

CITY OF BEDFORD, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2010

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY OF BEDFORD, VIRGINIA
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INTRODUCTORY SECTION



City of Bedford, Virginia

Department of Finance

November 4, 2010

The Honorable Mayor, Members of City Council And the Citizens of Bedford, Virginia:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the City of Bedford for the fiscal year ended June 30, 2010. This report is submitted in accordance with Section 15.1-167 of the Code of Virginia and with Section 30 of the Charter of the City of Bedford, both of which require an annual independent audit and report of financial activity of the City. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P., has audited the financial statements and supplemental schedules contained herein. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Reporting Entity and Services Provided

For financial reporting purposes, in accordance with the criteria in Governmental Accounting Standards Board (GASB) Statement No. 14, the City of Bedford includes all funds, agencies, boards, commissions and authorities that are controlled by or are financially dependent upon the City. Control by or financial dependence was determined on the basis of obligation of the City to finance deficits, guarantee debt, select the governing authority, approve the budget, have authority to make a public levy, and to have ownership of assets. As a result of implementing GASB Statement No. 14, the City of Bedford has not identified any entities that should be reported as discretely presented component units of the City.

Related organizations of the City that require only note disclosure presentation according to GASB Statement No. 14 are the City of Bedford Redevelopment and Housing Authority and the Industrial Development Authority of the City of Bedford. Also excluded are the financial statements of the Bedford Public Library System, the Blue Ridge Regional Jail Authority and Central Virginia Community Services Board, which are jointly governed organizations. Finally, not included are the Bedford Joint Economic Development Authority, the Central Virginia Radio Communication Board and the Joint Tourism Program which are joint ventures that are only in note disclosure presentation.

The City of Bedford provides an extensive range of services for its citizens including general administration, public safety, public works, planning, zoning, economic and community development, code enforcement, cemetery management, recreational activities and tourism. The City also provides and maintains electrical, water and sewer utilities, and handles solid waste disposal for the benefit of its citizens. Pursuant to a contract made with Bedford County in 1988, the County provides public school services and educational programs for the students of the City of Bedford. The City reimburses the County for its share of the net expenses based on its percentage of students in the

County's public school system. In addition, agreements with Bedford County have been established to provide judicial administration and health and welfare services for the City. This report includes the fiscal activities of the City in the provision of services and under contracts and agreements made with the County of Bedford, Virginia.

Organization of Government

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

Economic Condition and Outlook

The City of Bedford is located in the west-central portion of Virginia, midway between the cities of Lynchburg to the east and Roanoke to the west. The City is within the physical boundaries of Bedford County, one of the fastest growing counties in the State. Although the City is a separate, independent, political entity, it serves as the County seat for administrative and judicial affairs. This strategic location between two urban centers and surrounded by Bedford County allows the City to serve as a regional employment and commercial center, while preserving its small town atmosphere and enjoying the markets and services of larger cities.

Bedford enjoys a diversified economy primarily comprised of manufacturing (21%), educational, health, and social services (17%), and retail trade (12%). Bedford's industrial base includes major employers involved in food processing, furniture manufacturing, lithographed labels, plastics, weaving, polyurethane products, steel abrasives, closed-cell rubber products and steel cutting dies. During 2009/2010 the City's unemployment rate increased from 6.9% to 9.7%. Much of this increase can be attributed to a continuing reduction in the number of manufacturing jobs and a general slowdown in the economy. City Council's commitment to economic development and diversification has positioned the City well for expansion when the overall economic climate improves.

Bedford also enjoys a healthy mix in real estate values with approximately 62 percent coming from residential property, while approximately 38 percent is commercial and industrial. Increases resulted from new construction and revenue sharing areas, while personal property and machinery and tools tax have remained flat.

The City of Bedford has enjoyed a relatively stable economic status as a result of several factors. The City was one of the first in the Commonwealth to be selected as a Virginia Main Street City in 1985, and its commitment to downtown revitalization has resulted in millions of dollars being invested in ongoing renovation and rehabilitation projects in the Historic Centertown area. Bedford's downtown continues to maintain a very high occupancy rate, and business owners continue to reinvest in their facilities.

In 1998, the City of Bedford and Bedford County entered into a historic revenue sharing agreement, which established revenue sharing areas on major corridors immediately adjacent to the City. This agreement allows the City to share in County tax revenues in these areas in exchange for providing water and sewer service to stimulate increased development. The City completed construction of

water and sewer lines in the US 460 East revenue sharing area, which has encouraged significant commercial development both inside and immediately outside the City borders. Currently, engineering design work is underway for water and sewer service in the US 460 West corridor.

The City and County have developed a 100-acre business park in the City -- The Bedford Center for Business, which provides the City a greater opportunity to compete for industrial relocations and expansions. A 50,000 square foot shell building, constructed in the park by Bedford County to temporarily house court and social services while Centertown's historic courthouse was renovated and expanded, has two tenants under long-term leases -- East Coast Fabricators/Rhino Coat, a manufacturer specializing in metal fabrication and finishing, and the Bedford Campus of Central Virginia Community College. The Mid-Atlantic Broadband Cooperative, in conjunction with the Virginia Tobacco Commission and US Department of Commerce's Economic Development Administration, provides reasonably low-cost access to high-speed broadband from facilities in the park. Most recently, The Matrixx Group, a developer, manufacturer and distributor of thermoplastic materials, began operation in a 37,000 sq. ft. facility in the Bedford Center for Business.

In 2005, the City of Bedford was awarded a Virginia Enterprise Zone designation, which provides State and local incentives for investment in Centertown, the older manufacturing buildings as well as the Bedford Center for Business. State Enterprise Zone grants provide money as a reward for physical improvements to property; and in the case of manufacturing, grants for job creation above four (4) employees. Local incentives are designed to reward both new and existing industries.

Tourism continues to grow in the City and surrounding area. The shared tourism effort with Bedford County stands as a testimonial to the benefits of localities working together. The Welcome Center, at the intersection of Route 122 and US Highway 460, is a credit to the Bedford community, a beacon for travelers, and cost Bedford residents a fraction of its price tag thanks to City/County joint participation and significant federal transportation funding.

Major Initiatives

In the coming year, several major initiatives are planned which will assist the City Council, management and staff in preparing for the continued growth and prosperity of the City. These initiatives include:

- Maintaining the City's financial stability with a goal of improving fund balances. As reflected in the accompanying financial statements, the City has made significant strides in reducing its dependency on revenue generated by the sale of electricity, while increasing the revenues from water and sewer operations to better enable those funds to be self-sufficient. However, maintaining financial stability with ever-challenging State mandates and reduced State funding of required services is perhaps the greatest short-term threat to the financial stability of the City.
- The City Council continues to provide support for economic development initiatives, and through the City's Industrial Development Authority, provides funding for a performance-based, economic incentive program and other Enterprise Zone initiatives.
- The City has focused on improving the connectivity between the National D-Day Memorial/Bedford Welcome Center and Centertown. With partial funding from the Department of Transportation Enhancement Funds, a comprehensive Wayfinder Signage Program has been implemented and a series of physical improvements are scheduled. The City, in cooperation with Bedford Main Street and service provider JetBroadband, provides a free, public "wireless hotspot" in Centertown Plaza similar to facilities at the Bedford Welcome Center.

- The City continues to upgrade and build new distribution line circuits. With other American Municipal Power members, the City is participating in the construction of a base load coal fired plant to provide diversity in our wholesale power portfolio. Currently, approximately 8% of the City’s electricity is from renewable sources. We have addressed other revenue sources such as pole attachment agreements and right-of-way fees to ensure that we are competitive and maximizing our revenues in these areas. The City will also continue to focus on providing exemplary customer service and reliability for our customers.
- The City 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 Providers Association of Virginia and the new Region 2000 Solid Waste Authority.
- With the increasing challenges of stretching scarce revenues to accommodate ever increasing costs of doing business without the authority to physically expand its tax base, the City is investigating the option of “transitioning” to town status with Bedford County. City and County officials are actively engaged in talks aimed at returning the City to Town status.

Financial Information

The City of Bedford manages its financial affairs using the budgetary basis of accounting and maintains its accounting records on a modified accrual basis as required by accounting principles generally accepted in the United States of America. The modified accrual basis of accounting recognizes revenues when they become both measurable and available. Expenditures are recorded when a fund liability is incurred, except for interest on long-term debt and compensated absences payable. Governmental fund types, such as the City’s General Fund, is reported in the financial statements on the modified accrual basis. The City’s enterprise funds are reported on the full accrual basis, under which revenues are recorded when earned and expenses are recorded when incurred.

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allowed for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits require estimates and judgments by management.

In addition, the City maintains budgetary controls. These controls ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of the General Fund and Enterprise Funds are included in the annual appropriated budget. The level of budgetary control (e.g., the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year-end. However, outstanding encumbrances generally are re-appropriated in the subsequent year.

As demonstrated by the financial statements and supplemental schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in

conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Cash Management

During the year, cash was invested in certain U.S. Government Agency Securities, prime quality issues of commercial paper, as well as the State Treasurer's Local Government Investment Pool (LGIP). Total deposits and investments at June 30, 2010 totaled \$12,837,584. All deposits of the City are either insured by federal depository insurance or collateralized as required by Virginia Statutes. Total earnings on General Fund deposits and investments were \$23,447 for the year.

Risk Management

The City utilizes a variety of techniques to identify and monitor its risks and exposures for the activities of the City. The City is insured for exposure related to property, boiler and machinery, accident, automobile and general liability. In addition to this, the City is also insured for Public Officials and Law Enforcement Liability and School Board Legal Liability. Workmen's Compensation is covered by insurance through the Virginia Municipal Group Self-Insurance Association. The City provides healthcare coverage for employees through The Local Choice/Anthem and contributes \$370.70 per month towards the premium for employees.

As part of its overall risk management program, the City has an ongoing safety program initiated to help prevent losses and to better identify those areas that need attention.

Other Information

Independent Audit. Virginia Law and the Charter of the City of Bedford require that the financial statements of the City be audited by a Certified Public Accountant. Brown, Edwards, & Company, L.L.P., has performed an annual audit of the Comprehensive Annual Financial Report. The auditor's report is included in the Financial Section of this report. The auditors' reports as required as part of a single audit are found in the Compliance Section of this report.

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bedford for its comprehensive annual financial report for the fiscal year ended June 30, 2009. This was the tenth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements. The preparation of this report is a very intensive project, and could not have been accomplished without the assistance and dedication of the Finance Department staff and other personnel from various departments, who assisted in the preparation. A particular thank you goes to Bart Warner who provided valuable assistance with this transmittal letter. The Mayor and City Council continue to be very supportive of our efforts to produce the best financial reports possible for our citizens. We appreciate your support in granting us the time and funding to generate this document, and allowing us to submit it to the GFOA for consideration. Lastly, we would like to

express our appreciation to our independent auditing firm, Brown, Edwards & Company, L.L.P., for their cooperation and assistance in these efforts.

Respectfully Submitted,



Charles P. Kolakowski
City Manager



Rosemarie B. Jordan
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bedford
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

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



A stylized, handwritten signature in black ink.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer".

Executive Director

CITY OF BEDFORD, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2010

MEMBERS OF CITY COUNCIL

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

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

Stephen C. Rush
Jeffrey B. Hubbard

MEMBERS OF CITY SCHOOL BOARD

Phyllis J. Parker, Chairman
Betsy Klein, Vice Chairman

Anne M. VanDerwerker
William H. Ross
Paul Sherman

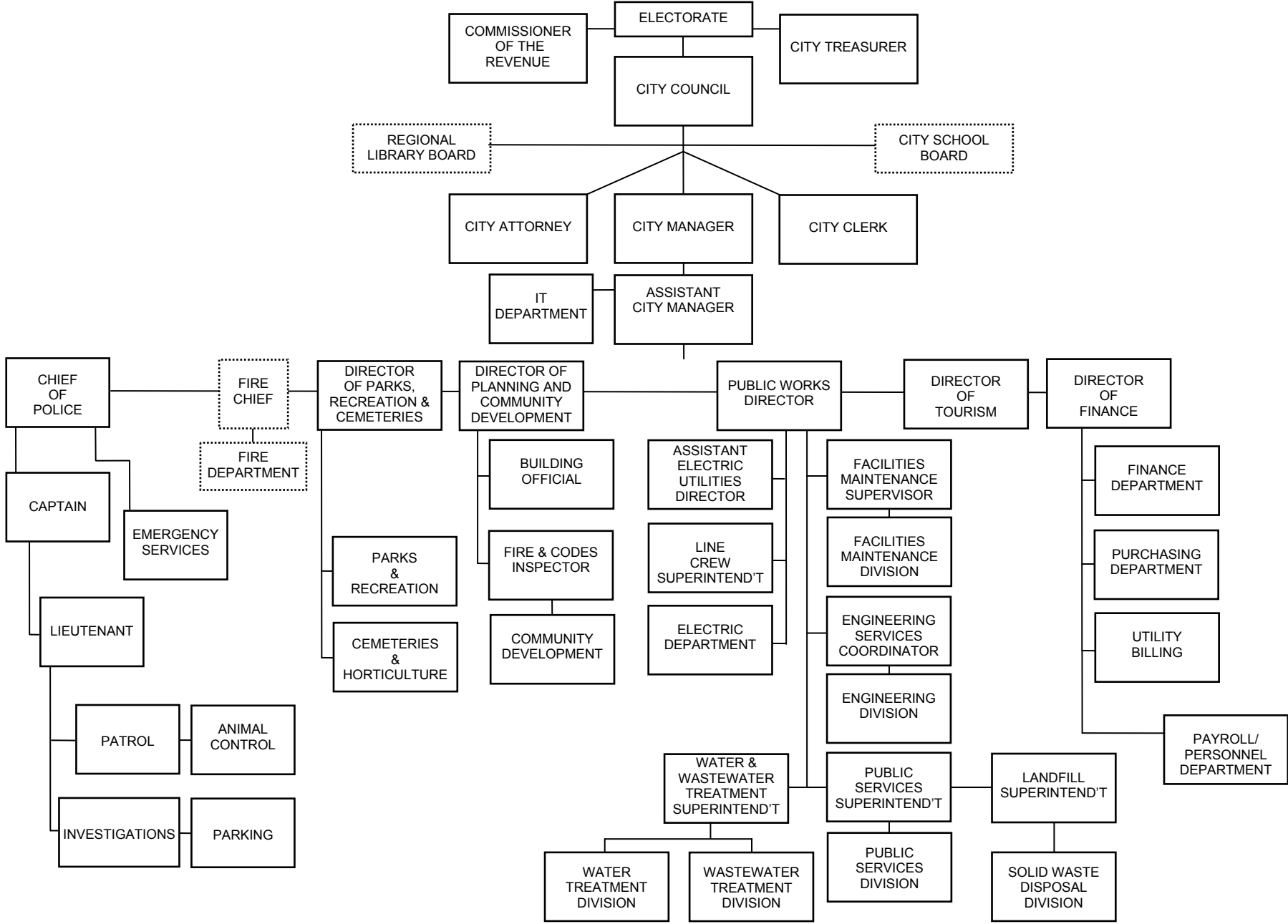
Ann Duncan
Andrea Trotter

OTHER OFFICIALS

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

City Manager
Assistant City Manager
City Clerk
City Attorney
City Treasurer
Commissioner of the Revenue
Chief of Police
Fire Chief
Director of Finance
Director of Planning and Community Development
Director of Public Services
Superintendent of Schools
Clerk of the School Board

CITY OF BEDFORD ORGANIZATIONAL CHART



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11 and the Schedule of Pension and OPEB Funding Progress on page 51 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 4, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bedford, Virginia (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010 and 2009. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of current fiscal year by \$37,212,467 (net assets). Of this amount, \$7,575,627 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$504,025, which is primarily attributable to the operations of the electric fund.
- At the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$3,686,194, an increase of \$845,832 in comparison with the prior year. Approximately 47% of this total amount, \$1,719,613 or 11.7% of total general fund expenditures is available for spending at the government's discretion (unreserved fund balance).
- The City's total debt decreased by \$2,624,513 (7.80%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements:

Government-wide Financial Statements – The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, judicial administration, public safety, public works, health and welfare, education, parks, recreation, and cultural and community development. The business-type activities are the water and sewer, solid waste, and electric funds.

Overview of the Financial Statements (Continued)

Fund Financial Statements – A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains one individual governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary Funds – The City maintains three proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, solid waste, and electric operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, solid waste, and electric operations.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information – In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's funding progress for the defined benefit pension plan.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$37,212,467 at the close of the most recent fiscal year.

A portion of the City's net assets (80%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net assets* (20%) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 4,957,160	\$ 4,153,627	\$ 15,850,695	\$ 18,539,391	\$ 20,807,855	\$ 22,693,018
Capital assets	16,734,665	17,465,222	37,481,790	37,587,512	54,216,455	55,052,734
Total assets	21,691,825	21,618,849	53,332,485	56,126,903	75,024,310	77,745,752
Long-term liabilities	5,987,109	6,559,204	28,402,604	30,130,524	34,389,713	36,689,728
Other liabilities	1,076,729	1,214,648	2,345,401	2,124,884	3,422,130	3,339,532
Total liabilities	7,063,838	7,773,852	30,748,005	32,255,408	37,811,843	40,029,260
Net assets						
Invested in capital assets, net of related debt	15,167,250	15,362,995	14,469,590	13,809,254	29,636,840	29,172,249
Unrestricted	(539,263)	(1,517,998)	8,114,890	10,062,241	7,575,627	8,544,243
Total net assets	\$ 14,627,987	\$ 13,844,997	\$ 22,584,480	\$ 23,871,495	\$ 37,212,467	\$ 37,716,492

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

The City's net assets decreased by \$504,025 or 1.3% during the current fiscal year. The key element of this change is a decrease of \$2,032,494 in the electric fund net assets which was due to a reduction in the demand for electricity combined with a commitment for electric purchases that exceeded the demand.

Governmental Activities – Governmental activities increased the City's net assets by \$782,990. A key element of this increase or \$422,601 is due to decreased spending on capital projects for the general fund.

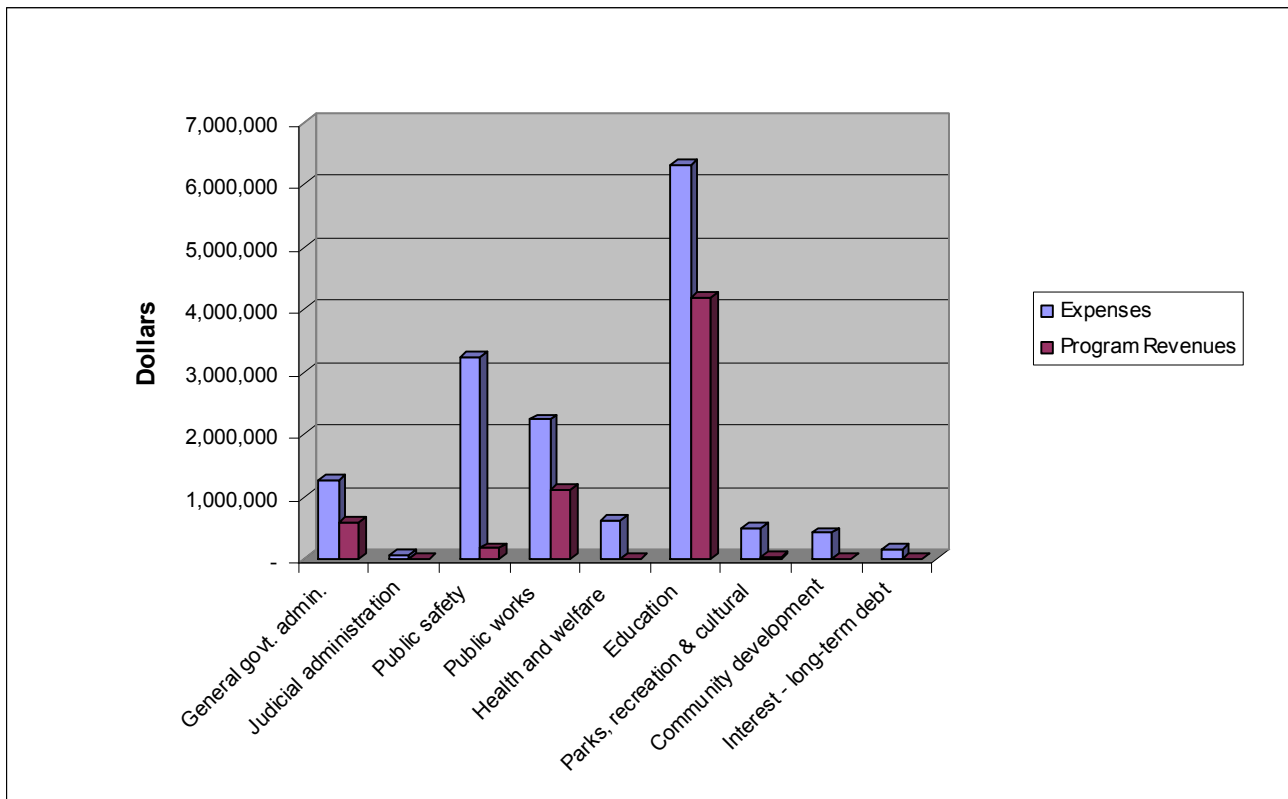
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. A noteworthy exception, however, is the decrease in investment earnings. The investment earnings category decreased by \$237,916 or 39%. This is a reflection of the severe decrease in interest rates for investments being faced by most localities.

Business-type Activities – Business-type activities decreased the City's net assets by \$1,287,015. Key elements of this decrease are as follows: The electric fund had a decrease in charges for services of \$2,568,185, a decrease in operating expenses of \$516,823 and a decrease in the transfer to the general fund of \$328,051. The solid waste fund had a decrease in depreciation expense of \$96,111. The water and sewer fund had an increase in revenues of \$118,414 due to a 2% rate increase on January 1, 2009. These changes will account for a decrease of \$1,508,786 in the net assets for business-type activities.

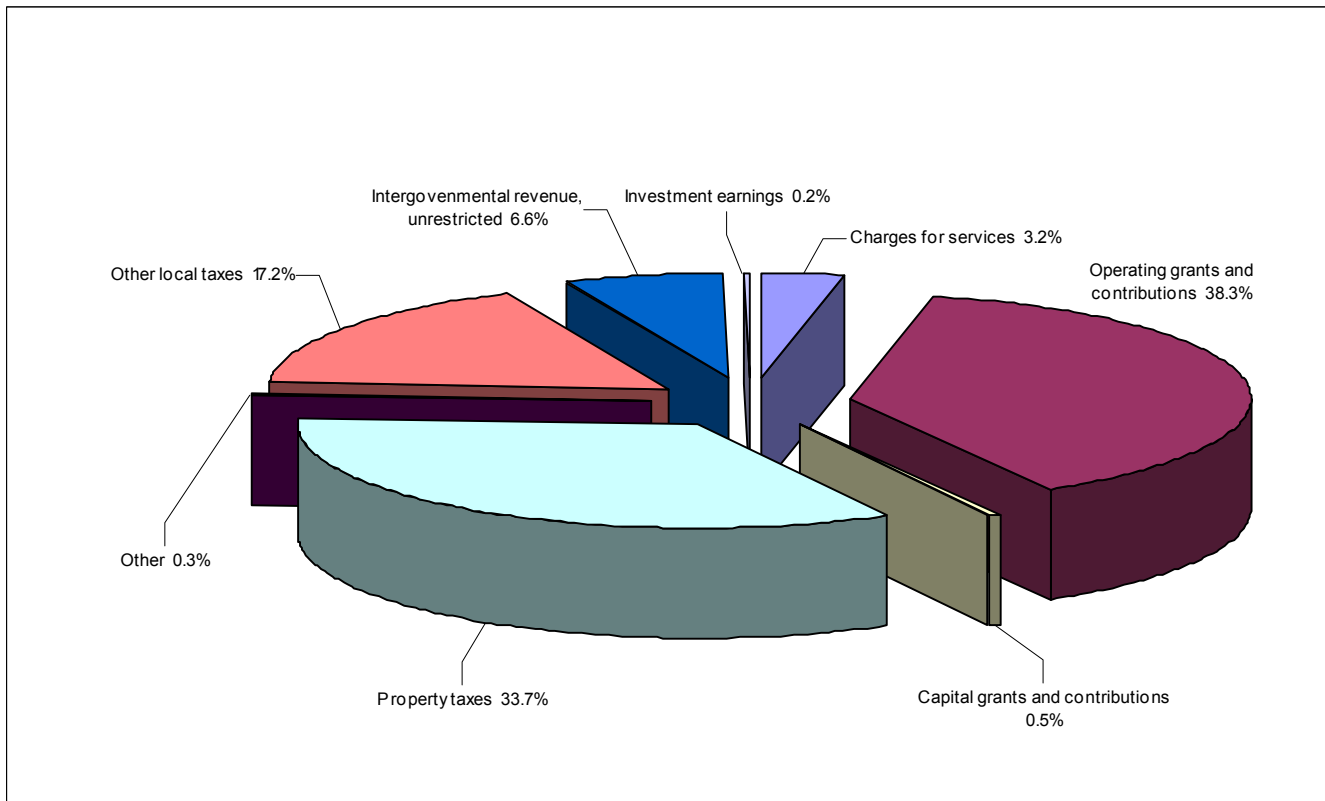
The City's Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues						
Charges for services	\$ 468,521	\$ 506,494	\$ 25,870,422	\$ 28,352,820	\$ 26,338,943	\$ 28,859,314
Operating grants and contributions	5,542,630	6,493,199	389,336	381,015	5,931,966	6,874,214
Capital grants and contributions	68,807	258,533	136,236	57,500	205,043	316,033
General revenues						
Property taxes	4,863,006	4,492,230	-	-	4,863,006	4,492,230
Other taxes	2,487,807	2,596,439	-	-	2,487,807	2,596,439
Intergovernmental revenue unrestricted	955,354	924,651	-	-	955,354	924,651
Investment earnings	23,447	143,365	349,024	467,022	372,471	610,387
Other	37,692	27,374	-	-	37,692	27,374
Gain from sale of capital assets	10,544	3,078	-	-	10,544	3,078
Total revenues	14,457,808	15,445,363	26,745,018	29,258,357	41,202,826	44,703,720
Expenses						
General government	1,263,022	1,285,276	-	-	1,263,022	1,285,276
Judicial administration	73,925	54,638	-	-	73,925	54,638
Public safety	3,234,418	3,531,246	-	-	3,234,418	3,531,246
Public works	2,238,273	2,002,857	-	-	2,238,273	2,002,857
Health and welfare	615,447	679,222	-	-	615,447	679,222
Education	6,312,843	7,400,863	-	-	6,312,843	7,400,863
Parks, recreation, and cultural	505,520	732,067	-	-	505,520	732,067
Community development	419,959	521,281	-	-	419,959	521,281
Non-departmental	-	3,578	-	-	-	3,578
Interest on long-term debt	150,360	167,716	-	-	150,360	167,716
Water and sewer	-	-	3,057,530	3,012,009	3,057,530	3,012,009
Solid waste	-	-	979,974	1,141,850	979,974	1,141,850
Electric	-	-	22,855,580	23,372,403	22,855,580	23,372,403
Total expenses	14,813,767	16,378,744	26,893,084	27,526,262	41,706,851	43,905,006
Excess (deficiency) before transfers	(355,959)	(933,381)	(148,066)	1,732,095	(504,025)	798,714
Transfers	1,138,949	1,467,000	(1,138,949)	(1,467,000)	-	-
Change in net assets	782,990	533,619	(1,287,015)	265,095	(504,025)	798,714
Net assets – July 1	13,844,997	13,311,378	23,871,495	23,606,400	37,716,492	36,917,778
Net assets – June 30	<u>\$ 14,627,987</u>	<u>\$ 13,844,997</u>	<u>\$ 22,584,480</u>	<u>\$ 23,871,495</u>	<u>\$ 37,212,467</u>	<u>\$ 37,716,492</u>

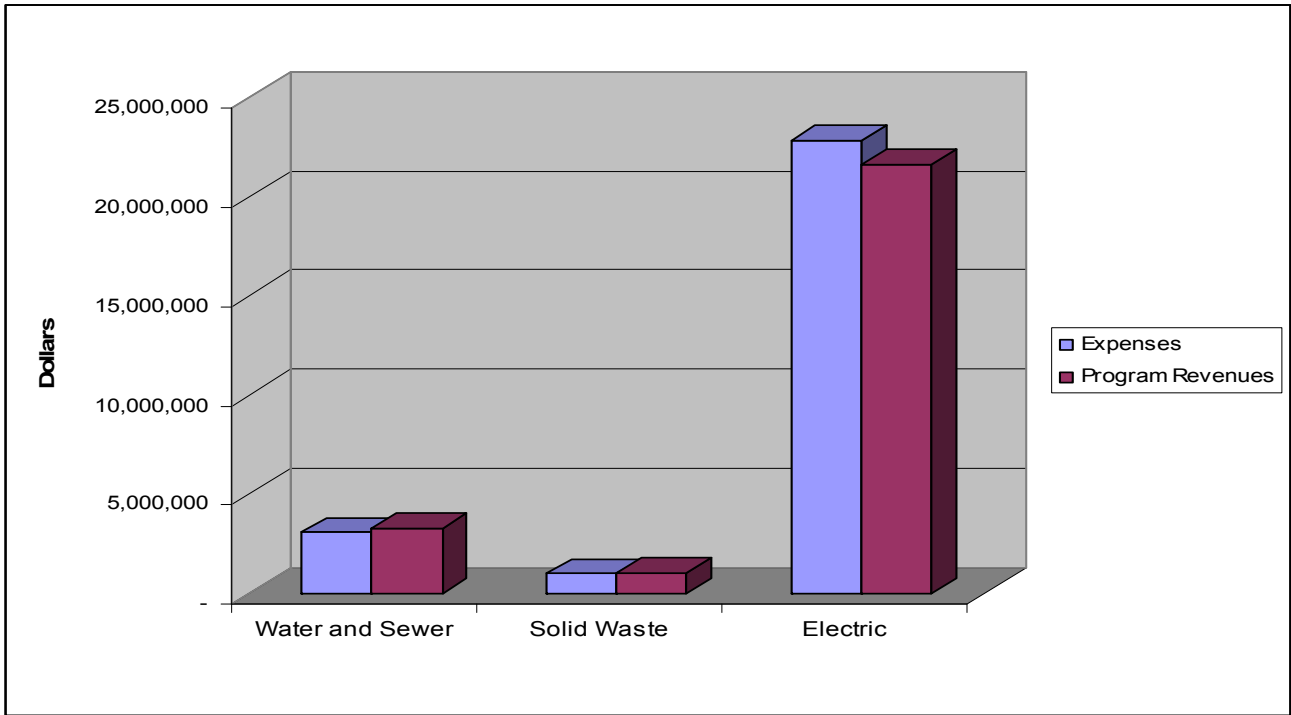
Expenses and Program Revenues – Governmental Activities



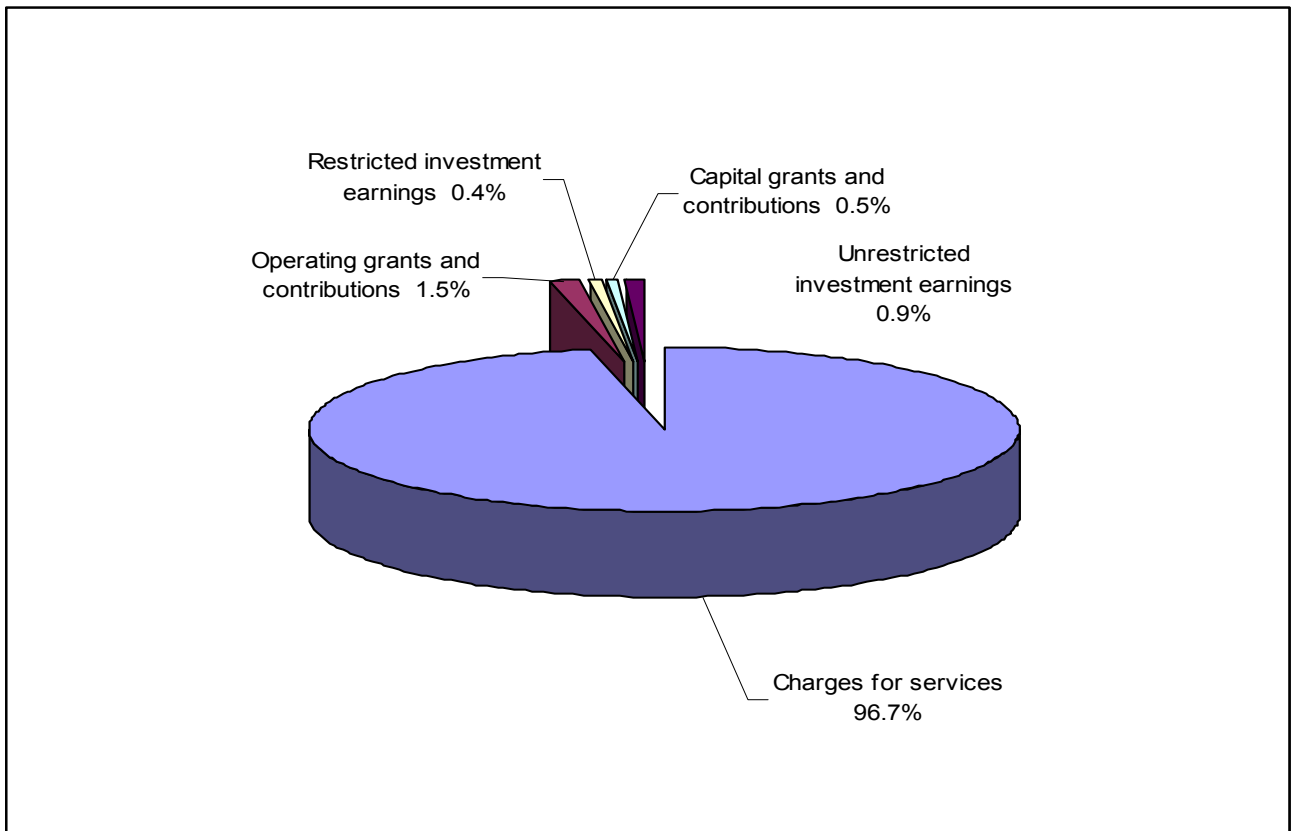
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-Type Activities



Revenues by Source – Business-Type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$3,686,194, an increase of \$845,832 in comparison with the prior year. Approximately 47% of this total amount – that is, \$1,719,613 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 11.73% of total general fund expenditures, while total fund balance represents 25.14% of that same amount.

The fund balance of the City's general fund increased by \$845,832 during the current fiscal year. One of the factors to this change is the decrease in expenditures for capital projects of \$422,601. This decrease was attributable to the down-turn in the economy which allowed less funding to be available for capital projects. A second factor was the decrease in expenditures for salaries of \$217,438. This is due to several positions being frozen and not filled or positions that were eliminated.

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

Unrestricted net assets of the water and sewer fund at the end of the year had a deficit of \$(287,366); the solid waste fund had a deficit of \$(2,132,208); and the unrestricted net assets for the electric fund amounted to \$10,534,464. The total decrease in net assets was \$(1,287,015). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$581,600. Highlights are as follows:

- \$185,560 was appropriated for additional paving projects during the fiscal year.
- \$50,000 was re-appropriated for upgrading and synchronizing of street lights.
- \$120,213 was re-appropriated for various projects at the Bedford Elementary School and Bedford Middle School including \$50,000 for expansion of the parking lot at Bedford Elementary School.
- \$12,500 was appropriated for Bedford Main Street Program.
- \$15,727 was re-appropriated for several police department grants.
- \$88,576 was re-appropriated for purchase orders that were carried over from the prior fiscal year.

General Fund Budgetary Highlights (Continued)

Differences between the final amended budget and actual results amounted to \$984,841. Highlights are as follows:

- The budget for the City's share of education to Bedford County was \$5,914,626. As of June 30, 2010, \$5,044,047 was expended, resulting in a positive variance of \$870,579.
- The budget for the City's share of Social Services to Bedford County was \$537,675. As of June 30, 2010, \$342,502 was expended, resulting in a positive variance of \$195,173.

Capital Asset and Debt Administration

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$54,216,455 (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 1.5% (a 4.2% decrease for governmental activities and a 0.3% decrease for business-type activities).

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

The City's Capital Assets

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,351,960	\$ 2,351,960	\$ 968,017	\$ 968,017	\$ 3,319,977	\$ 3,319,977
Buildings and improvements	13,047,407	12,939,014	29,775,890	29,732,211	42,823,297	42,671,225
Distribution and transmission systems	-	-	33,344,449	29,690,976	33,344,449	29,690,976
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	8,052,287	8,166,601	3,688,879	3,606,646	11,741,166	11,773,247
Infrastructure	11,851,641	11,515,520	-	-	11,851,641	11,515,520
Construction in progress	79,863	360,908	1,082,859	3,393,931	1,162,722	3,754,839
Less accumulated depreciation	(18,648,493)	(17,868,781)	(34,694,249)	(33,120,214)	(53,342,742)	(50,988,995)
Total	\$ 16,734,665	\$ 17,465,222	\$ 37,481,790	\$ 37,587,512	\$ 54,216,455	\$ 55,052,734

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

Long-Term Debt – At the end of the current fiscal year, the City had total debt outstanding of \$31,030,813. Of this amount, \$16,502,823 comprises debt backed by the full faith and credit of the government, \$184,882 is related to capital lease obligations, and \$14,343,108 is related to pledged revenue bonds.

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

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 2,819,927	\$ 3,230,546	\$ 12,932,896	\$ 14,020,836	\$ 15,752,823	\$ 17,251,382
Literary fund loans	750,000	825,000	-	-	750,000	825,000
Revenue bonds	-	-	14,343,108	15,215,652	14,343,108	15,215,652
Capital leases	184,882	363,292	-	-	184,882	363,292
Total	\$ 3,754,809	\$ 4,418,838	\$ 27,276,004	\$ 29,236,488	\$ 31,030,813	\$ 33,655,326

Capital Asset and Debt Administration (Continued)

The City's total debt decreased by \$2,624,513 or 7.8% during the current fiscal year due to principal repayments.

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

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City is currently 9.7%, which is an increase from the prior year's rate of 6.9%. This compares to the State's average unemployment rate of 7.0% and the national average rate of 9.5%.
- The occupancy rate of the City's central business district decreased to approximately 85% as compared to the prior year rate of 93%.
- Inflationary trends in the region compare favorably to national indices.
- The City has started working with a consultant to conduct a rate study for the electric fund. This will allow City Council to set rates that more closely reflect current contract rates and demands for electricity. The results of this study will be presented to City Council during fiscal year 2011.

All of these factors were considered in preparing the City's budget for the 2011 fiscal year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2010

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 3,231,307	\$ 6,068,876	\$ 9,300,183
Receivables, net (Note 3)	295,960	3,222,875	3,518,835
Due from other governmental units (Note 5)	491,112	56,103	547,215
Inventories	-	921,839	921,839
Cash and cash equivalents, restricted (Note 2)	892,420	2,644,981	3,537,401
Deferred expenses	46,361	471,576	517,937
Net investment in direct financing lease (Note 14)	-	2,464,445	2,464,445
Capital assets: (Note 6)			
Nondepreciable	2,431,823	2,050,876	4,482,699
Depreciable, net	14,302,842	35,430,914	49,733,756
Total assets	<u>21,691,825</u>	<u>53,332,485</u>	<u>75,024,310</u>
LIABILITIES			
Accounts payable and accrued liabilities	150,573	1,856,121	2,006,694
Accrued payroll and related liabilities	160,822	108,233	269,055
Accrued interest payable	50,721	127,076	177,797
Due to other governmental units (Note 5)	714,613	-	714,613
Customer security deposits	-	253,971	253,971
Noncurrent liabilities: (Note 7)			
Due within one year	1,055,648	2,658,573	3,714,221
Due in more than one year	4,931,461	25,744,031	30,675,492
Total liabilities	<u>7,063,838</u>	<u>30,748,005</u>	<u>37,811,843</u>
NET ASSETS			
Invested in capital assets, net of related debt	15,167,250	14,469,590	29,636,840
Unrestricted	(539,263)	8,114,890	7,575,627
Total net assets	<u>\$ 14,627,987</u>	<u>\$ 22,584,480</u>	<u>\$ 37,212,467</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2010

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government administration	\$ 1,263,022	\$ 346,196	\$ 239,988	\$ -	\$ (676,838)		\$ (676,838)
Judicial administration	73,925	-	-	-	(73,925)		(73,925)
Public safety	3,234,418	94,192	75,580	-	(3,064,646)		(3,064,646)
Public works	2,238,273	-	1,106,853	-	(1,131,420)		(1,131,420)
Health and welfare	615,447	-	-	-	(615,447)		(615,447)
Education	6,312,843	-	4,117,709	68,807	(2,126,327)		(2,126,327)
Parks, recreation, and cultural	505,520	28,133	-	-	(477,387)		(477,387)
Community development	419,959	-	2,500	-	(417,459)		(417,459)
Interest on long-term debt	150,360	-	-	-	(150,360)		(150,360)
Total governmental activities	14,813,767	468,521	5,542,630	68,807	(8,733,809)		(8,733,809)
Business-type activities:							
Water and sewer	3,057,530	3,249,909	389,336	136,236		\$ 717,951	717,951
Solid waste	979,974	1,000,078	-	-		20,104	20,104
Electric	22,855,580	21,620,435	-	-		(1,235,145)	(1,235,145)
Total business-type activities	26,893,084	25,870,422	389,336	136,236		(497,090)	(497,090)
Total primary government	\$ 41,706,851	\$ 26,338,943	\$ 5,931,966	\$ 205,043	(8,733,809)	(497,090)	(9,230,899)
General revenues:							
Property taxes					4,863,006	-	4,863,006
Sales tax					854,574	-	854,574
Business license tax					599,269	-	599,269
Meals tax					643,868	-	643,868
Other local taxes					390,096	-	390,096
Intergovernmental revenue, unrestricted					955,354	-	955,354
Unrestricted investment earnings					17,853	236,946	254,799
Restricted investment earnings					5,594	112,078	117,672
Other					37,692	-	37,692
Gain on sale of capital assets					10,544	-	10,544
Transfers (Note 4)					1,138,949	(1,138,949)	-
Total general revenues and transfers					9,516,799	(789,925)	8,726,874
Change in net assets					782,990	(1,287,015)	(504,025)
Net assets at July 1					13,844,997	23,871,495	37,716,492
Net assets at June 30					\$ 14,627,987	\$ 22,584,480	\$ 37,212,467

CITY OF BEDFORD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2010

General

ASSETS

Cash and cash equivalents	\$ 3,231,307
Cash and cash equivalents, restricted	892,420
Receivables, net (Note 3)	295,960
Due from other governmental units (Note 5)	491,112
Total assets	<u>\$ 4,910,799</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	\$ 150,573
Accrued payroll and related liabilities	160,822
Deferred revenue (Note 3)	198,597
Due to other governmental units (Note 5)	714,613
Total liabilities	<u>1,224,605</u>

Fund balance: (Note 9)

Reserved	1,966,581
Unreserved, reported in:	
General fund, designated	8,008
General fund, undesignated	1,711,605
Total fund balance	<u>3,686,194</u>
Total liabilities and fund balance	<u>\$ 4,910,799</u>

CITY OF BEDFORD, VIRGINIA

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

June 30, 2010

Total Fund Balance - Governmental Fund		\$ 3,686,194
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Nondepreciable capital assets	\$ 2,431,823	
Depreciable capital assets, net	<u>14,302,842</u>	
		16,734,665
Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt in the statement of net assets:		
Issuance costs total \$90,024 and accumulated amortization is \$43,663		46,361
Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.		
		198,597
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(2,819,927)	
Literary fund loans	(750,000)	
Capital leases	(184,882)	
Accrued interest payable	(50,721)	
Compensated absences	(167,300)	
Landfill post-closure liability	<u>(2,065,000)</u>	
		<u>(6,037,830)</u>
Total Net Assets - Governmental Activities		<u>\$ 14,627,987</u>

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND
Year Ended June 30, 2010**

	General
REVENUES	
General property taxes	\$ 4,770,869
Other local taxes	2,487,808
Permits, privilege fees, and regulatory licenses	23,261
Fines and forfeitures	65,813
Investment earnings	23,447
Charges for services	175,270
Other	37,691
Intergovernmental	6,566,791
Recovered costs	204,177
Total revenues	14,355,127
EXPENDITURES	
Current:	
General government administration	1,156,296
Judicial administration	73,925
Public safety	3,034,104
Public works	2,273,460
Health and welfare	615,447
Education	5,923,094
Parks, recreation, and cultural	436,653
Community development	330,515
Debt service:	
Principal retirement	664,029
Interest and fiscal charges	153,843
Total expenditures	14,661,366
Excess of expenditures over revenues	(306,239)
OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	13,122
Transfers in (Note 4)	1,138,949
Total other financing sources	1,152,071
Net change in fund balance	845,832
FUND BALANCE AT JULY 1	2,840,362
FUND BALANCE AT JUNE 30	\$ 3,686,194

CITY OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2010**

Net Change in Fund Balance – Governmental Fund \$ 845,832

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	\$ 422,887	
Depreciation expense	<u>(1,150,866)</u>	(727,979)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, insurance proceeds, and donations) is to decrease net assets.		(2,578)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		92,137
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction has an effect on net assets.

Principal repayments and other long-term debt reductions:

General obligation bonds	410,619	
Literary fund loans	75,000	
Capital leases	178,410	
Landfill post-closure (net change)	<u>(92,000)</u>	572,029

Governmental funds report the effect of bond issuance costs and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:

Amortization of deferred amounts	(5,704)	
Interest expense	<u>9,187</u>	3,483

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.

		<u>66</u>
Change in Net Assets - Governmental Activities		<u><u>\$ 782,990</u></u>

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		(Negative)
REVENUES				
General property taxes	\$ 4,675,400	\$ 4,675,400	\$ 4,770,869	\$ 95,469
Other local taxes	2,659,720	2,659,720	2,487,808	(171,912)
Permits, privilege fees, and regulatory licenses	35,460	35,460	23,261	(12,199)
Fines and forfeitures	71,100	71,100	65,813	(5,287)
Investment earnings	129,435	129,435	23,447	(105,988)
Charges for services	125,065	125,065	175,270	50,205
Other	129,350	129,350	37,691	(91,659)
Intergovernmental	7,362,194	7,463,034	6,566,791	(896,243)
Recovered costs	-	-	204,177	204,177
Total revenues	<u>15,187,724</u>	<u>15,288,564</u>	<u>14,355,127</u>	<u>(933,437)</u>
EXPENDITURES				
Current:				
General government administration	1,164,847	1,176,165	1,156,296	19,869
Judicial administration	86,910	86,910	73,925	12,985
Public safety	3,300,348	3,362,543	3,034,104	328,439
Public works	2,320,352	2,740,752	2,273,460	467,292
Health and welfare	900,964	900,964	615,447	285,517
Education	6,796,450	6,981,957	5,923,094	1,058,863
Parks, recreation, and cultural	482,451	485,471	436,653	48,818
Community development	336,461	336,461	330,515	5,946
Non-departmental	15,400	15,400	-	15,400
Debt service:				
Principal retirement	664,100	664,100	664,029	71
Interest and fiscal charges	153,850	153,850	153,843	7
Total expenditures	<u>16,222,133</u>	<u>16,904,573</u>	<u>14,661,366</u>	<u>2,243,207</u>
Excess of expenditures over revenues	<u>(1,034,409)</u>	<u>(1,616,009)</u>	<u>(306,239)</u>	<u>1,309,770</u>
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	10,000	10,000	13,122	3,122
Transfers in	1,467,000	1,467,000	1,138,949	(328,051)
Total other financing sources	<u>1,477,000</u>	<u>1,477,000</u>	<u>1,152,071</u>	<u>(324,929)</u>
Net change in fund balance	<u>\$ 442,591</u>	<u>\$ (139,009)</u>	<u>\$ 845,832</u>	<u>\$ 984,841</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS

June 30, 2010

	Business-type Activities – Enterprise Funds			
	Water & Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 6,068,876	\$ 6,068,876
Receivables, net (Note 3)	562,476	194,742	2,465,657	3,222,875
Due from other funds (Note 4)	-	-	573,911	573,911
Due from other governmental units (Note 5)	48,571	-	7,532	56,103
Inventories	-	-	921,839	921,839
Total current assets	611,047	194,742	10,037,815	10,843,604
Noncurrent assets:				
Cash and cash equivalents, restricted	848,562	1,117,174	679,245	2,644,981
Deferred expenses	107,146	25,370	339,060	471,576
Net investment in direct financing lease (Note 14)	-	-	2,464,445	2,464,445
Capital assets: (Note 6)				
Nondepreciable capital assets	1,248,730	506,831	295,315	2,050,876
Depreciable capital assets, net	16,896,832	1,242,001	17,292,081	35,430,914
Total noncurrent assets	19,101,270	2,891,376	21,070,146	43,062,792
Total assets	19,712,317	3,086,118	31,107,961	53,906,396
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	250,875	12,298	1,592,948	1,856,121
Accrued payroll and related liabilities	51,106	10,289	46,838	108,233
Accrued interest payable	36,774	24,024	66,278	127,076
Due to other funds (Note 4)	450,553	123,358	-	573,911
Customer security deposits	44,453	-	209,518	253,971
Noncurrent liabilities due within a year (Note 7)	1,477,302	219,696	961,575	2,658,573
Total current liabilities	2,311,063	389,665	2,877,157	5,577,885
Noncurrent liabilities:				
Due in more than a year (Note 7)	7,248,665	3,584,383	14,910,983	25,744,031
Total liabilities	9,559,728	3,974,048	17,788,140	31,321,916
NET ASSETS (DEFICIT) (Note 9)				
Invested in capital assets, net of related debt	10,439,955	1,244,278	2,785,357	14,469,590
Unrestricted	(287,366)	(2,132,208)	10,534,464	8,114,890
Total net assets (deficit)	\$ 10,152,589	\$ (887,930)	\$ 13,319,821	\$ 22,584,480

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS (DEFICIT)
PROPRIETARY FUNDS
Year Ended June 30, 2010**

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 3,249,909	\$ 1,000,078	\$ 21,620,435	\$ 25,870,422
Total operating revenues	<u>3,249,909</u>	<u>1,000,078</u>	<u>21,620,435</u>	<u>25,870,422</u>
OPERATING EXPENSES				
Refuse collection	-	178,258	-	178,258
Refuse disposal	-	328,133	-	328,133
Recycling	-	63,780	-	63,780
Supply and purification	495,921	-	-	495,921
Wastewater treatment	1,130,359	-	-	1,130,359
Wastewater pre-treatment	70,569	-	-	70,569
Transmission and distribution	180,052	-	811,032	991,084
Power generation	-	-	127,125	127,125
Purchased power	-	-	19,246,224	19,246,224
Meter reading	-	-	30,349	30,349
Landfill closure and postclosure care	-	90,000	-	90,000
Administration	299,550	36,636	912,207	1,248,393
Maintenance and repair	93,858	-	166,829	260,687
Depreciation	631,330	187,242	755,463	1,574,035
Amortization	1,110	21,629	107,802	130,541
Total operating expenses	<u>2,902,749</u>	<u>905,678</u>	<u>22,157,031</u>	<u>25,965,458</u>
Operating income (loss)	<u>347,160</u>	<u>94,400</u>	<u>(536,596)</u>	<u>(95,036)</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income	2,248	5,176	341,600	349,024
Interest expense	(154,781)	(74,296)	(698,549)	(927,626)
Intergovernmental revenue	136,236	-	-	136,236
Revenue sharing	389,336	-	-	389,336
Net nonoperating revenue (expenses)	<u>373,039</u>	<u>(69,120)</u>	<u>(356,949)</u>	<u>(53,030)</u>
Income (loss) before transfers	<u>720,199</u>	<u>25,280</u>	<u>(893,545)</u>	<u>(148,066)</u>
TRANSFERS OUT (Note 4)	<u>-</u>	<u>-</u>	<u>(1,138,949)</u>	<u>(1,138,949)</u>
Change in net assets	<u>720,199</u>	<u>25,280</u>	<u>(2,032,494)</u>	<u>(1,287,015)</u>
NET ASSETS (DEFICIT) AT JULY 1	<u>9,432,390</u>	<u>(913,210)</u>	<u>15,352,315</u>	<u>23,871,495</u>
NET ASSETS (DEFICIT) AT JUNE 30	<u>\$ 10,152,589</u>	<u>\$ (887,930)</u>	<u>\$ 13,319,821</u>	<u>\$ 22,584,480</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year Ended June 30, 2010

	Business-type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 3,282,449	\$ 1,035,685	\$ 21,696,481	\$ 26,014,615
Payments to suppliers	(1,267,300)	(235,505)	(20,132,109)	(21,634,914)
Payments to employees	(985,343)	(368,571)	(960,702)	(2,314,616)
Net cash provided by operating activities	1,029,806	431,609	603,670	2,065,085
NONCAPITAL FINANCING ACTIVITIES				
Revenue sharing	392,904	-	(7,532)	385,372
Contribution to joint IDA	-	-	(49,289)	(49,289)
Interfund borrowing	(493,801)	(225,058)	718,859	-
Transfers to other funds	-	-	(1,138,949)	(1,138,949)
Net cash used in noncapital financing activities	(100,897)	(225,058)	(476,911)	(802,866)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Intergovernmental revenue	136,236	-	-	136,236
Purchases of capital assets	(470,571)	-	(739,008)	(1,209,579)
Principal paid on capital debt	(1,884,070)	(206,643)	(884,771)	(2,975,484)
Proceeds from bond issuance and premium	1,066,187	-	-	1,066,187
Debt issuance costs	(101,187)	-	-	(101,187)
Interest paid on capital debt	(193,359)	(80,037)	(779,122)	(1,052,518)
Net cash used in capital and related financing activities	(1,446,764)	(286,680)	(2,402,901)	(4,136,345)
INVESTING ACTIVITIES				
Interest received	2,248	5,176	341,600	349,024
Net cash provided by investing activities	2,248	5,176	341,600	349,024
Net decrease in cash and cash equivalents	(515,607)	(74,953)	(1,934,542)	(2,525,102)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	1,364,169	1,192,127	8,682,663	11,238,959
Ending at June 30	\$ 848,562	\$ 1,117,174	\$ 6,748,121	\$ 8,713,857
RECONCILIATION TO EXHIBIT 8				
Cash and cash equivalents	\$ -	\$ -	\$ 6,068,876	\$ 6,068,876
Cash and cash equivalents, restricted	848,562	1,117,174	679,245	2,644,981
	\$ 848,562	\$ 1,117,174	\$ 6,748,121	\$ 8,713,857
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income (loss)	\$ 347,160	\$ 94,400	\$ (536,596)	\$ (95,036)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation and amortization	632,440	208,871	863,265	1,704,576
Landfill closure and postclosure care	-	90,000	-	90,000
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	30,611	35,606	76,874	143,091
Inventories	-	-	95,300	95,300
(Decrease) increase in:				
Accounts payable and accrued liabilities	25,822	9,006	109,326	144,154
Accrued payroll and related liabilities	(5,449)	(4,424)	(2,666)	(12,539)
Customer security deposits	1,929	-	(828)	1,101
Compensated absences	(2,707)	(1,850)	(1,005)	(5,562)
Net cash provided by operating activities	\$ 1,029,806	\$ 431,609	\$ 603,670	\$ 2,065,085
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital asset purchases included in accounts payable at year end	\$ 218,534	\$ -	\$ 50,216	\$ 268,750
Capitalized interest	\$ 33,918	\$ -	\$ 77,664	\$ 111,582

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The City of Bedford, Virginia (the “City”) was incorporated as a city in 1968. The City operates a Council-Manager form of government and provides all municipal services to its residents either directly or through shared services agreements with the County of Bedford, Virginia (see Note 11). As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government). The City has no component units.

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

Region 2000 Services Authority

During 2008, the City, in conjunction with the Counties of Campbell, Nelson, and Appomattox, and the City of Lynchburg, created the Regional 2000 Services Authority (the “Authority”). The Authority commenced operations on July 1, 2008. Each member jurisdiction pays a per-ton disposal charge for all waste transferred to the Authority. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-ton charge is based upon an assumed number of tons and is subject to adjustment at the end of each year. The governing board is composed of one member from each of the participating localities. The City paid \$89,923 to the Authority during the current year.

Central Virginia Community Services Board

The City, in conjunction with the Counties of Amherst, Appomattox, Bedford, and Campbell and the City of Lynchburg, participates in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City contributed \$6,144 to the Board during the current year.

Blue Ridge Regional Jail Authority

The City, in conjunction with the Counties of Halifax, Bedford, and Campbell, and the City of Lynchburg, participates in the Blue Ridge Regional Jail Authority (the “Authority”). Each member jurisdiction pays a per-diem charge for each day that one of its prisoners is at any regional jail facility. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-diem charge is based upon an assumed number of prisoner days and is subject to adjustment at the end of each fiscal year. The City paid \$242,865 to the Authority during the current year.

Bedford Public Library System

The Bedford Public Library System (the “Library”) is an independent regional library system created by an agreement between the City and the County of Bedford. The Library is governed by a board consisting of six members appointed equally by the City and County. Since the County provides a major portion of the Library’s annual revenue, it is accounted for in the County’s financial statements. The City contributed \$167,091 to the System during the current year.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Related Organizations:

City of Bedford Redevelopment and Housing Authority

Under the *Code of Virginia*, the Commonwealth of Virginia (the “Commonwealth”) created in each city and county a redevelopment and housing authority which is a separate political subdivision of the Commonwealth. Under a resolution approved in October 1970, City Council activated the City of Bedford Redevelopment and Housing Authority. The Authority owns and operates federal and state-assisted housing projects for low-income families and administers urban development projects. Commissioners of the Authority are appointed by City Council; however, City Council is not financially accountable for the Authority.

Industrial Development Authority of the City of Bedford

City Council passed an ordinance on November 10, 1970, which created the Industrial Development Authority of the City of Bedford (the “IDA”). The IDA was established to promote industry and develop trade within the City. The IDA is governed by a board of seven directors appointed by City Council; however, the City is not financially accountable for the IDA.

Other Boards and Commissions

City Council appoints certain members of various boards and commissions’ governing bodies as provided under state and local laws and ordinances. However, the boards and commissions are advisory in nature and the City is not financially accountable for these organizations.

Joint Ventures:

Joint Economic Development Authority

The City, in conjunction with the County of Bedford, created a Joint Economic Development Authority (Joint EDA), which is composed of a seven-member board of directors appointed by the participating localities. The City contributes a predetermined percentage of electric fund income before transfers and contributions to the Joint EDA each year to fund expenses. The percentage is determined by expressing the revenue earned in the economic development area as a percentage of total revenue (7.24% for 2010). The City did not make an operating contribution to the Joint EDA for the year ended June 30, 2010. The City and County have agreed to share equally any additional amounts necessary to cover the Joint EDA’s costs. Complete financial statements of the Joint EDA can be obtained from the Director of Finance of the City.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Joint Ventures: (Continued)

Central Virginia Radio Communication Board

The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford, and the City of Lynchburg for the operation of a regional radio communication system. The Central Virginia Radio Communication Board is responsible for overseeing the management, operation, and administration of the system. The project is financed by lease revenue bonds of the Industrial Development Authorities of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest of 5.72%) and the leasing of the project to the participating jurisdictions. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 3.9%. Future minimum lease payments in the amount of \$46,286 are included in the Governmental Activities long-term liabilities. Separate financial statements for this joint venture are not available.

Joint Tourism Program

The City, in conjunction with the County of Bedford, created a joint tourism program (the "program"), which is composed of a three-member executive committee made up of the City Manager, County Administrator, and Executive Director of the Bedford Area Chamber of Commerce. The City and County have agreed to share equally in the annual operating and capital expenses of the program. The City and County each contributed approximately \$214,000 to the program during the current year. Separate financial statements for this joint venture are not available.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. The City has no major governmental funds, except for the general fund.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental fund:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for water and sewer operations.

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

The *electric fund* accounts for electric distribution operations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

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

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer, solid waste, and electric enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Budgets and Budgetary Accounting

Following are the procedures used to establish the budgetary data reflected in the financial statements:

- 1) Prior to May 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the fund level.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$682,440 during the fiscal year ended June 30 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.

All appropriations which are not encumbered lapse at year end.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

E. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the general fund. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

F. Cash and Cash Equivalents

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

G. Investments

Investments are stated at fair value.

H. Allowance for Uncollectible Accounts

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

I. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories consist of electric department parts and materials held for consumption, which are expensed when used.

J. Capital Assets

Capital assets, which include property, plant and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. *Capital assets* are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$111,583 in interest expense was included as part of the cost of capital assets under construction in the enterprise funds.

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

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.

K. Deferred Expenses

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

L. Deferred Revenues

Deferred revenues consist primarily of property taxes not collected within 45 days of year end and property taxes collected that are not yet due.

M. Compensated Absences

City employees accumulate vacation time depending upon their length of service. Outstanding vacation time up to 20 days is payable upon termination of employment. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for these amounts are reported in the governmental funds only when the amounts are due and payable.

N. Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, *long-term debt* and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (Continued)

N. Long-Term Obligations (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

O. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

P. Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

Note 2. Deposits and Investments

Deposits

All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. Seq.* of the *Code of Virginia*, or covered by federal depository insurance.

Investments

Investment Policy:

In accordance with the *Code of Virginia* and other applicable laws, including regulations, the City's investment policy permits investments in treasury securities, agency securities, prime quality commercial paper, certificates of deposit maturing within one year and issued by domestic banks, banker's acceptances, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements, open-end investments, the Virginia State Non-Arbitrage Program (SNAP) or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than three months from the date of purchase.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

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

Credit Risk:

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

Concentration of Credit Risk:

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Interest Rate Risk:

As of June 30, the fair value, credit rating, percentage of portfolio and weighted average maturity of investments were 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>
Virginia LGIP	\$ 7,123,471	AAAm	64.7%	-
SNAP	2,370,425	AAAm	21.5	-
First American Prime Obligations Fund	546,518	AAAm	5.0	.14
Fidelity Government Portfolio	155,896	AAAm	1.4	.08
Federated Treasury Obligations Fund	94,304	AAAm	.9	.04
Western Asset Money Market Fund	10,650	AAAm	.1	.08
Government National Mortgage Association	<u>703,410</u>	AAA	<u>6.4</u>	2.48
	<u>\$ 11,004,674</u>		<u>100.0%</u>	

*Weighted average maturity in years

	<u>Fair Value</u>
Deposits	\$ 1,832,910
Investments	<u>11,004,674</u>
Total deposits and investments	<u>\$ 12,837,584</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 9,300,183
Cash and cash equivalents, restricted	<u>3,537,401</u>
Total deposits and investments	<u>\$ 12,837,584</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Custodial Credit Risk:

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

Restricted Amounts:

Restricted cash and cash equivalents consist primarily of unused bond proceeds of \$1,035,995, balances required to be maintained as conditions of certain bond instruments of \$2,223,136, and other restricted purposes of \$278,270.

Note 3. Receivables

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

	<u>General</u>	<u>Water and Sewer</u>	<u>Solid Waste</u>	<u>Electric</u>	<u>Total</u>
Receivables					
Taxes	\$ 283,675	\$ -	\$ -	\$ -	\$ 283,675
Accounts	33,300	686,001	229,340	3,002,081	3,950,722
Gross receivables	316,975	686,001	229,340	3,002,081	4,234,397
Less: allowance for uncollectibles	(21,015)	(123,525)	(34,598)	(536,424)	(715,562)
Net receivables	<u>\$ 295,960</u>	<u>\$ 562,476</u>	<u>\$ 194,742</u>	<u>\$ 2,465,657</u>	<u>\$ 3,518,835</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, *deferred revenue* was as follows:

	<u>Unavailable</u>
Delinquent taxes receivable	<u>\$ 198,597</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

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	Water and Sewer	\$ 450,553
Electric	Solid Waste	123,358
		<u>\$ 573,911</u>

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

Interfund transfer is as follows:

<u>Transfer Out Fund</u>	<u>Transfer In Fund</u>	<u>Amount</u>
Electric	General	<u>\$ 1,138,949</u>

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

Note 5. Due to/from Other Governmental Units

Amounts due from other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Bedford County		
Growth-sharing agreement	\$ 48,571	\$ 56,103
Joint tourism agreement	87,567	-
Fire and rescue	23,848	-
State of Virginia		
State sales tax	102,294	-
Local sales tax	166,623	-
Communications tax	24,910	-
Other	37,299	-
	<u>\$ 491,112</u>	<u>\$ 56,103</u>

Amounts due to other governmental units is as follows:

Bedford County		
Shared services	\$ 714,613	\$ -
	<u>\$ 714,613</u>	<u>\$ -</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 6. Capital Assets

Capital asset activity for the year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,351,960	\$ -	\$ -	\$ 2,351,960
Construction in progress	360,908	4,625	285,670	79,863
Total capital assets, not depreciated	<u>2,712,868</u>	<u>4,625</u>	<u>285,670</u>	<u>2,431,823</u>
Capital assets, depreciated				
Buildings and improvements	12,939,014	108,393	-	13,047,407
Machinery and equipment	8,166,601	259,418	373,732	8,052,287
Infrastructure	11,515,520	336,121	-	11,851,641
Total capital assets, depreciated	<u>32,621,135</u>	<u>703,932</u>	<u>373,732</u>	<u>32,951,335</u>
Less accumulated depreciation	<u>17,868,781</u>	<u>1,150,866</u>	<u>371,154</u>	<u>18,648,493</u>
Total capital assets, depreciated, net	<u>14,752,354</u>	<u>(446,934)</u>	<u>2,578</u>	<u>14,302,842</u>
Governmental activities capital assets, net	<u>\$ 17,465,222</u>	<u>\$ (442,309)</u>	<u>\$ 288,248</u>	<u>\$ 16,734,665</u>
<u>Business-type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 968,017	\$ -	\$ -	\$ 968,017
Construction in progress	3,393,931	545,987	2,857,059	1,082,859
Total capital assets, not depreciated	<u>4,361,948</u>	<u>545,987</u>	<u>2,857,059</u>	<u>2,050,876</u>
Capital assets, depreciated				
Buildings and improvements	29,732,211	43,679	-	29,775,890
Machinery and equipment	3,606,646	82,233	-	3,688,879
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	29,690,976	3,653,473	-	33,344,449
Total capital assets, depreciated	<u>66,345,778</u>	<u>3,779,385</u>	<u>-</u>	<u>70,125,163</u>
Less accumulated depreciation	<u>33,120,214</u>	<u>1,574,035</u>	<u>-</u>	<u>34,694,249</u>
Total capital assets, depreciated, net	<u>33,225,564</u>	<u>2,205,350</u>	<u>-</u>	<u>35,430,914</u>
Business-type activities capital assets, net	<u>\$ 37,587,512</u>	<u>\$ 2,751,337</u>	<u>\$ 2,857,059</u>	<u>\$ 37,481,790</u>

(Continued)

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 6. Capital Assets (Continued)

Included in governmental activities capital assets is property in the amount of \$2,178,528 financed by a capital lease.

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 103,578
Public safety	241,681
Public works	161,122
Education	483,364
Parks, recreation, and cultural	69,052
Community development	<u>92,069</u>
	<u>\$ 1,150,866</u>
 Business-type activities	
Water and sewer	\$ 631,330
Solid waste	187,242
Electric	<u>755,463</u>
	<u>\$ 1,574,035</u>

Construction Commitments

The City has active construction projects related to various items. At year end, the City's commitments on the projects are as follows:

	<u>Total Contracts</u>	<u>Total Payments</u>	<u>Amounts to be Expended</u>
General Fund:			
Wayfinder Signage Project	\$ 218,907	\$ 188,673	\$ 30,234
 Water and Sewer Fund:			
460 West JEDA water line	<u>732,167</u>	<u>483,145</u>	<u>249,022</u>
	<u>\$ 951,074</u>	<u>\$ 671,818</u>	<u>\$ 279,256</u>

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 7. Long-Term Liabilities

Current Year Defeasance of Debt

In June 2010, the City issued \$1,015,000 in general obligation bonds with an average interest rate of 2.9%. These bonds were issued to refund \$965,000 in outstanding 2002 Series B general obligation bonds with an average rate of 5.0%. The net proceeds of the refunding were \$1,025,251 (including \$51,187 in bond premium and payment of \$40,936 in underwriting fees and other issuance costs). The liability for the refunded bonds has been replaced with the liability from the new debt with the difference between the reacquisition price and the net carrying amount of the old debt being deferred and amortized over the life of the new debt in proportion to the stated interest due on the new debt.

The City refunded the 2002 Series B bonds to reduce its total debt service over the next 7 years by \$46,359 and to obtain an economic gain (the difference between the present values of the debt service payments on the old and new debt) of \$38,283.

Prior Year Defeasance of Debt

In 2002 and 2006, the City defeased certain refunding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. During 2002 and 2006, the trust monies were used to retire the refunded bonds. The deferred costs are being amortized over the life of the new bonds as a component of interest expense.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 3,230,546	\$ -	\$ 410,619	\$ 2,819,927	\$ 421,630
Literary fund loans	825,000	-	75,000	750,000	75,000
Capital leases	363,292	-	178,410	184,882	184,882
Compensated absences	167,366	167,300	167,366	167,300	167,300
Landfill liability:					
Closed landfill	<u>1,973,000</u>	<u>92,000</u>	<u>-</u>	<u>2,065,000</u>	<u>206,836</u>
Governmental activities long-term liabilities	<u>\$ 6,559,204</u>	<u>\$ 259,300</u>	<u>\$ 831,395</u>	<u>\$ 5,987,109</u>	<u>\$ 1,055,648</u>
Business-type Activities:					
General obligation bonds	\$ 14,020,836	\$ 1,015,000	\$ 2,102,940	\$ 12,932,896	\$ 1,615,900
Revenue bonds	15,215,652	-	872,544	14,343,108	911,826
Compensated absences	136,409	130,847	136,409	130,847	130,847
Landfill liability:					
Open landfill	<u>2,053,000</u>	<u>90,000</u>	<u>-</u>	<u>2,143,000</u>	<u>-</u>
Business-type activities long-term liabilities	<u>\$ 31,425,897</u>	<u>\$ 1,235,847</u>	<u>\$ 3,111,893</u>	<u>\$ 29,549,851</u>	<u>\$ 2,658,573</u>

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

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 7. Long-Term Liabilities (Continued)

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

Year Ended June 30	Governmental Activities				Business-type Activities			
	General Obligation Bonds		Other Long-Term Debt		General Obligation Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 421,630	\$ 103,117	\$ 259,882	\$ 29,184	\$ 1,615,900	\$ 324,793	\$ 911,826	\$ 633,082
2012	382,725	88,793	75,000	20,509	1,129,985	283,348	797,010	606,101
2013	458,498	75,106	75,000	18,000	1,364,352	254,142	723,851	578,499
2014	365,855	57,276	75,000	15,750	1,042,956	214,773	747,139	549,753
2015	202,470	47,583	75,000	13,500	1,073,152	190,699	775,564	519,193
2016-2020	395,598	172,409	375,000	33,750	4,725,044	576,589	4,449,413	2,033,450
2021-2025	484,091	83,918	-	-	1,903,381	134,680	5,589,196	909,248
2026-2029	109,060	4,495	-	-	78,126	3,217	349,109	18,283
	<u>\$ 2,819,927</u>	<u>\$ 632,697</u>	<u>\$ 934,882</u>	<u>\$ 130,693</u>	<u>\$ 12,932,896</u>	<u>\$ 1,982,241</u>	<u>\$ 14,343,108</u>	<u>\$ 5,847,609</u>

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
Public improvement	2.0-3.6	12/01/03	2013	\$ 1,460,000	\$ 635,000	\$ -
Virginia Resources Authority:						
Taxable water and sewer	2.5	06/23/98	2019	\$ 5,225,000	-	2,867,033
Solid waste management refunding	4.1-4.85	06/28/01	2013	\$ 2,375,000	196,661	598,339
Water and sewer	3.1-4.85	06/06/02	2017	\$ 2,005,000	-	135,000
Water and sewer refunding	3.2-3.575	06/01/10	2017	\$ 1,015,000	-	1,015,000
Virginia Revolving Loan Fund:						
Water and sewer	0.0	04/25/02	2022	\$ 2,866,300	-	1,791,437
Water and sewer	0.0	09/27/01	2022	\$ 1,800,000	-	1,080,000
Public improvement	3.0	10/01/04	2010	\$ 1,200,000	-	-
Public improvement	3.79-4.12	11/30/05	2026	\$ 2,766,968	1,330,222	952,020
Public improvement	2.5	08/25/06	2011	\$ 500,000	-	500,000
Public improvement	2.89-3.62	04/29/08	2023	\$ 5,472,438	658,044	3,994,067
					2,819,927	12,932,896
				Less deferred costs	-	(33,245)
				Plus bond premium	-	57,680
					<u>\$ 2,819,927</u>	<u>\$ 12,957,331</u>

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 7. Long-Term Liabilities (Continued)

Revenue Bonds:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-type Activities
Virginia Resources Authority:						
Taxable water and sewer	0.0	01/91	2011	\$ 3,990,672	\$ -	\$ 303,945
Electric system refunding	3.0-4.13	08/05	2025	\$ 12,560,000	-	10,330,000
Taxable lease	7.81	06/96	2026	\$ 2,630,000	-	2,060,000
Electric system	3.89-4.17	11/05	2026	\$ 2,064,710	-	1,649,163
					-	14,343,108
				Less deferred costs	-	(1,109,988)
				Less bond discount	-	(61,694)
					<u>\$ -</u>	<u>\$ 13,171,426</u>
<u>Other Long-Term Debt:</u>						
Literary fund loans	3.0	01/98	2019	\$ 1,500,000	<u>\$ 750,000</u>	<u>\$ -</u>
<u>Capital Leases:</u>						
Central Virginia radio communications equipment	5.72	05/96	2011	\$ 387,309	\$ 31,204	\$ -
Equipment lease	3.52	11/05	2011	\$ 717,885	<u>153,678</u>	<u>-</u>
					<u>\$ 184,882</u>	<u>\$ -</u>

Bonds issued between 1991 and 1998 are callable subject to a maximum premium of 2.5%.

Note 8. Landfill Closure and Postclosure Care Costs

Closed Landfill

The City closed its former landfill site in 1994. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure. The cumulative amount of estimated closure and postclosure care costs to date for this site, less cash paid for such costs to date, totals \$2,065,000. The presence of certain contaminants has been detected in the groundwater on adjacent property. The estimated liability is based on the Virginia Department of Environmental Quality (DEQ) accepting the active remedy proposed by the City. If the DEQ does not accept the active remedy, the actual costs may increase. Also, actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

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

Open Landfill

This landfill site began accepting waste in August 1994. State and federal laws require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used. The \$2,143,000 reported as landfill closure and postclosure liability as of June 30 represents the cumulative amount reported to date based on use of approximately 94% of estimated capacity. The remaining estimated cost of closure and post closure care of \$142,000 will be recognized as estimated capacity is filled. This amount is included in the solid waste fund. The City is shipping most waste, except construction debris, to the newly formed Region 2000 Service Authority (see Note 1A). The City expects to close the landfill in 2020. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

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

Note 9. Net Assets/Fund Equity

Reserved Fund Balance

Fund balance reserves are used to indicate the portion of fund balance that is not available for appropriation or is legally segregated for a specific future use. Fund balance is reserved in the general fund for the following:

Encumbrances	\$ 336,718
Debt service	546,518
Perpetual care	789,023
Due from other governmental units	87,567
E-911	3,225
Virginia Community Development Grant	203,530
	<u>\$ 1,966,581</u>

Designated Fund Balance

Designations of fund balance are established to indicate tentative plans for financial resource utilization in a future period. Fund balance is designated in the general fund for payment of retired employees' life insurance.

Deficit Net Assets

At June 30, the solid waste fund had a deficit in net assets of \$887,930. This deficit is anticipated to be recovered through future revenues, as well as possible transfers from the general fund or electric fund.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 10. Defined Benefit Pension Plan

Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried, permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service (age 60 for participating local law enforcement officers and firefighters) or at age 50 with at least 30 years of service if elected by the employer (age 50 with at least 25 years of service for participating local law enforcement officers and firefighters) payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service (1.85% for sheriffs and, if the employer elects, other employees in hazardous duty positions receiving enhanced benefits). Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5.0% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers and firefighters may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be downloaded from their website at <http://www.varetire.org/Pdf/Publications/2008annurept.pdf> or obtained by writing to the System at P.O. Box 2500, Richmond, Virginia 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their annual salary to the VRS. The employer may assume this 5.00% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2010 was 18.19% of annual covered payroll. The City's contribution rate includes the employee's share of 5.00% paid by the employer.

The City has an agreement with the County of Bedford to operate the schools under a joint contract. Information relating to the employees of the Bedford County Schools is included in the Bedford County's financial statements.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 10. Defined Benefit Pension Plan (Continued)

Annual Pension Cost

For fiscal year 2010, the City's annual pension cost of \$797,761 was equal to the City's required and actual contributions.

Three-Year Trend Information			
<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$ 797,761	100%	\$ -
June 30, 2009	\$ 840,999	100%	\$ -
June 30, 2008	\$ 829,366	100%	\$ -

The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 20 years.

Funded Status and Funding Progress

As of June 30, 2009, the most recent actuarial valuation date, the plan was 77.06% funded. The actuarial accrued liability for benefits was \$21,363,663 and the actuarial value of assets was \$16,462,601, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,901,062. The covered payroll (annual payroll of active employees covered by the plan) was \$4,689,438, and the ratio of the UAAL to the covered payroll was 104.51%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 11. Other Postemployment Benefits

The Governmental Accounting Standards Board (GASB) Statement No. 45, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. The City prospectively adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2009. Recognition of the liability accumulated from prior years will be phased in over 22.9 years, commencing with the 2009 liability.

Plan Description

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

- General government – Participants must have attained age 50 with a minimum of 30 years of service.
- Law enforcement officers – Participants must have attained age 50 with a minimum of 25 years of service.

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

The number of participants at June 30, 2010 was as follows:

Retirees currently receiving benefits	4
Active employees	118
	<hr/>
Total	122
	<hr/> <hr/>

Funding Policy

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 11. Other Postemployment Benefits (Continued)

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For 2010 the City's OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	\$	14,800
Interest on net OPEB obligation		-
Adjustment to annual required contribution		-
		-
Annual OPEB cost		14,800
Contributions made		14,800
		14,800
Increase in net OPEB obligation		-
Net OPEB obligation – beginning of year		-
		-
Net OPEB obligation – end of year	\$	-

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. Since 2009 is the City's first year for implementing GASB No. 45, the City cannot report the same information for both of the preceding two years.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2010	\$ 14,800	100%	\$ -
June 30, 2009	\$ 13,400	100%	\$ -

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2010 was as follows:

Actuarial Accrued Liability (AAL)	\$	162,500
Actuarial Value of Plan Assets	\$	-
Unfunded Actuarial Accrued Liability (UAAL)	\$	162,500
Funded Ratio (Actuarial Value of Plan Assets/AAL)		- %
Covered Payroll (Active Plan Members)	\$	4,727,100
UAAL as a Percentage of Covered Payroll		3.44 %

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 11. Other Postemployment Benefits (Continued)

Funding Status and Funding Progress (Continued)

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.

In the January 1, 2009 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4.0% discount rate and an initial annual healthcare cost trend of 6.7% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 5.1%. The unfunded accrued liability is being amortized over 22.9 years. The remaining amortization period at June 30, 2010 is 21 years.

Note 12. Service Contracts

Power Purchase Contracts

Holcomb Rock and Coleman Falls

In 2006, the City entered into an agreement through 2011 to purchase all of the energy generated from two hydroelectric facilities located on the James River. The agreement contains one-year extensions subsequent to the 2011 expiration date. The amount purchased by the City varies according to current hydrologic conditions but is estimated to be 15,000,000 kilowatt-hours per year. The City pays a fixed rate of \$0.0345 per kilowatt-hour for all energy produced by the facilities.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 12. Service Contracts (Continued)

Power Purchase Contracts (Continued)

AMP-Ohio – Master Service Agreement

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

AMP-Ohio – Prairie State Energy Project

During 2008, the City entered into a power sales contract with AMP-Ohio whereby it and others agreed to participate in the guaranteed purchase of electric generation from a coal-fired generating facility in southwestern Illinois. The participants authorized AMP-Ohio to acquire ownership interest in the project, and the City agreed to purchase 1.89% of the power generated under that ownership interest. The contract is on a “take-or-pay” basis which means the City is required to pay for its guaranteed portion whether or not it is used and is not conditioned on the performance by AMP-Ohio under the contract. The obligations are required to be made whether or not the project is completed, operable, or operating and as long as bonds issued by AMP-Ohio remain outstanding. The amount payable under the contract is currently undeterminable. The contract extends through 2057. Payments under the agreement are not set to begin until the first commercial operation date which is anticipated to begin in 2011.

Shared Services

Bedford County provides courthouse facilities and a centralized dispatching facility, as well as the services of the Sheriff, Commonwealth Attorney and Clerk of the Circuit Court to the City. The City reimburses the County for these services based on the total population of both localities as reported in the most recent census. For the current fiscal year, the City’s population was 9.45% of the total population. In addition, the County provides health and welfare services to the City through the Departments of Health and Social Services, respectively. The City reimburses the County for these services based on the actual caseload.

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

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2010**

Note 13. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. The assessed value is as of July 1 for real property and January 1 for personal property. Real estate taxes are payable in four quarterly installments on September 30, December 31, March 31, and June 5. The real estate tax rate was \$0.86 and \$0.81 per \$100 of assessed value for fiscal years 2010 and 2009, respectively.

Personal property taxes are payable on December 5. The personal property tax rate was \$2.43 and \$2.17 per \$100 for 2010 and 2009, respectively. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

Note 14. Risk Management

The Risk Management programs of the City are as follows:

Workers' Compensation

The City is a member of the Virginia Municipal Group Self-Insured Association for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates, and claims experience. Total premiums for fiscal year 2010 were approximately \$146,000.

General Liability and Other

The City purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from Virginia Municipal Liability Pool. The City's property and contents are insured up to a limit of approximately \$65 million. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability insurance. The City's Public Officials and Law Enforcement Liability and the School Board Legal Liability coverages, with a \$1,000,000 limit for each, are provided through a policy with the Commonwealth of Virginia. Total premiums for fiscal year 2010 were approximately \$174,000.

Healthcare

The City provides healthcare coverage for employees through a policy with Piedmont Community Health Plan. The City contributes \$370.70 monthly towards the premium for each employee that elects to be covered. Dependents of employees are also covered by the policy provided they pay the additional premium to the City. Total premiums for fiscal year 2010 were approximately \$692,000.

Other

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

CITY OF BEDFORD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 15. Leases

The City 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	\$ 5,567,980
Guaranteed residual value	1,369,086
Unearned income	<u>(4,472,621)</u>
Net investment in direct financing lease	<u>\$ 2,464,445</u>

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

Note 16. Commitments and Contingencies

Grant Programs

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

Litigation

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

Reservoir Upgrade

The City is required by a regulatory agency to make significant improvements to its reservoir including a compacted concrete dam to replace the current earthen dam. The City is expected to derive an increase in useful life of the reservoir and accordingly will not record a liability for the project. The cost is projected to be between \$5 and \$6 million. During 2007, the City obtained financing in the amount of \$500,000 to finance the design and engineering phase of construction. The City has received a \$5,000,000 grant from the Department of Conservation and Recreation that has a 50/50 match requirement. The City anticipates using approximately \$3,500,000 of this grant. The remaining costs of the project will be incurred by the City using borrowed funds. The project is expected to start in March 2011.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 17. Joint Economic Development and Growth Sharing Agreement

The City and Bedford County entered an agreement dated in 1998 titled “Joint Economic Development and Growth Sharing Agreement.” The agreement provides for the development of a jointly owned 110-acre industrial park within the City; designation of four economic development areas located in the County adjacent to the City for which water and sewer will be made available; and development of a long-range plan to address water and sewer needs in central Bedford County.

The City and County agreed in perpetuity to share equally all local taxes on real estate, personal property and machinery and tools, merchant’s capital, sales and use taxes, and all business, professional and occupational taxation, and any other taxes generated in respect to properties and activities within the Economic Development Areas (including the Industrial Park site located within the City and four designated areas located within the County).

Note 18. New Accounting Standards

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

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* provides new fund balance classifications and clarifies governmental fund type definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement will be effective for the year ending June 30, 2011.

Management has not yet evaluated the effects, if any, of adopting this standard.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BEDFORD, VIRGINIA

**ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
AND OTHER POST-EMPLOYMENT BENEFITS
June 30, 2010**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
DEFINED BENEFIT PLAN (VRS)						
June 30, 2007	\$ 14,699,397	\$ 19,383,049	\$ 4,683,652	75.84%	\$ 4,925,257	95.09%
June 30, 2008	\$ 16,251,341	\$ 20,708,080	\$ 4,456,739	78.48%	\$ 4,776,846	93.30%
June 30, 2009	\$ 16,462,601	\$ 21,363,663	\$ 4,901,062	77.06%	\$ 4,689,438	104.51%
OTHER POST-EMPLOYMENT BENEFITS						
January 1, 2009	\$ -	\$ 162,500	\$ 162,500	0.00%	\$ 4,727,100	3.44%

STATISTICAL SECTION

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

<u>Contents</u>	<u>Table</u>
Financial Trends These tables contain trend information to help the reader understand how the City'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 City'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 City's current levels of outstanding debt and the City's 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 City'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 City's operations and resources to help the reader understand how the City's 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. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Governmental activities								
Invested in capital assets, net of related debt	\$ 15,167,250	\$ 15,362,995	\$ 15,245,441	\$ 14,745,115	\$ 14,470,547	\$ 13,545,504	\$ 13,153,135	\$ 12,064,211
Unrestricted	(539,263)	(1,517,998)	(1,934,063)	2,042,536	1,965,046	2,504,784	3,515,785	4,248,602
Total governmental activities net assets	<u>\$ 14,627,987</u>	<u>\$ 13,844,997</u>	<u>\$ 13,311,378</u>	<u>\$ 16,787,651</u>	<u>\$ 16,435,593</u>	<u>\$ 16,050,288</u>	<u>\$ 16,668,920</u>	<u>\$ 16,312,813</u>
Business-type activities								
Invested in capital assets, net of related debt	\$ 14,469,590	\$ 13,809,254	\$ 13,137,264	\$ 11,813,722	\$ 8,371,842	\$ 8,058,562	\$ 3,652,555	\$ 1,687,513
Unrestricted	8,114,890	10,062,241	10,469,136	6,880,977	10,518,305	12,817,093	15,139,520	\$ 17,120,145
Total business-type activities net assets	<u>\$ 22,584,480</u>	<u>\$ 23,871,495</u>	<u>\$ 23,606,400</u>	<u>\$ 18,694,699</u>	<u>\$ 18,890,147</u>	<u>\$ 20,875,655</u>	<u>\$ 18,792,075</u>	<u>\$ 18,807,658</u>
Primary government								
Invested in capital assets, net of related debt	\$ 29,636,840	\$ 29,172,249	\$ 28,382,705	\$ 26,558,837	\$ 22,842,389	\$ 21,604,066	\$ 16,805,690	\$ 13,751,724
Unrestricted	7,575,627	8,544,243	8,535,073	8,923,513	12,483,351	15,321,877	18,655,305	21,368,747
Total primary government net assets	<u>\$ 37,212,467</u>	<u>\$ 37,716,492</u>	<u>\$ 36,917,778</u>	<u>\$ 35,482,350</u>	<u>\$ 35,325,740</u>	<u>\$ 36,925,943</u>	<u>\$ 35,460,995</u>	<u>\$ 35,120,471</u>

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

TABLE 2

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
Expenses								
Governmental activities:								
General government	\$ 1,263,022	\$ 1,285,276	\$ 1,157,362	\$ 1,108,975	\$ 1,255,082	\$ 1,207,094	\$ 1,009,729	\$ 947,472
Judicial administration	73,925	54,638	45,844	20,269	22,108	27,097	11,587	22,602
Public safety	3,234,418	3,531,246	3,551,640	3,491,536	3,147,207	2,792,008	2,693,711	2,432,172
Public works	2,238,273	2,002,857	1,800,835	1,870,534	1,734,423	1,544,583	1,561,611	1,822,153
Health and welfare	615,447	679,222	859,833	675,828	558,469	721,935	366,032	491,097
Education	6,312,843	7,400,863	7,521,071	7,280,991	6,924,063	6,327,656	6,320,200	5,567,031
Parks, recreation, and cultural	505,520	732,067	968,399	990,201	947,889	953,698	905,957	846,373
Community development	419,959	521,281	525,207	464,080	518,251	1,123,443	370,323	753,717
Nondepartmental	-	3,578	10,923	1,208	7,829	486	11,580	5,665
Interest on long-term debt	150,360	167,716	224,815	137,765	112,811	169,253	161,260	157,533
Total governmental activities	14,813,767	16,378,744	16,665,929	16,041,387	15,228,132	14,867,253	13,411,990	13,045,815
Business-type activities:								
Water and sewer	3,057,530	3,012,009	2,889,286	3,074,722	3,046,030	2,906,751	2,765,384	2,603,408
Solid waste	979,974	1,141,850	1,225,962	1,789,163	2,097,695	1,049,661	2,989,664	1,160,635
Electric	22,855,580	23,372,403	19,353,950	18,798,435	15,305,400	10,252,537	10,125,068	10,673,208
Total business-type activities expense	26,893,084	27,526,262	23,469,198	23,662,320	20,449,125	14,208,949	15,880,116	14,437,251
Total primary government expenses	41,706,851	43,905,006	40,135,127	39,703,707	35,677,257	29,076,202	29,292,106	27,483,066
Program Revenues								
Governmental activities:								
Charges for services:								
General government	346,196	299,493	265,733	276,964	259,823	279,606	9,053	-
Public safety	94,192	117,681	125,533	125,411	111,122	77,334	105,953	71,292
Parks, recreation, and cultural	28,133	89,320	105,913	105,283	91,610	105,338	252,765	203,145
Operating grants and contributions	5,542,630	6,493,199	6,036,954	5,916,844	5,403,786	5,141,468	4,996,519	4,815,749
Capital grants and contributions	68,807	258,533	610,115	229,931	171,077	262,155	483,588	113,318
Total governmental activities program revenues	6,079,958	7,258,226	7,144,248	6,654,433	6,037,418	5,865,901	5,847,878	5,203,504
Business-type activities:								
Charges for services:								
Water and sewer	3,249,909	3,131,495	3,316,832	2,823,034	2,736,581	2,703,699	2,679,837	2,676,689
Solid waste	1,000,078	1,032,705	1,091,627	1,130,918	1,045,479	959,414	878,092	1,037,228
Electric	21,620,435	24,188,620	20,393,092	19,686,578	15,600,264	12,944,906	12,285,888	12,750,334
Operating grants and contributions	389,336	381,015	333,872	330,314	371,778	201,470	299,228	231,473
Capital grants and contributions	136,236	57,500	102,100	-	-	-	-	-
Total business-type activities program revenues	26,395,994	28,791,335	25,237,523	23,970,844	19,754,102	16,809,489	16,143,045	16,695,724
Total primary government program revenues	32,475,952	36,049,561	32,381,771	30,625,277	25,791,520	22,675,390	21,990,923	21,899,228
Net (expense) revenue								
Governmental activities	(8,733,809)	(9,120,518)	(9,521,681)	(9,386,954)	(9,190,714)	(9,001,352)	(7,564,112)	(7,842,311)
Business-type activities	(497,090)	1,265,073	1,768,325	308,524	(695,023)	2,600,540	262,929	2,258,473
Total primary government net expense	(9,230,899)	(7,855,445)	(7,753,356)	(9,078,430)	(9,885,737)	(6,400,812)	(7,301,183)	(5,583,838)

(Continued)

TABLE 2

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

	Fiscal Year							
	2010	2009	2008	2007	2006	2005	2004	2003
General Revenues and Other Changes								
Governmental activities:								
Taxes								
Property taxes	\$ 4,863,006	\$ 4,492,230	\$ 4,300,745	\$ 4,269,862	\$ 3,615,417	\$ 3,568,818	\$ 3,473,488	\$ 3,395,115
Sales taxes	854,574	894,826	998,680	1,017,547	927,493	968,531	869,635	843,739
Business license tax	599,269	637,671	656,230	671,322	617,347	637,336	631,865	609,905
Meals tax	643,868	663,141	681,216	650,068	557,659	521,767	512,743	503,307
Other local taxes	390,096	400,801	540,166	537,283	495,420	400,521	380,592	412,599
Intergovernmental revenue not restricted	955,354	924,651	939,102	971,695	982,103	903,654	977,227	917,835
Investment earnings	23,447	143,365	247,573	404,158	343,308	221,008	113,116	156,775
Contribution of property	-	-	-	-	-	-	-	(990,590)
Gain on sale of assets	10,544	3,078	-	4,621	26,212	15,128	-	-
Other	37,692	27,374	25,457	22,720	57,037	57,333	714	1,731
Transfers	1,138,949	1,467,000	(2,343,761)	1,189,736	1,954,023	1,003,825	981,550	1,467,000
Total governmental activities	9,516,799	9,654,137	6,045,408	9,739,012	9,576,019	8,297,921	7,940,930	7,317,416
Business-type activities:								
Investment earnings	349,024	467,022	631,292	685,764	663,538	486,865	497,038	546,077
Gain on sale of capital assets	-	-	168,323	-	-	-	-	-
Transfers	(1,138,949)	(1,467,000)	2,343,761	(1,189,736)	(1,954,023)	(1,003,825)	(981,550)	(1,467,000)
Total business-type activities	(789,925)	(999,978)	3,143,376	(503,972)	(1,290,485)	(516,960)	(484,512)	(920,923)
Total primary government	8,726,874	8,654,159	9,188,784	9,235,040	8,285,534	7,780,961	7,456,418	6,396,493
Changes in Net Assets								
Governmental activities	782,990	533,619	(3,476,273)	352,058	385,305	(703,431)	376,818	(524,895)
Business-type activities	(1,287,015)	265,095	4,911,701	(195,448)	(1,985,508)	2,083,580	(221,583)	1,337,550
Total primary government	\$ (504,025)	\$ 798,714	\$ 1,435,428	\$ 156,610	\$ (1,600,203)	\$ 1,380,149	\$ 155,235	\$ 812,655

TABLE 3

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General Fund										
Reserved	\$ 1,966,581	\$ 1,840,352	\$ 2,352,425	\$ 2,431,433	\$ 1,625,713	\$ 1,583,500	\$ 2,211,940	\$ 747,272	\$ 802,269	\$ 300,510
Unreserved	1,719,613	1,000,010	453,160	611,421	759,917	377,825	1,794,152	2,949,240	2,867,473	3,066,188
Total general fund	<u>\$ 3,686,194</u>	<u>\$ 2,840,362</u>	<u>\$ 2,805,585</u>	<u>\$ 3,042,854</u>	<u>\$ 2,385,630</u>	<u>\$ 1,961,325</u>	<u>\$ 4,006,092</u>	<u>\$ 3,696,512</u>	<u>\$ 3,669,742</u>	<u>\$ 3,366,698</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	-	-	-	-	469,703	455,774	479,407	509,050	536,662	532,812
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,703</u>	<u>\$ 455,774</u>	<u>\$ 479,407</u>	<u>\$ 509,050</u>	<u>\$ 536,662</u>	<u>\$ 532,812</u>

TABLE 4

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

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues										
Taxes	\$ 7,258,677	\$ 7,097,542	\$ 7,189,990	\$ 7,107,098	\$ 6,205,510	\$ 6,088,806	\$ 5,920,497	\$ 5,839,083	\$ 5,695,811	\$ 5,385,880
Permits, privilege fees, and licenses	23,261	38,843	36,827	33,833	25,491	35,221	31,701	33,828	18,686	21,183
Fines and forfeitures	65,813	65,802	88,201	91,148	84,687	41,628	71,577	34,959	22,478	35,210
Revenue from use of money and property	23,447	143,365	247,573	404,157	343,308	221,008	122,171	156,775	257,035	543,651
Charges for services	175,270	212,939	260,756	278,926	275,364	215,394	251,822	205,432	98,070	75,220
Other	241,868	216,284	137,233	8,832	140,076	260,834	98,305	117,299	205,624	163,811
Intergovernmental	6,566,791	7,676,383	7,492,240	7,257,145	6,517,543	6,307,277	6,363,359	5,751,668	5,747,907	5,307,680
Total revenues	14,355,127	15,451,158	15,452,820	15,181,139	13,591,979	13,170,168	12,859,432	12,139,044	12,045,611	11,532,635
Expenditures										
General government	1,156,296	1,176,391	1,095,027	1,041,035	1,415,552	1,456,413	1,085,412	953,974	1,056,528	888,906
Judicial administration	73,925	54,638	45,844	20,269	22,108	27,097	11,587	22,602	22,759	34,594
Public safety	3,034,104	3,374,816	4,529,012	3,305,259	3,120,698	3,122,124	2,516,748	2,211,078	2,234,097	2,267,808
Public works	2,273,460	2,313,259	2,186,661	2,039,525	2,063,237	2,043,948	1,774,348	2,062,111	1,981,739	2,349,870
Parks, recreation, and cultural	436,653	663,122	906,368	980,295	908,539	914,838	953,378	833,436	851,716	919,735
Health and welfare	615,447	679,222	859,833	675,828	558,469	721,935	366,032	491,097	688,613	422,997
Education	5,923,094	6,950,962	7,142,290	6,849,211	6,583,537	6,111,105	6,301,173	5,510,608	5,155,699	4,828,153
Community development	330,515	617,783	443,771	381,138	472,557	1,069,227	1,055,270	733,458	511,929	287,659
Nondepartmental	-	3,578	10,923	1,208	7,829	486	11,580	5,665	2,665	237,652
Capital projects	-	-	-	-	-	-	-	-	-	-
Debt service:										
Bond issuance costs	-	-	7,178	-	24,570	-	42,431	-	-	-
Principal	664,029	879,780	736,949	762,152	626,979	640,018	555,387	625,289	581,776	707,822
Interest	153,843	173,994	185,569	132,055	132,589	150,330	141,699	157,568	260,741	253,834
Total expenditures	14,661,366	16,887,545	18,149,425	16,187,975	15,936,664	16,257,521	14,815,045	13,606,886	13,348,262	13,199,030
Excess of revenues over (under) expenditures	(306,239)	(1,436,387)	(2,696,605)	(1,006,836)	(2,344,685)	(3,087,353)	(1,955,613)	(1,467,842)	(1,302,651)	(1,666,395)
Other Financing Sources (Uses)										
Proceeds from borrowing	-	-	946,774	-	717,885	197,925	1,460,000	-	1,498,900	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	(1,482,989)	-
Proceeds from sale of assets	13,122	4,164	45,562	4,621	26,212	15,128	-	-	-	-
Principal payment of capital lease	-	-	-	-	-	(197,925)	-	-	-	-
Transfers in	1,138,949	1,467,000	1,467,000	1,904,366	2,162,023	1,505,875	1,467,000	1,502,637	1,084,989	1,104,367
Transfers out	-	-	-	(714,630)	(208,000)	(502,050)	(485,450)	(35,637)	(18,989)	(161,313)
Total other financing sources (uses)	1,152,071	1,471,164	2,459,336	1,194,357	2,698,120	1,018,953	2,441,550	1,467,000	1,081,911	943,054
Net change in fund balances	\$ 845,832	\$ 34,777	\$ (237,269)	\$ 187,521	\$ 353,435	\$ (2,068,400)	\$ 485,937	\$ (842)	\$ (220,740)	\$ (723,341)
Debt service as a percentage of noncapital expenditures	5.74%	6.24%	5.08%	5.52%	4.77%	4.86%	4.71%	5.75%	6.31%	7.29%

TABLE 5

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation	Mobile Homes	Total Assessed Value	Total Direct Tax Rate(1)
2010	\$ 406,184,200	\$ 45,604,044	\$ 36,509,350	\$ 8,502,100	\$ 415,000	\$ 497,214,694	0.97
2009	403,819,100	48,686,689	31,436,013	8,440,200	421,600	492,803,602	0.93
2008	396,308,300	47,144,412	33,851,260	9,845,100	416,600	487,565,672	0.93
2007	395,464,300	46,294,050	31,804,750	7,716,900	425,900	481,705,900	0.96
2006	318,993,200	43,796,730	30,216,970	8,913,570	478,800	402,399,270	0.95
2005	313,729,100	41,338,270	30,194,580	10,437,161	486,600	396,185,711	0.96
2004	310,247,885	43,485,320	33,098,380	11,620,498	520,700	398,972,783	0.96
2003	303,930,500	42,366,120	32,527,560	11,338,521	499,500	390,662,201	0.98
2002	280,111,000	42,745,030	49,272,330	11,220,564	562,800	383,911,724	0.98
2001	276,036,900	41,873,067	49,506,720	11,408,544	525,800	379,351,031	0.96

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

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

TABLE 6

**City of Bedford, Virginia
Principal Electrical Customers
Current Year**

Customer	Fiscal Year 2010			Fiscal Year 2009		
	Revenue	Rank	Percentage of Total City Electrical Revenue	Revenue	Rank	Percentage of Total City Electrical Revenue
Wheelabrator Abrasives	\$ 1,798,686	1	10.18%	\$ 2,020,508	1	11.93%
Bedford Weaving	709,350	2	4.02%	726,250	3	4.29%
Golden West	676,775	3	3.83%	750,102	2	4.43%
Smyth Companies	390,193	4	2.21%	427,203	4	2.52%
Rubatex International	345,766	5	1.96%	367,196	6	2.17%
City of Bedford	403,041	6	2.28%	369,313	5	2.18%
Wal-Mart	291,354	7	1.65%	325,675	7	1.92%
Liberty High School	270,998	8	1.53%	287,925	9	1.70%
Bedford Memorial Hospital	254,609	9	1.44%	280,715	10	1.66%
The Matrix Group	219,722	10	1.24%	294,985	8	1.74%
	<u>\$ 5,360,494</u>		<u>30.34%</u>	<u>\$ 5,849,872</u>		<u>34.54%</u>

TABLE 7

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

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2010	\$ 5,002,964	\$ 4,934,386	98.63%	\$ -	\$ 4,934,386	98.63%
2009	4,723,553	4,665,545	98.77%	49,445	4,714,990	99.82%
2008	4,528,055	4,487,102	99.10%	59,034	4,546,136	100.40%
2007	4,416,965	4,251,913	96.26%	55,795	4,307,708	97.53%
2006	3,860,961	3,552,698	92.02%	78,423	3,631,121	94.05%
2005	3,664,491	3,445,326	94.02%	66,309	3,511,635	95.83%
2004	3,650,823	3,407,560	93.34%	127,558	3,535,118	96.83%
2003	3,577,953	3,342,430	93.42%	67,632	3,410,062	95.31%
2002	3,494,359	3,259,443	93.28%	40,860	3,300,303	94.45%
2001	3,455,872	3,002,760	86.89%	330,114	3,332,874	96.44%

Source: Tax Records of the City.

TABLE 8

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

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Debt limit	\$ 41,468,630	\$41,225,930	\$40,615,340	\$40,289,520	\$32,757,867	\$32,374,542	\$32,154,124	\$31,492,480	\$29,090,080	\$28,717,501
Total net debt applicable to limit	<u>16,502,823</u>	<u>18,036,255</u>	<u>20,213,861</u>	<u>15,377,542</u>	<u>16,664,323</u>	<u>15,551,377</u>	<u>15,924,181</u>	<u>15,354,958</u>	<u>14,028,228</u>	<u>10,946,132</u>
Legal debt margin	<u>\$ 24,965,807</u>	<u>\$23,189,675</u>	<u>\$20,401,479</u>	<u>\$24,911,978</u>	<u>\$16,093,544</u>	<u>\$16,823,165</u>	<u>\$16,229,943</u>	<u>\$16,137,522</u>	<u>\$15,061,852</u>	<u>\$17,771,369</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>43.72%</u>	<u>43.75%</u>	<u>49.77%</u>	<u>38.17%</u>	<u>50.87%</u>	<u>48.04%</u>	<u>49.52%</u>	<u>48.76%</u>	<u>48.22%</u>	<u>38.12%</u>

Legal Debt Margin Calculation for Fiscal Year 2010

Assessed value	<u>\$ 414,686,300</u>
Debt limit (10% of assessed value)	\$ 41,468,630
Less debt applicable to limit:	
General obligation bonds	(15,752,823)
Other long-term obligations	<u>(750,000)</u>
Legal debt margin	<u>\$ 24,965,807</u>

TABLE 9

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

Fiscal Year	General Bonded Debt				Percentage of Actual Value of Taxable Property	Per Capita	Other Governmental Activities Debt		
	General Obligation Bonds	Redevelopment Bonds	Less: Amounts Restricted to Repaying Principal	Total General Bonded Debt			Notes Payable	Capital Leases	Other Debt
2010	\$ 2,819,927	\$ -	\$ -	\$ 2,819,927	0.57%	NA	\$ -	\$ 184,882	\$ 750,000
2009	3,230,546	-	-	3,230,546	0.66%	521	-	363,292	825,000
2008	3,932,140	-	-	3,932,140	0.81%	634	-	674,209	900,000
2007	1,520,600	-	-	1,520,600	0.32%	245	-	715,927	975,000
2006	2,047,200	-	-	2,047,200	0.51%	328	-	576,479	1,050,000
2005	2,573,300	-	-	2,573,300	0.65%	414	-	184,473	1,200,000
2004	3,091,400	-	-	3,091,400	0.77%	492	-	231,391	1,200,000
2003	2,018,000	-	-	2,018,000	0.52%	320	-	325,078	1,275,000
2002	2,413,900	-	-	2,413,900	0.63%	380	-	479,565	1,350,000
2001	2,715,000	-	-	2,715,000	0.72%	425	38,218	626,341	1,425,000

Fiscal Year	Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	General Obligation Bonds	Capital Leases			
2010	\$ 14,343,108	\$ 12,932,896	\$ -	\$ 31,030,813	NA	NA
2009	15,215,652	14,020,836	-	33,655,326	NA	\$ 5,428
2008	19,074,075	15,381,721	-	39,962,145	1297.37%	6,446
2007	16,903,533	13,856,942	-	33,972,002	1297.37%	5,479
2006	17,714,178	14,617,123	-	36,004,980	1487.17%	5,762
2005	17,007,099	12,978,077	-	33,942,949	1472.98%	5,457
2004	17,629,730	12,832,781	-	34,985,302	1612.49%	5,572
2003	18,237,361	13,336,878	34,002	35,226,319	1713.98%	5,589
2002	18,829,991	11,614,328	99,730	34,787,514	1723.40%	5,482
2001	19,397,622	8,231,132	162,262	32,595,575	1652.77%	5,099

TABLE 10

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

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2010	\$ 26,745,018	\$ 24,260,882	\$ 2,484,136	\$ 872,544	\$ 663,496	1.62
2009	29,223,857	24,644,159	4,579,698	858,423	689,452	2.96
2008	25,935,038	20,743,649	5,191,389	829,459	712,007	3.37
2007	24,656,608	20,913,218	3,743,390	810,645	733,527	2.42
2006	20,417,640	17,356,493	3,061,147	562,631	577,968	2.68
2005	17,296,354	11,799,137	5,497,217	622,631	901,065	3.61
2004	16,640,083	13,242,106	3,397,977	607,631	921,345	2.22
2003	17,241,801	11,800,475	5,441,326	592,630	940,568	3.55
2002	16,516,255	10,503,715	6,012,540	567,631	958,346	3.94
2001	16,651,377	11,298,174	5,353,203	547,631	1,042,759	3.37

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

TABLE 11

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

Fiscal Year Ended (1)	Population (2)	Total Personal Income (3)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate (4)
2010	NA	NA	NA	NA	9.70%
2009	6,350	NA	NA	841	6.90%
2008	6,312	\$ 2,846,751	\$ 39,114	813	5.30%
2007	6,286	2,618,524	35,934	888	4.10%
2006	6,249	2,421,037	33,674	902	3.70%
2005	6,220	2,304,368	32,282	914	4.40%
2004	6,279	2,169,646	30,961	936	4.70%
2003	6,303	2,055,234	30,052	946	4.70%
2002	6,346	2,018,540	29,795	943	5.00%
2001	6,393	1,972,182	29,286	986	4.00%

(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. Information for 2010 is not available at this time.

(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

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

Employer	Fiscal Year 2010			Fiscal Year 2001		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Bedford Memorial Hospital	335	1	4.75%	330	0	7.22%
Bedford Public Schools	315	2	4.47%	NA		0.00%
Sam Moore Furniture LLC	230	3	3.26%	386	0	8.45%
Brooks Food Group/Golden West	175	4	2.48%	185	0	4.05%
Bedford Weaving Mills	150	5	2.13%	130	0	2.84%
Cintas	130	6	1.84%	110	0	2.41%
Frank Chervan	0	0	0.00%	180	0	3.94%
Smyth Companies Bedford	120	8	1.70%	148	0	3.24%
Elks National Home	85	9	1.20%	80	0	1.75%
Longwood Industries	125	7	1.77%	130	0	2.84%
Wheelabrator Abrasives, Inc.	50	10	0.71%	NA		0.00%
Rubatex/Bondtex/Waltex	0		0.00%	300	0	6.56%
	<u>1,715</u>		<u>24.31%</u>	<u>1,979</u>		<u>43.30%</u>

TABLE 13

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

<u>Function/Program</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
General government										
Executive	2	2	2	2	2	2	2	2	2	2
Treasurer	1	1	1	1	1	1	1	1	1	1
Personnel	-	-	-	-	2	2	2	2	2	1
Finance	5	5	6	6	5	7	7	6	6	7
Information Technology	2	2	2	1	2	-	-	-	-	-
Planning	3	3	5	5	5	5	5	5	5	4
Schools	9	8	6	8	8	8	8	8	8	8
Police										
Officers	24	21	25	28	29	22	22	22	22	22
Civilians	3	2	3	3	3	2	2	2	5	6
Fire	1	1	1	1	1	1	1	1	1	1
Public works	18	21	15	18	20	20	21	22	22	22
Engineering	2	2	2	2	2	2	2	2	2	2
Parks and recreation	3	3	9	10	10	10	10	10	9	9
Solid waste	3	4	4	5	5	5	5	4	4	4
Water	6	6	6	6	6	6	6	6	6	6
Wastewater	11	11	11	11	11	11	11	11	10	10
Electric	*13	*15	*18	19	19	20	20	20	20	19
Total	<u>106</u>	<u>107</u>	<u>116</u>	<u>126</u>	<u>131</u>	<u>124</u>	<u>125</u>	<u>124</u>	<u>125</u>	<u>124</u>

*Public Works Director is included in the Electric number instead of Public Works

TABLE 14

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

Function/Program	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
General Government										
Fleet										
Pieces of equipment maintained	127	129	129	135	*	*	*	*	*	*
Public safety										
Police										
Physical arrests	943	1,116	1,129	1,124	1,269	1,116	926	832	790	687
Parking violations	1,235	1,381	1,359	2,432	2,601	989	1,434	1,269	1,395	895
Traffic violations	1,334	1,535	1,579	1,842	2,288	1,339	1,440	1,396	1,265	954
Fire										
Emergency responses - per calendar year	948	831	856	NA	NA	666	557	533	483	482
Public works										
Refuse collection										
Refuse collected (tons per day)	27	25	30	43	*	*	*	*	*	*
Recyclables collected (tons per day)	1.0	1.5	2	1	*	*	*	*	*	*
Other public works										
Street resurfacing (miles)	3.6	1.8	-	5.3	*	*	*	*	*	*
Parks, recreation and cultural										
Parks and recreation										
Tournaments hosted	2	2	1	1	1	1	2	0	1	0
Electric										
Number of customer accounts	7,091	6,986	6,937	6,919	6,340	6,444	6,214	6,647	6,574	6,301
Miles of distribution lines	353	352	350	350	350	350	350	350	350	350
Miles of transmission lines	29	29	28	28	28	28	28	28	28	28
Water										
Number of customer accounts	3,583	3,509	3,466	3,468	3,215	3,189	3,122	3,113	3,199	3,202
Miles of distribution lines	65	65	65	65	65	63	63	63	63	63
Volume pumped (million gallons per day average)	1.0	1.2	1.2	1.2	1.2	1.1	1.1	1.2	1.1	1.1
Sewer										
Number of customer accounts	2,929	2,856	2,836	2,842	2,568	2,590	2,530	2,559	2,591	2,601
Waste/Water treated (million gallons per day)	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.0	0.9	1.0

Source:

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

NA - Information not available at this time

TABLE 15

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

<u>Function/Program</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Public safety										
Law enforcement vehicles	18	19	19	19	19	17	16	16	16	16
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works										
Primary streets (lane miles)	24.11	24.11	24.11	24.11	24.11	24.11	23.35	23.35	23.35	23.35
Secondary streets (lane miles)	71.51	66.47	66.47	66.47	66.47	66.47	64.45	64.45	64.45	64.45
Streetlights	897	875	875	875	875	835	835	808	788	788
Parks, recreation and cultural										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	12	12	12	12	12	12	12	12	12	12
Electric										
Substations	10	11	11	11	11	11	11	11	11	11
Transformers	3,340	3,340	3,340	3,210	3,210	*	*	*	*	*
Water and sewage										
Water treatment plants	1	1	1	1	1	1	1	1	1	1
Water mains (miles)	65	65	65	65	65	63	63	63	63	63
Storm sewers (miles)	5	5	5	5	5	5	5	5	5	5
Sanitary sewers (miles)	47	47	47	47	47	46	46	46	46	46
Catering and concessions										

Source: Information was obtained from prior year audit reports.

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

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COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Bedford, Virginia, as of and for the year ended June 30, 2010, which collectively comprise the City of Bedford, Virginia's basic financial statements and have issued our report thereon dated November 4, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, these can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting 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 the accompanying schedule of findings and questioned costs as Item 07-1 to be a material weakness.**

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City, in a separate letter dated November 4, 2010.

The City’s responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the City’s responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the audit committee, management, City Council, state and federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 4, 2010

CITY OF BEDFORD, VIRGINIA

**SUMMARY OF COMPLIANCE MATTERS
June 30, 2010**

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

LOCAL COMPLIANCE MATTERS

City Charter
City Code

CITY OF BEDFORD, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2010**

A. FINDINGS – FINANCIAL STATEMENT AUDIT

07-1: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Due to budget limitations on funding for new positions, the City does not anticipate adding any new positions at this time. We will continue to evaluate our procedures to see if we can utilize current staff in a different function to eliminate some of the concerns associated with the segregation of duties area.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

None.