
- Various administrative and public safety operating lines were underspent resulting in a positive variance of \$406,461.

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2014, amounts to \$30,443,732 (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 45.0% (a 9.3% decrease for governmental activities and a 58.1% decrease for business-type activities).

The Town’s investment in capital assets as of June 30 amounts to \$30,443,732, as summarized below:

	The Town’s Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 1,877,702	\$ 2,211,447	\$ 710,517	\$ 968,017	\$ 2,588,219	\$ 3,179,464
Buildings and improvements	6,800,626	13,215,610	14,776,053	36,469,406	21,576,679	49,685,016
Distribution and transmission systems	-	-	16,241,760	34,341,502	16,241,760	34,341,502
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	8,916,763	8,225,267	3,787,190	3,767,158	12,703,953	11,992,425
Infrastructure	12,876,849	12,817,159	-	-	12,876,849	12,817,159
Construction in progress	-	31,799	-	40,461	-	72,260
Less accumulated depreciation	(17,004,711)	(21,657,402)	(21,854,962)	(38,407,991)	(38,859,673)	(60,065,393)
Total	\$ 13,467,229	\$ 14,843,880	\$ 16,976,503	\$ 40,494,498	\$ 30,443,732	\$ 55,338,378

Additional information on the Town’s capital assets can be found in Note 7 of this report.

Long-term Debt – At June 30, 2014, the Town had total debt outstanding of \$24,790,513. Of this amount, \$13,627,230 comprises debt backed by the full faith and credit of the government and \$11,163,283 is related to pledged revenue bonds.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 9,219,828	\$ 1,570,080	\$ 2,880,705	\$ 12,027,953	\$ 12,100,533	\$ 13,598,033
Literary fund loans	450,000	525,000	-	-	450,000	525,000
Revenue bonds	-	-	11,163,283	11,910,422	11,163,283	11,910,422
Obligations – AMP Partners bonds	-	-	1,076,697	1,126,157	1,076,697	1,126,157
Capital leases	-	-	-	-	-	-
Total	\$ 9,669,828	\$ 2,095,080	\$ 15,120,685	\$ 25,064,532	\$ 24,790,513	\$ 27,159,612

The Town's total debt decreased by \$2,369,099 or 8.7% during the current fiscal year due to regular debt payments.

The Town 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 Town's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Town is currently 7.2%, which is a decrease from the prior year's rate of 7.9%. This compares to the State's average rate of 5.6% and the national average rate of 6.1%.
- The occupancy rate of the Town'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 Town's budget for the 2015 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Town'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, Town of Bedford, 215 East Main Street, Bedford, Virginia 24523.

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BASIC FINANCIAL STATEMENTS

TOWN OF BEDFORD, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 4,660,316	\$ 5,216,987	\$ 9,877,303
Receivables, net (Note 3)	780,237	2,220,691	3,000,928
Internal balances (Note 4)	5,247	(5,247)	-
Due from other governmental units (Note 5)	85,331	-	85,331
Inventories	-	1,118,032	1,118,032
Cash and cash equivalents, restricted (Note 2)	2,011,274	2,003,082	4,014,356
BRWA debt service receivable (Note 6)	6,890,409	-	6,890,409
Net investment in direct financing lease (Note 16)	-	2,360,715	2,360,715
Capital assets: (Note 7)			
Nondepreciable	1,877,702	710,517	2,588,219
Depreciable, net	11,589,527	16,265,986	27,855,513
Total assets	27,900,043	29,890,763	57,790,806
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	792,849	792,849
LIABILITIES			
Accounts payable and accrued liabilities	663,673	1,467,464	2,131,137
Accrued payroll and related liabilities	84,355	43,528	127,883
Due to other governmental units (Note 5)	-	100,000	100,000
Accrued interest payable	78,037	77,606	155,643
Customer security deposits	-	354,885	354,885
Noncurrent liabilities: (Note 8)			
Due within one year	1,595,094	1,250,778	2,845,872
Due in more than one year	11,053,206	16,492,710	27,545,916
Total liabilities	13,474,365	19,786,971	33,261,336
NET POSITION			
Net investment in capital assets	11,818,082	3,769,941	15,588,023
Restricted for:			
Other grant	469,296	-	469,296
2010 GO Bond restriction	626,241	-	626,241
Highway maintenance projects	162,348	-	162,348
Unrestricted	1,349,711	7,126,700	8,476,411
Total net position	\$ 14,425,678	\$ 10,896,641	\$ 25,322,319

TOWN OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2014

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	\$ 1,087,365	\$ 238,114	\$ 25,162	\$ -	\$ (824,089)		\$ (824,089)
Judicial administration	4,200	-	-	-	(4,200)		(4,200)
Public safety	2,690,606	86,785	264,192	-	(2,339,629)		(2,339,629)
Public works	2,734,693	-	1,246,014	5,753	(1,482,926)		(1,482,926)
Education	2,048	-	-	-	(2,048)		(2,048)
Parks, recreation, and cultural	86,971	5,410	-	-	(81,561)		(81,561)
Community development	604,569	-	31,700	-	(572,869)		(572,869)
Interest on long-term debt	295,433	-	146,841	-	(148,592)		(148,592)
Total governmental activities	7,505,885	330,309	1,713,909	5,753	(5,455,914)		(5,455,914)
Business-type activities:							
Solid waste	1,041,820	903,966	-	-		\$ (137,854)	(137,854)
Electric	21,764,439	22,162,487	-	-		398,048	398,048
Total business-type activities	22,806,259	23,066,453	-	-		260,194	260,194
Total primary government	\$ 30,312,144	\$ 23,396,762	\$ 1,713,909	\$ 5,753	(5,455,914)	260,194	(5,195,720)
General revenues:							
Property taxes					3,246,201	-	3,246,201
Sales tax					181,660	-	181,660
Business license tax					223,802	-	223,802
Meals tax					1,080,127	-	1,080,127
Other local taxes					474,706	-	474,706
Intergovernmental revenue, unrestricted					467,240	-	467,240
Unrestricted investment earnings					-	192,897	192,897
Restricted investment earnings					-	130,812	130,812
Other					191,492	-	191,492
County reversion payments (Note 19)					821,050	-	821,050
Gain on sale of assets					10,850	-	10,850
Transfers (Note 4)					722,153	(722,153)	-
SPECIAL ITEMS:							
Disposal of operations (Note 19)					(2,138,673)	(15,923,758)	(18,062,431)
Total general revenues and transfers					5,280,608	(16,322,202)	(11,041,594)
Change in net position					(175,306)	(16,062,008)	(16,237,314)
NET POSITION AT JULY 1, as restated (Note 20)					14,600,984	26,958,649	41,559,633
NET POSITION AT JUNE 30					\$ 14,425,678	\$ 10,896,641	\$ 25,322,319

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

TOWN OF BEDFORD, VIRGINIA

BALANCE SHEET –
GOVERNMENTAL FUND

June 30, 2014

	<u>General</u>
ASSETS	
Cash and cash equivalents (Note 2)	\$ 4,660,316
Receivables, net (Note 3)	780,237
Due from other funds (Note 4)	5,247
Due from other governmental units (Note 5)	85,331
Cash and cash equivalents, restricted (Note 2)	<u>2,011,274</u>
Total assets	<u><u>\$ 7,542,405</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	
Liabilities:	
Accounts payable and accrued liabilities	\$ 663,673
Accrued payroll and related liabilities	<u>84,355</u>
Total liabilities	<u>748,028</u>
Deferred inflows of resources:	
Unavailable revenue (Note 3)	<u>660,118</u>
Total deferred inflows of resources	<u>660,118</u>
Fund balance: (Note 10)	
Nonspendable	887,603
Restricted	2,173,623
Assigned	192,464
Unassigned	<u>2,880,569</u>
Total fund balance	<u>6,134,259</u>
Total liabilities, deferred inflows of resources, and fund balance	<u><u>\$ 7,542,405</u></u>

TOWN OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2014**

Total Fund Balance – Governmental Fund \$ 6,134,259

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	\$ 1,877,702	
Depreciable capital assets, net	11,589,527	
		13,467,229

Premiums are reported as an other financing source in the governmental funds, but are amortized over the life of the debt and included as a component of interest expense in the Statement of Activities.

(21,938)

BRWA debt service receivable is not available to pay for current-period expenditures and, therefore, is not reported in the funds.

6,890,409

Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.

660,118

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.

General obligation bonds	(9,219,828)	
Literary fund loans	(450,000)	
Accrued interest payable	(78,037)	
Compensated absences	(194,534)	
Landfill postclosure liability	(2,762,000)	
		(12,704,399)

Total Net Position – Governmental Activities \$ 14,425,678

TOWN OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND
Year Ended June 30, 2014**

	<u>General</u>
REVENUES	
General property taxes	\$ 2,736,417
Other local taxes	1,960,295
Permits, privilege fees, and regulatory licenses	7,005
Fines and forfeitures	79,780
Charges for services	108,920
County reversion payments (Note 19)	821,050
Other	191,492
Intergovernmental	2,040,060
BRWA debt service payments (Note 6)	758,031
Recovered costs	134,604
Total revenues	<u>8,837,654</u>
EXPENDITURES	
Current:	
General government administration	1,057,256
Judicial administration	4,200
Public safety	3,081,246
Public works	3,300,643
Education	14,046
Parks, recreation, and cultural	90,672
Community development	484,855
Debt service:	
Principal retirement	1,273,225
Interest and fiscal charges	248,384
Total expenditures	<u>9,554,527</u>
Excess of expenditures over revenues	<u>(716,873)</u>
OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	10,850
Transfers in (Note 4)	1,992,266
Total other financing sources	<u>2,003,116</u>
Net change in fund balance	1,286,243
FUND BALANCE AT JULY 1, as restated (Note 20)	<u>4,848,016</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 6,134,259</u></u>

TOWN OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2014**

Net Change in Fund Balance – Governmental Fund \$ 1,286,243

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

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

Capital outlays	\$ 1,555,350	
Depreciation expense	(778,372)	
		776,978

The net effect of various transactions involving capital assets (sales, reduction in construction in progress) is to decrease net assets.		(31,799)
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Capital assets transferred to other governments due to reversion.

Transferred to Bedford County, net value	(2,132,737)	
Transferred to BRWA, net value	(5,936)	
		(2,138,673)

Items transferred in from Water/Sewer Fund

Long-term debt	(8,847,972)	
Bond issuance and premiums	59,419	
Capital assets, net	16,843	
BRWA debt service receivable	7,501,598	
		(1,270,112)

Governmental funds report debt service amounts received from BRWA as revenue, while this represents repayment of principle of the long-term receivable in governmental activities.		(611,190)
--	--	-----------

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		509,783
--	--	---------

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources 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	1,198,225	
Literary fund loans	75,000	
Landfill postclosure (net change)	103,000	
		1,376,225

(Continued)

TOWN OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

Year Ended June 30, 2014

Net Change in Fund Balance – Governmental Fund (Continued)

Governmental funds report the effect of discounts and premiums 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	\$ 7,312	
Interest expense	<u>(54,361)</u>	(47,049)

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.

(25,712)

Change in Net Position – Governmental Activities

\$ (175,306)

TOWN OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 2,595,780	\$ 2,595,780	\$ 2,736,417	\$ 140,637
Other local taxes	1,835,650	1,835,650	1,960,295	124,645
Permits, privilege fees, and regulatory licenses	9,950	9,950	7,005	(2,945)
Fines and forfeitures	80,900	80,900	79,780	(1,120)
Investment earnings	22,000	22,000	-	(22,000)
Charges for services	79,100	79,100	108,920	29,820
County reversion payments	750,000	750,000	821,050	71,050
Other	197,200	197,200	191,492	(5,708)
Intergovernmental	1,891,867	1,891,867	2,040,060	148,193
BRWA debt service payments	-	-	758,031	758,031
Recovered costs	133,616	133,616	134,604	988
Total revenues	7,596,063	7,596,063	8,837,654	1,241,591
EXPENDITURES				
Current:				
General government administration	1,254,492	1,274,295	1,057,256	217,039
Judicial administration	4,200	4,200	4,200	-
Public safety	3,150,651	3,270,668	3,081,246	189,422
Public works	3,248,137	4,227,778	3,300,643	927,135
Education	60,000	60,000	14,046	45,954
Parks, recreation, and cultural	61,492	73,839	90,672	(16,833)
Community development	618,390	1,398,164	484,855	913,309
Debt service:				
Principal retirement	445,935	445,935	1,273,225	(827,290)
Interest and fiscal charges	59,932	59,932	248,384	(188,452)
Total expenditures	8,903,229	10,814,811	9,554,527	1,260,284
Excess (deficiency) of revenue over expenditures	(1,307,166)	(3,218,748)	(716,873)	2,501,875
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	10,000	10,000	10,850	850
Transfers in	1,300,000	1,300,000	1,992,266	692,266
Total other financing sources	1,310,000	1,310,000	2,003,116	693,116
Net change in fund balance	\$ 2,834	\$ (1,908,748)	\$ 1,286,243	\$ 3,194,991

TOWN OF BEDFORD, VIRGINIA

STATEMENT OF NET POSITION –
PROPRIETARY FUNDS

June 30, 2014

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	\$ -	\$ 473,792	\$ 4,743,195	\$ 5,216,987
Receivables, net (Note 3)	-	130,257	2,090,434	2,220,691
Due from other funds (Note 4)	-	-	542,391	542,391
Inventories	-	-	1,118,032	1,118,032
Total current assets	-	604,049	8,494,052	9,098,101
Noncurrent assets:				
Cash and cash equivalents, restricted (Note 2)	-	1,127,439	875,643	2,003,082
Net investment in direct financing lease (Note 16)	-	-	2,360,715	2,360,715
Capital assets: (Note 7)				
Nondepreciable	-	506,831	203,686	710,517
Depreciable, net	-	788,809	15,477,177	16,265,986
Total noncurrent assets	-	2,423,079	18,917,221	21,340,300
Total assets	-	3,027,128	27,411,273	30,438,401
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on refunding	-	-	792,849	792,849
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	-	2,343	1,465,121	1,467,464
Accrued payroll and related liabilities	-	6,472	37,056	43,528
Due to other governmental units (Note 5)	-	100,000	-	100,000
Accrued interest payable	-	10,113	67,493	77,606
Due to other funds (Note 4)	-	547,638	-	547,638
Customer security deposits	-	-	354,885	354,885
Noncurrent liabilities due within one year (Note 8)	-	89,550	1,161,228	1,250,778
Total current liabilities	-	756,116	3,085,783	3,841,899
Noncurrent liabilities:				
Due in more than one year (Note 8)	-	3,254,146	13,238,564	16,492,710
Total liabilities	-	4,010,262	16,324,347	20,334,609
NET POSITION (DEFICIT)				
Net investment in capital assets	-	523,669	3,246,272	3,769,941
Unrestricted	-	(1,506,803)	8,633,503	7,126,700
Total net position (deficit)	\$ -	\$ (983,134)	\$ 11,879,775	\$ 10,896,641

TOWN OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION –
PROPRIETARY FUNDS
Year Ended June 30, 2014**

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ -	\$ 903,966	\$ 22,162,487	\$ 23,066,453
OPERATING EXPENSES				
Refuse collection	-	236,708	-	236,708
Refuse disposal	-	304,685	-	304,685
Region 2000 buyout	-	150,000	-	150,000
Recycling	-	53,595	-	53,595
Transmission and distribution	-	-	866,852	866,852
Power generation	-	-	143,601	143,601
Purchased power	-	-	17,783,359	17,783,359
Meter reading	-	-	44,028	44,028
Landfill closure and postclosure care	-	46,643	-	46,643
Administration	-	112,859	1,220,296	1,333,155
Maintenance and repair	-	-	283,035	283,035
Depreciation	-	110,423	684,992	795,415
Total operating expenses	-	1,014,913	21,026,163	22,041,076
Operating income (loss)	-	(110,947)	1,136,324	1,025,377
NONOPERATING REVENUES (EXPENSES)				
Interest income	-	3,754	320,606	324,360
Interest expense	-	(26,907)	(738,276)	(765,183)
Other income (expense)	-	(1,103)	452	(651)
Net nonoperating expenses	-	(24,256)	(417,218)	(441,474)
Income (loss) before contributions and transfers	-	(135,203)	719,106	583,903
TRANSFERS IN (Note 4)	1,611,448	-	-	1,611,448
TRANSFERS OUT (Note 4)	(322,153)	-	(2,011,448)	(2,333,601)
SPECIAL ITEM: Disposal of operations (Note 19)	(15,923,758)	-	-	(15,923,758)
Change in net position	(14,634,463)	(135,203)	(1,292,342)	(16,062,008)
NET POSITION AT JULY 1, as restated (Note 20)	14,634,463	(847,931)	13,172,117	26,958,649
NET POSITION AT JUNE 30	\$ -	\$ (983,134)	\$ 11,879,775	\$ 10,896,641

TOWN OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year Ended June 30, 2014

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ -	\$ 914,661	\$ 22,042,814	\$ 22,957,475
Customer deposits paid to BRWA	(74,770)	-	-	(74,770)
Payments to suppliers	(60,192)	(482,048)	(18,784,301)	(19,326,541)
Payments to employees	-	(289,956)	(1,610,189)	(1,900,145)
Net cash provided by operating activities	(134,962)	142,657	1,648,324	1,656,019
NONCAPITAL FINANCING ACTIVITIES				
Interfund borrowing	-	(30,077)	30,077	-
Transfers to other funds	(1,592,266)	-	(400,000)	(1,992,266)
Net cash used in noncapital financing activities	(1,592,266)	(30,077)	(369,923)	(1,992,266)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from sale of capital assets	-	-	40,462	40,462
Purchases of capital assets	-	(10,102)	(363,907)	(374,009)
Principal paid on capital debt	-	(77,123)	(974,292)	(1,051,415)
Interest paid on capital debt	-	(25,354)	(634,866)	(660,220)
Net cash used in capital and related financing activities	-	(112,579)	(1,932,603)	(2,045,182)
INVESTING ACTIVITIES				
Interest received	-	3,754	321,056	324,810
Net cash provided by investing activities	-	3,754	321,056	324,810
Net increase (decrease) in cash and cash equivalents	(1,727,228)	3,755	(333,146)	(2,056,619)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	1,727,228	1,597,476	5,951,984	9,276,688
Ending at June 30	\$ -	\$ 1,601,231	\$ 5,618,838	\$ 7,220,069
RECONCILIATION TO EXHIBIT 8				
Cash and cash equivalents	\$ -	\$ 473,792	\$ 4,743,195	\$ 5,216,987
Cash and cash equivalents, restricted	-	1,127,439	875,643	2,003,082
	\$ -	\$ 1,601,231	\$ 5,618,838	\$ 7,220,069

(Continued)

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

TOWN OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2014

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ -	\$ (110,947)	\$ 1,136,324	\$ 1,025,377
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	-	110,423	684,992	795,415
Landfill closure and postclosure care	-	46,643	-	46,643
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	-	10,695	(129,316)	(118,621)
Inventories	-	-	(17,043)	(17,043)
(Decrease) increase in:				
Accounts payable and accrued liabilities	(60,192)	90,000	(50,478)	(20,670)
Accrued payroll and related liabilities	-	(4,157)	(4,641)	(8,798)
Customer security deposits	(74,770)	-	9,643	(65,127)
Compensated absences	-	-	18,843	18,843
Net cash provided by operating activities	<u>\$ (134,962)</u>	<u>\$ 142,657</u>	<u>\$ 1,648,324</u>	<u>\$ 1,656,019</u>

NONCASH FINANCING ACTIVITIES:

Due from the Water and Sewer Fund of \$1,611,448 was forgiven by the Electric Fund on July 1, 2013.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The Town of Bedford, Virginia (the “Town”) was originally incorporated as a city in 1968. Effective July 1, 2013, the City reverted to town status, as more fully described in Note 19. The Town operates a Council-Manager form of government and provides municipal services to its residents. The financial statements of the reporting entity include only those of the Town (the primary government). The Town has no component units.

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

Region 2000 Services Authority

During 2008, the Town, in conjunction with the Counties of Campbell, Nelson, and Appomattox, and the City of Lynchburg, created the Region 2000 Services Authority (the “Authority”). In 2013, the Town requested their agreement with the Authority be terminated as the Town now has full access to Bedford County’s landfill. The Authority agreed to release the Town, but the Town is required to pay \$50,000 each year for the next three years, to cover its portion of closure and post-closure costs. The first \$50,000 was paid prior to June 30, 2014. The remaining \$100,000 is recorded in the solid waste fund’s due to other governmental units.

Related Organizations:

Town of Bedford Redevelopment and Housing Authority

Under the *Code of Virginia*, the Commonwealth of Virginia created in each town and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. In 1970, Town Council activated the Town 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 Town Council; however, the Town is not financially accountable for the Authority.

Industrial Development Authority of the Town of Bedford

In 1970 Town Council created the Industrial Development Authority of the Town of Bedford (the “IDA”). The IDA was established to promote industry and develop trade within the Town. The IDA is governed by a board of seven directors appointed by Town Council; however, the Town is not financially accountable for the IDA.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Related Organizations: (Continued)

Other Boards and Commissions

Town 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 Town is not financially accountable for these organizations.

Joint Ventures:

Joint Economic Development Authority

The Town, in conjunction with the County, created a Joint Economic Development Authority (the "Joint EDA"), which was composed of a seven-member board of directors appointed by the participating localities. The reversion agreement (Note 19) eliminated the Joint EDA and on June 30, 2014 all assets were transferred to the Bedford County EDA.

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*.

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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town 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 Town, are recognized as revenues and receivables when measurable and available.

The Town reports the following major governmental fund:

The *general fund* is the Town'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 Town reports the following major proprietary funds:

The *water and sewer fund* accounts for water and sewer operations. This fund closed on July 1, 2013 due to the reversion to Town status; see Note 19 for more information.

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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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 Town Manager submits to Town 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 Town 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 Town Council. Town Council approved additional appropriations of approximately \$1,912,000 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 Town funds, except for carry-forward requests approved by Council.

E. Cash and Cash Equivalents

The Town 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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

G. Allowance for Uncollectible Accounts

The Town 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 Town 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 Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

J. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The government has two types of items. One item occurs only under a modified accrual basis of accounting. The item, *unavailable revenue*, is reported only in the governmental fund's balance sheet. The governmental fund reports unavailable revenue from property taxes and other receivables not collected within 45 days of year end and property taxes levied to fund future years.

K. Compensated Absences

Town employees accumulate vacation time depending upon their length of service. Outstanding vacation time up to 30 days is payable upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts is reported in the governmental fund only when the amounts are due and payable. Management believes long-term portion of compensated absences is 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 are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Issuance costs are recognized during the period. 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 is classified as 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. Net investment in capital assets represents capital assets net of debt related to it.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

M. Net Position/Fund Balance (Continued)

Fund balance is divided into five classifications based primarily on the extent to which the Town 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.
- **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 – Town Council. Formal Council action includes the annual adoption of the Town’s Budget Ordinance/Resolution, Council Resolutions appropriating funds and/or resources, budget amendments appropriating funds, and budget amendments to carry forward appropriations that were unexpended at fiscal year end.
- **Assigned** – Amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Fund Balance may be assigned either through the encumbrance process as a result of normal purchasing activity (which includes the issuance of a purchase order), or by the Town Manager or his designee.
- **Unassigned** – Amounts that are available for any purpose.

N. Restricted Amounts

The Town 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

The governmental fund does 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 the fund and as recommended by officials and approved by Council.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (Continued)

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 \$192,464 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.

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 Town 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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

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

Concentration of Credit Risk:

Although the intent of the Policy is for the Town 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 Town 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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk: (Continued)

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 & Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity*</u>
LGIP	\$ 8,105	AAAm	0.25%	-
SNAP	2,392,284	AAAm	72.57	-
Federated Treasury Obligations Fund	171,388	AAAm	5.20	0.06
Scott & Stringfellow Money Market Trust	8,212	AAAm	0.25	0.08
Government National Mortgage Association	716,312	AAA	21.73	0.55
	<u>\$ 3,296,301</u>		<u>100.00%</u>	

*Weighted average maturity in years

Custodial Credit Risk:

The Policy requires that all investment securities purchased by the Town 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 Town's name.

Deposits and investments consist of the following:

Deposits	\$ 10,595,358
Investments	<u>3,296,301</u>
Total deposits and investments	<u>\$ 13,891,659</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 9,877,303
Cash and cash equivalents, restricted	<u>4,014,356</u>
Total deposits and investments	<u>\$ 13,891,659</u>

(Continued)

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk: (Continued)

Restricted cash consists of the following:

	Governmental Activities	Business-Type Activities	Total
Unspent bond proceeds	\$ 869,240	\$ 94,106	\$ 963,346
Maintained as a condition of certain bond instruments	46,497	1,554,090	1,600,587
Utility deposits	-	354,886	354,886
Amounts to be applied to 2010 GO Bond	626,241	-	626,241
Grant restrictions	469,296	-	469,296
	<u>\$ 2,011,274</u>	<u>\$ 2,003,082</u>	<u>\$ 4,014,356</u>

Note 3. Receivables

Receivables for the individual major funds are as follows:

	General	Solid Waste	Electric	Total
Receivables				
Taxes	\$ 725,530	\$ -	\$ -	\$ 725,530
Other	-	-	7,532	7,532
Accounts	102,370	181,259	2,408,521	2,692,150
	<u>827,900</u>	<u>181,259</u>	<u>2,416,053</u>	<u>3,425,212</u>
Gross receivables				
Less: allowance for uncollectibles	(47,663)	(51,002)	(325,619)	(424,284)
	<u>(47,663)</u>	<u>(51,002)</u>	<u>(325,619)</u>	<u>(424,284)</u>
Net receivables	<u>\$ 780,237</u>	<u>\$ 130,257</u>	<u>\$ 2,090,434</u>	<u>\$ 3,000,928</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At June 30, *unavailable revenue* related to taxes receivable was \$660,118.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Interfund Receivables, Payables, and Transfers

Amounts due from/to other funds are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Solid Waste	\$ 542,391
General	Solid Waste	<u>5,247</u>
		<u>\$ 547,638</u>

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

Interfund transfers were as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
Electric	General	<u>\$ 400,000</u>
Electric	Water and Sewer	<u>\$ 1,611,448</u>
Water and Sewer	General	<u>\$ 1,592,266</u>

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

The primary purpose of the electric transfer to the water and sewer fund was to forgive amounts owed by the water and sewer fund that could not be repaid due to fund closure (Note 19).

The primary purpose of the water and sewer transfer to the general fund was a result of the closure of the water and sewer fund.

Items transferred from the water and sewer fund that are long-term in nature and therefore not reported in the general fund consist of:

Long-term debt	\$ (8,847,972)
Bond issuance costs and premiums	59,419
Capital assets	16,843
BRWA debt service receivable	<u>7,501,598</u>
	<u>\$ (1,270,112)</u>

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

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

Amounts due from/(to) other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County		
Local sales tax	\$ 47,755	\$ -
Region 2000	-	(100,000)
State of Virginia		
Communications tax	23,680	-
Other	13,896	-
	<u>\$ 85,331</u>	<u>\$ (100,000)</u>

Note 6. BRWA Debt Service Receivable

On July 1, 2014, the water and sewer fund was closed. Certain assets were transferred to the newly created Bedford Regional Water Authority ("BRWA"). In consideration, BRWA agreed to pay debt service on certain General Obligation Bonds of the Town. The receivable is due as follows:

<u>Year Ended</u>	<u>Governmental Activities</u>	
	<u>Debt Service Receivable</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 618,759	\$ 136,913
2016	626,520	126,791
2017	634,480	116,472
2018	642,643	105,950
2019	651,014	95,218
2020-2024	2,499,993	355,770
2025-2026	1,217,000	54,103
	<u>\$ 6,890,409</u>	<u>\$ 991,217</u>

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 2,211,447	\$ -	\$ 333,745	\$ 1,877,702
Construction in progress	31,799	-	31,799	-
Total capital assets, not depreciated	2,243,246	-	365,544	1,877,702
Capital assets, depreciated				
Buildings and improvements	13,215,610	322,721	6,737,705	6,800,626
Machinery and equipment	8,225,267	1,193,686	502,190	8,916,763
Infrastructure	12,817,159	59,690	-	12,876,849
Total capital assets, depreciated	34,258,036	1,576,097	7,239,895	28,594,238
Less accumulated depreciation	(21,657,402)	(782,276)	(5,434,967)	(17,004,711)
Total capital assets, depreciated, net	12,600,634	793,821	1,804,928	11,589,527
Governmental activities capital assets, net	<u>\$ 14,843,880</u>	<u>\$ 793,821</u>	<u>\$ 2,170,472</u>	<u>\$ 13,467,229</u>

Upon reversion certain water and sewer fund assets were transferred to governmental activities. These assets had a cost of \$20,747, accumulated depreciation of \$3,904 and a net book value of \$16,843.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 7. Capital Assets (Continued)

Business-Type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 968,017	\$ -	\$ 257,500	\$ 710,517
Construction in progress	40,461	-	40,461	-
Total capital assets, not depreciated	1,008,478	-	297,961	710,517
Capital assets, depreciated				
Buildings and improvements	36,469,406	-	21,693,353	14,776,053
Machinery and equipment	3,767,158	333,548	313,516	3,787,190
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	34,341,502	40,461	18,140,203	16,241,760
Total capital assets, depreciated	77,894,011	374,009	40,147,072	38,120,948
Less accumulated depreciation	(38,407,991)	(795,415)	(17,348,444)	(21,854,962)
Total capital assets, depreciated, net	39,486,020	(421,406)	22,798,628	16,265,986
Business-type activities capital assets, net	<u>\$ 40,494,498</u>	<u>\$ (421,406)</u>	<u>\$ 23,096,589</u>	<u>\$ 16,976,503</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 134,813
Public safety	314,307
Public works	209,538
Community development	119,714
	<u>\$ 778,372</u>
Business-type activities	
Solid waste	\$ 110,423
Electric	684,992
	<u>\$ 795,415</u>

(Continued)

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General obligation bonds	\$ 1,570,080	\$ 8,847,972	\$ 1,198,224	\$ 9,219,828	\$ 1,049,360
Literary fund loans	525,000	-	75,000	450,000	75,000
Adjust for deferred amounts:					
Issuance premiums	29,250	-	7,312	21,938	-
Compensated absences	168,822	194,534	168,822	194,534	194,534
Landfill liability:					
Closed landfill	2,865,000	-	103,000	2,762,000	276,200
Governmental activities long-term liabilities	<u>\$ 5,158,152</u>	<u>\$ 9,042,506</u>	<u>\$ 1,552,358</u>	<u>\$ 12,648,300</u>	<u>\$ 1,595,094</u>
Business-Type Activities					
General obligation bonds	\$ 12,027,953	\$ -	\$ 9,147,248	\$ 2,880,705	\$ 309,558
Revenue bonds	11,910,422	-	747,139	11,163,283	775,564
Adjust for deferred amounts:					
Issuance discounts	(48,856)	-	(4,279)	(44,577)	-
Obligations payable – AMP	1,126,157	-	49,460	1,076,697	60,000
Compensated absences	123,408	105,656	123,408	105,656	105,656
Landfill liability:					
Active landfill	2,515,000	46,724	-	2,561,724	-
Business-type activities long-term liabilities	<u>\$ 27,654,084</u>	<u>\$ 152,380</u>	<u>\$ 10,062,976</u>	<u>\$ 17,743,488</u>	<u>\$ 1,250,778</u>

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

As a result of the water and sewer fund closure \$8,847,972 of general obligation bonds were transferred to governmental activities.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. 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				General Obligation				Obligations Payable – AMP
	Bonds		Other Long-Term Debt		Bonds		Revenue Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2015	\$ 1,049,360	\$ 222,827	\$ 75,000	\$ 13,500	\$ 309,558	\$ 99,217	\$ 775,564	\$ 519,193	\$ 60,000
2016	934,618	197,711	75,000	11,250	261,715	88,726	814,133	481,401	60,000
2017	952,760	175,066	75,000	9,000	270,865	79,620	852,849	446,242	60,000
2018	786,308	155,941	75,000	6,750	280,285	70,195	886,721	409,079	60,000
2019	800,275	139,614	75,000	4,500	289,986	60,440	930,754	369,544	60,000
2020-2024	3,258,146	485,853	75,000	2,250	1,333,403	143,545	5,330,410	1,160,046	280,929
2025-2029	1,438,361	67,409	-	-	134,893	6,433	1,572,852	94,670	495,768
	<u>\$ 9,219,828</u>	<u>\$ 1,444,421</u>	<u>\$ 450,000</u>	<u>\$ 47,250</u>	<u>\$ 2,880,705</u>	<u>\$ 548,176</u>	<u>\$ 11,163,283</u>	<u>\$ 3,480,175</u>	<u>\$ 1,076,697</u>

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
<u>General Obligation Bonds:</u>						
Virginia Resources Authority:						
Taxable water and sewer	2.5%	06/1998	2019	\$ 5,225,000	\$ 1,736,896	\$ -
Water and sewer refunding	3.2-3.5	06/2010	2017	1,015,000	525,000	-
Virginia Revolving Loan Fund:						
Water and sewer	0.0	04/2002	2022	2,866,300	1,218,177	-
Water and sewer	0.0	09/2001	2022	1,800,000	720,000	-
Public improvement	2.8-3.6	04/2008	2023	5,472,438	811,552	2,134,908
Public improvement	2.9	03/2011	2026	5,485,000	4,208,203	745,797
					<u>\$ 9,219,828</u>	<u>\$ 2,880,705</u>

Revenue Bonds:

Virginia Resources Authority:						
Electric system refunding	3.0-4.1%	08/2005	2025	\$ 12,560,000	\$ -	\$ 8,115,000
Taxable lease	7.8	06/1996	2026	2,630,000	-	1,750,000
Electric system	3.8-4.1	11//2005	2026	2,064,710	-	1,298,283
					<u>\$ -</u>	<u>\$ 11,163,283</u>

Other Long-Term Debt:

Literary fund loans	3.0%	01/1998	2019	\$ 1,500,000	<u>\$ 450,000</u>	<u>\$ -</u>
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Obligations Payable – AMP:

Generating station contract	N/A	N/A	2029	\$ 1,081,697	<u>\$ -</u>	<u>\$ 1,076,697</u>
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(Continued)

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 8. Long-Term Liabilities (Continued)

Obligations Payable – AMP

Generating Station Contract:

During 2008, the Town entered into a take or pay power sales contract with American Municipal Power (AMP) whereby it agreed to participate in the guaranteed purchase of electric generation capacity from a coal-fired generating facility. The participants authorized AMP to acquire ownership interest in the project, and the Town agreed to purchase 1.25% of the power generated under that ownership interest. The project was cancelled, which resulted in stranded costs that are owed by each participant. The Town elected to participate in a new project, the AMP Fremont Energy Center (AFEC) natural gas combined cycle project, which reduced the estimated stranded costs to \$1,081,697, due to certain development costs being transferred to the AFEC project. The ultimate outcome that will be paid by the Town is unclear; ongoing litigation related to the failure of the project could reduce the Town's liability, if successful. However, the Town's share of the litigation costs will be added to this liability as they are incurred. Also, AMP's management believes that approximately \$425,000 of the stranded costs (related to undeveloped land and permitting costs) are likely to have future benefit to the participants, and if so, would reduce the amount owed by the Town. In June 2014 the Town elected to begin repaying the estimated total stranded costs over a 15 year period. The obligation bears interest based upon AMP's own borrowing costs, which is currently unknown.

Note 9. Landfill Closure and Postclosure Care Costs

Closed Landfill

The Town closed its former landfill site in 1994. In accordance with federal and state laws, the Town 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 \$2,762,000. 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 Town. 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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 9. Landfill Closure and Postclosure Care Costs (Continued)

Open Landfill

This landfill site began accepting waste in 1994. State and federal laws require the Town 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 Town reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used. The \$2,561,724 reported as landfill closure and postclosure liability as of June 30 represents the cumulative amount reported to date based on use of approximately 93.50% of estimated capacity. The remaining estimated cost of closure and post closure care of \$178,000 will be recognized as remaining capacity is filled. The Town is shipping most waste, except construction debris, to Bedford County's landfill and the Town 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 Town uses the financial assurance test method of demonstrating its ability to fund closure and postclosure care cost.

Note 10. Net Position/Fund Equity

General fund balance is classified below based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources:

Nonspendable:	
Cemetery perpetual care	\$ 887,603
Restricted for:	
General governmental administration (grant funding)	387,395
Public works (grant funding)	162,348
Public safety (grant funding)	19,680
Community development (grant funding)	62,222
2010 GO Bond	626,241
Debt service reserves	915,737
	<u>2,173,623</u>
Assigned to:	
General governmental administration (encumbrances)	1,355
Public safety (encumbrances)	3,139
Public works (encumbrances)	77,518
Community development (encumbrances)	98,885
Other capital projects (encumbrances)	11,567
	<u>192,464</u>
Unassigned	<u>2,880,569</u>
Total fund balance	<u><u>\$ 6,134,259</u></u>

(Continued)

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Net Position/Fund Equity (Continued)

Deficit Net Position

At June 30, the solid waste fund had a deficit net position of \$(983,134), which is anticipated to be recovered through future revenues, as well as possible transfers from the general and/or electric funds.

Note 11. Defined Benefit Pension Plan

As discussed in Note 19, on July 1, 2013 the water and sewer operations of the Town were closed and transferred to the Bedford Regional Water Authority. The Authority was chartered on December 18, 2012, but did not begin operations until July 1, 2013 and included combining the employees of the Bedford County Public Service Authority and the water and sewer operations of the Town of Bedford. Due to the timing of the creation of the Authority, a separate study for the Authority will not be available until fiscal year 2015. The following information, as well as the schedule of funding progress following the footnotes to the financial statements, includes the pension information of the employees of the Town's water and sewer operations. Studies provided in future years will exclude the water and sewer employees.

Plan Description

The Town 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 public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out below:

VRS PLAN 1

About VRS Plan 1 – VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

Hybrid Opt-In Election – VRS non-hazardous duty covered plan members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Retirement Contributions – Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service – Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Vesting – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

Calculating the Benefit – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

Normal Retirement Age – Age 65.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

VRS PLAN 1 (Continued)

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS PLAN 2

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Average Final Compensation – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.

Normal Retirement Age – Normal Social Security retirement age.

Earliest Unreduced Retirement Eligibility – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Earliest Reduced Retirement Eligibility – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Cost-of-Living Adjustment (COLA) in Retirement – The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Disability Coverage – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

About the Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window.

- The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Eligible Members – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- School division employees
- Political subdivision employees*
- Judges appointed or elected to an original term on or after January 1, 2014
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS)
- Members of the Virginia Law Officers' Retirement System (VaLORS)
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Retirement Contributions – A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting

Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Calculating the Benefit

Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

Average Final Compensation – Same as VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier – The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Normal Retirement Age

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component: Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component: Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

HYBRID RETIREMENT PLAN (Continued)

Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component: Same as VRS Plan 2.

Defined Contribution Component: Not applicable.

Disability Coverage – Eligible political subdivision and school division (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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 website at <http://www.varetire.org/Pdf/Publications/2013-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 Town 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, 2014 was 16.74% of the annual covered payroll.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For the fiscal year ended June 30, 2014, the Town annual pension cost of \$698,766 for VRS was equal to the required and actual contributions.

Three-Year Trend Information for Town			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2014	\$ 698,766	100%	\$ -
June 30, 2013	\$ 926,444	100%	\$ -
June 30, 2012	\$ 831,475	100%	\$ -

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions 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 local 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 Town 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. Town's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

Funded Status and Funding Progress

For the Town employees, as of June 30, 2013, the most recent actuarial valuation date, the plan was 67.09% funded. The actuarial accrued liability for benefits was \$25,039,722, and the actuarial value of assets was \$16,800,299, resulting in an unfunded actuarial accrued liability (UAAL) of \$8,239,423. The covered payroll (annual payroll of active employees covered by the plan) was \$4,375,811, and the ratio of the UAAL to the covered payroll was 188.29%.

The schedule of funding progress, presented as required supplemental information (RSI) 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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. 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 Town provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The plan is established under the authority of Town Council, which may also amend the plan as deemed appropriate. Participants must meet eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Only participants who retire directly from active service are eligible for the OPEB.

- 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.
- General government with membership dates on or after July 1, 2010 (Plan 2) – receive reduced benefits 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.

Benefits include medical, dental, and vision insurance. Participating retirees pay monthly premiums to continue with the Town'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, 2014 was as follows:

Retirees currently receiving benefits	4
Active employees	75
Total	<u>79</u>

Funding Policy

The Town 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 2014 the Town's OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	\$ 20,626
Interest on net OPEB obligation	812
Adjustment to annual required contribution	<u>(1,848)</u>
Annual OPEB cost	19,590
Contributions made	<u>(19,590)</u>
Change in net OPEB obligation	-
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u>\$ -</u>

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Other Post-Employment Benefits (Continued)

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

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2014	\$ 19,590	100%	\$ -
June 30, 2013	\$ 20,300	100%	\$ -
June 30, 2012	\$ 18,300	100%	\$ -

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2014 was as follows:

Actuarial Accrued Liability (AAL)	\$ 142,911
Actuarial Value of Plan Assets	\$ -
Unfunded Actuarial Accrued Liability (UAAL)	\$ 142,911
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0.00%
Covered Payroll (Active Plan Members)	\$ 3,427,270
UAAL as a Percentage of Covered Payroll	4.17%

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.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 12. Other Post-Employment Benefits (Continued)

Actuarial Methods and Assumptions (Continued)

In the 2014 actuarial valuation, the alternative measurement method, as described in Governmental Accounting Standard No. 45, 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 4.00% discount rate, and an initial annual healthcare cost trend of 5.50% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5.00%. The unfunded accrued liability is being amortized as a level percent of payroll. The open amortization period for 2014 was 14 years.

Note 13. Service Contracts

Power Purchase Contracts

Holcomb Rock and Coleman Falls

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

AMP – Master Service Agreement

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

AMP – Prairie State Energy Project

During 2008, the Town entered 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. The participants authorized AMP to acquire ownership interest in the project, and the Town 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 Town is required to pay its guaranteed portion whether or not it is used and payment 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. The contract contains a step-up provision which provides that in the event of the default of a participant, non-defaulting participants may be required to purchase an increased share of power.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 13. Service Contracts (Continued)

Power Purchase Contracts (Continued)

AMP – Fremont Energy Center

During 2011, the Town entered 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. The participants authorized AMP to acquire ownership interest in the project, and the Town 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 Town is required to pay its guaranteed portion whether or not it is used and payment 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. The contract contains a step-up provision which provides that in the event of the default of a participant, non-defaulting participants may be required to purchase an increased share of power.

Note 14. Property Taxes

During 2014 the Town adopted Bedford County’s tax billing schedule. Property taxes are levied on a calendar year basis. The County provides the Town with the assessed value as of January 1 for real and personal property. The real estate tax rate was \$0.30 and \$0.86 per \$100 of assessed value for years 2014 and 2013, respectively.

Personal property taxes are payable on December 5. The personal property tax rate was \$2.43 per \$100 for 2014 and 2013. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The Town bills and collects its own property taxes.

Note 15. Risk Management

The Risk Management programs of the Town are as follows:

Workers’ Compensation

The Town 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 2014 were \$69,386.

General Liability and Other

The Town purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from Virginia Municipal League Insurance Programs. The Town’s property and contents are insured up to a limit of approximately \$63 million. The Town maintains an additional \$5,000,000 umbrella policy over all forms of liability insurance. The Town’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 2014 were \$242,019.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 15. Risk Management (Continued)

Healthcare

The Town provides healthcare coverage for employees through a policy with Anthem. The Town contributes towards the premium for each employee that elects to be covered. Dependents are also covered provided they pay the additional premium to the Town. Total premiums for fiscal year 2014 were \$395,287.

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 16. Direct Financing Lease

The 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	\$ 4,168,698
Guaranteed residual value	1,369,086
Unearned income	<u>(3,177,069)</u>
Net investment in direct financing lease	<u><u>\$ 2,360,715</u></u>

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

Note 17. Commitments and Contingencies

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. Management believes disallowances, if any, would not be material to the financial position of the Town.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 18. New Accounting Standards

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

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* 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.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* was issued to provide governmental guidance on governmental combinations and disposals of governmental operations that does not conflict the *GASB Statement No. 31*. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. A disposal of a government's operations results in the removal of specific activities of a government. The statement requires disclosures to be made about government combinations and disposals of government operations to enable financial Statement users to evaluate the nature and financial effects of those transactions. This Statement will be effective for the year ending June 30, 2015, with early adoption permitted. The Town accounted for the transfer of its water and sewer services as described in Note 19 in accordance with GASB Statement No. 69.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* was issued to address an issue regarding application of the transition provisions of *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. This Statement amends *GASB Statement No. 68* to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This Statement will be effective for the year ending June 30, 2015.

Except for GASB Statement No. 69, management has not yet evaluated the effects, if any, of adopting these standards.

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. Reversion to Town Status

On July 1, 2013 the City of Bedford 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 Town 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. Certain terms and provision of the reversion agreement are as follows:

Certain governmental activities capital assets in the amount of \$2,132,737 were transferred to the County, including the library and elementary school. Due to the reversion, the County receives an increase in state education funding for 15 years ("Incentive Payments"). In consideration for assets transferred, the County agreed to pay the Town \$500,000 annually for a period of 15 years. In any year in which the Incentive Payment is greater than \$4 million, the County shall pay the Town an additional \$250,000. If the Incentive Payment is less than \$4 million, the payment to the Town will be reduced by a formula described in the reversion agreement. For the year ended June 30, 2014, the Town received \$821,050 from the County, consisting of \$750,000 related to Incentive Payments, and \$71,050 for nonrecurring settlement amounts for shared services.

The Town is leasing to the County its middle school for successive terms of one year for a maximum total period of six years. The annual lease payments provided for are as follows:

<u>Year Ending June 30,</u>		
2014	\$	120,000
2015		120,000
2016		120,000
2017		450,000
2018		450,000
2019		750,000

TOWN OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 19. Reversion to Town Status (Continued)

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. Assets transferred to BRWA were as follows:

Water and Sewer Fund:	
Customer deposits	\$ 74,770
Receivables	451,348
Capital assets	23,038,183
Debt service to be paid by BRWA	(7,501,599)
Utility deposit payable	(74,770)
Accrued interest and other expenses paid by Town on behalf of BRWA	<u>(64,174)</u>
	<u>\$ 15,923,758</u>
General Fund:	
Capital assets	<u>\$ 5,936</u>

Additionally, effective July 1, 2014, the Town will assume maintenance responsibilities of approximately two miles of roads previously maintained by the state and will record an addition to capital assets of approximately \$1 million.

Note 20. Restatement of Fund Balances and Net Position

	<u>General Fund</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fund Balance/Net Position June 30, 2013 as previously stated	<u>\$ 4,375,592</u>	<u>\$ 14,270,485</u>	<u>\$ 27,217,877</u>
Restatement due to:			
Implementation of GASB 65:			
Debt issuance costs	-	(141,925)	(259,228)
Bedford County liability overstated	<u>472,424</u>	<u>472,424</u>	<u>-</u>
Net restatement	<u>472,424</u>	<u>330,499</u>	<u>(259,228)</u>
Fund balance/net position June 30, 2013 as restated	<u>\$ 4,848,016</u>	<u>\$ 14,600,984</u>	<u>\$ 26,958,649</u>

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REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF BEDFORD, VIRGINIA

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

June 30, 2014

	(a)	(b)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c UAAL as of Percentage of Covered Payroll
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)				
DEFINED BENEFIT PLAN (VRS)						
June 30, 2013	\$ 16,800,299	\$ 25,039,722	\$ 8,239,423	67.09%	\$ 4,375,811	188.29%
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%
OTHER POST-EMPLOYMENT BENEFITS						
January 1, 2014	\$ -	\$ 142,911	\$ 142,911	0.00%	\$ 3,427,270	4.17%
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

This part of the Town 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 Town's overall financial health.

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

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

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TABLE 1

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Governmental activities										
Net investment in capital assets	\$ 11,818,082	\$ 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
Restricted	1,257,885	893,641	905,566	1,275,857	-	-	-	-	-	-
Unrestricted	1,349,711	574,787	967,285	202,484	(539,263)	(1,517,998)	(1,934,063)	2,042,536	1,965,046	2,504,784
Total governmental activities net position	<u>\$ 14,425,678</u>	<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>
Business-type activities										
Net investment in capital assets	\$ 3,769,941	\$ 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
Restricted	-	806,525	422,208	-	-	-	-	-	-	-
Unrestricted	7,126,700	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
Total business-type activities net position	<u>\$ 10,896,641</u>	<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>
Primary government										
Net investment in capital assets	\$ 15,588,023	\$ 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
Restricted	1,257,885	1,700,166	1,327,774	1,275,857	-	-	-	-	-	-
Unrestricted	8,476,411	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
Total primary government net position	<u>\$ 25,322,319</u>	<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>

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 2

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Expenses										
Governmental activities:										
General government administration	\$ 1,087,365	\$ 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
Judicial administration	4,200	66,994	64,599	69,749	73,925	54,638	45,844	20,269	22,108	27,097
Public safety	2,690,606	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
Public works	2,734,693	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
Health and welfare	-	611,757	661,680	684,699	615,447	679,222	859,833	675,828	558,469	721,935
Education	2,048	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
Parks, recreation, and cultural	86,971	375,631	414,045	443,092	505,520	732,067	968,399	990,201	947,889	953,698
Community development	604,569	258,210	320,829	312,424	419,959	521,281	525,207	464,080	518,251	1,123,443
Nondepartmental	-	-	-	-	-	3,578	10,923	1,208	7,829	486
Interest on long-term debt	295,433	100,817	97,101	120,140	150,360	167,716	224,815	137,765	112,811	169,253
Total governmental activities	7,505,885	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
Business-type activities:										
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
Solid waste	1,041,820	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
Electric	21,764,439	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
Total business-type activities expense	22,806,259	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
Total primary government expenses	30,312,144	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
Program Revenues										
Governmental activities:										
Charges for services:										
General government	238,114	240,274	191,469	267,863	346,196	299,493	265,733	276,964	259,823	279,606
Public safety	86,785	99,357	170,578	129,156	94,192	117,681	125,533	125,411	111,122	77,334
Parks, recreation, and cultural	5,410	16,357	19,142	20,962	28,133	89,320	105,913	105,283	91,610	105,338
Operating grants and contributions	1,713,909	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
Capital grants and contributions	5,753	32,474	38,022	216,354	68,807	258,533	610,115	229,931	171,077	262,155
Total governmental activities program revenues	2,049,971	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
Business-type activities:										
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
Solid waste	903,966	913,436	999,851	1,010,196	1,000,078	1,032,705	1,091,627	1,130,918	1,045,479	959,414
Electric	22,162,487	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
Operating grants and contributions	-	410,416	383,853	397,679	389,336	381,015	333,872	330,314	371,778	201,470
Capital grants and contributions	-	61,303	2,699,315	840,092	136,236	57,500	102,100	-	-	-
Total business-type activities program revenues	23,066,453	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
Total primary government program revenues	25,116,424	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
Net (expense) revenue										
Governmental activities	(5,455,914)	(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)
Business-type activities	260,194	2,134,897	3,796,875	482,865	(497,090)	1,265,073	1,768,325	308,524	(695,023)	2,600,540
Total primary government net expense	(5,195,720)	(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)

(Continued)

TABLE 2

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes	\$ 3,246,201	\$ 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
Sales taxes	181,660	842,139	830,064	857,218	854,574	894,826	998,680	1,017,547	927,493	968,531
Business license tax	223,802	674,058	663,146	657,475	599,269	637,671	656,230	671,322	617,347	637,336
Meals tax	1,080,127	680,651	671,404	655,365	643,868	663,141	681,216	650,068	557,659	521,767
Other local taxes	474,706	390,387	376,025	408,407	390,096	400,801	540,166	537,283	495,420	400,521
Intergovernmental revenue, unrestricted	467,240	741,161	771,718	707,804	955,354	924,651	939,102	971,695	982,103	903,654
Unrestricted investment earnings	-	9,662	56,106	55,553	23,447	143,365	247,573	404,158	343,308	221,008
Restricted investment earnings	-	1,225	-	-	-	-	-	-	-	-
Gain (loss) on disposition of assets	10,850	88,641	4,102	24,224	10,544	3,078	-	4,621	26,212	15,128
County reversion payments	821,050	-	-	-	-	-	-	-	-	-
Other	191,492	24,707	77,768	21,963	37,692	27,374	25,457	22,720	57,037	57,333
Transfers	722,153	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
Special Items:										
Transfer of assets to other governments	(2,138,673)	-	-	-	-	-	-	-	-	-
Total governmental activities	5,280,608	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
Business-type activities:										
Investment earnings	323,709	338,795	342,248	340,479	349,024	467,022	631,292	685,764	663,538	486,865
Gain on sale of capital assets	-	-	-	-	-	-	168,323	-	-	-
Transfers	(722,153)	(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)
Special Items:										
Transfer of assets to other governments	(15,923,758)	-	-	-	-	-	-	-	-	-
Total business-type activities	(16,322,202)	(561,205)	(530,176)	(959,521)	(789,925)	(999,978)	3,143,376	(503,972)	(1,290,485)	(516,960)
Total primary government	(11,041,594)	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
Changes in Net Position										
Governmental activities	(175,306)	(1,182,834)	46,115	803,078	782,990	533,619	(3,476,273)	352,058	385,305	(703,431)
Business-type activities	(16,062,008)	1,573,692	3,266,699	(476,656)	(1,287,015)	265,095	4,911,701	(195,448)	(1,985,508)	2,083,580
Total primary government	\$ (16,237,314)	\$ 390,858	\$ 3,312,814	\$ 326,422	\$ (504,025)	\$ 798,714	\$ 1,435,428	\$ 156,610	\$ (1,600,203)	\$ 1,380,149

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 3

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

Post-GASB 54						
	2014	2013	2012	2011		
General Fund						
Nonspendable	\$ 887,603	\$ 880,907	\$ 881,387	\$ 828,714		
Restricted	2,173,623	893,642	905,566	904,160		
Assigned	192,464	27,245	565,787	354,146		
Unassigned	2,880,569	2,573,798	2,368,680	1,916,649		
Total general fund	<u>\$ 6,134,259</u>	<u>\$ 4,375,592</u>	<u>\$ 4,721,420</u>	<u>\$ 4,003,669</u>		
Pre-GASB 54						
	2010	2009	2008	2007	2006	2005
General Fund						
Reserved	\$ 1,966,581	\$ 1,840,352	\$ 2,352,425	\$ 2,431,433	\$ 1,625,713	\$ 1,583,500
Unreserved	1,719,613	1,000,010	453,160	611,421	759,917	377,825
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>
All Other Governmental Funds						
Unreserved, reported in:						
Special revenue funds	\$ -	\$ -	\$ -	\$ -	\$ 469,703	\$ 455,774
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,703</u>	<u>\$ 455,774</u>

Note: GASB 54 was adopted in FY 2011.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 4

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
Taxes	\$ 4,696,712	\$ 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
Permits, privilege fees, and licenses	7,005	12,321	26,166	23,359	23,261	38,843	36,827	33,833	25,491	35,221
Fines and forfeitures	79,780	87,035	94,468	77,935	65,813	65,802	88,201	91,148	84,687	41,628
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
Charges for services	108,920	122,028	125,951	155,067	175,270	212,939	260,756	278,926	275,364	215,394
County reversion payments	821,050	-	-	-	-	-	-	-	-	-
BRWA debt service payments	758,051	-	-	-	-	-	-	-	-	-
Other	134,604	88,640	77,768	183,583	241,868	216,284	137,233	8,832	140,076	260,834
Intergovernmental	2,932,695	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
Total revenues	9,538,817	14,662,622	14,555,539	14,489,134	14,355,127	15,451,158	15,452,820	15,181,139	13,591,979	13,170,168
Expenditures										
General government	1,057,256	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
Judicial administration	4,200	66,994	64,599	69,749	73,925	54,638	45,844	20,269	22,108	27,097
Public safety	3,081,246	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
Public works	3,300,643	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
Parks, recreation, and cultural	90,672	318,399	348,542	381,331	436,653	663,122	906,368	980,295	908,539	914,838
Health and welfare	-	611,757	661,680	684,699	615,447	679,222	859,833	675,828	558,469	721,935
Education	14,046	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
Community development	484,855	178,769	203,823	260,011	330,515	617,783	443,771	381,138	472,557	1,069,227
Nondepartmental	-	-	-	-	-	3,578	10,923	1,208	7,829	486
Debt service:										
Bond issuance costs	-	-	-	12,533	-	-	7,178	-	24,570	-
Principal	1,273,225	539,491	469,185	681,164	664,029	879,780	736,949	762,152	626,979	640,018
Interest	248,384	100,121	89,453	132,314	153,843	173,994	185,569	132,055	132,589	150,330
Total expenditures	9,554,527	15,933,157	14,714,314	15,484,555	14,661,366	16,887,545	18,149,425	16,187,975	15,936,664	16,257,521
Excess of revenues under expenditures	(15,710)	(1,270,535)	(158,775)	(995,421)	(306,239)	(1,436,387)	(2,696,605)	(1,006,836)	(2,344,685)	(3,087,353)
Other Financing Sources										
Proceeds from borrowing	-	-	-	1,282,911	-	-	946,774	-	717,885	197,925
Payment to refunded bond escrow agent	-	-	-	(1,270,378)	-	-	-	-	-	-
Proceeds from sale of assets	10,850	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	1,992,266	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
Transfers out	-	-	-	-	-	-	-	(714,630)	(208,000)	(502,050)
Total other financing sources	2,003,116	924,707	876,526	1,336,757	1,152,071	1,471,164	2,459,336	1,194,357	2,698,120	1,018,953
Net change in fund balances	\$ 1,987,406	\$ (345,828)	\$ 717,751	\$ 341,336	\$ 845,832	\$ 34,777	\$ (237,269)	\$ 187,521	\$ 353,435	\$ (2,068,400)
Debt service as a percentage of noncapital expenditures	19.02%	4.06%	3.86%	5.60%	5.74%	6.24%	5.08%	5.52%	4.77%	4.86%

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 5

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation	Mobile Homes	Total Assessed Value	Total Direct Tax Rate⁽¹⁾	Overlapping Government County⁽²⁾	Total Direct and Overlapping
2014	\$ 474,911,700	\$ 49,928,570	\$ 32,422,960	\$ 8,406,570	\$ 365,500	\$ 566,035,300	0.53	0.52	1.05
2013	427,414,000	48,740,600	35,756,980	9,270,300	353,000	521,534,880	1.04	NA	1.04
2012	426,408,500	46,608,260	34,809,690	8,896,880	407,900	517,131,230	1.03	NA	1.03
2011	426,484,700	45,780,775	35,757,860	8,173,800	420,700	516,617,835	1.03	NA	1.03
2010	406,184,200	45,604,044	36,509,350	8,502,100	415,000	497,214,694	0.97	NA	0.97
2009	403,819,100	48,686,689	31,436,013	8,440,200	421,600	492,803,602	0.93	NA	0.93
2008	396,308,300	47,144,412	33,851,260	9,845,100	416,600	487,565,672	0.93	NA	0.93
2007	395,464,300	46,294,050	31,804,750	7,716,900	425,900	481,705,900	0.96	NA	0.96
2006	318,993,200	43,796,730	30,216,970	8,913,570	478,800	402,399,270	0.95	NA	0.95
2005	313,729,100	41,338,270	30,194,580	10,437,161	486,600	396,185,711	0.96	NA	0.96

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

⁽¹⁾ Per \$1,000 of assessed value.

⁽²⁾ On July 1, 2014 the reversion to Town status occurred, creating an overlapping of taxes with the County.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 6

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

Customer	Fiscal Year 2014			Fiscal Year 2013		
	Revenue	Rank	Percentage of Total City Electrical Revenue	Revenue	Rank	Percentage of Total City Electrical Revenue
Wheelabrator Abrasives	\$ 1,579,548	1	9.12 %	\$ 1,687,781	1	9.74 %
Bedford Weaving	777,645	2	4.49	828,954	2	4.78
Trident (Formerly Golden West)	619,767	3	3.58	612,568	3	3.54
The Matrix Group	418,672	4	2.42	407,855	5	2.35
Smyth Companies	389,859	5	2.25	399,742	6	2.31
Town of Bedford	363,883	6	2.10	436,171	4	2.52
Bedford Regional Water Authority	336,466	7	1.94	-	NA	0.00
Wal-Mart	291,952	8	1.68	298,206	7	1.72
Bedford Memorial Hospital	243,356	9	1.40	261,084	8	1.51
Liberty High School	233,379	10	1.35	251,542	9	1.45
Bedford Storage Investment LLC	233,144	11	1.35	213,007	10	1.23
	<u>\$ 5,487,671</u>		<u>31.68 %</u>	<u>\$ 5,396,910</u>		<u>31.15 %</u>

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

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 7

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2014	\$ 3,599,653	\$ 2,964,106	82.34 %	\$ -	\$ 2,964,106	82.34 %
2013	5,261,090	5,149,132	97.87	13,192	5,162,324	98.12
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

Source: Tax Records of the City.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 8

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Debt limit	\$ 48,331,827	\$ 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
Total net debt applicable to limit	12,550,533	14,123,033	16,111,135	17,718,481	16,502,823	18,036,255	20,213,861	15,377,542	16,664,323	15,551,377
Legal debt margin	<u>\$ 35,781,294</u>	<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>
Total net debt applicable to the limit as a percentage of debt limit	<u>25.97%</u>	<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>

Legal Debt Margin Calculation for Fiscal Year 2014

Assessed value	<u>\$ 483,318,270</u>
Debt limit (10% of assessed value)	\$ 48,331,827
Less debt applicable to limit:	
General obligation bonds	(12,100,533)
Other long-term obligations	<u>(450,000)</u>
Legal debt margin	<u>\$ 35,781,294</u>

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 9

**TOWN 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	Business Type General Obligation Bonds	Less: Amounts Restricted to Repaying Principal	Total General Bonded Debt			Capital Leases	Other Debt
2014	\$ 9,219,828	\$ 2,880,705	\$ -	\$ 12,100,533	2.14 %	\$ -	\$ -	\$ 450,000
2013	1,570,080	11,125,529	-	12,695,609	2.43	2,134	-	525,000
2012	2,034,572	13,476,563	-	15,511,135	3.00	2,353	-	600,000
2011	2,428,757	14,614,724	-	17,043,481	3.30	2,757	-	675,000
2010	2,819,927	12,932,896	-	15,752,823	3.17	2,504	184,882	750,000
2009	3,230,546	14,020,836	-	17,251,382	3.50	2,717	363,292	825,000
2008	3,932,140	15,381,721	-	19,313,861	3.96	3,060	674,209	900,000
2007	1,520,600	13,856,942	-	15,377,542	3.19	2,446	715,927	975,000
2006	2,047,200	14,617,123	-	16,664,323	4.14	2,667	576,479	1,050,000
2005	2,573,300	12,978,077	-	15,551,377	3.93	2,500	184,473	1,200,000

Fiscal Year	Business-Type Activities			Per Capita ⁽¹⁾	Percentage of Personal Income ⁽¹⁾
	Revenue Bonds	Other Debt	Total Primary Government		
2014	\$ 11,163,283	\$ 1,076,697	\$ 24,790,513	\$ NA	NA %
2013	11,910,422	1,126,157	26,257,188	4,414	12.31
2012	12,634,273	2,179,318	30,924,726	4,691	12.05
2011	13,431,282	2,570,674	33,720,437	5,455	14.01
2010	14,343,108	-	31,030,813	4,933	12.67
2009	15,215,652	-	33,655,326	5,300	13.61
2008	19,074,075	-	39,962,145	6,331	16.19
2007	16,903,533	-	33,972,002	5,404	15.04
2006	17,714,178	-	36,004,980	5,762	17.11
2005	17,007,099	-	33,942,949	5,457	16.90

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.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 10

**TOWN OF BEDFORD, VIRGINIA
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2014	\$ 22,162,487	\$ 21,026,163	\$ 1,136,324	\$ 747,139	\$ 549,753	0.88
2013	21,534,257	18,973,898	2,560,359	723,851	578,499	1.97
2012	20,431,813	18,789,808	1,642,005	797,009	606,101	1.17
2011	22,615,629	21,508,360	1,107,269	911,826	633,082	0.72
2010	21,620,435	22,157,031	(536,596)	872,544	663,496	(0.35)
2009	24,188,620	22,511,926	1,676,694	858,423	689,452	1.08
2008	20,393,092	18,509,559	1,883,533	829,459	712,007	1.22
2007	19,686,578	17,949,108	1,737,470	810,645	733,527	1.13
2006	15,600,264	14,464,519	1,135,745	562,631	577,968	1.00
2005	17,296,354	11,799,137	5,497,217	622,631	901,065	3.61

Notes: Details regarding the Town's outstanding debt can be found in the Notes to Financial Statements.

Operating expenses do not include depreciation, interest, or amortization expenses.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 11

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

Fiscal Year Ended ⁽¹⁾	Population ⁽²⁾	Total Personal Income ⁽³⁾	Per Capita Personal Income	Public School Enrollment	Unemployment Rate ⁽⁴⁾
2014	6,540	NA	NA	NA	7.80 %
2013	5,948	NA	35,863	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

⁽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

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 12

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

Employer	Fiscal Year 2014			Fiscal Year 2005		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Frank Chervan	NA		0.00 %	200	4	4.38 %
Bedford Memorial Hospital	352	1	5.84	352	2	7.70
Bedford Public Schools	319	2	5.29	260	5	5.69
Sam Moore Furniture LLC	230	3	3.81	393	1	8.60
Cintas	130	4	2.16	141	9	3.09
Bedford Weaving Mills	109	5	1.81	120	6	2.63
Smyth Companies Bedford	106	6	1.76	118	8	2.58
Longwood Industries	82	7	1.36	100	7	2.19
Trident (formerly Golden West)	64	8	1.06	175	3	3.83
Elks National Home	52	9	0.86	NA		0.00
Wheelabrator Abrasives	41	10	0.68	NA		0.00
	<u>1,485</u>		<u>24.63 %</u>	<u>1,859</u>		<u>40.69 %</u>

Source: HR Departments of Employers.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 13

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

<u>Function/Program</u>	<u>2014</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>
General government										
Executive	2	2	2	2	2	2	2	2	2	2
Treasurer	2	2	2	1	1	1	1	1	1	1
Personnel	3	-	-	-	-	-	-	-	2	2
Finance	5	5	5	5	5	5	6	6	5	7
Information Technology	2	2	2	2	2	2	2	1	2	-
Planning	2	2	3	3	3	3	5	5	5	5
Schools	-	9	9	9	9	8	6	8	8	8
Police										
Officers	24	23	24	24	24	21	25	28	29	22
Civilians	3	3	3	5	3	2	3	3	3	2
Fire	1	1	1	1	1	1	1	1	1	1
Public works	18	20	19	20	18	21	15	18	20	20
Engineering	2	2	2	2	2	2	2	2	2	2
Parks and recreation	-	1	2	2	3	3	9	10	10	10
Solid waste	3	2	2	2	3	4	4	5	5	5
Water	-	6	6	6	6	6	6	6	6	6
Wastewater	-	10	10	11	11	11	11	11	11	11
Electric	17	17	14	14	13	15	18	19	19	20
Total	<u>84</u>	<u>107</u>	<u>106</u>	<u>109</u>	<u>106</u>	<u>107</u>	<u>116</u>	<u>126</u>	<u>131</u>	<u>124</u>

Source: City of Bedford's Finance Department.

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 14

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Function/Program										
General Government:										
Fleet:										
Pieces of equipment maintained	124	132	132	130	127	129	129	135	*	*
Public safety:										
Police:										
Physical arrests	964	964	1,137	902	943	1,116	1,129	1,124	1,269	1,116
Parking violations	1,321	1,093	1,128	1,937	1,235	1,381	1,359	2,432	2,601	989
Traffic violations	985	1,762	2,135	1,319	1,334	1,535	1,579	1,842	2,288	1,339
Fire:										
Emergency responses – per calendar year	721	741	NA	821	919	913	886	948	853	666
Public works:										
Refuse collection:										
Refuse collected (tons per day)	40	40	40	40	27	25	30	43	*	*
Recyclables collected (tons per day)	1	1	1.1	1.5	1.0	1.5	2	1	*	*
Other public works:										
Street resurfacing (miles)	6	6	6	4	4	2	-	5.3	*	*
Parks, recreation, and cultural:										
Parks and recreation:										
Tournaments hosted	-	-	2	3	2	2	1	1	1	1
Electric:										
Number of customer accounts	6,574	6,531	6,519	6,499	7,091	6,986	6,937	6,919	6,340	6,444
Miles of distribution lines	353	353	353	353	353	352	350	350	350	350
Miles of transmission lines	29	29	29	29	29	29	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
Miles of distribution lines	-	65	65	65	65	65	65	65	65	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
Sewer:										
Number of customer accounts	-	2,698	2,679	2,664	2,929	2,856	2,836	2,842	2,568	2,590
Waste/Water treated (million gallons per day)	-	1	1.0	0.8	1.0	1.0	1.0	1.0	1.0	1.0

Source:

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

NA – Information not available at this time

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

TABLE 15

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

<u>Function/Program</u>	<u>2014</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>
Public safety:										
Law enforcement vehicles	20	18	18	19	18	19	19	19	19	17
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works:										
Primary streets (lane miles)	24	24.11	24.11	24.11	24.11	24.11	24.11	24.11	24.11	24.11
Secondary streets (lane miles)	72	71.51	71.51	71.51	71.51	66.47	66.47	66.47	66.47	66.47
Streetlights	974	974	974	897	897	875	875	875	875	835
Parks, recreation, and cultural:										
Community centers	-	1	1	1	1	1	1	1	1	1
Parks/athletic fields	-	12	12	12	12	12	12	12	12	12
Electric:										
Substations	10	10	10	10	10	11	11	11	11	11
Transformers	3,475	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
Water mains (miles)	-	65	65	65	65	65	65	65	65	63
Storm sewers (miles)	-	5	5	5	5	5	5	5	5	5
Sanitary sewers (miles)	-	47	47	47	47	47	47	47	47	46

Source: Information was obtained from prior year audit reports.

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

Note: Overall change in FY14 compared to FY13 is due to reversion to Town status on July 1, 2013.

COMPLIANCE SECTION

**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 Town Council
Town 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 Town of Bedford, Virginia (the "Town"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 3, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of Town's internal control.

However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in our schedule of findings and responses as Item 07-1 to be a material weakness.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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*.**

Town of Bedford, Virginia's Response to Findings

The Town's response to the finding identified in our audits is described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Town'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 Town'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
October 3, 2014

TOWN OF BEDFORD, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2014

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 Town'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

Town Charter
Town Code

TOWN OF BEDFORD, VIRGINIA
SUMMARY OF FINDINGS AND RESPONSES
June 30, 2014

A. FINDING – 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:

Management agrees with the finding and recommendation regarding the need for separation of duties. Due to the Town's size and funding limitations, the Town 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 separate duties including but not limited to: authorizing, approving, and recording transactions; issuing and receiving assets; making payments; and reviewing or auditing transactions.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

None.