

CITY OF BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2008

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY OF BEDFORD, VIRGINIA
TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Letter of Transmittal	i
Certificate of Achievement for Excellence in Financial Reporting.....	vii
Directory of Principal Officials.....	viii
Organizational Chart.....	ix

FINANCIAL SECTION

Independent Auditor’s Report.....	1
Management’s Discussion and Analysis	3

Basic Financial Statements

Government-wide Financial Statements

Exhibit 1 Statement of Net Assets	13
Exhibit 2 Statement of Activities.....	14

Fund Financial Statements

Exhibit 3 Balance Sheet – Governmental Funds.....	15
Exhibit 4 Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets	16
Exhibit 5 Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund.....	17
Exhibit 6 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities.....	18
Exhibit 7 Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	19
Exhibit 8 Statement of Net Assets (Deficit) – Proprietary Funds	20
Exhibit 9 Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) – Proprietary Funds.....	21
Exhibit 10 Statement of Cash Flows – Proprietary Funds	22

Notes to Financial Statements	23
-------------------------------------	----

Required Supplementary Information

Exhibit 11 Analysis of Funding Progress for Defined Benefit Pension Plan.....	49
---	----

STATISTICAL SECTION

Table 1 Net Assets by Component 51
Table 2 Changes in Net Assets by Component..... 52
Table 3 Fund Balances - Governmental Funds 54
Table 4 Changes in Fund Balances - Governmental Funds 55
Table 5 Assessed Value and Actual Value of Taxable Property 56
Table 6 Principal Electrical Customers 57
Table 7 Property Tax Levies and Collections 58
Table 8 Legal Debt Margin Information 59
Table 9 Ratios of Outstanding Debt by Type 60
Table 10 Pledged Revenue Coverage 61
Table 11 Demographic Statistics 62
Table 12 Principal Employers 63
Table 13 Full-Time Equivalent City Government Employees by Function/Program..... 64
Table 14 Operating Indicators by Function/Program..... 65
Table 15 Capital Asset and Infrastructure Statistics by Function/Program..... 66

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..... 68
Summary of Compliance Matters 70
Schedule of Findings and Responses..... 71

INTRODUCTORY SECTION

November 3, 2008

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

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the City of Bedford for the fiscal year ended June 30, 2008. This report is submitted in accordance with Section 15.1-167 of the Code of Virginia and with Section 30 of the Charter of the City of Bedford, both of which require an annual independent audit and report of financial activity of the City. The independent certified public accounting firm of Brown, Edwards & Company, L.L.P., has audited the financial statements and supplemental schedules contained herein. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The Reporting Entity and Services Provided

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

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

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

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

Organization of Government

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

Economic Condition and Outlook

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

Bedford enjoys a diversified economy primarily comprised of health care and social services (37%), manufacturing (30%), and retail sales, food service and lodging (17%). Bedford's industrial base includes major employers involved in food processing, furniture manufacturing, lithographed labels, plastics, weaving, polyurethane products, steel abrasives, closed-cell rubber products and steel cutting dies. During 2007/2008 the City's unemployment rate increased from 3.6% to 5.3%. Much of this increase can be attributed to growth in the civilian labor force coupled with continued reduction in the number of manufacturing jobs and a general slowdown in the economy. City Council's commitment to economic development and diversification has positioned the City well for expansion when the overall economic climate improves.

Bedford also enjoys a healthy mix in real estate values with approximately 72 percent coming from residential property, while approximately 28 percent is commercial and industrial. Increases resulted from new construction and revenue sharing areas, while personal property and machinery and tools tax have remained flat.

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

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

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

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

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

Tourism continues to grow in the City and surrounding area. The shared tourism effort with Bedford County stands as a testimonial to the benefits of localities working together. The Welcome Center, at the intersection of Route 122 and US Highway 460, is a credit to the Bedford community, a beacon for travelers, and cost Bedford residents a fraction of its price tag thanks to City/County joint participation and significant federal transportation funding. In October, the Welcome Center will celebrate four years of operation and approximately 120,000 visitors.

Major Initiatives

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

- Maintaining the City's financial stability with a goal of improving fund balances. As reflected in the accompanying financial statements, the City has made significant strides in reducing its dependency on revenue generated by the sale of electricity, while increasing the revenues from water and sewer operations to better enable those funds to be self-sufficient. However, maintaining financial stability with ever-challenging State mandates and reduced State funding of required services is perhaps the greatest short-term threat to the financial stability of the City.
- The City Council continues to provide support for economic development initiatives, and through the City's Industrial Development Authority, provides funding for a performance-based, economic incentive program and other Enterprise Zone initiatives. The City economic development staff will continue to work closely with Bedford County, Virginia's Region 2000 and the Virginia Economic Development Partnership to actively encourage existing industry expansions and solicit new industries.
- The City has focused on improving the connectivity between the National D-Day Memorial/Bedford Welcome Center and Centertown. With partial funding from the

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

- The City continues to upgrade and build new distribution line circuits and a new substation. With other AMP-Ohio members, the City is participating in the construction of a base load coal fired plant to provide diversity in our wholesale power portfolio. Currently, approximately 8% of the City’s electricity is from renewable sources. We have addressed other revenue sources such as pole attachment agreements and right-of-way fees to ensure that we are competitive and maximizing our revenues in these areas. The City will also continue to focus on providing exemplary customer service and reliability for our customers.
- The City has constructed a solid waste transfer and composting facility and is extending the life of the landfill by limiting its use to construction materials. However, with ever-increasing costs associated with our closed landfill, and the operational costs of our existing landfill, additional revenues and/or operating expense reductions must continue to be evaluated to support the solid waste fund. As a long term solution, the City is participating in the new Region 2000 Solid Waste Authority.
- The City plans to remain an active regional partner in many programs. We currently participate in regional marketing and economic development, and police and emergency services. We also participate in cooperative services such as the Blue Ridge Power Agency, the Region 2000 Regional Commission, and the Municipal Electric Providers Association of Virginia and the new Region 2000 Solid Waste Authority.
- With the increasing challenges of stretching scarce revenues to accommodate ever increasing costs of doing business without the authority to physically expand its tax base, the City is investigating the option of “transitioning” to town status with Bedford County. In April, 2008, the City and County officials began talks aimed at returning the City to Town status.

Financial Information

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

City management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allowed for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable

assurance recognizes (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits require estimates and judgments by management.

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

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

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors.

Cash Management

During the year, cash was invested in certain U.S. Government Agency Securities, prime quality issues of commercial paper, as well as the State Treasurer's Local Government Investment Pool (LGIP). Total deposits and investments at June 30, 2008 totaled \$16,142,646. All deposits of the City are either insured by federal depository insurance or collateralized as required by Virginia Statutes. Total earnings on General Fund deposits and investments were \$247,573 for the year.

Risk Management

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

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

Other Information

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

Certificate of Achievement. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Bedford for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the eighth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgements. The preparation of this report is a very intensive project, and could not have been accomplished without the assistance and dedication of the Finance Department staff and other personnel from various departments, who assisted in the preparation. A particular thank you goes to Elizabeth Berry-Mosley who provided valuable assistance with this transmittal letter. The Mayor and City Council continue to be very supportive of our efforts to produce the best financial reports possible for our citizens. We appreciate your support in granting us the time and funding to generate this document, and allowing us to submit it to the GFOA for consideration. Lastly, we would like to express our appreciation to our independent auditing firm, Brown, Edwards & Company, L.L.P., for their cooperation and assistance in these efforts.

Respectfully Submitted,



Charles P. Kolakowski
City Manager



Rosemarie B. Jordan
Director of Finance

Certificate

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

MEMBERS OF CITY COUNCIL

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

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

Thomas M. Padgett
Jeffrey B. Hubbard

MEMBERS OF CITY SCHOOL BOARD

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

Anne M. VanDerwerker
William H. Ross
Betsy Klein

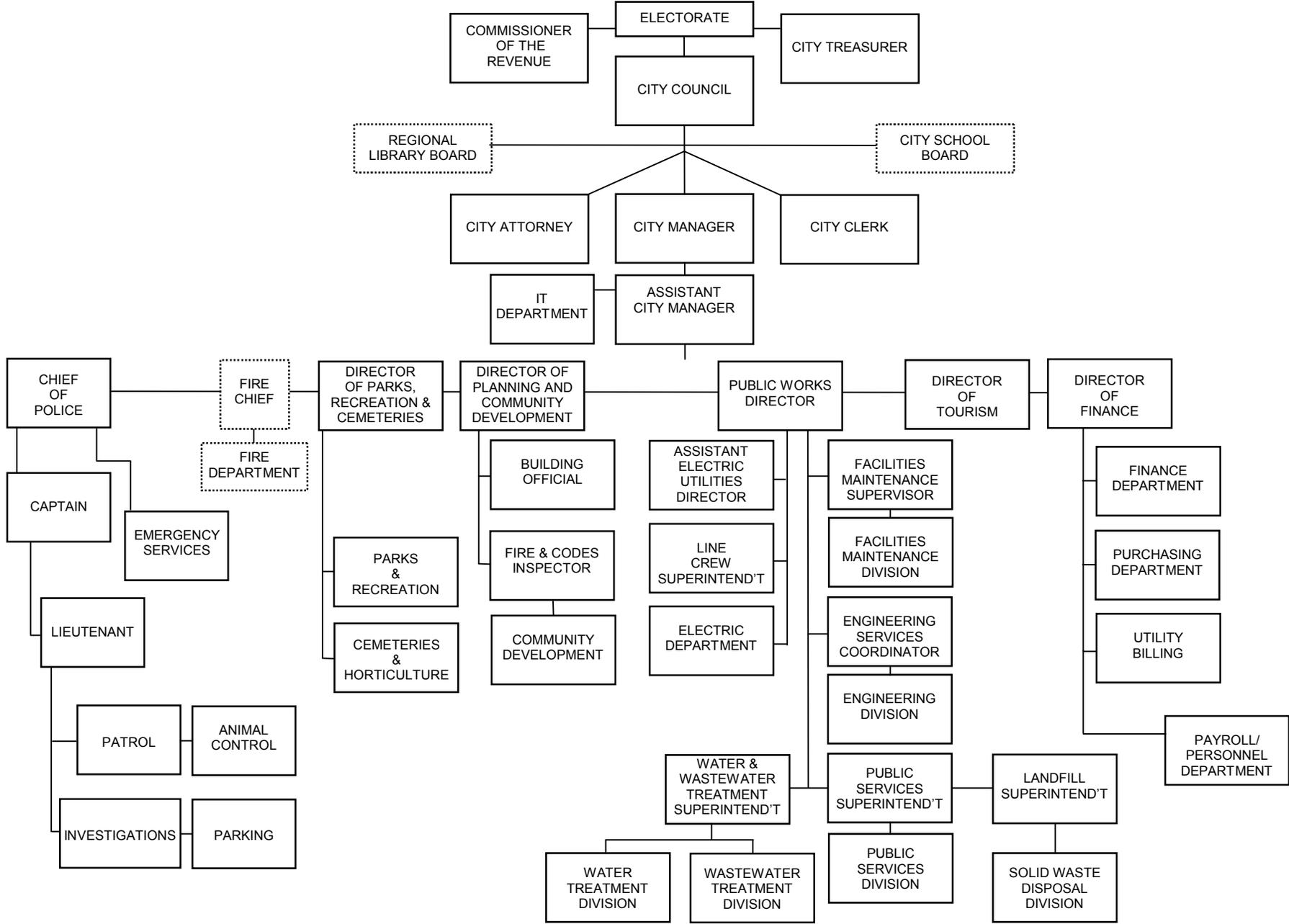
Debra Z. Bond
Stephen C. Rush

OTHER OFFICIALS

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

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

CITY OF BEDFORD ORGANIZATIONAL CHART



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and the required supplementary information on pages 3 through 11 and on page 49, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 3, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bedford, Virginia (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008 and 2007. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi of this report.

Financial Highlights

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

Overview of the Financial Statements

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

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

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

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

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

Overview of the Financial Statements (Continued)

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

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$36,917,778 at the close of the most recent fiscal year.

A portion of the City's net assets (77%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The remaining balance of *unrestricted net assets* (23%) may be used to meet the government's ongoing obligations to citizens and creditors.

The City's Net Assets

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

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

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

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

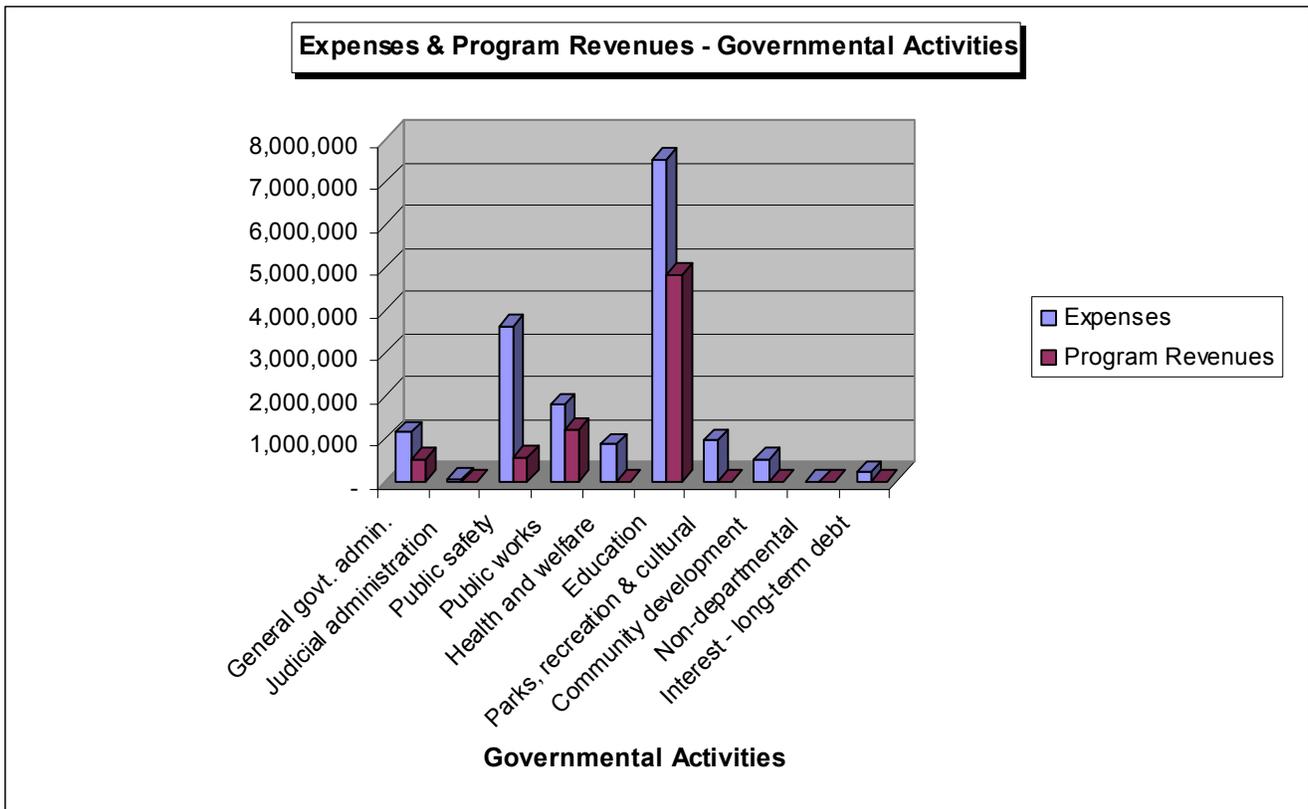
For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. A few noteworthy exceptions, however, are the increases in the health and welfare and the education category. The health and welfare category increase of \$184,005 includes the increase in the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

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

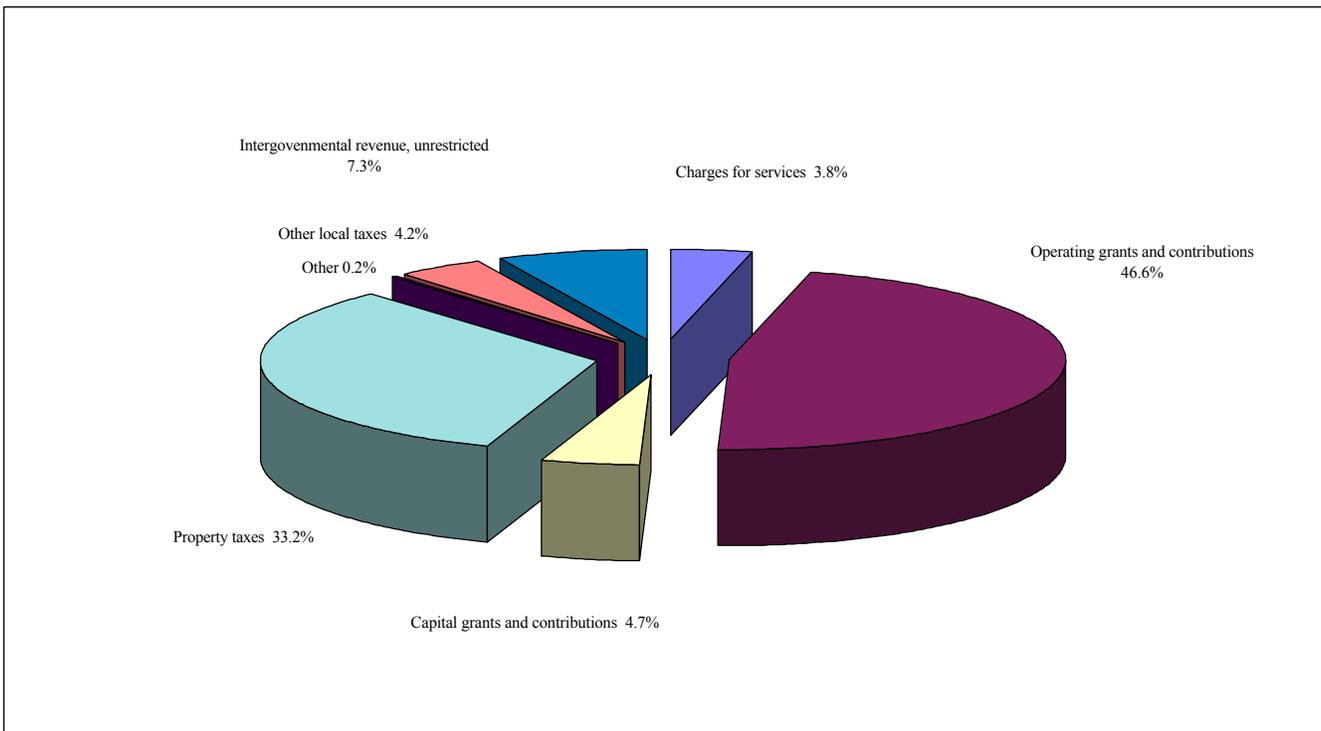
The City's Changes in Net Assets

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

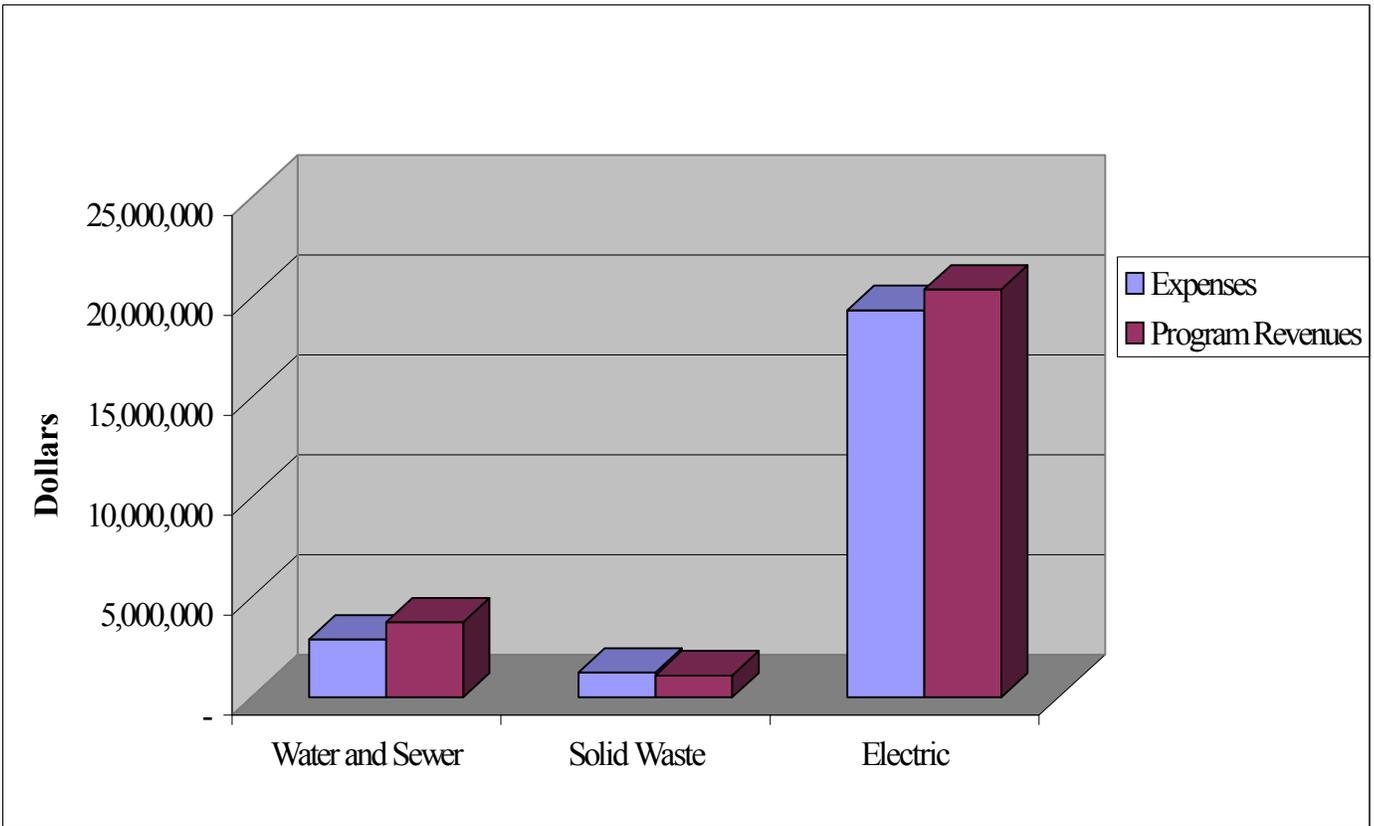
Expenses and Program Revenues – Governmental Activities



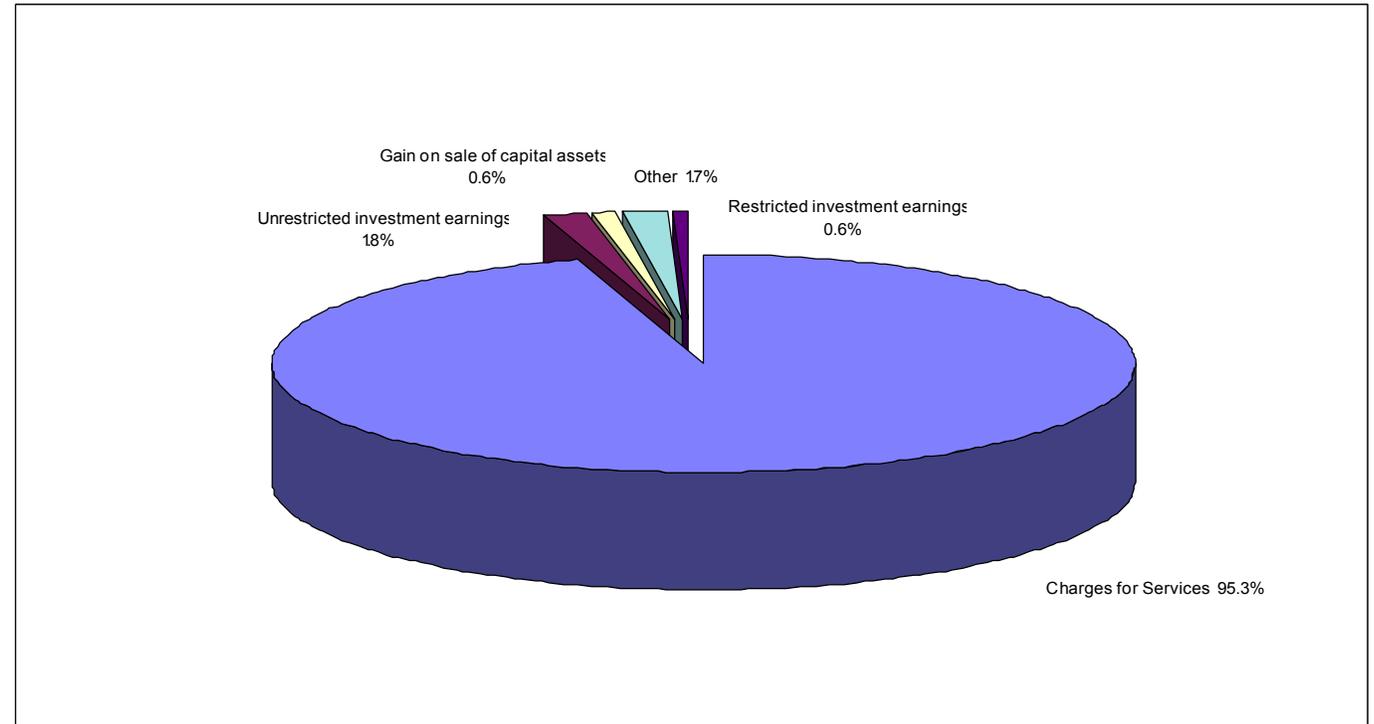
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$2,805,585, a decrease of \$(237,269) in comparison with the prior year. Approximately 16% of this total amount – that is, \$453,160 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

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

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

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

Unrestricted net assets of the water and sewer fund at the end of the year had a deficit of \$(612,561); the solid waste fund had a deficit of \$(2,178,250); and the unrestricted net assets for the electric fund amounted to \$13,259,947. The total increase in net assets was \$4,911,701. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget amounted to \$(1,319,992). Highlights are as follows:

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

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

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

Capital Asset and Debt Administration

Capital Assets – The City’s investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to \$55,122,331 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, and machinery, equipment, and infrastructure. The total increase in the City’s investment in capital assets for the current fiscal year was 2.7% (a 6.7% increase for governmental activities and a 0.8% increase for business-type activities).

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

	The City’s Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 2,351,960	\$ 1,989,260	\$ 968,017	\$ 1,330,717	\$ 3,319,977	\$ 3,319,977
Buildings and improvements	12,927,409	12,372,150	29,741,805	29,618,193	42,669,214	41,990,343
Distribution and transmission systems	-	-	29,539,787	29,339,989	29,539,787	29,339,989
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	7,971,265	7,106,285	3,606,646	3,103,055	11,577,911	10,209,340
Infrastructure	11,422,147	11,143,442	-	-	11,422,147	11,143,442
Construction in progress	133,452	120,356	1,246,593	110,659	1,380,045	231,015
Less accumulated depreciation	(16,679,082)	(15,741,115)	(31,423,613)	(30,147,661)	(48,102,695)	(45,888,776)
Total	<u>\$ 18,127,151</u>	<u>\$ 16,990,378</u>	<u>\$ 36,995,180</u>	<u>\$ 36,670,897</u>	<u>\$ 55,122,331</u>	<u>\$ 53,661,275</u>

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

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

	The City’s Outstanding Debt					
	General Obligation Bonds and Capital Leases					
	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 3,932,140	\$ 1,520,600	\$ 15,381,721	\$ 13,856,942	\$ 19,313,861	\$ 15,377,542
Literary fund loans	900,000	975,000	-	-	900,000	975,000
Revenue bonds	-	-	16,074,075	16,903,533	16,074,075	16,903,533
Capital leases	674,209	715,927	-	-	674,209	715,927
Total	<u>\$ 5,506,349</u>	<u>\$ 3,211,527</u>	<u>\$ 31,455,796</u>	<u>\$ 30,760,475</u>	<u>\$ 36,962,145</u>	<u>\$ 33,972,002</u>

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

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

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

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City is currently 5.3%, which is an increase from a rate of 3.6% a year ago. This compares to the State's average unemployment rate of 4.2% and the national average rate of 5.7%.
- The occupancy rate of the government's central business district stands at 93%, reflecting a slight drop from 95% for the past 6 years.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for the 2008 fiscal year.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2008

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

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

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

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

CITY OF BEDFORD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUND
June 30, 2008

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

CITY OF BEDFORD, VIRGINIA

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

June 30, 2008

Total Fund Balance - Governmental Fund		\$ 2,805,585
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.		
Nondepreciable capital assets	\$ 2,485,412	
Depreciable capital assets, net	<u>15,641,739</u>	18,127,151
Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets:		
Issuance costs total \$90,024 and accumulated amortization is \$36,726		53,298
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
		115,333
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
General obligation bonds	(3,932,140)	
Literary fund loans	(900,000)	
Capital leases	(674,209)	
Accrued interest payable	(109,341)	
Compensated absences	(166,952)	
Landfill post-closure liability	<u>(2,257,000)</u>	(8,039,642)
Principal and interest payments due and payable at year end and reported in the funds are also included in long-term liabilities in the statement of net assets. (Note 7)		
		<u>249,653</u>
Total Net Assets - Governmental Activities		<u><u>\$ 13,311,378</u></u>

CITY OF BEDFORD, VIRGINIA

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

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

CITY OF BEDFORD, VIRGINIA

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

Net Change in Fund Balance – Governmental Fund		\$ (237,269)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlays	\$ 1,929,568	
Depreciation expense	<u>(1,205,645)</u>	723,923
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, insurance proceeds, and donations) is to increase net assets.		
		50,150
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
		(12,953)
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction has an effect on net assets.		
Proceeds from issuance of debt	(946,774)	
Principal repayments and other long-term debt reductions:		
General obligation bonds	412,500	
Literary fund loans	75,000	
Capital leases	41,718	
Landfill post-closure	<u>39,195</u>	(378,361)
The amount of principal on long-term debt due and payable at year end is shown as a reduction in fund balance; however, this transaction has no effect on net assets.		
		207,731
Governmental funds report the effect of bond issuance costs and discounts when debt is first issued; whereas, these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, interest expense is recognized as it accrues, regardless of when it is due. The net effect of those differences is as follows:		
Capitalization of bond issuance costs	7,178	
Amortization of bond issuance costs	(7,660)	
Amortization of deferred amounts	(5,089)	
Interest expense, except for amounts due prior to year end	<u>(26,497)</u>	(32,068)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		13,335
The transfer of various long-term items from the solid waste fund to governmental activities affects net assets. However, since none of these items constitute current financial resources, they are not reported in the general fund.		
Capital assets	362,700	
General obligation bonds	(1,877,266)	
Landfill post-closure liability	<u>(2,296,195)</u>	(3,810,761)
Change in Net Assets - Governmental Activities		<u>\$ (3,476,273)</u>

CITY OF BEDFORD, VIRGINIA

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

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

CITY OF BEDFORD, VIRGINIA

STATEMENT OF NET ASSETS (DEFICIT)
PROPRIETARY FUNDS

June 30, 2008

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

CITY OF BEDFORD, VIRGINIA

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

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

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS

Year Ended June 30, 2008

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. The Financial Reporting Entity

The City of Bedford, Virginia (the “City”) was incorporated as a city in 1968. The City operates a Council-Manager form of government and provides all municipal services to its residents either directly or through shared services agreements with the County of Bedford, Virginia (see Note 11). As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government). The City does not have any component units.

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

Region 2000 Services Authority

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

Central Virginia Community Services Board

The City, in conjunction with the Counties of Amherst, Appomattox, Bedford, and Campbell and the City of Lynchburg, participates in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City appropriated \$10,967 for an operating contribution to the Board for the current year.

Blue Ridge Regional Jail Authority

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

Bedford Public Library System

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

CITY OF BEDFORD, VIRGINIA

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

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Related Organizations:

City of Bedford Redevelopment and Housing Authority

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

Industrial Development Authority of the City of Bedford

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

Other Boards and Commissions

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

Joint Ventures:

Joint Industrial Development Authority

The City, in conjunction with the County of Bedford, created a Joint Industrial Development Authority, which is composed of a seven-member board of directors appointed by the participating localities. The City contributes a predetermined percentage of electric fund income before transfers and contributions to the Authority each year to fund expenses. The percentage is determined by expressing the revenue earned in the economic development area as a percentage of total revenue (5.12% for 2008). The City made an operating contribution of \$42,757 to the Authority for the year ended June 30, 2008. The City and County have agreed to share equally any additional amounts necessary to cover the Authority’s costs. Complete financial statements of the Joint Industrial Development Authority can be obtained from the Director of Finance of the City.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Joint Ventures: (Continued)

Central Virginia Radio Communication Board

The City participates in an intergovernmental agreement with the Counties of Amherst and Bedford, and the City of Lynchburg for the operation of a regional radio communication system. The Central Virginia Radio Communication Board is responsible for overseeing the management, operation, and administration of the system. The project is financed by lease revenue bonds of the Industrial Development Authorities of Amherst County and the City of Bedford (in the amount of \$9,931,000 with interest of 5.72%) and the leasing of the project to the participating jurisdictions. Each participating jurisdiction maintains a leasehold interest in the project and shares costs of operation and maintenance equal to the jurisdiction's payment percentage as defined in the agreement. The City's participating interest is 3.9%. Future minimum lease payments in the amount of \$90,143 are included in the Governmental Activities noncurrent liabilities. An asset in the amount of \$38,731 is shown in the Governmental Activities capital assets net of accumulated depreciation. Separate financial statements for this joint venture are not available.

Joint Tourism Program

The City, in conjunction with the County of Bedford, created a joint tourism program (the "program"), which is composed of a three-member executive committee made up of the City Manager, County Administrator, and Executive Director of the Bedford Area Chamber of Commerce. The City and County have agreed to share equally in the annual operating and capital expenses of the program. The City and County each contributed approximately \$226,000 to the program during 2008. Separate financial statements for this joint venture are not available.

B. Government-Wide and Fund Financial Statements

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

The *water and sewer fund* accounts for the activities of the City's water and sewer operations.

The *solid waste fund* accounts for the activities of the City's solid waste operations.

The *electric fund* accounts for the activities of the City's electric distribution operations.

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

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

D. Budgets and Budgetary Accounting

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

- 1) Prior to May 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the fund level.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$1,356,517 during the fiscal year ended June 30 primarily for unanticipated grant expenditures in the public safety and community development categories.
- 5) Formal budgetary integration is employed as a management control device for all funds.
- 6) The budget for the general fund is adopted on the modified accrual basis of accounting.

All appropriations which are not encumbered lapse at year end.

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

Note 1. Summary of Significant Accounting Policies (Continued)

E. Encumbrances

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

F. Cash and Cash Equivalents

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

G. Investments

Investments are stated at fair value.

H. Allowance for Uncollectible Accounts

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

I. Inventories

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

J. Capital Assets

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

J. Capital Assets (Continued)

Property, plant, and equipment generally are depreciated using the straight line method over the following estimated useful lives:

Buildings and improvements	30-40 years
Machinery and equipment	5-10 years
Distribution and transmission systems	40-50 years
Infrastructure	40-50 years

Certain capital assets used specifically in landfill operations are depreciated based on the percentage of capacity used.

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc. The retroactive reporting of infrastructure placed into service between January 1, 1980 and July 1, 2001 was subject to an extended implementation period and was effective for the prior fiscal year.

K. Deferred Expenses

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

L. Deferred Revenues

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

M. Compensated Absences

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

N. Long-Term Obligations

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

N. Long-Term Obligations (Continued)

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

O. Fund Equity

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

P. Estimates

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

Note 2. Deposits and Investments

Deposits

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

Investments

Investment Policy:

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

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

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Investment Policy: (Continued)

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

Credit Risk:

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

Concentration of Credit Risk:

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

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

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 and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity*</u>
Virginia LGIP	\$ 7,869,244	AAAm	55.74%	-
SNAP	5,269,166	AAAm	37.33	-
First American Prime Obligations Fund	538,489	AAAm	3.81	.13
Fidelity Government Portfolio	157,613	AAAm	1.12	.08
Western Asset Money Market Fund	17,944	AAAm	.13	.08
Federated Treasury Obligations Fund	87,745	AAAm	.62	.04
Government National Mortgage Association	<u>176,782</u>	AAA	<u>1.25</u>	26.81
	<u>\$ 14,116,983</u>		<u>100.00%</u>	.34

*Weighted average maturity in years

	<u>Fair Value</u>
Deposits	\$ 2,025,663
Investments	<u>14,116,983</u>
Total deposits and investments	<u>\$ 16,142,646</u>
Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 9,175,398
Cash and cash equivalents, restricted	6,790,466
Investments	<u>176,782</u>
Total deposits and investments	<u>\$ 16,142,646</u>

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

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 and investments consist primarily of unused bond proceeds (\$5,132,801), balances required to be maintained as conditions of certain bond instruments (\$1,326,243), and other restricted purposes (\$311,422).

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	\$ 299,361	\$ -	\$ -	\$ -	\$ 299,361
Accounts	14,354	773,455	249,391	3,040,148	4,077,348
Note	-	-	-	50,000	50,000
Gross receivables	313,715	773,455	249,391	3,090,148	4,426,709
Less: allowance for uncollectibles	(61,827)	(75,168)	(20,534)	(328,692)	(486,221)
Net receivables	<u>\$ 251,888</u>	<u>\$ 698,287</u>	<u>\$ 228,857</u>	<u>\$ 2,761,456</u>	<u>\$ 3,940,488</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>\$ 115,333</u>

CITY OF BEDFORD, VIRGINIA

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

Note 3. Receivables (Continued)

Note Receivable

In connection with the sale of certain assets in 2008, a \$100,000 non-interest-bearing note was issued. The remaining balance is due October 2008.

Note 4. Interfund/Interactivity Receivables, Payables and Transfers

Amounts due from/to other funds are as follows:

Receivable Fund	Payable Fund	Amount
Electric	Water and Sewer	\$ 1,112,055
Electric	Solid Waste	345,302
		\$ 1,457,357

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:

Transfer Out Fund	Transfer In Fund	Amount
Electric	General	\$ 1,467,000

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

Interactivity transfer is as follows:

Transfer Out Activity	Transfer In Activity	Amount
Governmental	Business-Type	\$ 3,810,761

The purpose of this transfer is to move capital assets of \$362,700, general obligation debt of \$1,877,266, and landfill post-closure liability of \$2,296,195 related to the closed landfill to governmental activities. This transfer eliminates the need for the general fund to make future transfers to the solid waste fund to pay these ongoing costs. These items do not constitute current financial resource flows; therefore, they are not reported in the general fund.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 5. Due to/from Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Business-type Activities
Bedford County		
Growth-sharing agreement	\$ 44,681	\$ 44,681
Joint tourism agreement	324,637	-
Blue Ridge Regional Jail		
Cost reimbursement	70,000	-
Commonwealth of Virginia		
Cost reimbursements	64,205	-
State sales tax	28,225	-
Local sales tax	86,242	-
Communications tax	25,960	-
Burn Building grant	100,000	-
	\$ 743,950	\$ 44,681

Amounts due to other governmental units are as follows:

Bedford County		
Shared services	\$ 734,759	\$ -
Bedford Joint Economic Development Authority contribution	-	42,757
	\$ 734,759	\$ 42,757

Note 6. Capital Assets

Capital asset activity for the year was as follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,989,260	\$ 362,700	\$ -	\$ 2,351,960
Construction in progress	120,356	13,096	-	133,452
Total capital assets, not depreciated	2,109,616	375,796	-	2,485,412
Capital assets, depreciated				
Buildings and improvements	12,372,150	621,959	66,700	12,927,409
Machinery and equipment	7,106,285	1,109,358	244,378	7,971,265
Infrastructure	11,143,442	278,705	-	11,422,147
Total capital assets, depreciated	30,621,877	2,010,022	311,078	32,320,821
Less accumulated depreciation	15,741,115	1,205,645	267,678	16,679,082
Total capital assets, depreciated, net	14,880,762	804,377	43,400	15,641,739
Governmental activities capital assets, net	\$ 16,990,378	\$ 1,180,173	\$ 43,400	\$ 18,127,151

(Continued)

CITY OF BEDFORD, VIRGINIA

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

Note 6. Capital Assets (Continued)

Business-type Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,330,717	\$ -	\$ 362,700	\$ 968,017
Construction in progress	110,659	1,206,594	70,660	1,246,593
Total capital assets, not depreciated	<u>1,441,376</u>	<u>1,206,594</u>	<u>433,360</u>	<u>2,214,610</u>
Capital assets, depreciated				
Buildings and improvements	29,618,193	254,440	130,828	29,741,805
Machinery and equipment	3,103,055	658,870	155,279	3,606,646
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	29,339,989	199,798	-	29,539,787
Total capital assets, depreciated	<u>65,377,182</u>	<u>1,113,108</u>	<u>286,107</u>	<u>66,204,183</u>
Less accumulated depreciation	<u>30,147,661</u>	<u>1,542,879</u>	<u>266,927</u>	<u>31,423,613</u>
Total capital assets, depreciated, net	<u>35,229,521</u>	<u>(429,771)</u>	<u>19,180</u>	<u>34,780,570</u>
Business-type activities capital assets, net	<u>\$ 36,670,897</u>	<u>\$ 776,823</u>	<u>\$ 452,540</u>	<u>\$ 36,995,180</u>

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

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 108,508
Public safety	253,185
Public works	168,791
Education	506,372
Parks, recreation, and cultural	72,339
Community development	96,450
	<u>\$ 1,205,645</u>
Business-type activities	
Water and sewer	\$ 624,410
Solid waste	151,868
Electric	766,601
	<u>\$ 1,542,879</u>

CITY OF BEDFORD, VIRGINIA

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

Note 6. Capital Assets (Continued)

Construction Commitments

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

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Governmental activities:		
WayFinder Signage Project	\$ 12,096	\$ 206,810
Business-type activities:		
460 West JEDA Water Line	235,821	101,499
Substation Business Park	<u>914,096</u>	<u>449,024</u>
	<u>\$ 1,162,013</u>	<u>\$ 757,333</u>

Note 7. Long-Term Liabilities

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>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 1,520,600	\$ 2,824,040	\$ 412,500	\$ 3,932,140	\$ 559,422
Literary fund loans	975,000	-	75,000	900,000	75,000
Capital leases	715,927	-	41,718	674,209	296,301
Compensated absences	180,287	166,952	180,287	166,952	166,952
Landfill liability:					
Closed landfill	<u>-</u>	<u>2,296,195</u>	<u>39,195</u>	<u>2,257,000</u>	<u>1,547,368</u>
Governmental activities long-term liabilities	<u>\$ 3,391,814</u>	<u>\$ 5,287,187</u>	<u>\$ 748,700</u>	<u>\$ 7,930,301</u>	<u>\$ 2,645,043</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 7. Long-Term Liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Business-type Activities:					
General obligation bonds	\$ 13,856,942	\$ 4,525,860	\$ 3,001,081	\$ 15,381,721	\$ 1,599,614
Revenue bonds	16,903,533	-	829,458	16,074,075	858,423
Compensated absences	139,914	129,178	139,914	129,178	129,178
Landfill liability:					
Open landfill	1,759,805	181,195	-	1,941,000	-
Closed landfill	2,296,195	-	2,296,195	-	-
Business-type activities long-term liabilities	<u>\$ 34,956,389</u>	<u>\$ 4,836,233</u>	<u>\$ 6,266,648</u>	<u>\$ 33,525,974</u>	<u>\$ 2,587,215</u>

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

At year end, the general fund reported a liability of \$249,653 of which \$100,830 related to a general obligation bond debt service payment and \$148,823 related to a capital lease debt service payment which were due prior to year end. This amount includes \$41,922 of accrued interest which is included in accrued interest payable on the statement of net assets. These amounts are also included in the long-term debt schedules in this note.

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
2009	\$ 559,422	\$ 169,882	\$ 371,301	\$ 54,493	\$ 1,599,614	\$ 423,407	\$ 858,423	\$ 689,452
2010	264,227	116,730	252,961	37,642	875,432	364,092	872,544	663,496
2011	287,537	103,117	259,198	29,184	900,441	334,049	911,826	633,082
2012	261,443	88,793	90,749	20,509	825,209	303,705	797,010	606,101
2013	333,588	75,106	75,000	18,000	1,054,414	272,325	723,851	578,499
2014-2018	745,004	217,944	375,000	56,250	4,637,737	855,502	4,076,406	2,405,667
2019-2023	1,166,395	121,471	150,000	6,750	5,263,767	281,723	5,092,576	1,397,735
2024-2028	314,524	26,266	-	-	225,107	18,797	2,741,439	226,524
	<u>\$ 3,932,140</u>	<u>\$ 919,309</u>	<u>\$ 1,574,209</u>	<u>\$ 222,828</u>	<u>\$ 15,381,721</u>	<u>\$ 2,853,600</u>	<u>\$ 16,074,075</u>	<u>\$ 7,200,556</u>

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

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Final Date	Amount of Original Issue	Governmental Activities	Business-type Activities
Virginia Public School Authority						
Refunding	6.6-8.6	12/15/93	2008	\$ 1,700,000	\$ 75,000	\$ -
Public Improvement	2.0-3.6	12/01/03	2013	\$ 1,460,000	925,000	-
Virginia Resources Authority:						
Taxable Water and Sewer	2.5	06/23/98	2019	\$ 5,225,000	-	3,379,673
Solid Waste Management						
Refunding	4.1-4.85	06/28/01	2013	\$ 2,375,000	285,551	859,449
Water and Sewer	3.1-4.85	06/06/02	2017	\$ 2,005,000	-	1,355,000
Virginia Revolving Loan Fund:						
Water and Sewer	0.0	04/25/02	2022	\$ 2,866,300	-	2,078,067
Water and Sewer	0.0	09/27/01	2022	\$ 1,800,000	-	1,260,000
Refunding	3.58	06/27/02	2009	\$ 1,498,900	153,800	-
Public Improvement	3.0	10/01/04	2010	\$ 1,200,000	-	317,163
Public Improvement	3.79-4.12	11/30/05	2026	\$ 2,766,968	1,546,211	1,106,509
Public Improvement	3.92	08/25/06	2009	\$ 500,000	-	500,000
Public Improvement	2.89-3.62	04/29/08	2023	\$ 5,472,438	946,578	4,525,860
					<u>3,932,140</u>	<u>15,381,721</u>
				Less deferred costs	-	(66,489)
				Plus bond premium	-	12,986
					<u>\$ 3,932,140</u>	<u>\$ 15,328,218</u>

Revenue Bonds:

Virginia Resources Authority:						
Taxable Water and Sewer	0.0	01/91	2011	\$ 3,990,672	\$ -	\$ 709,207
Electric System Refunding	3.0-4.13	08/05	2025	\$ 12,560,000	-	11,320,000
Taxable Lease	7.81	06/96	2026	\$ 2,630,000	-	2,180,000
Electric System	3.89-4.17	11/05	2026	\$ 2,064,710	-	1,864,868
					-	16,074,075
				Less deferred costs	-	(1,268,558)
				Less bond discount	-	(70,252)
					<u>\$ -</u>	<u>\$ 14,735,265</u>

Other Long-Term Debt:

Literary Fund Loans	3.0	01/98	2019	\$ 1,500,000	\$ 900,000	\$ -
---------------------	-----	-------	------	--------------	------------	------

Capital Leases:

Central Virginia radio communications equipment	5.72	05/96	2011	\$ 387,309	\$ 90,143	\$ -
Equipment Lease	3.52	11/05	2011	717,885	584,066	-
					<u>\$ 674,209</u>	<u>\$ -</u>

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

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

Note 7. Long-Term Liabilities (Continued)

General obligation bonds issued in April 2008 require that annual payments be made into a sinking fund for the accumulation of principal that will be paid out upon the term bonds' maturity in 2011, 2015 and 2023. Interest is payable semi-annually. The annual sinking fund requirements for principal are as follows:

Year Ended June 30	Sinking Fund Requirement
2009	\$ 403,474
2010	416,853
2011	430,681
2012	411,058
2013	424,847
2014-2018	1,745,678
2019-2023	1,639,847
	\$ 5,472,438

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 \$2,257,000. 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. All assets and liabilities related to this landfill were transferred to governmental activities in 2008. (See Note 4)

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 closure and postclosure liability at June 30 includes \$2,308,300 for this site, which represents the cumulative amount of estimated closure and postclosure care costs of \$1,941,000 reported to date, based on the use of approximately 84% of the estimated capacity. This amount is included in the solid waste fund. The City is shipping all 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.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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	\$ 517,554
Debt service	538,489
Auditorium renovation	100,000
Perpetual care	660,604
Due from other governmental units	324,637
E-911	14,780
VCDG	196,361
	<hr/>
	\$ 2,352,425

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 \$(832,318). This deficit is anticipated to be recovered through future revenues, as well as possible transfers from the general fund or electric fund.

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 5 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. 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% 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.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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/2007annurept.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% of their annual salary to the VRS. The employer may assume this 5% 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 2008 was 18.01% 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.

Annual Pension Cost

For fiscal year 2008, the City's annual pension cost of \$829,366 was equal to the City's required and actual contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 829,366	100%	\$ -
June 30, 2007	\$ 874,241	100%	\$ -
June 30, 2006	\$ 842,735	100%	\$ -

The required contribution was determined as part of the June 30, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.73% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified 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 21 years.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 10. Defined Benefit Pension Plan (Continued)

Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 75.84% funded. The actuarial accrued liability for benefits was \$19,383,049 and the actuarial value of assets was \$14,699,397, resulting in an unfunded actuarial accrued liability (UAAL) of \$4,683,652. The covered payroll (annual payroll of active employees covered by the plan) was \$4,925,257, and the ratio of the UAAL to the covered payroll was 95.09%.

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 liability for benefits.

Note 11. 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.

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.

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

Note 11. Service Contracts (Continued)

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.

Note 12. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. The assessed value is as of July 1 for real property and January 1 for personal property. Real estate taxes are payable in four quarterly installments on September 30, December 31, March 31, and June 5. The real estate tax rate for fiscal year 2008 was \$.81 per \$100 of assessed value.

Personal property taxes are payable on December 5. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes. Years 2008 and 2007 remain unchanged.

Note 13. Risk Management

The Risk Management programs of the City are as follows:

Workers' Compensation

The City is a member of the Virginia Municipal Group Self-Insured Association for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates and claims experience. Total premiums for fiscal year 2008 were approximately \$107,000.

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

Note 13. Risk Management (Continued)

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 \$60 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 2008 were approximately \$211,000.

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 2008 were approximately \$699,000.

Other

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

Note 14. Leases

The City is the lessor of certain equipment relating to an electric substation for a 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	\$ 6,267,570
Guaranteed residual value	1,369,086
Unearned income	<u>(5,137,909)</u>
Net investment in direct financing lease	<u><u>\$ 2,498,747</u></u>

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

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

Note 15. Commitments and Contingencies

Grant Programs

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

Litigation

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

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 both capacity and useful life of the reservoir and accordingly will not record a liability for the project. The cost is projected to be between \$5 and \$6 million. During 2007, the City obtained financing in the amount of \$500,000 at an interest rate of 3.92% to finance the design and engineering phase of construction.

Environmental Remediation

The City, along with a number of other parties, has been designated by the Environmental Protection Agency ("EPA") as a potentially responsible party in relation to business conducted with a vendor. The EPA alleges that the vendor did not adequately contain and dispose of PCB's removed from unusable electric transformers and other electrical components provided by various customers including the City during the 1970's. As a result, PCB contamination has been found in streams and reservoirs surrounding the site.

The City is defending this designation by the EPA. The City does not believe that any significant liability will result from the matter; however, if the City is unsuccessful in defending the claim, potential costs for cleanup could be significant. The EPA would attempt to recover these costs from the various parties deemed responsible for the environmental damage.

Note 16. 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.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 16. Joint Economic Development and Growth Sharing Agreement (Continued)

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

Note 17. Other Postemployment Benefits

The City provides limited healthcare benefits to qualifying retirees until the earlier of age 65 or reaching eligibility for Medicaid and/or Medicare. The City's contributions under this program are accounted for on a current disbursement basis. The City's contribution for the year ended June 30 was approximately \$27,000 and included five participants.

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. **Management has not completed the process of evaluating the effects of adopting this standard, and is therefore unable to disclose the impact of adoption.** This statement will be effective for the year ended June 30, 2009.

Note 18. New Accounting Standards

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

GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, addresses accounting and financial reporting standards for certain obligations to address the effects of existing pollution through pollution remediation activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care. Upon the occurrence of certain events, a government is required to estimate expected pollution remediation outlays and determine whether those outlays should be accrued as a liability, or, if appropriate, capitalized when goods and services are received. **Management does not believe that the effects of adopting this standard will be material.** This statement will be effective for the year ended June 30, 2009.

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, provides specific guidance on the recognition, initial measurement, and amortization of intangible assets. **Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect them to be material.** This statement will be effective for the year ending June 30, 2010.

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. A key provision in this statement is that most of the derivative instruments covered in its scope will be reported at fair value. **Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect them to be material.** This statement will be effective for the year ending June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BEDFORD, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2008

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 2005	\$ 12,380,744	\$ 17,509,112	\$ 5,128,368	70.71%	\$ 4,774,738	107.41%
June 30, 2006	\$ 13,088,502	\$ 16,821,731	\$ 3,733,229	77.81%	\$ 4,789,919	77.94%
June 30, 2007	\$ 14,699,397	\$ 19,383,049	\$ 4,683,652	75.84%	\$ 4,925,257	95.09%

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.

TABLE 1

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

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Governmental activities						
Invested in capital assets, net of related debt	\$ 15,245,441	\$ 14,745,115	\$ 14,470,547	\$ 13,545,504	\$ 13,153,135	\$12,064,211
Unrestricted	<u>(1,934,063)</u>	<u>2,042,536</u>	<u>1,965,046</u>	<u>2,504,784</u>	<u>3,515,785</u>	<u>4,248,602</u>
Total governmental activities net assets	<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	\$ 13,137,264	\$ 11,813,722	\$ 8,371,842	\$ 8,058,562	\$ 3,652,555	\$ 1,687,513
Unrestricted	<u>10,469,136</u>	<u>6,880,977</u>	<u>10,518,305</u>	<u>12,817,093</u>	<u>15,139,520</u>	<u>17,120,145</u>
Total business-type activities net assets	<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	\$ 28,382,705	\$ 26,558,837	\$ 22,842,389	\$ 21,604,066	\$ 16,805,690	\$13,751,724
Unrestricted	<u>8,535,073</u>	<u>8,923,513</u>	<u>12,483,351</u>	<u>15,321,877</u>	<u>18,655,305</u>	<u>21,368,747</u>
Total primary government net assets	<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 Six Fiscal Years
 (accrual basis of accounting)

	Fiscal Year					
	2008	2007	2006	2005	2004	2003
Expenses						
Governmental activities:						
General government	\$ 1,157,362	\$ 1,108,975	\$ 1,255,082	\$ 1,207,094	\$ 1,009,729	\$ 947,472
Judicial administration	45,844	20,269	22,108	27,097	11,587	22,602
Public safety	3,551,640	3,491,536	3,147,207	2,792,008	2,693,711	2,432,172
Public works	1,800,835	1,870,534	1,734,423	1,544,583	1,561,611	1,822,153
Health and welfare	859,833	675,828	558,469	721,935	366,032	491,097
Education	7,521,071	7,280,991	6,924,063	6,327,656	6,320,200	5,567,031
Parks, recreation and cultural	968,399	990,201	947,889	953,698	905,957	846,373
Community development	525,207	464,080	518,251	1,123,443	370,323	753,717
Nondepartmental	10,923	1,208	7,829	486	11,580	5,665
Interest on long-term debt	224,815	137,765	112,811	169,253	161,260	157,533
Total governmental activities	<u>16,665,929</u>	<u>16,041,387</u>	<u>15,228,132</u>	<u>14,867,253</u>	<u>13,411,990</u>	<u>13,045,815</u>
Business-type activities:						
Water and Sewer	2,889,286	3,074,722	3,046,030	2,906,751	2,765,384	2,603,408
Solid Waste	1,225,962	1,789,163	2,097,695	1,049,661	2,989,664	1,160,635
Electric	19,353,950	18,798,435	15,305,400	10,252,537	10,125,068	10,673,208
Total business-type activities expense	<u>23,469,198</u>	<u>23,662,320</u>	<u>20,449,125</u>	<u>14,208,949</u>	<u>15,880,116</u>	<u>14,437,251</u>
Total primary government expenses	<u>40,135,127</u>	<u>39,703,707</u>	<u>35,677,257</u>	<u>29,076,202</u>	<u>29,292,106</u>	<u>27,483,066</u>
Program Revenues						
Governmental activities:						
Charges for services:						
General government	265,733	276,964	259,823	279,606	9,053	-
Public Safety	125,533	125,411	111,122	77,334	105,953	71,292
Parks, recreation and cultural	105,913	105,283	91,610	105,338	252,765	203,145
Operating grants and contributions	6,036,954	5,916,844	5,403,786	5,141,468	4,996,519	4,815,749
Capital grants and contributions	610,115	229,931	171,077	262,155	483,588	113,318
Total governmental activities program revenues	<u>7,144,248</u>	<u>6,654,433</u>	<u>6,037,418</u>	<u>5,865,901</u>	<u>5,847,878</u>	<u>5,203,504</u>
Business-type activities:						
Charges for services:						
Water and Sewer	3,316,832	2,823,034	2,736,581	2,703,699	2,679,837	2,676,689
Solid Waste	1,091,627	1,130,918	1,045,479	959,414	878,092	1,037,228
Electric	20,393,092	19,686,578	15,600,264	12,944,906	12,285,888	12,750,334
Operating grants and contributions	333,872	330,314	371,778	201,470	299,228	231,473
Capital grants and contributions	102,100	-	-	-	-	-
Total business-type activities program revenues	<u>25,237,523</u>	<u>23,970,844</u>	<u>19,754,102</u>	<u>16,809,489</u>	<u>16,143,045</u>	<u>16,695,724</u>
Total primary government program revenues	<u>32,381,771</u>	<u>30,625,277</u>	<u>25,791,520</u>	<u>22,675,390</u>	<u>21,990,923</u>	<u>21,899,228</u>
Net (expense) revenue						
Governmental activities	(9,521,681)	(9,386,954)	(9,190,714)	(9,001,352)	(7,564,112)	(7,842,311)
Business-type activities	1,768,325	308,524	(695,023)	2,600,540	262,929	2,258,473
Total primary government net expense	<u>(7,753,356)</u>	<u>(9,078,430)</u>	<u>(9,885,737)</u>	<u>(6,400,812)</u>	<u>(7,301,183)</u>	<u>(5,583,838)</u>

(Continued)

TABLE 2

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

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

TABLE 3

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

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
General Fund										
Reserved	\$ 2,352,425	\$ 2,431,433	\$ 1,625,713	\$ 1,583,500	\$ 2,211,940	\$ 747,272	\$ 802,269	\$ 300,510	\$ 662,515	\$ 36,772
Unreserved	453,160	611,421	759,917	377,825	1,794,152	2,949,240	2,867,473	3,066,188	3,461,705	726,161
Total general fund	<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>	<u>\$ 4,124,220</u>	<u>\$ 762,933</u>
All Other Governmental Funds										
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,264	\$ -
Unreserved, reported in:										
Special revenue funds	-	-	469,703	455,774	479,407	509,050	536,662	532,812	495,367	456,927
Total all other governmental funds	<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>	<u>\$ 498,631</u>	<u>\$ 456,927</u>

TABLE 4

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Revenues										
Taxes	\$ 7,189,990	\$ 7,107,098	\$ 6,205,510	\$ 6,088,806	\$ 5,920,497	\$ 5,839,083	\$ 5,695,811	\$ 5,385,880	\$ 5,476,530	\$ 5,383,260
Permits, privilege fees, and licenses	36,827	33,833	25,491	35,221	31,701	33,828	18,686	21,183	24,213	43,183
Fines and forfeitures	88,201	91,148	84,687	41,628	71,577	34,959	22,478	35,210	41,795	48,839
Revenue from use of money and property	247,573	404,157	343,308	221,008	122,171	156,775	257,035	543,651	430,875	390,836
Charges for services	260,756	278,926	275,364	215,394	251,822	205,432	98,070	75,220	72,160	156,870
Other	137,233	8,832	140,076	260,834	98,305	117,299	205,624	163,811	234,488	213,428
Intergovernmental	7,492,240	7,257,145	6,517,543	6,307,277	6,363,359	5,751,668	5,747,907	5,307,680	5,024,264	4,920,658
Total revenues	15,452,820	15,181,139	13,591,979	13,170,168	12,859,432	12,139,044	12,045,611	11,532,635	11,304,325	11,157,074
Expenditures										
General government	1,095,027	1,041,035	1,415,552	1,456,413	1,085,412	953,974	1,056,528	888,906	919,310	806,879
Judicial administration	45,844	20,269	22,108	27,097	11,587	22,602	22,759	34,594	29,109	26,314
Public safety	4,529,012	3,305,259	3,120,698	3,122,124	2,516,748	2,211,078	2,234,097	2,267,808	1,947,134	2,154,991
Public works	2,186,661	2,039,525	2,063,237	2,043,948	1,774,348	2,062,111	1,981,739	2,349,870	1,611,825	1,628,381
Parks, recreation and cultural	906,368	980,295	908,539	914,838	953,378	833,436	851,716	919,735	782,351	706,469
Health and welfare	859,833	675,828	558,469	721,935	366,032	491,097	688,613	422,997	356,282	231,771
Education	7,142,290	6,849,211	6,583,537	6,111,105	6,301,173	5,510,608	5,155,699	4,828,153	4,460,758	4,419,987
Community development	443,771	381,138	472,557	1,069,227	1,055,270	733,458	511,929	287,659	295,258	822,078
Nondepartmental	10,923	1,208	7,829	486	11,580	5,665	2,665	237,652	7,828	32,041
Capital projects	-	-	-	-	-	-	-	-	-	1,528,220
Debt service:										
Bond issuance costs	7,178	-	24,570	-	42,431	-	-	-	-	-
Principal	736,949	762,152	626,979	640,018	555,387	625,289	581,776	707,822	2,068,311	503,658
Interest	185,569	132,055	132,589	150,330	141,699	157,568	260,741	253,834	283,265	323,208
Total expenditures	18,149,425	16,187,975	15,936,664	16,257,521	14,815,045	13,606,886	13,348,262	13,199,030	12,761,431	13,183,997
Excess of revenues over (under) expenditures	(2,696,605)	(1,006,836)	(2,344,685)	(3,087,353)	(1,955,613)	(1,467,842)	(1,302,651)	(1,666,395)	(1,457,106)	(2,026,923)
Other Financing Sources (Uses)										
Proceeds from borrowing	946,774	-	717,885	197,925	1,460,000	-	1,498,900	-	1,994,476	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	(1,482,989)	-	-	-
Proceeds from sale of assets	45,562	4,621	26,212	15,128	-	-	-	-	-	-
Principal payment of capital lease	-	-	-	(197,925)	-	-	-	-	-	-
Transfers in	1,467,000	1,904,366	2,162,023	1,505,875	1,467,000	1,502,637	1,084,989	1,104,367	1,492,090	3,090,985
Transfers out	-	(714,630)	(208,000)	(502,050)	(485,450)	(35,637)	(18,989)	(161,313)	(226,542)	(1,991,777)
Total other financing sources (uses)	2,459,336	1,194,357	2,698,120	1,018,953	2,441,550	1,467,000	1,081,911	943,054	3,260,024	1,099,208
Net change in fund balances	\$ (237,269)	\$ 187,521	\$ 353,435	\$(2,068,400)	\$ 485,937	\$ (842)	\$ (220,740)	\$ (723,341)	\$ 1,802,918	\$ (927,715)
Debt service as a percentage of noncapital expenditures	5.73%	5.52%	4.77%	4.86%	4.71%	5.75%	6.31%	7.29%	18.43%	7.09%

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)
2008	\$ 396,308,300	\$47,144,412	\$33,851,260	\$ 9,845,100	\$ 416,600	\$ 487,565,672	0.94
2007	395,464,300	46,294,050	31,804,750	7,716,900	425,900	481,705,900	0.93
2006	318,993,200	43,796,730	30,216,970	8,913,570	478,800	402,399,270	0.96
2005	313,729,100	41,338,270	30,194,580	10,437,161	486,600	396,185,711	0.95
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	0.96
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	0.98
2000	273,096,200	37,570,470	45,324,990	10,913,839	474,800	367,380,299	0.96
1999	270,067,216	36,990,630	42,489,190	9,570,920	520,100	359,638,056	0.97

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

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

TABLE 6

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

Customer	Fiscal Year 2008			Fiscal Year 2007		
	Revenue	Rank	Percentage of Total City Electrical Revenue	Revenue	Rank	Percentage of Total City Electrical Revenue
Wheelabrator Abrasives	\$ 1,986,383	1	9.74%	\$ 1,871,211	1	10.37%
Bedford Weaving	751,093	2	3.68%	693,591	2	3.84%
Golden West	622,685	3	3.05%	607,495	3	3.37%
Smyth Companies	371,232	4	1.82%	370,151	5	2.05%
Rubatex International	363,835	5	1.78%	379,691	4	2.10%
City of Bedford	315,197	6	1.55%	309,365	6	1.72%
Wal-Mart	293,836	7	1.44%	282,433	7	1.57%
Liberty High School	272,862	8	1.34%	267,570	8	1.48%
Frank Chervan	259,447	9	1.27%	260,473	9	1.44%
Bedford Memorial Hospital	238,445	10	1.17%	230,651	10	1.28%
	<u>\$ 5,475,015</u>		<u>27.84%</u>	<u>\$ 5,272,631</u>		<u>29.22%</u>

Note: Information prior to 2007 is unavailable.

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
2008	\$ 4,528,055	\$ 4,487,102	99.10%	\$ -	\$ 4,487,102	99.10%
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%
2000	3,393,161	3,289,224	96.94%	47,657	3,336,881	98.34%
1999	3,302,804	3,206,752	97.09%	61,944	3,268,696	98.97%

Source: Tax Records of the City.

TABLE 8

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

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Debt limit	\$ 40,615,340	\$40,289,520	\$32,757,867	\$32,374,542	\$32,154,124	\$31,492,480	\$29,090,080	\$28,717,501	\$28,371,674	\$27,930,918
Total net debt applicable to limit	20,213,861	15,377,542	16,664,323	15,551,377	15,924,181	15,354,958	14,028,228	10,946,132	10,716,683	6,381,201
Legal debt margin	<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>	<u>\$17,654,991</u>	<u>\$21,549,717</u>
Total net debt applicable to the limit as a percentage of debt limit	49.77%	38.17%	50.87%	48.04%	49.52%	48.76%	48.22%	38.12%	37.77%	22.85%

Legal Debt Margin Calculation for Fiscal Year 2008

Assessed value	<u>\$ 406,153,400</u>
Debt limit (10% of assessed value)	\$ 40,615,340
Less debt applicable to limit:	
General obligation bonds	(19,313,861)
Other long-term obligations	(900,000)
Legal debt margin	<u>\$ 20,401,479</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
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%	330	-	876,479	1,050,000
2005	2,573,300	-	-	2,573,300	0.65%	414	-	184,473	1,200,000
2004	3,091,400	-	-	3,091,400	0.77%	497	-	231,391	1,200,000
2003	2,018,100	-	-	2,018,100	0.52%	323	-	325,078	1,275,000
2002	2,413,900	-	-	2,413,900	0.63%	385	-	479,565	1,350,000
2001	2,715,000	-	-	2,715,000	0.72%	430	-	626,341	1,425,000
2000	3,170,000	-	-	3,170,000	0.86%	503	38,218	765,945	1,500,000
1999	3,625,000	-	-	3,625,000	1.01%	585	74,206	348,849	1,500,000

Fiscal Year	Business-type Activities			Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	General Obligation Bonds	Capital Leases			
2008	\$ 16,074,075	\$ 15,381,721	\$ -	\$ 36,962,145	NA	\$ 5,962
2007	16,903,533	13,856,942	-	33,972,002	NA	5,479
2006	17,714,178	14,617,123	-	36,304,980	1499.56%	5,856
2005	17,007,099	12,978,077	-	33,942,949	1472.98%	5,465
2004	17,629,730	12,832,781	-	34,985,302	1592.68%	5,623
2003	18,237,361	13,336,878	34,002	35,226,419	1714.82%	5,641
2002	18,829,991	11,614,328	99,730	34,787,514	1723.40%	5,541
2001	19,397,622	8,231,132	162,262	32,557,357	1650.83%	5,151
2000	19,945,253	7,546,683	221,787	33,187,886	1776.62%	5,265
1999	23,972,884	2,756,201	-	32,277,140	1836.26%	5,206

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	
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
2000	16,652,149	10,942,876	5,709,273	537,631	987,945	3.74
1999	16,204,469	9,103,028	7,101,441	527,631	1,002,124	4.64

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

TABLE 11

**City of Bedford, Virginia
Demographic Statistics
Last Ten Fiscal Years**

Fiscal Year Ended (1)	Population (2)	Total Personal Income (3)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate (4)
2008	6,286	NA	NA	813	5.30%
2007	6,286	NA	NA	888	3.60%
2006	6,249	\$ 2,421,037	\$ 33,674	902	4.00%
2005	6,211	2,304,368	32,333	914	4.40%
2004	6,222	2,196,637	31,317	936	4.70%
2003	6,245	2,054,229	29,761	946	4.70%
2002	6,278	2,018,540	29,622	943	5.00%
2001	6,320	1,972,182	29,205	986	4.00%
2000	6,303	1,868,032	27,898	972	2.50%
1999	6,200	1,757,761	26,731	993	2.00%

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

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

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

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

NA = Not Available

TABLE 12

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

Employer	Fiscal Year 2008			Fiscal Year 1999		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Bedford Memorial Hospital	360	1	9.50%	NA		0.00%
Bedford Public Schools	323	2	8.50%	NA		0.00%
Sam Moore Furniture LLC	258	3	6.80%	330	1	7.22%
Brooks Food Group/Golden West	165	4	4.40%	165	4	3.61%
Bedford Weaving Mills	130	7	3.40%	165	5	3.61%
Cintas	131	6	3.40%	100	7	2.19%
Frank Chervan	130	8	3.40%	210	2	4.60%
Smyth Companies Bedford	138	5	3.60%	185	3	4.05%
Elks National Home	85	9	2.20%	NA		0.00%
Longwood Industries	80	10	2.10%	135	6	2.95%
Wheelabrator Abrasives, Inc.	45	-	1.20%	47	8	1.03%
Parkway Steel Rule Cutting Dies	22	-	0.60%	25	9	0.55%
	<u>1,867</u>		<u>49.10%</u>	<u>1,362</u>		<u>29.81%</u>

NA = Not Available

TABLE 13

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

<u>Function/Program</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>	<u>2000</u>	<u>1999</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	1	1
Finance	6	6	5	7	7	6	6	7	7	7
Information Technology	2	1	2	-	-	-	-	-	-	-
Planning	5	5	5	5	5	5	5	4	4	4
Schools	6	8	8	8	8	8	8	8	8	7
Police										
Officers	25	28	29	22	22	22	22	22	22	21
Civilians	3	3	3	2	2	2	5	6	6	6
Fire	1	1	1	1	1	1	1	1	1	1
Public works	15	18	20	20	21	22	22	22	22	22
Engineering	2	2	2	2	2	2	2	2	2	2
Parks, recreation and cemeteries	9	10	10	10	10	10	9	9	9	9
Solid waste	4	5	5	5	5	4	4	4	4	4
Water	6	6	6	6	6	6	6	6	6	6
Wastewater	11	11	11	11	11	11	10	10	10	10
Electric	18	19	19	20	20	20	20	19	19	18
Total	<u>116</u>	<u>126</u>	<u>131</u>	<u>124</u>	<u>125</u>	<u>124</u>	<u>125</u>	<u>124</u>	<u>124</u>	<u>121</u>

TABLE 14

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

<u>Function/Program</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>	<u>2000</u>	<u>1999</u>
General Government										
Fleet										
Pieces of equipment maintained	129	135	*	*	*	*	*	*	*	*
Public safety										
Police										
Physical arrests	1,129	1,124	1,269	1,116	926	832	790	687	*	*
Parking violations	1,359	2,432	2,601	989	1,434	1,269	1,395	895	1,228	1,844
Traffic violations	1,579	1,842	2,288	1,339	1,440	1,396	1,265	954	*	*
Fire										
Emergency responses - per calendar year	856	N/A	853	666	557	533	483	482	421	445
Public works										
Refuse collection										
Refuse collected (tons per day)	30	43	*	*	*	*	*	*	*	*
Recyclables collected (tons per day)	2	1	*	*	*	*	*	*	*	*
Other public works										
Street resurfacing (lane miles)	-	5.3	*	*	*	*	*	*	*	*
Parks, recreation and cultural										
Parks and recreation										
Tournaments hosted	1	1	1	1	2	-	1	-	-	-
Electric										
Number of customer accounts	6,937	6,919	6,340	6,444	6,214	6,647	6,574	6,301	6,589	*
Miles of distribution lines	350	350	350	350	350	350	350	350	300	*
Miles of transmission lines	28	28	28	28	28	28	28	28	26.5	*
Water										
Number of customer accounts	3,466	3,468	3,215	3,189	3,122	3,113	3,199	3,202	3,165	*
Miles of distribution lines	63	63	63	63	63	63	63	63	63	*
Volume pumped (million gallons per day average)	1.2	1.2	1.2	1.1	1.1	1.2	1.1	1.1	1.2	*
Sewer										
Number of customer accounts	2,836	2,842	2,568	2,590	2,530	2,559	2,591	2,601	2,562	*
Waste/Water treated (million gallons per day)	1.0	1.0	1.0	1.0	1.1	1.0	0.9	1.0	1.0	*

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

NA - Information not available at this time

TABLE 15

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

<u>Function/Program</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Public safety										
Law enforcement vehicles	19	19	19	17	16	16	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	23.35	23.35	23.35	23.35	23.35	23.35
Secondary streets (lane miles)	66.47	66.47	66.47	66.47	64.45	64.45	64.45	64.45	64.45	64.45
Streetlights	875	875	875	835	835	808	788	788	770	*
Parks, recreation and cultural										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	12	12	12	12	12	12	12	12	12	12
Electric										
Substations	11	11	11	11	11	11	11	11	11	11
Transformers	3,340	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	63	63	63	63	63	63	*
Storm sewers (miles)	5	5	5	5	5	5	5	5	5	*
Sanitary sewers (miles)	47	47	47	46	46	46	46	46	46	*

Source: Information was obtained from prior year audit reports.

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



COMPLIANCE SECTION

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

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Bedford, Virginia, as of and for the year ended June 30, 2008, which collectively comprise the City of Bedford, Virginia's basic financial statements and have issued our report thereon dated November 3, 2008. 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 internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. **However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.**

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. **We consider the deficiencies described in the accompanying schedule of findings and responses as Items 07-1, 08-1, and 08-2 to be significant deficiencies in internal control over financial reporting.**

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. **However, we consider all of the significant deficiencies mentioned above to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and responses as Item 08-3.**

We noted certain matters that we reported to management of the City, in a separate letter dated November 3, 2008

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, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 3, 2008

CITY OF BEDFORD, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2008

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, 2008**

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.

08-1: Recording of Capital Assets (Material Weakness)

Condition:

Capital assets were materially misstated in the current year due to inadequate review of capital asset additions and disposals.

Recommendation:

Steps should be taken to ensure capital assets are properly recorded.

Management's Response:

The City Finance Department will work with all City departments to verify the accuracy of the capital asset listing as it pertains to their departments.

08-2: Recording of Receivables (Material Weakness)

Condition:

Receivables and due from other governments were materially incorrect due to inadequate review indicating controls over completeness of recorded receivables and related transactions are not adequate.

Recommendation:

Steps should be taken to ensure receivables and related transactions are properly recorded.

Management's Response:

City Finance staff will work closer with other City departments to ensure that all information is received and recorded prior to the end of each fiscal year.

CITY OF BEDFORD, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2008**

B. FINDINGS – COMMONWEALTH OF VIRGINIA

08-3: Timely Submission – VRS Monthly Contribution Worksheets

Condition:

None of the current year VRS Monthly Contribution Worksheets were filed by the 10th of the following month as required by the VRS Employer Manual.

Recommendation:

Steps should be taken to ensure that the VRS Monthly Contribution Worksheets are filed timely.

Management's Response:

City staff will coordinate a schedule to ensure that the contribution worksheets are filed in a timely manner with VRS.

