

CITY OF BEDFORD, VIRGINIA



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2012

DEPARTMENT OF FINANCE AND ADMINISTRATION

CITY OF BEDFORD, VIRGINIA
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INTRODUCTORY SECTION

October 26, 2012

**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, 2012. 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, 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. The City has not identified any entities that should be reported as discretely presented component units.

Related organizations of the City that require only note disclosure 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 and the Joint Tourism Program which are joint ventures and the Region 2000 Radio Communication Board, which is a jointly governed organization, 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. The City reimburses the County for its share of the net expenses based on its percentage of students in the County's public school system. In addition, agreements with Bedford County have been established to provide judicial administration and health and welfare services for the City. This report includes the fiscal activities of the City in the provision of services and under contracts and agreements made with the County of Bedford, Virginia.

Organization of Government

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

Economic Condition and Outlook

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

Bedford enjoys a diversified economy primarily comprised of manufacturing (21%), educational, health, and social services (17%), and retail trade (12%). Bedford's industrial base includes major employers involved in food processing, furniture manufacturing, lithographed labels, plastics, weaving, polyurethane products, steel abrasives, closed-cell rubber products and steel cutting dies. During 2011/2012 the City's unemployment rate increased from 8.1% to 8.3%. This increase can be attributed to a slight decrease in employment by several companies combined with a small decrease in the City's population. 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 59 percent coming from residential property, while approximately 41 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 has two tenants under long-term leases -- East Coast Fabricators/Rhino Coat, a manufacturer specializing in metal fabrication and finishing, and the Bedford Campus of Central Virginia Community College. The Mid-Atlantic Broadband Cooperative, in conjunction with the Virginia Tobacco Commission and US Department of Commerce's Economic Development Administration, provides reasonably low-cost access to high-speed broadband from facilities in the park. Most recently, The Matrixx Group, a developer, manufacturer and distributor of thermoplastic materials, began operation in a 37,000 sq. ft. facility in the Bedford Center for Business.

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

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

Long Term Financial Planning

Based upon the potential reversion of the City to Town status on July 1, 2013 and the boundary adjustments that will occur with this potential reversion, the City's population is projected to increase marginally over the next five years. This moderate growth should not create any substantial increase in demand for government services. The City's five-year Capital Improvement Program (CIP) indicates a major emphasis will be placed on electric infrastructure improvements, fire apparatus and continued rolling stock replacement

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 remains an ongoing effort. 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. 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 Enterprise Zone designation is scheduled to expire in July 2014, so maximization of the available benefits of that program is an emerging priority.

- The City has focused on improving the connectivity between the National D-Day Memorial/Bedford Welcome Center and Centertown and the functionality of the street system within the Centertown area. With partial funding from the Department of Transportation Enhancement Funds, a series of physical improvements are scheduled. The City, in cooperation with Bedford Main Street and service provider Shentel, provides a free, public “wireless hotspot” in Centertown Plaza similar to facilities at the Bedford Welcome Center.
- The City continues to upgrade and build new distribution line circuits. With other American Municipal Power members, the City is participating in the construction of a base load coal fired plant to provide diversity in our wholesale power portfolio. This project is called the Prairie State project. It includes two units, one of which was brought online in June, 2012. Currently, approximately 8% of the City’s electricity is from renewable sources. We have addressed other revenue sources such as pole attachment agreements and right-of-way fees to ensure that we are competitive and maximizing our revenues in these areas. The City will also continue to focus on providing exemplary customer service and reliability for our customers.
- The City remains an active regional partner in many programs. We currently participate in regional marketing and economic development, and police and emergency services. We also participate in cooperative services such as the Blue Ridge Power Agency, the Region 2000 Regional Commission, Municipal Electric Power 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 pursuing the option of “transitioning” to town status within Bedford County. On September 14, 2011, the City Council and the Bedford County Board of Supervisors adopted a Voluntary Settlement of Transition to Town Status and Other Related Issues. This Voluntary Settlement is the instrument that both parties intend to use as the City pursues a change in constitutional status from that of a City to that of a Town. The provisions of the Voluntary Settlement are subject to review and approval by the Commission on Local Government and a specially appointed three judge panel. The Commission on Local Government issued its finding that the transition would be in the best interest of all parties in July 2012, and the three judge panel is scheduled to conduct a hearing and issue an order on December 18, 2012. The proposed effective date for the reversion to Town status is July 1, 2013. Consequently, there is a major focus on the organizational structure of the Town as well as the basic level of services that it will provide to its citizens and customers.
- Related to the transition process, the City is in negotiations with Bedford County and the Bedford County Public Service Authority (PSA) to create a new regional water and sewer authority. This will be accomplished by merging the current operations of the City water and sewer systems with those of the PSA under the oversight of a new Board of Directors that will initially be appointed by the City Council and the Bedford County Board of Supervisors. The Board of the new authority would then appoint an executive director. The activation of the new Board may take place as soon as January 2013.

Financial Information

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

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

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

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

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

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, 2011. This was the twelfth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

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

Respectfully Submitted,



Charles P. Kolakowski
City Manager



Rosemarie B. Jordan
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Bedford
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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



Linda C. Dawson

President

Jeffrey R. Emer

Executive Director

CITY OF BEDFORD, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2012

MEMBERS OF CITY COUNCIL

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

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

Stephen C. Rush
Guy E Murray, Jr.

MEMBERS OF CITY SCHOOL BOARD

Phyllis J. Parker, Chairman
Betsy Klein, Vice Chairman

Tara Warner
Tabitha King
Paul Sherman

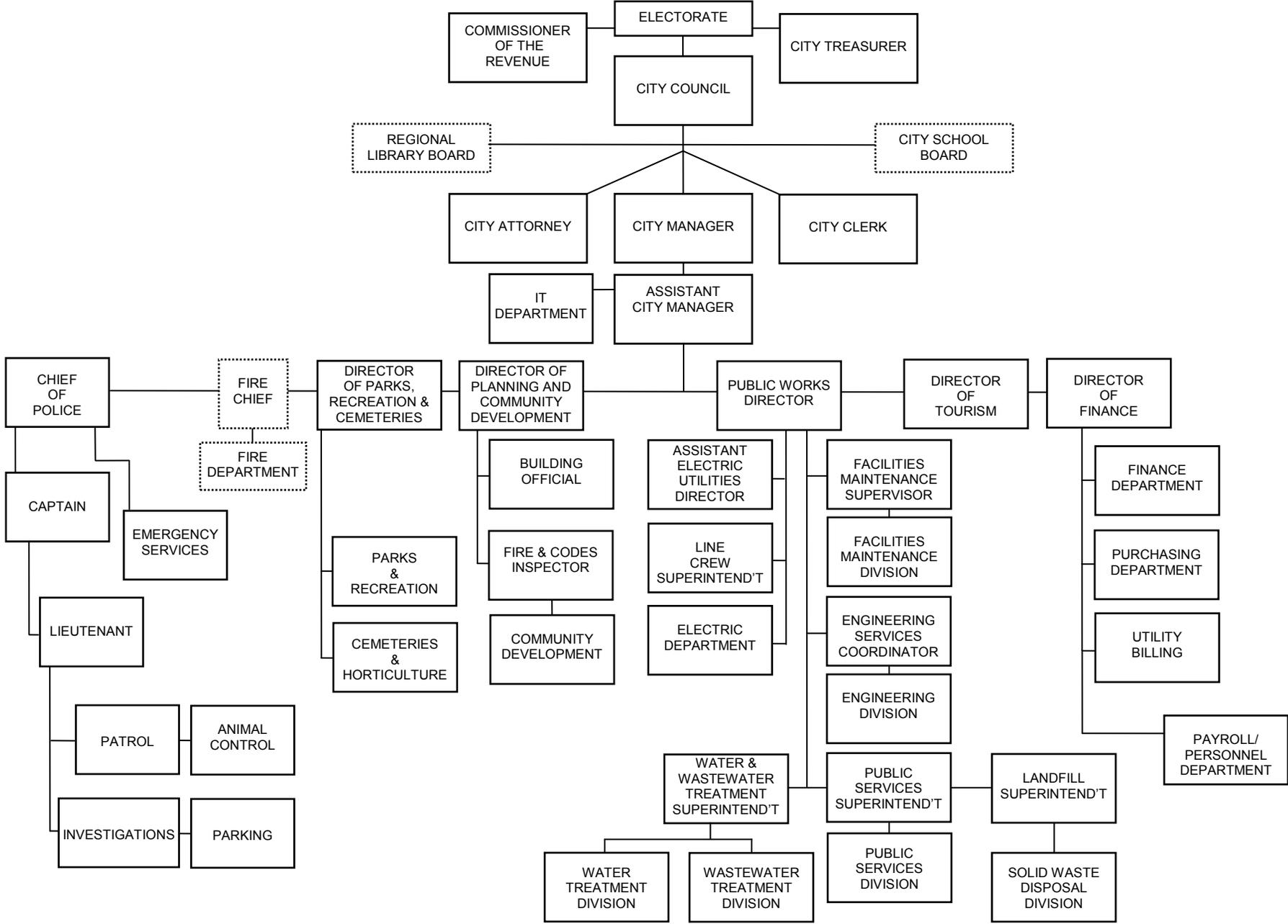
Ann Duncan
Andrea Trotter

OTHER OFFICIALS

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

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

CITY OF BEDFORD ORGANIZATIONAL CHART



FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of City Council
City of Bedford, Virginia
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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Bedford, Virginia, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 26, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Bedford, Virginia (the "City"), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal years ended June 30, 2012 and 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i through vi.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of current fiscal year by \$41,097,585 (net assets). Of this amount, \$6,504,418 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$3,312,814, which is primarily attributable to the operations of the water and sewer fund.
- At the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$4,721,420, an increase of \$717,751 in comparison with the prior year. Approximately 50% of this total amount, \$2,368,680 is available for spending at the City's discretion (unassigned fund balance).
- The City's total debt decreased by \$2,795,711 (8.29%) during the current fiscal year.

Overview of the Financial Statements

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

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

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

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

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

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

Overview of the Financial Statements (Continued)

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

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

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

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

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

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

At June 30, 2012, the City’s governmental fund reported an ending fund balance of \$4,721,420, an increase of \$717,751 in comparison with the prior year. Of that amount, \$881,387 was nonspendable, \$905,566 was restricted, \$565,787 was assigned, and \$2,368,680 was unassigned.

As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 16.1% of total general fund expenditures, while total fund balance represents 32.1% of that same amount.

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

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

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

Government-Wide Financial Analysis

As noted earlier, net 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 \$41,097,585 at the close of the most recent fiscal year.

A portion of the City's net assets (81%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted balance (3%) represents funds received from the Commonwealth of Virginia for highway maintenance, nonexpendable cemetery perpetual care, and 460W water/sewer line improvements. The remaining balance of *unrestricted net assets* (16%) 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	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 5,632,469	\$ 5,171,123	\$ 15,874,938	\$ 18,867,388	\$ 21,507,407	\$ 24,038,511
Capital assets	15,664,470	16,504,756	41,413,822	37,668,252	57,078,292	54,173,008
Total assets	21,296,939	21,675,879	57,288,760	56,535,640	78,585,699	78,211,519
Long-term liabilities	5,116,798	5,367,021	29,771,340	31,909,500	34,888,138	37,276,521
Other liabilities	726,822	901,654	1,873,154	2,248,573	2,599,976	3,150,227
Total liabilities	5,843,620	6,268,675	31,644,494	34,158,073	37,488,114	40,426,748
Net assets						
Invested in capital assets, net of related debt	13,580,468	13,928,863	19,684,925	16,357,531	33,265,393	30,286,394
Restricted	905,566	1,275,857	422,208	-	1,327,774	1,275,857
Unrestricted	967,285	202,484	5,537,133	6,020,036	6,504,418	6,222,520
Total net assets	\$ 15,453,319	\$ 15,407,204	\$ 25,644,266	\$ 22,377,567	\$ 41,097,585	\$ 37,784,771

At June 30, 2012, the City is able to report positive balances in all categories of net assets.

The City's net assets increased by \$3,312,814 or 8.8% during the current fiscal year. The key element of this change is an increase of \$2,940,083 in the water and sewer fund net assets which was due largely to grants received for \$2,699,315 from the Department of Conservation and Recreation.

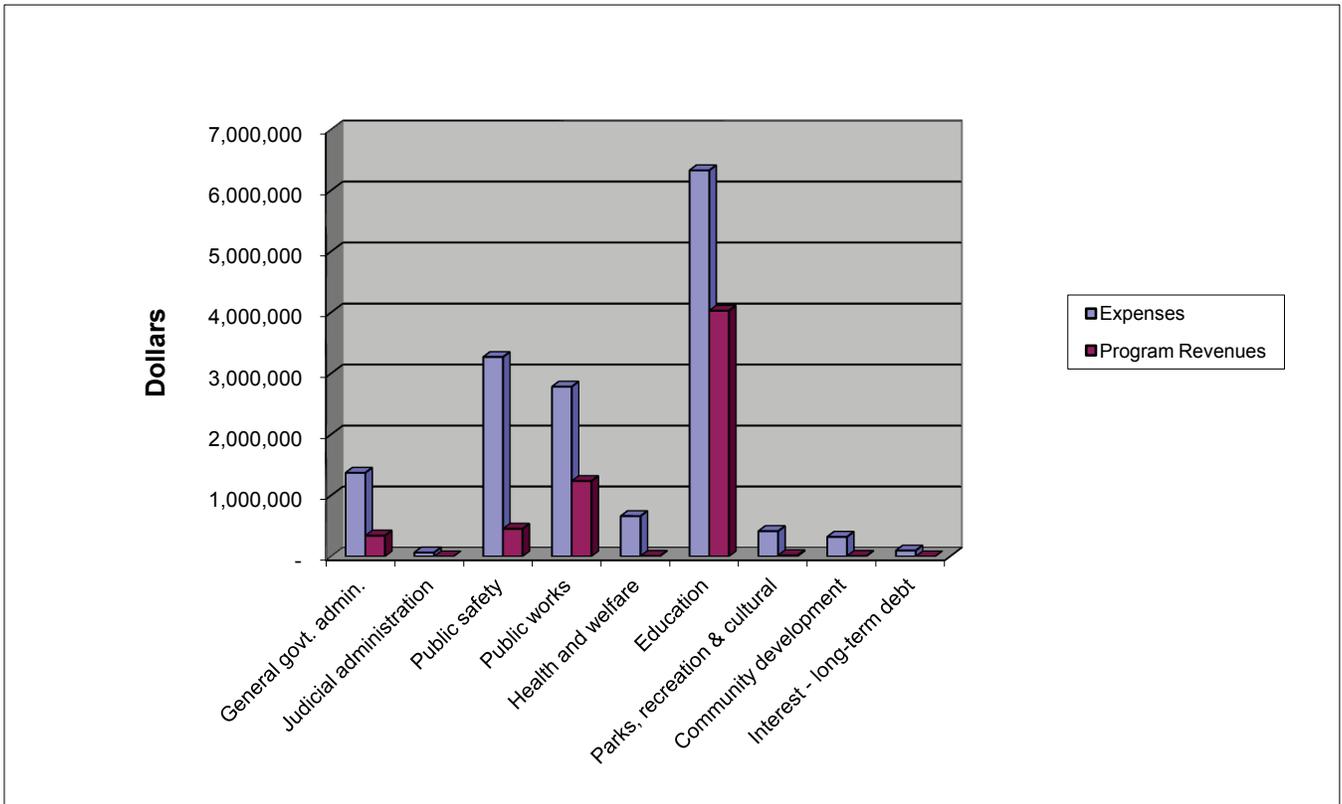
Governmental Activities – Governmental activities increased the City's net assets by \$46,115. This increase is lower than the prior year increase of \$803,078. For the most part, increases in revenues and expenses closely paralleled inflation and growth in the demand for services. Two noteworthy exceptions are the decrease in the transfer from electric fund to the general fund and the increase in public works expenses. The electric transfer to the general fund decreased by \$427,576. Public works expenses increased by \$401,957 primarily due to additional paving work and an increase in the landfill liability.

Business-type Activities – Business-type activities increased the City's net assets by \$3,266,699. Key elements of this increase are as follows: The electric fund had a decrease in purchased power costs of \$3,870,532 due to lower PJM costs as well as eliminating more expensive power contracts. The electric fund also had a decrease in revenues of \$2,183,816 due to lower sales on the open market and a decrease in sales to customers. The water and sewer fund had an increase in capital grants of \$1,859,223 due to grants received from the Department of Conservation and Recreation. These changes will account for a increase of \$3,545,939 in the net assets for business-type activities.

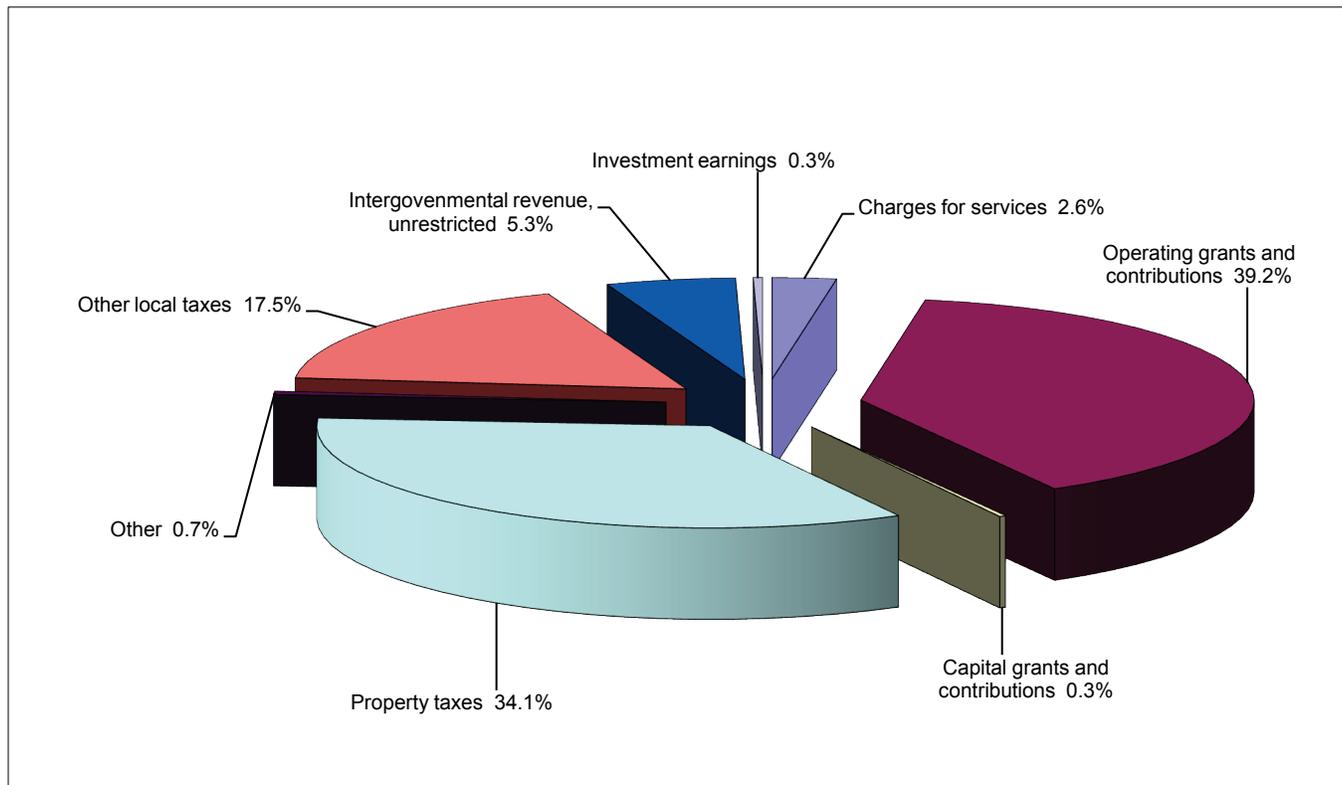
The City's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues						
Charges for services	\$ 381,189	\$ 417,981	\$ 24,571,680	\$ 26,734,407	\$ 24,952,869	\$ 27,152,388
Operating grants and contributions	5,675,008	5,728,339	383,853	397,679	6,058,861	6,126,018
Capital grants and contributions	38,022	216,354	2,699,315	840,092	2,737,337	1,056,446
General revenues						
Property taxes	4,941,170	4,866,945	-	-	4,941,170	4,866,945
Other taxes	2,540,639	2,578,465	-	-	2,540,639	2,578,465
Intergovernmental revenue unrestricted	771,718	707,804	-	-	771,718	707,804
Investment earnings	56,106	55,553	342,248	340,479	398,354	396,032
Other	77,768	21,963	-	-	77,768	21,963
Gain from sale of capital assets	4,102	24,224	-	-	4,102	24,224
Total revenues	14,485,722	14,617,628	27,997,096	28,312,657	42,482,818	42,930,285
Expenses						
General government	1,372,155	1,243,932	-	-	1,372,155	1,243,932
Judicial administration	64,599	69,749	-	-	64,599	69,749
Public safety	3,268,702	3,221,404	-	-	3,268,702	3,221,404
Public works	2,783,359	2,381,402	-	-	2,783,359	2,381,402
Health and welfare	661,680	684,699	-	-	661,680	684,699
Education	6,329,561	6,637,708	-	-	6,329,561	6,637,708
Parks, recreation, and cultural	414,045	443,092	-	-	414,045	443,092
Community development	320,829	312,424	-	-	320,829	312,424
Non-departmental	-	-	-	-	-	-
Interest on long-term debt	97,101	120,140	-	-	97,101	120,140
Water and sewer	-	-	3,288,441	3,008,301	3,288,441	3,008,301
Solid waste	-	-	1,011,584	1,019,988	1,011,584	1,019,988
Electric	-	-	19,557,948	23,366,909	19,557,948	23,366,909
Total expenses	15,312,031	15,114,550	23,857,973	27,395,198	39,170,004	42,509,748
Excess (deficiency) before transfers	(826,309)	(496,922)	4,139,123	917,459	3,312,814	420,537
Transfers	872,424	1,300,000	(872,424)	(1,300,000)	-	-
Change in net assets	46,115	803,078	3,266,699	(382,541)	3,312,814	420,537
Net assets – July 1 (as restated)	15,407,204	14,604,126	22,377,567	22,760,108	37,784,771	37,364,234
Net assets – June 30	<u>\$ 15,453,319</u>	<u>\$ 15,407,204</u>	<u>\$ 25,644,266</u>	<u>\$ 22,377,567</u>	<u>\$ 41,097,585</u>	<u>\$ 37,784,771</u>

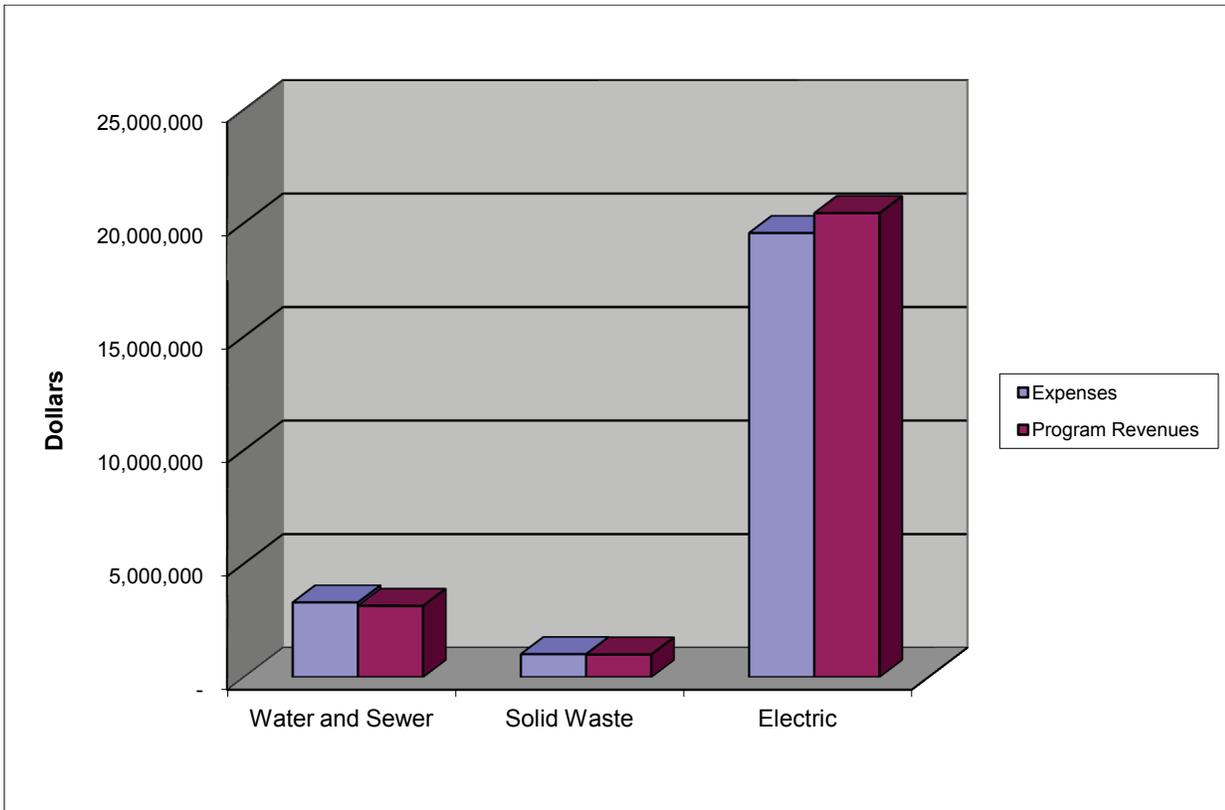
Expenses and Program Revenues – Governmental Activities



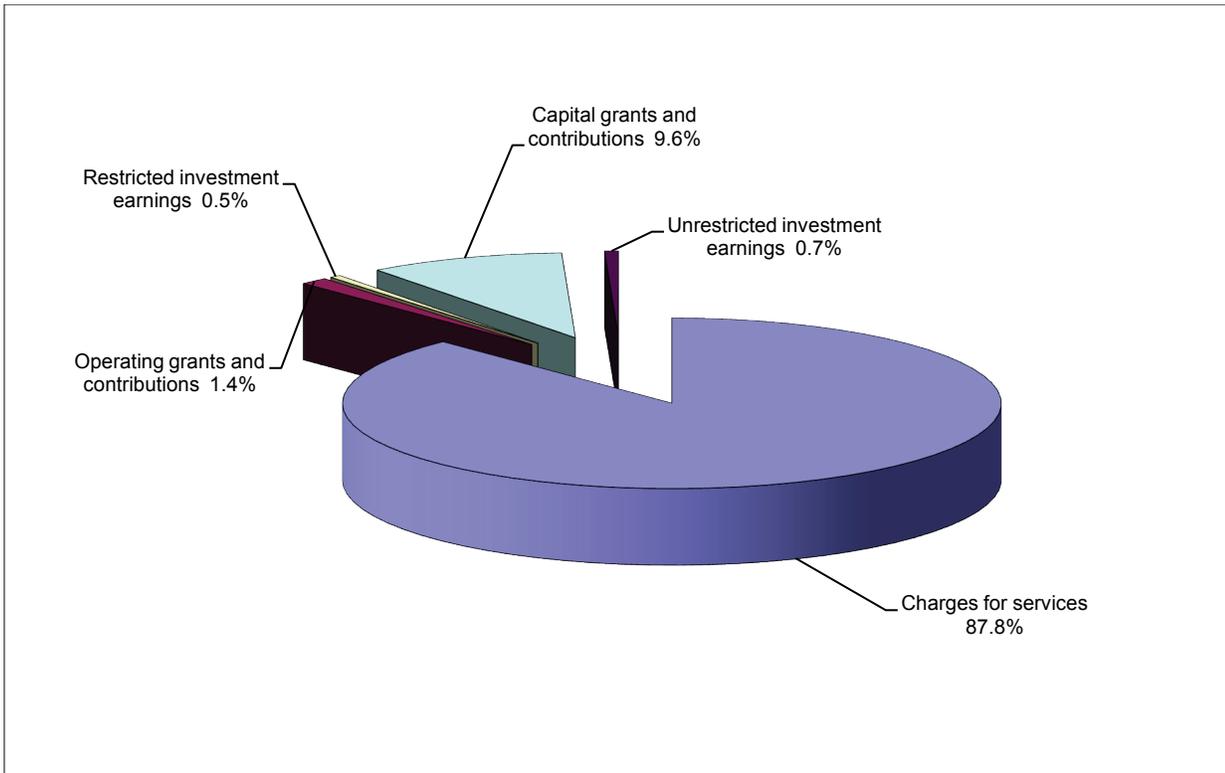
Revenues by Source – Governmental Activities



Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the City's governmental fund reported an ending fund balance of \$4,721,420, an increase of \$717,751 in comparison with the prior year. Approximately 50% of this total amount – that is, \$2,368,680 constitutes *unassigned fund balance*, which is available for spending at the City's discretion. Approximately 12%, \$565,787, constitutes *assigned fund balance*, which the government intends to use for specific purposes. Approximately 19%, \$905,566, constitutes *restricted fund balance*, which have been constrained by their providers. The remainder of fund balance is *nonspendable*, which are not in spendable form and must be maintained intact.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 16.10% of total general fund expenditures, while total fund balance represents 32.10% of that same amount.

The fund balance of the City's general fund increased by \$717,751 during the current fiscal year. Factors contributing to this increase were decreases in a couple of expenditure categories. Debt service payments decreased by \$267,373 from the prior year. Education expenditures decreased by \$300,793 due to cuts in spending by Bedford County.

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 \$(866,090); the solid waste fund had a deficit of \$(2,672,986); and the unrestricted net assets for the electric fund amounted to \$9,076,209. The total increase in net assets was \$3,266,699. 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 \$895,544. Highlights are as follows:

- \$218,835 was re-appropriated for economic development payments as well as centertown improvement.
- \$65,482 was re-appropriated for paving and various highway maintenance projects.
- \$57,000 was re-appropriated for radios for the police and fire departments.
- \$9,851 was re-appropriated for police department grants.
- \$354,146 was re-appropriated for purchase orders that were carried over from the prior fiscal year.
- \$105,807 was re-appropriated for engineering projects.
- \$44,449 was re-appropriated for projects at Bedford Elementary and Bedford Middle Schools.

Differences between the final amended budget and actual results amounted to \$2,501,020. Highlights are as follows:

- The budget for various operating line items in Public Works was \$1,051,681. This includes work on guardrails, street supplies, paving, milling, curbs and sidewalks. As of June 30, 2012, only \$461,687 was expended, resulting in a positive variance of \$589,994. This lower expenditure is the result of several projects that the contractors were unable to complete by June 30, 2012.
- The budget for several capital line items in Public Works was \$444,330. This included crosswalk improvements, storm drainage, fuel card system, landfill corrective measures and ADA improvements. As of June 30, 2012, \$140,404 was expended, resulting in a positive variance of \$303,926. The lower expenditure was the result of projects coming in under budget and work that was not completed as of June 30, 2012.
- The budget for the City's share of Education to Bedford County was \$5,470,800. As of June 30, 2012, \$5,043,076 was expended, resulting in a positive variance of \$427,724. This variance is the result of Bedford County cutting costs in the education category and not fully expending all budgeted funds.
- The budget for several Community Development projects was \$310,368. These projects included economic development funding, centertown improvement projects and enterprise zone payments. As of June 30, 2012, \$3,522 was expended, resulting in a positive variance of \$306,846. This variance is the result of funding that was not needed during this current fiscal year or improvement projects that were postponed.
- The budget included funding for Public Safety radio replacements for \$57,000. This funding was not expended by June 30, 2012, resulting in a positive variance of \$57,000. This funding will be carried over to fiscal year 2013.

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, 2012, amounts to \$57,078,292 (net of accumulated depreciation). This includes land, buildings and system improvements, and machinery, equipment, and infrastructure. The total increase in the investment in capital assets for the current fiscal year was 5.3% (a 5.1% decrease for governmental activities and a 9.8% increase for business-type activities).

The City's investment in capital assets as of June 30 amounts to \$57,078,292, as summarized below:

	The City's Capital Assets					
	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	\$ 2,211,447	\$ 2,211,447	\$ 968,017	\$ 968,017	\$ 3,179,464	\$ 3,179,464
Buildings and improvements	13,122,407	13,122,407	36,532,109	29,802,430	49,654,516	42,924,837
Distribution and transmission systems	-	-	34,497,111	34,006,206	34,497,111	34,006,206
Landfill development costs	-	-	3,315,945	3,315,945	3,315,945	3,315,945
Machinery and equipment	8,136,125	8,031,944	3,764,965	3,688,879	11,901,090	11,720,823
Infrastructure	12,778,204	12,714,568	-	-	12,778,204	12,714,568
Construction in progress	80,674	64,820	40,461	2,068,153	121,135	2,132,973
Less accumulated depreciation	(20,664,387)	(19,640,430)	(37,704,786)	(36,181,378)	(58,369,173)	(55,821,808)
Total	\$ 15,664,470	\$ 16,504,756	\$ 41,413,822	\$ 37,668,252	\$ 57,078,292	\$ 54,173,008

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

Long-term Debt – At June 30, 2012, the City had total debt outstanding of \$30,924,726. Of this amount, \$18,290,453 comprises debt backed by the full faith and credit of the government and \$12,634,273 is related to pledged revenue bonds.

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

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
General obligation bonds	\$ 2,034,572	\$ 2,428,757	\$ 13,476,563	\$ 14,614,724	\$ 15,511,135	\$ 17,043,481
Literary fund loans	600,000	675,000	-	-	600,000	675,000
Revenue bonds	-	-	12,634,273	13,431,282	12,634,273	13,431,282
Obligations – AMP Partners bonds	-	-	2,179,318	2,570,674	2,179,318	2,570,674
Capital leases	-	-	-	-	-	-
Total	\$ 2,634,572	\$ 3,103,757	\$ 28,290,154	\$ 30,616,680	\$ 30,924,726	\$ 33,720,437

The City’s total debt decreased by \$2,795,711 or 8.3% during the current fiscal year due to regular debt payments.

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

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

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for the City is currently 8.3%, which is an increase from the prior year’s rate of 8.1%. This compares to the State’s average rate of 5.7% and the national average rate of 8.2%.
- The occupancy rate of the City’s central business district remains constant at approximately 85%.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City’s budget for the 2013 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, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents (Note 2)	\$ 4,136,655	\$ 5,083,960	\$ 9,220,615
Receivables, net (Note 3)	375,805	2,686,042	3,061,847
Due from other governmental units (Note 5)	452,362	58,652	511,014
Inventories	-	1,265,649	1,265,649
Cash and cash equivalents, restricted (Note 2)	606,159	3,795,020	4,401,179
Note receivable (Note 7)	-	160,862	160,862
Deferred expenses	61,488	405,223	466,711
Net investment in direct financing lease (Note 15)	-	2,419,530	2,419,530
Capital assets: (Note 6)			
Nondepreciable	2,292,121	1,008,478	3,300,599
Depreciable, net	13,372,349	40,405,344	53,777,693
	<u>21,296,939</u>	<u>57,288,760</u>	<u>78,585,699</u>
LIABILITIES			
Accounts payable and accrued liabilities	78,140	1,173,364	1,251,504
Accrued payroll and related liabilities	109,397	82,492	191,889
Accrued interest payable	31,211	157,328	188,539
Due to other governmental units (Note 5)	508,074	50,776	558,850
Customer security deposits	-	409,194	409,194
Noncurrent liabilities: (Note 7)			
Due within one year	941,668	3,398,535	4,340,203
Due in more than one year	4,175,130	26,372,805	30,547,935
	<u>5,843,620</u>	<u>31,644,494</u>	<u>37,488,114</u>
NET ASSETS			
Invested in capital assets, net of related debt	13,580,468	19,684,925	33,265,393
Restricted (Note 9)	905,566	422,208	1,327,774
Unrestricted	967,285	5,537,133	6,504,418
	<u>\$ 15,453,319</u>	<u>\$ 25,644,266</u>	<u>\$ 41,097,585</u>

CITY OF BEDFORD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

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	\$ 1,372,155	\$ 191,469	\$ 150,305	\$ -	\$ (1,030,381)		\$ (1,030,381)
Judicial administration	64,599	-	-	-	(64,599)		(64,599)
Public safety	3,268,702	170,578	282,539	-	(2,815,585)		(2,815,585)
Public works	2,783,359	-	1,198,161	38,022	(1,547,176)		(1,547,176)
Health and welfare	661,680	-	8,126	-	(653,554)		(653,554)
Education	6,329,561	-	4,028,377	-	(2,301,184)		(2,301,184)
Parks, recreation, and cultural	414,045	19,142	-	-	(394,903)		(394,903)
Community development	320,829	-	7,500	-	(313,329)		(313,329)
Interest on long-term debt	97,101	-	-	-	(97,101)		(97,101)
Total governmental activities	15,312,031	381,189	5,675,008	38,022	(9,217,812)		(9,217,812)
Business-type activities:							
Water and sewer	3,288,441	3,140,016	383,853	2,699,315		\$ 2,934,743	2,934,743
Solid waste	1,011,584	999,851	-	-		(11,733)	(11,733)
Electric	19,557,948	20,431,813	-	-		873,865	873,865
Total business-type activities	23,857,973	24,571,680	383,853	2,699,315		3,796,875	3,796,875
Total primary government	\$ 39,170,004	\$ 24,952,869	\$ 6,058,861	\$ 2,737,337	(9,217,812)	3,796,875	(5,420,937)
General revenues:							
Property taxes					4,941,170	-	4,941,170
Sales tax					830,064	-	830,064
Business license tax					663,146	-	663,146
Meals tax					671,404	-	671,404
Other local taxes					376,025	-	376,025
Intergovernmental revenue, unrestricted					771,718	-	771,718
Unrestricted investment earnings					45,880	189,600	235,480
Restricted investment earnings					10,226	152,648	162,874
Other					77,768	-	77,768
Gain on sale of capital assets					4,102	-	4,102
Transfers (Note 4)					872,424	(872,424)	-
Total general revenues and transfers					9,263,927	(530,176)	8,733,751
Change in net assets					46,115	3,266,699	3,312,814
Net assets at July 1, as restated (Note 20)					15,407,204	22,377,567	37,784,771
Net assets at June 30					\$ 15,453,319	\$ 25,644,266	\$ 41,097,585

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

CITY OF BEDFORD, VIRGINIA

**BALANCE SHEET –
GOVERNMENTAL FUND
June 30, 2012**

	General
ASSETS	
Cash and cash equivalents (Note 2)	\$ 4,136,655
Receivables, net (Note 3)	375,805
Due from other governmental units (Note 5)	452,362
Cash and cash equivalents, restricted (Note 2)	606,159
Total assets	\$ 5,570,981
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable and accrued liabilities	\$ 78,140
Accrued payroll and related liabilities	109,397
Deferred revenue (Note 3)	153,950
Due to other governmental units (Note 5)	508,074
Total liabilities	849,561
Fund balance: (Note 9)	
Nonspendable	881,387
Restricted	905,566
Assigned	565,787
Unassigned	2,368,680
Total fund balance	4,721,420
Total liabilities and fund balance	\$ 5,570,981

CITY OF BEDFORD, VIRGINIA

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2012**

Total Fund Balance – Governmental Fund		\$ 4,721,420
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources, and, therefore, are not reported in the funds.</p>		
Nondepreciable capital assets	\$ 2,292,121	
Depreciable capital assets, net	13,372,349	
		15,664,470
<p>Bond issuance costs, deferred loss on refunding, discounts and premiums are reported as expenditures or revenues in the governmental funds, but are amortized over the life of the debt in the statement of net assets:</p>		
Issuance costs total \$120,136 and accumulated amortization is \$58,648		61,488
<p>Certain receivables are not available to pay for current-period expenditures and therefore are deferred in the funds.</p>		
		153,950
<p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.</p>		
General obligation bonds	(2,034,572)	
Literary fund loans	(600,000)	
Accrued interest payable	(31,211)	
Compensated absences	(165,226)	
Landfill post-closure liability	(2,317,000)	
		(5,148,009)
Total Net Assets – Governmental Activities		\$ 15,453,319

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – GOVERNMENTAL FUND
Year Ended June 30, 2012**

	General
REVENUES	
General property taxes	\$ 5,015,088
Other local taxes	2,540,639
Permits, privilege fees, and regulatory licenses	26,166
Fines and forfeitures	94,468
Investment earnings	56,106
Charges for services	125,951
Other	77,768
Intergovernmental	6,400,089
Recovered costs	219,264
	14,555,539
EXPENDITURES	
Current:	
General government administration	1,289,938
Judicial administration	64,599
Public safety	3,130,237
Public works	2,567,995
Health and welfare	661,680
Education	5,888,862
Parks, recreation, and cultural	348,542
Community development	203,823
Debt service:	
Principal retirement	469,185
Interest and fiscal charges	89,453
	14,714,314
Total expenditures	14,714,314
Excess of expenditures over revenues	(158,775)
OTHER FINANCING SOURCES	
Proceeds from sale of capital assets	4,102
Transfers in (Note 4)	872,424
	876,526
Total other financing sources	876,526
Net change in fund balance	717,751
FUND BALANCE AT JULY 1	4,003,669
FUND BALANCE AT JUNE 30	\$ 4,721,420

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, 2012**

Net Change in Fund Balance – Governmental Fund \$ 717,751

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	\$ 242,469	
Depreciation expense	(1,049,824)	
		(807,355)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, insurance proceeds, and donations) is to decrease net assets. (32,931)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (73,919)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction has an effect on net assets.

Principal repayments and other long-term debt reductions:

General obligation bonds repayment	394,185	
Literary fund loans repayment	75,000	
Landfill post-closure (net change)	(216,000)	
		253,185

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

Amortization of deferred amounts	(8,231)	
Interest expense	577	
		(7,654)

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. (2,962)

Change in Net Assets – Governmental Activities \$ 46,115

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
Year Ended June 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
General property taxes	\$ 4,815,096	\$ 4,815,096	\$ 5,015,088	\$ 199,992
Other local taxes	2,549,627	2,549,627	2,540,639	(8,988)
Permits, privilege fees, and regulatory licenses	20,750	20,750	26,166	5,416
Fines and forfeitures	77,300	77,300	94,468	17,168
Investment earnings	47,500	47,500	56,106	8,606
Charges for services	128,900	128,900	125,951	(2,949)
Other	161,060	161,060	77,768	(83,292)
Intergovernmental	6,387,510	6,482,142	6,400,089	(82,053)
Recovered costs	132,400	132,400	219,264	86,864
Total revenues	14,320,143	14,414,775	14,555,539	140,764
EXPENDITURES				
Current:				
General government administration	1,189,144	1,208,274	1,289,938	(81,664)
Judicial administration	68,596	68,596	64,599	3,997
Public safety	3,182,586	3,355,161	3,130,237	224,924
Public works	3,236,521	3,717,716	2,567,995	1,149,721
Health and welfare	809,136	809,136	661,680	147,456
Education	6,415,611	6,460,518	5,888,862	571,656
Parks, recreation, and cultural	398,867	400,867	348,542	52,325
Community development	217,293	487,662	203,823	283,839
Non-departmental	8,000	8,000	-	8,000
Debt service:				
Principal retirement	469,185	469,185	469,185	-
Interest and fiscal charges	89,455	89,455	89,453	2
Total expenditures	16,084,394	17,074,570	14,714,314	2,360,256
Excess of expenditures over revenues	(1,764,251)	(2,659,795)	(158,775)	2,501,020
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	10,000	10,000	4,102	(5,898)
Transfers in	1,295,000	1,295,000	872,424	(422,576)
Total other financing sources	1,305,000	1,305,000	876,526	(428,474)
Net change in fund balance	\$ (459,251)	\$ (1,354,795)	\$ 717,751	\$ 2,072,546

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF NET ASSETS (DEFICIT) –
PROPRIETARY FUNDS
June 30, 2012**

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
ASSETS				
Current assets:				
Cash and cash equivalents (Note 2)	\$ 14,975	\$ -	\$ 5,068,985	\$ 5,083,960
Receivables, net (Note 3)	411,638	155,980	2,118,424	2,686,042
Due from other funds (Note 4)	-	-	1,549,405	1,549,405
Due from other governmental units (Note 5)	51,336	-	7,316	58,652
Note receivable (Note 7)	-	-	160,862	160,862
Inventories	-	-	1,265,649	1,265,649
Total current assets	<u>477,949</u>	<u>155,980</u>	<u>10,170,641</u>	<u>10,804,570</u>
Noncurrent assets:				
Cash and cash equivalents, restricted (Note 2)	1,347,006	1,590,786	857,228	3,795,020
Deferred expenses	105,809	8,830	290,584	405,223
Net investment in direct financing lease (Note 15)	-	-	2,419,530	2,419,530
Capital assets: (Note 6)				
Nondepreciable capital assets	257,500	506,831	244,147	1,008,478
Depreciable capital assets, net	<u>23,320,336</u>	<u>918,371</u>	<u>16,166,637</u>	<u>40,405,344</u>
Total noncurrent assets	<u>25,030,651</u>	<u>3,024,818</u>	<u>19,978,126</u>	<u>48,033,595</u>
Total assets	<u>25,508,600</u>	<u>3,180,798</u>	<u>30,148,767</u>	<u>58,838,165</u>
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	50,164	11,825	1,111,375	1,173,364
Accrued payroll and related liabilities	35,819	6,012	40,661	82,492
Accrued interest payable	66,271	14,994	76,063	157,328
Due to other funds (Note 4)	1,094,628	454,777	-	1,549,405
Due to other governmental units (Note 5)	-	-	50,776	50,776
Customer security deposits	71,308	-	337,886	409,194
Noncurrent liabilities due within one year (Note 7)	<u>881,524</u>	<u>425,201</u>	<u>2,091,810</u>	<u>3,398,535</u>
Total current liabilities	<u>2,199,714</u>	<u>912,809</u>	<u>3,708,571</u>	<u>6,821,094</u>
Noncurrent liabilities:				
Due in more than one year (Note 7)	<u>8,884,536</u>	<u>3,169,818</u>	<u>14,318,451</u>	<u>26,372,805</u>
Total liabilities	<u>11,084,250</u>	<u>4,082,627</u>	<u>18,027,022</u>	<u>33,193,899</u>
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	14,868,232	1,771,157	3,045,536	19,684,925
Restricted (Note 9)	422,208	-	-	422,208
Unrestricted	<u>(866,090)</u>	<u>(2,672,986)</u>	<u>9,076,209</u>	<u>5,537,133</u>
Total net assets (deficit)	<u>\$ 14,424,350</u>	<u>\$ (901,829)</u>	<u>\$ 12,121,745</u>	<u>\$ 25,644,266</u>

CITY OF BEDFORD, VIRGINIA

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS (DEFICIT) –
PROPRIETARY FUNDS
Year Ended June 30, 2012**

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING REVENUES				
Charges for services	\$ 3,140,016	\$ 999,851	\$ 20,431,813	\$ 24,571,680
OPERATING EXPENSES				
Refuse collection	-	224,654	-	224,654
Refuse disposal	-	351,068	-	351,068
Recycling	-	53,308	-	53,308
Supply and purification	561,484	-	-	561,484
Wastewater treatment	1,095,252	-	-	1,095,252
Wastewater pre-treatment	73,288	-	-	73,288
Transmission and distribution	194,131	-	634,923	829,054
Power generation	-	-	353,002	353,002
Purchased power	-	-	15,836,661	15,836,661
Meter reading	-	-	31,742	31,742
Landfill closure and postclosure care	-	84,222	-	84,222
Administration	290,573	58,302	954,409	1,303,284
Maintenance and repair	170,642	-	165,436	336,078
Depreciation	678,675	171,940	705,833	1,556,448
Amortization	17,733	21,879	107,802	147,414
Total operating expenses	3,081,778	965,373	18,789,808	22,836,959
Operating income	58,238	34,478	1,642,005	1,734,721
NONOPERATING REVENUES (EXPENSES)				
Interest income	5,340	5,655	331,253	342,248
Interest expense	(206,663)	(46,211)	(717,364)	(970,238)
Contribution to joint IDA	-	-	(50,776)	(50,776)
Revenue sharing	383,853	-	-	383,853
Net nonoperating revenue (expenses)	182,530	(40,556)	(436,887)	(294,913)
Income (loss) before contributions and transfers	240,768	(6,078)	1,205,118	1,439,808
TRANSFERS OUT (Note 4)	-	-	(872,424)	(872,424)
CAPITAL CONTRIBUTIONS	2,699,315	-	-	2,699,315
Change in net assets	2,940,083	(6,078)	332,694	3,266,699
NET ASSETS (DEFICIT) AT JULY 1, as restated (Note 20)	11,484,267	(895,751)	11,789,051	22,377,567
NET ASSETS (DEFICIT) AT JUNE 30	\$ 14,424,350	\$ (901,829)	\$ 12,121,745	\$ 25,644,266

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
OPERATING ACTIVITIES				
Receipts from customers	\$ 3,279,520	\$ 1,037,061	\$ 20,921,681	\$ 25,238,262
Payments to suppliers	(1,012,318)	(451,288)	(17,604,430)	(19,068,036)
Payments to employees	(1,372,310)	(277,270)	(1,198,236)	(2,847,816)
Net cash provided by operating activities	894,892	308,503	2,119,015	3,322,410
NONCAPITAL FINANCING ACTIVITIES				
Revenue sharing	381,935	-	-	381,935
Contribution to joint IDA	-	-	(50,562)	(50,562)
Interfund borrowing	(157,315)	412,138	(254,823)	-
Transfers to other funds	-	-	(872,424)	(872,424)
Net cash provided by (used in) noncapital financing activities	224,620	412,138	(1,177,809)	(541,051)
CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions received	3,130,755	-	-	3,130,755
Purchases of capital assets	(5,495,712)	-	(127,879)	(5,623,591)
Principal paid on capital debt	(825,176)	(207,057)	(902,936)	(1,935,169)
Interest paid on capital debt	(205,187)	(48,512)	(743,699)	(997,398)
Net cash used in capital and related financing activities	(3,395,320)	(255,569)	(1,774,514)	(5,425,403)
INVESTING ACTIVITIES				
Interest received	5,340	5,655	447,821	458,816
Net cash provided by investing activities	5,340	5,655	447,821	458,816
Net increase (decrease) in cash and cash equivalents	(2,270,468)	470,727	(385,487)	(2,185,228)
CASH AND CASH EQUIVALENTS				
Beginning at July 1	3,632,449	1,120,059	6,311,700	11,064,208
Ending at June 30	\$ 1,361,981	\$ 1,590,786	\$ 5,926,213	\$ 8,878,980
RECONCILIATION TO EXHIBIT 8				
Cash and cash equivalents	\$ 14,975	\$ -	\$ 5,068,985	\$ 5,083,960
Cash and cash equivalents, restricted	1,347,006	1,590,786	857,228	3,795,020
	\$ 1,361,981	\$ 1,590,786	\$ 5,926,213	\$ 8,878,980

(Continued)

CITY OF BEDFORD, VIRGINIA

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
Year Ended June 30, 2012

	Business-Type Activities – Enterprise Funds			
	Water and Sewer	Solid Waste	Electric	Total
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating income	\$ 58,238	\$ 34,478	\$ 1,642,005	\$ 1,734,721
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	696,408	193,819	813,635	1,703,862
Landfill closure and postclosure care	-	84,222	-	84,222
Change in assets and liabilities:				
(Increase) decrease in:				
Receivables, net	124,529	37,210	266,258	427,997
Inventories	-	-	(213,468)	(213,468)
(Decrease) increase in:				
Accounts payable and accrued liabilities	20,571	(35,764)	(470,060)	(485,253)
Accrued payroll and related liabilities	(22,986)	(5,462)	(14,529)	(42,977)
Customer security deposits	14,975	-	85,718	100,693
Compensated absences	3,157	-	9,456	12,613
Net cash provided by operating activities	<u>\$ 894,892</u>	<u>\$ 308,503</u>	<u>\$ 2,119,015</u>	<u>\$ 3,322,410</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 12). As required by U.S. generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government). The City has no component units.

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

Region 2000 Services Authority

During 2008, the City, in conjunction with the Counties of Campbell, Nelson, and Appomattox, and the City of Lynchburg, created the Region 2000 Services Authority (the “Authority”). The Authority commenced operations on July 1, 2008. Each member jurisdiction pays a per-ton disposal charge for all waste transferred to the Authority. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-ton charge is based upon an assumed number of tons and is subject to adjustment at the end of each year. The governing board is composed of one member from each of the participating localities. The City paid \$150,132 to the Authority during the current year.

Central Virginia Community Services Board

The City, in conjunction with the Counties of Amherst, Appomattox, Bedford, and Campbell, and the City of Lynchburg, participates in the Central Virginia Community Services Board, which is composed of two members from each of the participating localities. The City contributed \$6,500 to the Board during the current year.

Blue Ridge Regional Jail Authority

The City, in conjunction with the Counties of Halifax, Bedford, and Campbell, and the City of Lynchburg, participates in the Blue Ridge Regional Jail Authority (the “Authority”). Each member jurisdiction pays a per-diem charge for each day that one of its prisoners is at any regional jail facility. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-diem charge is based upon an assumed number of prisoner days and is subject to adjustment at the end of each fiscal year. The City paid \$318,382 to the Authority during the current year.

Bedford Public Library System

The Bedford Public Library System (the “Library”) is an independent regional library system created by an agreement between the City and the County of Bedford. The Library is governed by a board consisting of six members appointed equally by the City and County. Since the County provides a major portion of the Library’s annual revenue, it is accounted for in the County’s financial statements. The City contributed \$161,407 to the Library during the current year.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

A. The Financial Reporting Entity (Continued)

Related Organizations:

City of Bedford Redevelopment and Housing Authority

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

Industrial Development Authority of the City of Bedford

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

Other Boards and Commissions

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

Joint Ventures:

Joint Economic Development Authority

The City, in conjunction with the County of Bedford, created a Joint Economic Development Authority (the "Joint EDA"), which is composed of a seven-member board of directors appointed by the participating localities. The City contributes a predetermined percentage of electric fund income (before transfers and contributions) to the Joint EDA each year to fund expenses. The percentage is determined by expressing the revenue earned in the economic development area as a percentage of total revenue (8.09% for 2012). The City made an operating contribution of \$50,776 to the Joint EDA for the current year. The City and County have agreed to share equally any additional amounts necessary to cover the Joint EDA's costs. Complete financial statements of the Joint EDA can be obtained from the City.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

Jointly Governed Organization:

A. The Financial Reporting Entity (Continued)

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 in the annual operating and capital expenses of the program according to the schedule included in the reversion agreement. The City contributed approximately \$80,000 to the program during the current year. Separate financial statements are not available.

Region 2000 Radio Communications Board

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

B. Government-Wide and Fund Financial Statements

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

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

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements. The City’s only governmental fund is the general fund.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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 City considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The City reports the following major governmental fund:

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

The City reports the following major proprietary funds:

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

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

The *electric fund* accounts for electric distribution operations.

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

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

D. Budgets and Budgetary Accounting

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

- 1) Prior to May 1, the City Manager submits to City Council a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means of financing them.
- 2) Public hearings are conducted to obtain citizen comments.
- 3) Prior to June 30, the budget is legally enacted through passage of an appropriations resolution. The appropriations ordinance places legal restrictions on expenditures at the fund level.
- 4) The City Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total budget amounts and/or appropriations of any fund must be approved by City Council. City Council approved additional appropriations of \$990,176 during the current fiscal year primarily for unanticipated expenditures in public works and potential grant expenditures in community development.
- 5) Formal budgetary integration is employed as a management control device for all funds.
- 6) The budget for the general fund is adopted on the modified accrual basis of accounting.

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

E. Cash and Cash Equivalents

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

F. Investments

Investments are stated at fair value.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 1. Summary of Significant Accounting Policies (Continued)

G. Allowance for Uncollectible Accounts

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

H. Inventories

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

I. Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets generally are depreciated using the straight line method over the following estimated useful lives:

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

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

Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), traffic signals, etc.

J. Deferred Expenses

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

K. Compensated Absences

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

L. Long-Term Obligations

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

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

M. Net Assets/Fund Balance

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

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

The classifications are as follows:

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

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 1. Summary of Significant Accounting Policies (Continued)

M. Net Assets/Fund Balance (Continued)

- **Committed** – Amounts constrained to specific purposes by the City, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the same level of action is taken to remove or change the constraint. Council establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget.
- **Assigned** – Amounts the City intends to use for a specified purpose; intent can be expressed by the governing body. Assigned fund balance is established by Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).
- **Unassigned** – Amounts that are available for any purpose.

N. Restricted Amounts

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

O. Minimum Fund Balance Policy

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

P. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30 total \$565,787 in the general fund.

Q. Estimates

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments

Deposits

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

Investments

Investment Policy:

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

Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share). The investment policy specifies that no investment may have a maturity greater than three months from the date of purchase.

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

Credit Risk:

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

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 2. Deposits and Investments (Continued)

Concentration of Credit Risk:

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

Interest Rate Risk:

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

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Standard & Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>	<u>Weighted Average Maturity*</u>
LGIP	\$ 417,497	AAAm	10.21%	-
SNAP	2,391,710	AAAm	58.51	-
First American Prime Obligations Fund	311,577	AAAm	7.62	0.13
Federated Treasury Obligations Fund	172,246	AAAm	4.21	0.06
Scott & Stringfellow Money Market Trust	3,531	AAAm	0.09	0.08
Government National Mortgage Association	<u>791,235</u>	AAA	<u>19.36</u>	0.97
	<u>\$ 4,087,796</u>		<u>100.0%</u>	

*Weighted average maturity in years

Custodial Credit Risk:

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments (Continued)

Deposits and investments consist of the following:

Deposits	\$ 9,533,998
Investments	<u>4,087,796</u>
Total deposits and investments	<u><u>\$ 13,621,794</u></u>
 Reconciliation of deposits and investments to Exhibit 1:	
Cash and cash equivalents	\$ 9,220,615
Cash and cash equivalents, restricted	<u>4,401,179</u>
Total deposits and investments	<u><u>\$ 13,621,794</u></u>

Restricted cash consists of the following:

	Governmental Activities	Business-Type Activities	Total
Unused bond proceeds	\$ 22,153	\$ 946,101	\$ 968,254
Maintain as condition of certain bond instruments	357,887	1,549,653	1,907,540
Utility deposits	-	409,195	409,195
Unspent revenue sharing	-	422,208	422,208
Other purpose restrictions	<u>226,119</u>	<u>467,863</u>	<u>693,982</u>
	<u><u>\$ 606,159</u></u>	<u><u>\$ 3,795,020</u></u>	<u><u>\$ 4,401,179</u></u>

Note 3. Receivables

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

	General	Water and Sewer	Solid Waste	Electric	Total
Receivables					
Taxes	\$ 245,931	\$ -	\$ -	\$ -	\$ 245,931
Accounts	<u>216,523</u>	<u>540,061</u>	<u>188,904</u>	<u>2,713,243</u>	<u>3,658,731</u>
Gross receivables	462,454	540,061	188,904	2,713,243	3,904,662
Less: allowance for uncollectibles	<u>(86,649)</u>	<u>(128,423)</u>	<u>(32,924)</u>	<u>(594,819)</u>	<u>(842,815)</u>
Net receivables	<u><u>\$ 375,805</u></u>	<u><u>\$ 411,638</u></u>	<u><u>\$ 155,980</u></u>	<u><u>\$ 2,118,424</u></u>	<u><u>\$ 3,061,847</u></u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3. Receivables (Continued)

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

	General
Delinquent taxes receivable	\$ 102,614
Revenue sharing	51,336
Total deferred revenue	\$ 153,950

Note 4. Interfund Receivables, Payables, and Transfers

Amounts due from/to other funds are as follows:

Receivable Fund	Payable Fund	Amount
Electric	Water and Sewer	\$ 1,094,628
Electric	Solid Waste	454,777
		\$ 1,549,405

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

Interfund transfers were as follows:

Transfer Out Fund	Transfer In Fund	Amount
Electric	General	\$ 872,424

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

Note 5. Due To/From Other Governmental Units

Amounts due from other governmental units are as follows:

	Governmental Activities	Business-Type Activities
Bedford County		
Growth-sharing agreement	\$ -	\$ 58,652
Joint tourism agreement	64,176	-
Blue Ridge Regional Jail	56,738	-
State of Virginia		
State sales tax	127,848	-
Local sales tax	144,382	-
Communications tax	24,570	-
Other	34,648	-
	\$ 452,362	\$ 58,652

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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

Amounts due to other governmental units are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Bedford County Shared services	\$ 508,074	\$ -
Bedford Joint Economic Development Authority contribution	<u>-</u>	<u>50,776</u>
	<u>\$ 508,074</u>	<u>\$ 50,776</u>

Note 6. Capital Assets

Capital asset activity for the year was as follows:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 2,211,447	\$ -	\$ -	\$ 2,211,447
Construction in progress	<u>64,820</u>	<u>48,875</u>	<u>32,931</u>	<u>80,674</u>
Total capital assets, not depreciated	<u>2,276,267</u>	<u>48,875</u>	<u>32,931</u>	<u>2,292,121</u>
Capital assets, depreciated				
Buildings and improvements	13,122,407	-	-	13,122,407
Machinery and equipment	8,031,944	129,958	25,777	8,136,125
Infrastructure	<u>12,714,568</u>	<u>63,636</u>	<u>-</u>	<u>12,778,204</u>
Total capital assets, depreciated	33,868,919	193,594	25,777	34,036,736
Less accumulated depreciation	<u>19,640,430</u>	<u>1,049,824</u>	<u>25,777</u>	<u>20,664,387</u>
Total capital assets, depreciated, net	<u>14,228,489</u>	<u>(856,230)</u>	<u>-</u>	<u>13,372,349</u>
Governmental activities capital assets, net	<u>\$ 16,504,756</u>	<u>\$ (807,355)</u>	<u>\$ 32,931</u>	<u>\$ 15,664,470</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets (Continued)

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated				
Land	\$ 968,017	\$ -	\$ -	\$ 968,017
Construction in progress	2,068,153	40,461	2,068,153	40,461
Total capital assets, not depreciated	<u>3,036,170</u>	<u>40,461</u>	<u>2,068,153</u>	<u>1,008,478</u>
Capital assets, depreciated				
Buildings and improvements	29,802,430	6,729,679	-	36,532,109
Machinery and equipment	3,688,879	109,126	33,040	3,764,965
Landfill development costs	3,315,945	-	-	3,315,945
Distribution and transmission systems	34,006,206	490,905	-	34,497,111
Total capital assets, depreciated	<u>70,813,460</u>	<u>7,329,710</u>	<u>33,040</u>	<u>78,110,130</u>
Less accumulated depreciation	<u>36,181,378</u>	<u>1,556,448</u>	<u>33,040</u>	<u>37,704,786</u>
Total capital assets, depreciated, net	<u>34,632,082</u>	<u>5,773,262</u>	<u>-</u>	<u>40,405,344</u>
Business-type activities capital assets, net	<u>\$ 37,668,252</u>	<u>\$ 5,813,723</u>	<u>\$ 2,068,153</u>	<u>\$ 41,413,822</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities	
General government administration	\$ 94,484
Public safety	220,463
Public works	146,976
Education	440,927
Parks, recreation, and cultural	62,989
Community development	83,985
	<u>\$ 1,049,824</u>
Business-type activities	
Water and sewer	\$ 678,675
Solid waste	171,940
Electric	705,833
	<u>\$ 1,556,448</u>

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities

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

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
General obligation bonds	\$ 2,428,757	\$ -	\$ 394,185	\$ 2,034,572	\$ 469,742
Literary fund loans	675,000	-	75,000	600,000	75,000
Compensated absences	162,264	165,226	162,264	165,226	165,226
Landfill liability:					
Closed landfill	2,101,000	216,000	-	2,317,000	231,700
Governmental activities long-term liabilities	<u>\$ 5,367,021</u>	<u>\$ 381,226</u>	<u>\$ 631,449</u>	<u>\$ 5,116,798</u>	<u>\$ 941,668</u>

Business-Type Activities

General obligation bonds	\$ 14,614,724	\$ -	\$ 1,138,161	\$ 13,476,563	\$ 1,443,361
Revenue bonds	13,431,282	-	797,009	12,634,273	723,851
Adjust for deferred amounts:					
Deferred costs	(1,059,688)	-	(96,744)	(962,944)	-
Issuance premiums	47,123	-	10,560	36,563	-
Issuance discounts	(57,415)	-	(4,280)	(53,135)	-
Obligations payable – AMP	2,570,674	137,892	529,248	2,179,318	1,097,621
Compensated absences	120,022	133,702	120,022	133,702	133,702
Landfill liability:					
Active landfill	2,242,458	84,542	-	2,327,000	-
Business-type activities long-term liabilities	<u>\$ 31,909,180</u>	<u>\$ 356,136</u>	<u>\$ 2,493,976</u>	<u>\$ 29,771,340</u>	<u>\$ 3,398,535</u>

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

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 7. Long-Term Liabilities (Continued)

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

Year Ended June 30	Governmental Activities				Business-Type Activities					
	General Obligation Bonds		Other Long-Term Debt		General Obligation Bonds		Revenue Bonds		Obligations Payable – AMP	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 469,742	\$ 61,433	\$ 75,000	\$ 18,000	\$ 1,443,361	\$ 341,754	\$ 723,851	\$ 578,499	\$ 1,097,621	\$ 13,303
2014	370,935	44,181	75,000	15,750	1,126,566	300,440	747,139	549,753	58,159	32,451
2015	207,114	35,125	75,000	13,500	1,156,448	274,461	775,564	519,193	59,904	30,706
2016	76,956	28,962	75,000	11,250	1,123,470	245,699	814,133	481,401	61,701	28,909
2017	79,288	26,692	75,000	9,000	1,147,760	216,950	852,849	446,242	63,552	27,058
2018-2022	432,003	96,999	225,000	13,500	4,571,099	740,995	4,865,656	1,622,510	347,528	105,522
2023-2027	398,534	29,427	-	-	2,907,859	206,087	3,855,081	410,829	402,881	50,169
2028	-	-	-	-	-	-	-	-	87,972	2,639
	<u>\$ 2,034,572</u>	<u>\$ 322,819</u>	<u>\$ 600,000</u>	<u>\$ 81,000</u>	<u>\$ 13,476,563</u>	<u>\$ 2,326,386</u>	<u>\$ 12,634,273</u>	<u>\$ 4,608,427</u>	<u>\$ 2,179,318</u>	<u>\$ 290,757</u>

Details of long-term indebtedness are as follows:

General Obligation Bonds:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
Public improvement	2.0-3.6%	12/01/03	2013	\$ 1,460,000	\$ 330,000	\$ -
Virginia Resources Authority:						
Taxable water and sewer	2.5	06/23/98	2019	5,225,000	-	2,311,919
Solid waste management refunding	4.1-4.8	06/28/01	2013	2,375,000	109,041	340,959
Water and sewer	3.1-4.8	06/06/02	2017	2,005,000	-	-
Water and sewer refunding	3.2-3.5	06/01/10	2017	1,015,000	-	845,000
Virginia Revolving Loan Fund:						
Water and sewer	0.0	04/25/02	2022	2,866,300	-	1,504,807
Water and sewer	0.0	09/27/01	2022	1,800,000	-	900,000
Public improvement	2.8-3.6	04/29/08	2023	5,472,438	386,078	3,424,331
Public improvement	2.9	03/27/11	2026	5,485,000	1,209,453	4,149,547
					<u>\$ 2,034,572</u>	<u>\$ 13,476,563</u>

Obligations Payable – AMP:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Business-Type Activities
Obligations Payable – AMP:						
City's rate levelization	2.5%	03/2011	2013	\$ 1,350,000	\$ -	\$ 937,314
Customer rate levelization	3.6	01/2011	2012	276,869	-	160,307
Generating station contract	3.0	06/2011	2027	1,081,697	-	1,081,697
					<u>\$ -</u>	<u>\$ 2,179,318</u>

(Continued)

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 7. Long-Term Liabilities (Continued)

Revenue Bonds:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Virginia Resources Authority:</u>						
Electric system refunding	3.0-4.1%	08/2005	2025	\$ 12,560,000	\$ -	\$ 9,260,000
Taxable lease	7.8	06/1996	2026	2,630,000	-	1,915,000
Electric system	3.8-4.1	11/2005	2026	2,064,710	-	1,459,273
					<u>\$ -</u>	<u>\$ 12,634,273</u>
<u>Other Long-Term Debt:</u>						
Literary fund loans	3.0%	01/1998	2019	\$ 1,500,000	<u>\$ 600,000</u>	<u>\$ -</u>

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

Obligations Payable – AMP

City’s Rate Levelization:

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

Customer Rate Levelization:

On January 14, 2011, the City entered into an agreement with AMP to provide a rate levelization loan to the City, on behalf of a customer, for power delivered from January 1, 2011 through December 31, 2011. During that period, AMP loaned the City \$276,869. The principal and accrued interest, at a rate of 3.65%, will be repaid over the power delivery period of January 1, 2012 through December 31, 2012. Monthly amounts of repayment will be approximately \$24,000 with a final true-up payment, if needed, in December 2012.

The customer signed a note to the City for repayment.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 7. Long-Term Liabilities (Continued)

Obligations Payable – AMP (Continued)

Generating Station Contract:

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

Note 8. Landfill Closure and Postclosure Care Costs

Closed Landfill

The City closed its former landfill site in 1994. In accordance with federal and state laws, the City placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure. The cumulative amount of estimated closure and postclosure care costs for this site, less costs paid to date, totals \$2,317,000. 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.

Open Landfill

This landfill site began accepting waste in 1994. State and federal laws require the City to place a final cover on this site when it stops accepting waste and to perform maintenance and monitoring functions for thirty years after closure. Although closure and postclosure care costs are paid only near or after the date the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used. The \$2,327,000 reported as landfill closure and postclosure liability as of June 30 represents the cumulative amount reported to date based on use of approximately 97% of estimated capacity. The remaining estimated cost of closure and post closure care of \$84,222 will be recognized as remaining capacity is filled. The City is shipping most waste, except construction debris, to the newly formed Region 2000 Services Authority (see Note 1A). The City expects to close the landfill in 2020. Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances.

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 9. Net Assets/Fund Equity

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

	General
Nonspendable:	
Cemetery perpetual care	\$ 881,387
Restricted for:	
General governmental administration	46,310
Public works	469,354
Public safety	14,580
Community development	375,322
	905,566
Assigned to:	
General governmental administration	5,316
Public works	532,780
Public safety	16,363
Education	11,328
	565,787
Unassigned	2,368,680
Total fund balance	\$ 4,721,420

Restricted Net Assets

Net assets of \$422,208 have been reported as restricted in the water and sewer fund for the 460W water/sewer line improvements. Net assets of \$905,566 have been reported as restricted in the general fund for grant proceeds from the Commonwealth of Virginia to be used for highway maintenance related projects, and nonexpendable cemetery perpetual care.

Deficit Net Assets

At June 30, the solid waste fund had a deficit in net assets of \$901,829. This deficit is anticipated to be recovered through future revenues, as well as possible transfers from the general fund or electric fund.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

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 (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

A. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. 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 2012 was 13.28% of annual covered payroll.

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 Bedford County's financial statements.

B. Annual Pension Cost

For fiscal year 2012, City's annual pension cost of \$831,475 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, 2010	\$ 797,761	100%	\$ -
June 30, 2011	\$ 780,964	100%	\$ -
June 30, 2012	\$ 831,475	100%	\$ -

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

B. Annual Pension Cost (Continued)

The fiscal year 2012 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 67.63% funded. The actuarial accrued liability (AAL) for benefits was \$24,534,060 and the actuarial value of assets was \$16,591,680, resulting in an unfunded actuarial accrued liability (UAAL) of \$7,942,380. The covered payroll (annual payroll of active employees covered by the plan) was \$4,380,252, and the ratio of the UAAL to the covered payroll was 181.32%.

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

Note 11. Other Post-Employment Benefits

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

Plan Description

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

- General government with membership dates before July 1, 2010 (Plan 1) – Participants must have attained age 50 with a minimum of 30 years of service.
- General government with membership dates on or after July 1, 2010 (Plan 2) – receive reduced retirement after attaining 90 points (age plus service) with VRS.
- Law enforcement officers – Participants must have attained age 50 with a minimum of 25 years of service.

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 11. Other Post-Employment Benefits (Continued)

Plan Description (Continued)

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

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

Retirees currently receiving benefits	5
Active employees	<u>112</u>
Total	<u><u>117</u></u>

Funding Policy

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

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For 2012 the City's OPEB costs were equal to the Annual Required Contribution (ARC).

Annual required contribution	\$ 18,300
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost	18,300
Contributions made	<u>18,300</u>
Change in net OPEB obligation	-
Net OPEB obligation – beginning of year	<u>-</u>
Net OPEB obligation – end of year	<u><u>\$ -</u></u>

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

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2012	\$ 18,300	100%	\$ -
June 30, 2011	\$ 12,700	100%	\$ -
June 30, 2010	\$ 14,800	100%	\$ -

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 11. Other Post-Employment Benefits (Continued)

Funded Status and Funding Progress

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

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

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

Actuarial Methods and Assumptions

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

In the January 1, 2012 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 4.0% discount rate and an initial annual healthcare cost trend of 7.20% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.80%. The unfunded accrued liability is being amortized as a level percent of payroll. The amortization period for 2012 was 14 years.

Note 12. Service Contracts

Power Purchase Contracts

Holcomb Rock and Coleman Falls

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

CITY OF BEDFORD, VIRGINIA

**NOTES TO FINANCIAL STATEMENTS
June 30, 2012**

Note 12. Service Contracts (Continued)

Power Purchase Contracts (Continued)

AMP – Master Service Agreement

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

AMP – Prairie State Energy Project

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

AMP-Fremont Energy Center

On June 15, 2011, the City entered into a power sales contract with AMP whereby it and others agreed to participate in the guaranteed purchase of a natural gas-fired combined cycle power generating plant located in the City of Fremont, Ohio. The participants authorized AMP to acquire ownership interest in the project, and the City agreed to purchase 1.25% of the power generated under that ownership interest. The contract is on a “take-or-pay” basis which means the City is required to pay for its guaranteed portion whether or not it is used and is not conditioned on the performance by AMP under the contract. The obligations are required to be paid whether or not the project is completed, operable, or operating and as long as bonds issued by AMP remain outstanding. The amount payable under the contract is currently undeterminable. The contract extends through 2047. Payments under the agreement began in 2012.

Shared Services

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 12. Service Contracts (Continued)

Shared Services (Continued)

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

Note 13. Property Taxes

Property taxes are levied on a fiscal year basis on July 1, the assessment date, and become a lien as of that date. The assessed value is as of July 1 for real property and January 1 for personal property. Real estate taxes are payable in four quarterly installments on September 30, December 31, March 31, and June 5. The real estate tax rate was \$0.86 per \$100 of assessed value for fiscal years 2012 and 2011, respectively.

Personal property taxes are payable on December 5. The personal property tax rate was \$2.43 per \$100 for 2012 and 2011, respectively. A penalty of 10% for late payment and interest at the rate of 10% is charged on unpaid balances. The City bills and collects its own property taxes.

Note 14. Risk Management

The Risk Management programs of the City are as follows:

Workers' Compensation

The City is a member of the Virginia Municipal League Insurance Programs for workers' compensation insurance. Benefits are provided by the Commonwealth of Virginia. Premiums are based on covered payroll, job rates, and claims experience. Total premiums for fiscal year 2012 were approximately \$121,497.

General Liability and Other

The City purchases insurance coverage for exposure related to property, general, boiler and machinery, flood, accident and automobile liability from Virginia Municipal League Insurance Programs. The City's property and contents are insured up to a limit of approximately \$63 million. The City maintains an additional \$5,000,000 umbrella policy over all forms of liability insurance. The City's Public Officials and Law Enforcement Liability and the School Board Legal Liability coverages, with a \$1,000,000 limit for each, are provided through a policy with the Commonwealth of Virginia. Total premiums for fiscal year 2012 were approximately \$167,742.

Healthcare

The City provides healthcare coverage for employees through a policy with Anthem. The City contributed towards the premium for each employee that elects to be covered. Dependents of employees are also covered by the policy provided they pay the additional premium to the City. Total premiums for fiscal year 2012 were approximately \$765,000.

Other

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 15. Direct Financing Lease

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

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

Total minimum lease payments	\$ 4,868,339
Guaranteed residual value	1,369,086
Unearned income	<u>(3,817,895)</u>
Net investment in direct financing lease	<u>\$ 2,419,530</u>

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

Note 16. Commitments and Contingencies

Grant Programs

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

Note 17. Joint Economic Development and Growth Sharing Agreement

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

The City and County agreed 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.

Note 18. New Accounting Standards

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

GASB Statement No. 60 *Accounting and Financial Reporting for Service Concession Arrangements* was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 18. New Accounting Standards (Continued)

GASB Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* was issued to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB pronouncements issued on or before November 30, 1989 which do not conflict with or contradict GASB pronouncements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 63 *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position* is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

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

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

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

CITY OF BEDFORD, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 18. New Accounting Standards (Continued)

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

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

Note 19. Other Matters

In 2008, the City of Bedford notified the County of its intent to revert from a city to a town, as allowed under state law. In September 2011, City Council and the Board of Supervisors adopted a voluntary agreement which the state will use as a guideline in the City's effort to revert to town status. The negotiated agreement is intended to be the best plan for the future of the Town and County. A copy of the "Voluntary Settlement of Transition to Town Status and Other Related Issues between the City of Bedford and the County of Bedford" can be found at: http://www.bedfordva.gov/pdfs/reversion_draft_20110914.pdf. The reversion agreement is scheduled for review on December 18, 2012 by a three judge panel. The reversion is expected to occur on July 1, 2013.

Note 20. Restatement of Fund Balances and Net Assets

The following is a summary of the restatements of fund balances/net assets:

	Solid Waste	Business-Type Activities
Fund Balance/Net Assets		
June 30, 2011 as previously stated	\$ (989,866)	\$ 22,283,452
Restatement to:		
Correct overstatement of landfill accumulated depreciation	46,893	46,893
Correct overstated landfill liability	47,222	47,222
Net change in fund balance/net assets	94,115	94,115
Fund balance/net assets June 30, 2011 as restated	\$ (895,751)	\$ 22,377,567

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF BEDFORD, VIRGINIA

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

June 30, 2012

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL)</u>	<u>(b-a) Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>(a/b) Funded Ratio</u>	<u>(c) Annual Covered Payroll</u>	<u>(b-a)/c UAAL as of Percentage of Covered Payroll</u>
DEFINED BENEFIT PLAN (VRS)						
June 30, 2009	\$ 16,462,601	\$ 21,363,663	\$ 4,901,062	77.06%	\$ 4,689,438	104.51%
June 30, 2010	\$ 16,476,907	\$ 23,086,000	\$ 6,609,093	71.37%	\$ 4,334,264	152.48%
June 30, 2011	\$ 16,591,680	\$ 24,534,060	\$ 7,942,380	67.63%	\$ 4,380,252	181.32%
OTHER POST-EMPLOYMENT BENEFITS						
January 1, 2009	\$ -	\$ 162,500	\$ 162,500	0.00%	\$ 4,727,100	3.44%
January 1, 2012	\$ -	\$ 171,800	\$ 171,800	0.00%	\$ 4,582,100	3.75%

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 its ability to issue additional debt in the future.	8-10
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the 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 its financial information relates to the services it provides and the activities it performs.	13-15

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. 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 NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)**

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

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

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

TABLE 2

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

(Continued)

CITY OF BEDFORD, VIRGINIA
CHANGES IN NET ASSETS BY COMPONENT
LAST NINE FISCAL YEARS
(ACCRUAL BASIS OF ACCOUNTING)

TABLE 2

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

TABLE 3

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

	<u>Post-GASB 54</u> <u>2012</u>	<u>Post-GASB 54</u> <u>2011</u>						
			<u>Pre-GASB 54</u>					
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Fund								
Nonspendable	\$ 881,387	\$ 828,714						
Restricted	905,566	904,160						
Assigned	565,787	354,146						
Unassigned	2,368,680	1,916,649						
Total general fund	<u>\$ 4,721,420</u>	<u>\$ 4,003,669</u>						
General Fund								
Reserved	\$ 1,966,581	\$ 1,840,352	\$ 2,352,425	\$ 2,431,433	\$ 1,625,713	\$ 1,583,500	\$ 2,211,940	\$ 747,272
Unreserved	1,719,613	1,000,010	453,160	611,421	759,917	377,825	1,794,152	2,949,240
Total general fund	<u>\$ 3,686,194</u>	<u>\$ 2,840,362</u>	<u>\$ 2,805,585</u>	<u>\$ 3,042,854</u>	<u>\$ 2,385,630</u>	<u>\$ 1,961,325</u>	<u>\$ 4,006,092</u>	<u>\$ 3,696,512</u>
All Other Governmental Funds								
Unreserved, reported in:								
Special revenue funds	\$ -	\$ -	\$ -	\$ -	\$ 469,703	\$ 455,774	\$ 479,407	\$ 509,050
Total all other governmental funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 469,703</u>	<u>\$ 455,774</u>	<u>\$ 479,407</u>	<u>\$ 509,050</u>

Note: GASB 54 was adopted in FY 2011.

TABLE 4

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

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Revenues										
Taxes	\$ 7,555,727	\$ 7,416,138	\$ 7,258,677	\$ 7,097,542	\$ 7,189,990	\$ 7,107,098	\$ 6,205,510	\$ 6,088,806	\$ 5,920,497	\$ 5,839,083
Permits, privilege fees, and licenses	26,166	23,359	23,261	38,843	36,827	33,833	25,491	35,221	31,701	33,828
Fines and forfeitures	94,468	77,935	65,813	65,802	88,201	91,148	84,687	41,628	71,577	34,959
Revenue from use of money and property	56,106	55,553	23,447	143,365	247,573	404,157	343,308	221,008	122,171	156,775
Charges for services	125,951	155,067	175,270	212,939	260,756	278,926	275,364	215,394	251,822	205,432
Other	77,768	183,583	241,868	216,284	137,233	8,832	140,076	260,834	98,305	117,299
Intergovernmental	6,619,353	6,577,499	6,566,791	7,676,383	7,492,240	7,257,145	6,517,543	6,307,277	6,363,359	5,751,668
Total revenues	14,555,539	14,489,134	14,355,127	15,451,158	15,452,820	15,181,139	13,591,979	13,170,168	12,859,432	12,139,044
Expenditures										
General government	1,289,938	1,151,035	1,156,296	1,176,391	1,095,027	1,041,035	1,415,552	1,456,413	1,085,412	953,974
Judicial administration	64,599	69,749	73,925	54,638	45,844	20,269	22,108	27,097	11,587	22,602
Public safety	3,130,237	3,021,780	3,034,104	3,374,816	4,529,012	3,305,259	3,120,698	3,122,124	2,516,748	2,211,078
Public works	2,567,995	2,900,284	2,273,460	2,313,259	2,186,661	2,039,525	2,063,237	2,043,948	1,774,348	2,062,111
Parks, recreation, and cultural	348,542	381,331	436,653	663,122	906,368	980,295	908,539	914,838	953,378	833,436
Health and welfare	661,680	684,699	615,447	679,222	859,833	675,828	558,469	721,935	366,032	491,097
Education	5,888,862	6,189,655	5,923,094	6,950,962	7,142,290	6,849,211	6,583,537	6,111,105	6,301,173	5,510,608
Community development	203,823	260,011	330,515	617,783	443,771	381,138	472,557	1,069,227	1,055,270	733,458
Nondepartmental	-	-	-	3,578	10,923	1,208	7,829	486	11,580	5,665
Debt service:										
Bond issuance costs	-	12,533	-	-	7,178	-	24,570	-	42,431	-
Principal	469,185	681,164	664,029	879,780	736,949	762,152	626,979	640,018	555,387	625,289
Interest	89,453	132,314	153,843	173,994	185,569	132,055	132,589	150,330	141,699	157,568
Total expenditures	14,714,314	15,484,555	14,661,366	16,887,545	18,149,425	16,187,975	15,936,664	16,257,521	14,815,045	13,606,886
Excess of revenues over (under) expenditures	(158,775)	(995,421)	(306,239)	(1,436,387)	(2,696,605)	(1,006,836)	(2,344,685)	(3,087,353)	(1,955,613)	(1,467,842)
Other Financing Sources (Uses)										
Proceeds from borrowing	-	1,282,911	-	-	946,774	-	717,885	197,925	1,460,000	-
Payment to refunded bond escrow agent	-	(1,270,378)	-	-	-	-	-	-	-	-
Proceeds from sale of assets	4,102	24,224	13,122	4,164	45,562	4,621	26,212	15,128	-	-
Principal payment of capital lease	-	-	-	-	-	-	-	(197,925)	-	-
Transfers in	872,424	1,300,000	1,138,949	1,467,000	1,467,000	1,904,366	2,162,023	1,505,875	1,467,000	1,502,637
Transfers out	-	-	-	-	-	(714,630)	(208,000)	(502,050)	(485,450)	(35,637)
Total other financing sources (uses)	876,526	1,336,757	1,152,071	1,471,164	2,459,336	1,194,357	2,698,120	1,018,953	2,441,550	1,467,000
Net change in fund balances	\$ 717,751	\$ 341,336	\$ 845,832	\$ 34,777	\$ (237,269)	\$ 187,521	\$ 353,435	\$ (2,068,400)	\$ 485,937	\$ (842)
Debt service as a percentage of noncapital expenditures	3.86%	5.60%	5.74%	6.24%	5.08%	5.52%	4.77%	4.86%	4.71%	5.75%

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)
2012	\$ 426,408,500	\$ 46,608,260	\$ 34,809,690	\$ 8,896,880	\$ 407,900	\$ 517,131,230	1.03
2011	426,484,700	45,780,775	35,757,860	8,173,800	420,700	516,617,835	1.03
2010	406,184,200	45,604,044	36,509,350	8,502,100	415,000	497,214,694	0.97
2009	403,819,100	48,686,689	31,436,013	8,440,200	421,600	492,803,602	0.93
2008	396,308,300	47,144,412	33,851,260	9,845,100	416,600	487,565,672	0.93
2007	395,464,300	46,294,050	31,804,750	7,716,900	425,900	481,705,900	0.96
2006	318,993,200	43,796,730	30,216,970	8,913,570	478,800	402,399,270	0.95
2005	313,729,100	41,338,270	30,194,580	10,437,161	486,600	396,185,711	0.96
2004	310,247,885	43,485,320	33,098,380	11,620,498	520,700	398,972,783	0.96
2003	303,930,500	42,366,120	32,527,560	11,338,521	499,500	390,662,201	0.98

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

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

TABLE 6

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

Customer	Fiscal Year 2012			Fiscal Year 2005*		
	Revenue	Rank	Percentage of Total City Electrical Revenue	Revenue	Rank	Percentage of Total City Electrical Revenue
Wheelabrator Abrasives	\$ 1,913,379	1	11.04 %	\$ 1,306,195	1	10.73 %
Bedford Weaving	837,095	2	4.83	460,487	2	3.78
Golden West	664,748	3	3.84	438,484	3	3.60
City of Bedford	421,640	4	2.43	301,512	4	2.48
Smyth Companies	412,122	5	2.38	260,179	5	2.14
The Matrix Group	340,770	6	1.97	219,722	7	1.80
Wal-Mart	298,604	7	1.72	221,658	6	1.82
Bedford Memorial Hospital	260,744	8	1.50	-		-
Liberty High School	250,434	9	1.45	162,879	10	1.34
Frank Chervan Inc.	-		-	208,345	8	1.71
Rubatex International LLC	-		-	179,773	9	1.48
Bedford Storage Investment LLC	197,578	10	1.14	-		-
	<u>\$ 5,597,114</u>		<u>32.30 %</u>	<u>\$ 3,759,234</u>		<u>30.88 %</u>

* Data was not available for fiscal year 2003. The City changed utility billing systems.

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

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
2012	\$ 5,181,486	\$ 5,059,795	97.65 %	\$ -	\$ 5,059,795	97.65 %
2011	5,095,003	5,051,869	99.15	43,134	5,095,003	100.00
2010	5,002,964	4,934,386	98.63	67,112	5,001,498	99.97
2009	4,723,553	4,665,545	98.77	50,572	4,716,117	99.84
2008	4,555,494	4,540,584	99.67	14,910	4,555,494	100.00
2007	4,416,965	4,251,913	96.26	55,856	4,307,769	97.53
2006	3,860,961	3,552,698	92.02	78,446	3,631,144	94.05
2005	3,664,491	3,445,326	94.02	66,309	3,511,635	95.83
2004	3,650,823	3,407,560	93.34	127,558	3,535,118	96.83
2003	3,577,953	3,342,430	93.42	67,632	3,410,062	95.31

Source: Tax Records of the City.

TABLE 8

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Debt limit	\$ 43,530,538	\$ 43,465,850	\$ 41,468,630	\$ 41,225,930	\$ 40,615,340	\$ 40,289,520	\$ 32,757,867	\$ 32,374,542	\$ 32,154,124	\$ 31,492,480
Total net debt applicable to limit	<u>16,111,135</u>	<u>17,718,481</u>	<u>16,502,823</u>	<u>18,036,255</u>	<u>20,213,861</u>	<u>15,377,542</u>	<u>16,664,323</u>	<u>15,551,377</u>	<u>15,924,181</u>	<u>15,354,958</u>
Legal debt margin	<u>\$ 27,419,403</u>	<u>\$ 25,747,369</u>	<u>\$ 24,965,807</u>	<u>\$ 23,189,675</u>	<u>\$ 20,401,479</u>	<u>\$ 24,911,978</u>	<u>\$ 16,093,544</u>	<u>\$ 16,823,165</u>	<u>\$ 16,229,943</u>	<u>\$ 16,137,522</u>
Total net debt applicable to the limit as a percentage of debt limit	<u>37.01%</u>	<u>40.76%</u>	<u>39.80%</u>	<u>43.75%</u>	<u>49.77%</u>	<u>38.17%</u>	<u>50.87%</u>	<u>48.04%</u>	<u>49.52%</u>	<u>48.76%</u>

Legal Debt Margin Calculation for Fiscal Year 2012

Assessed value	<u>\$ 435,305,380</u>
Debt limit (10% of assessed value)	\$ 43,530,538
Less debt applicable to limit:	
General obligation bonds	(15,511,135)
Other long-term obligations	<u>(600,000)</u>
Legal debt margin	<u>\$ 27,419,403</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
2012	\$ 2,034,572	\$ -	\$ -	\$ 2,034,572	0.39%	NA	\$ -	\$ -	\$ 600,000
2011	2,428,757	-	-	2,428,757	0.47%	393	-	-	675,000
2010	2,819,927	-	-	2,819,927	0.57%	448	-	184,882	750,000
2009	3,230,546	-	-	3,230,546	0.66%	509	-	363,292	825,000
2008	3,932,140	-	-	3,932,140	0.81%	623	-	674,209	900,000
2007	1,520,600	-	-	1,520,600	0.32%	242	-	715,927	975,000
2006	2,047,200	-	-	2,047,200	0.51%	328	-	576,479	1,050,000
2005	2,573,300	-	-	2,573,300	0.65%	414	-	184,473	1,200,000
2004	3,091,400	-	-	3,091,400	0.77%	492	-	231,391	1,200,000
2003	2,018,000	-	-	2,018,000	0.52%	320	-	325,078	1,275,000

Fiscal Year	Business-type Activities				Total Primary Government	Per Capita ⁽¹⁾	Percentage of Personal Income ⁽¹⁾
	Revenue Bonds	General Obligation Bonds	Other Debt	Capital Leases			
2012	\$ 12,634,273	\$ 13,476,563	\$ 2,179,318	\$ -	\$ 30,924,726	NA	NA
2011	13,431,282	14,614,724	2,570,674	-	33,720,437	5,455	14.01%
2010	14,343,108	12,932,896	-	-	31,030,813	4,933	12.67%
2009	15,215,652	14,020,836	-	-	33,655,326	5,300	13.61%
2008	19,074,075	15,381,721	-	-	39,962,145	6,331	16.19%
2007	16,903,533	13,856,942	-	-	33,972,002	5,404	15.04%
2006	17,714,178	14,617,123	-	-	36,004,980	5,762	17.11%
2005	17,007,099	12,978,077	-	-	33,942,949	5,457	16.90%
2004	17,629,730	12,832,781	-	-	34,985,302	5,572	18.00%
2003	18,237,361	13,336,878	-	34,002	35,226,319	5,589	18.60%

NA – Not Available

(1) See Table 11 for population and per capita personal income information. For FY2011, FY2010, and FY2009 amount for per capita personal income of \$38,937 was utilized to calculate the Percentage of Personal Income.

TABLE 10

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

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2012	\$ 27,997,096	\$ 22,836,959	\$ 5,160,137	\$ 797,009	\$ 606,101	3.68
2011	28,312,657	25,441,311	2,871,346	911,826	633,082	1.86
2010	26,745,018	24,260,882	2,484,136	872,544	663,496	1.62
2009	29,223,857	24,644,159	4,579,698	858,423	689,452	2.96
2008	25,935,038	20,743,649	5,191,389	829,459	712,007	3.37
2007	24,656,608	20,913,218	3,743,390	810,645	733,527	2.42
2006	20,417,640	17,356,493	3,061,147	562,631	577,968	2.68
2005	17,296,354	11,799,137	5,497,217	622,631	901,065	3.61
2004	16,640,083	13,242,106	3,397,977	607,631	921,345	2.22
2003	17,241,801	11,800,475	5,441,326	592,630	940,568	3.55

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

TABLE 11

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

Fiscal Year Ended (1)	Population (2)	Total Personal Income (3)	Per Capita Personal Income	Public School Enrollment	Unemployment Rate (4)
2012	NA	\$ NA	\$ NA	NA	8.30 %
2011	6,181	NA	NA	784	8.10
2010	6,291	2,836,787	37,827	830	9.70
2009	6,350	2,772,227	38,937	827	6.90
2008	6,312	2,846,751	39,114	813	5.30
2007	6,286	2,618,524	35,934	888	4.10
2006	6,249	2,421,037	33,674	902	3.70
2005	6,220	2,304,368	32,282	914	4.40
2004	6,279	2,169,646	30,961	936	4.70
2003	6,303	2,055,234	30,052	946	4.70

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

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

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

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

NA = Not Available

TABLE 12

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

Employer	Fiscal Year 2012			Fiscal Year 2003		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
Frank Chervan	NA		-	185	4	4.05 %
Bedford Memorial Hospital	348	1	4.93 %	345	2	7.55
Bedford Public Schools	323	2	4.58	179	5	3.92
Sam Moore Furniture LLC	221	3	3.13	387	1	8.47
Cintas	133	4	1.89	120	9	2.63
Bedford Weaving Mills	120	5	1.70	170	6	3.72
Smyth Companies Bedford	112	6	1.59	130	8	2.84
Longwood Industries	80	7	1.13	150	7	3.28
Trident Seafood Inc	72	8	1.02	0	3	0.00
Elks National Home	67	9	0.95	85	10	1.86
Wheelabrator Abrasives, Inc.	48	10	0.68	NA		-
	<u>1,524</u>		<u>21.60 %</u>	<u>1,751</u>		<u>38.32 %</u>

Source: HR Departments of Employers.

TABLE 13

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

<u>Function/Program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General government										
Executive	2	2	2	2	2	2	2	2	2	2
Treasurer	2	1	1	1	1	1	1	1	1	1
Personnel	-	-	-	-	-	-	2	2	2	2
Finance	5	5	5	5	6	6	5	7	7	6
Information Technology	2	2	2	2	2	1	2	-	-	-
Planning	3	3	3	3	5	5	5	5	5	5
Schools	9	9	9	8	6	8	8	8	8	8
Police										
Officers	24	24	24	21	25	28	29	22	22	22
Civilians	3	5	3	2	3	3	3	2	2	2
Fire	1	1	1	1	1	1	1	1	1	1
Public works	19	20	18	21	15	18	20	20	21	22
Engineering	2	2	2	2	2	2	2	2	2	2
Parks and recreation	2	2	3	3	9	10	10	10	10	10
Solid waste	2	2	3	4	4	5	5	5	5	4
Water	6	6	6	6	6	6	6	6	6	6
Wastewater	10	11	11	11	11	11	11	11	11	11
Electric	*14	*14	*13	*15	*18	19	19	20	20	20
Total	<u>106</u>	<u>109</u>	<u>106</u>	<u>107</u>	<u>116</u>	<u>126</u>	<u>131</u>	<u>124</u>	<u>125</u>	<u>124</u>

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

TABLE 14

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

<u>Function/Program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
General Government:										
Fleet:										
Pieces of equipment maintained	132	130	127	129	129	135	*	*	*	*
Public safety:										
Police:										
Physical arrests	1,137	902	943	1,116	1,129	1,124	1,269	1,116	926	832
Parking violations	1,128	1,937	1,235	1,381	1,359	2,432	2,601	989	1,434	1,269
Traffic violations	2,135	1,319	1,334	1,535	1,579	1,842	2,288	1,339	1,440	1,396
Fire:										
Emergency responses - per calendar year	NA	821	919	913	886	948	853	666	557	533
Public works:										
Refuse collection:										
Refuse collected (tons per day)	40	40	27	25	30	43	*	*	*	*
Recyclables collected (tons per day)	1.1	1.5	1.0	1.5	2	1	*	*	*	*
Other public works:										
Street resurfacing (miles)	6	4.2	3.6	1.8	-	5.3	*	*	*	*
Parks, recreation and cultural:										
Parks and recreation:										
Tournaments hosted	2	3	2	2	1	1	1	1	2	-
Electric:										
Number of customer accounts	6,519	6,499	7,091	6,986	6,937	6,919	6,340	6,444	6,214	6,647
Miles of distribution lines	353	353	353	352	350	350	350	350	350	350
Miles of transmission lines	29	29	29	29	28	28	28	28	28	28
Water:										
Number of customer accounts	3,306	3,289	3,583	3,509	3,466	3,468	3,215	3,189	3,122	3,113
Miles of distribution lines	65	65	65	65	65	65	65	63	63	63
Volume pumped (million gallons per day average)	0.9	1.0	1.0	1.2	1.2	1.2	1.2	1.1	1.1	1.2
Sewer:										
Number of customer accounts	2,679	2,664	2,929	2,856	2,836	2,842	2,568	2,590	2,530	2,559
Waste/Water treated (million gallons per day)	1.0	0.8	1.0	1.0	1.0	1.0	1.0	1.0	1.1	1.0

Source:

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

NA - Information not available at this time

TABLE 15

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

<u>Function/Program</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Public safety:										
Law enforcement vehicles	18	19	18	19	19	19	19	17	16	16
Fire stations	1	1	1	1	1	1	1	1	1	1
Public works:										
Primary streets (lane miles)	24.11	24.11	24.11	24.11	24.11	24.11	24.11	24.11	23.35	23.35
Secondary streets (lane miles)	71.51	71.51	71.51	66.47	66.47	66.47	66.47	66.47	64.45	64.45
Streetlights	974	897	897	875	875	875	875	835	835	808
Parks, recreation and cultural:										
Community centers	1	1	1	1	1	1	1	1	1	1
Parks/athletic fields	12	12	12	12	12	12	12	12	12	12
Electric:										
Substations	10	10	10	11	11	11	11	11	11	11
Transformers	3340	3,340	3,340	3,340	3,340	3,210	3,210	*	*	*
Water and sewage:										
Water treatment plants	1	1	1	1	1	1	1	1	1	1
Water mains (miles)	65	65	65	65	65	65	65	63	63	63
Storm sewers (miles)	5	5	5	5	5	5	5	5	5	5
Sanitary sewers (miles)	47	47	47	47	47	47	47	46	46	46

Source: Information was obtained from prior year audit reports.

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

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COMPLIANCE SECTION



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

To the Honorable Members of City Council
City of Bedford, Virginia
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, 2012, which collectively comprise the City of Bedford, Virginia's basic financial statements and have issued our report thereon dated October 26, 2012. 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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. **However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.**

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 07-1, 12-1, and 12-2 to be material weaknesses.**

Internal Control over Financial Reporting (Continued)

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.**

We noted certain other matters that we reported to management of the City, in a separate letter dated October 26, 2012.

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 26, 2012

CITY OF BEDFORD, VIRGINIA

**SUMMARY OF COMPLIANCE MATTERS
June 30, 2012**

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, 2012**

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 increasing limitations on budget funding, 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 capacity to eliminate some of the concerns associated with the segregation of duties area.

12-1: Electric Fund Inventory (Material Weakness)

Condition:

The inventory listing for the electric fund was inaccurate; certain inventory items did not have the correct unit values assigned. The inventory of transformers was understated by approximately \$40,000.

Recommendation:

Steps should be taken to ensure the inventory listing is materially accurate.

Management's Response:

City staff will ensure that this report is complete prior to submitting it to the auditors for the upcoming year. With the addition of the Inventory Technician position for the electric department, we believe we will be able to correct the issues with the inventory before the next audit.

CITY OF BEDFORD, VIRGINIA

**SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2012**

A. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

12-2: Audit Adjustments (Material Weakness)

Condition:

We proposed several adjustments which were deemed, in our judgment, to be evidence of a material weakness in the City's internal control over financial reporting. Such adjustments included the removal of capital assets previously included in construction in progress but duplicated in the current year, additional depreciation, and unrecorded capitalized interest on the Stoney Creek project.

Recommendation:

We recommend reconciliations of all significant assets and liability accounts especially at year end.

Management's Response:

Finance staff will work to ensure that all significant asset and liability accounts will be reconciled at year-end. This finding will be taken into account during the reconciliation of accounts for fiscal year 2013.

B. FINDINGS – COMMONWEALTH OF VIRGINIA

None.