



Comprehensive Annual Financial Report

For the Fiscal Years Ended

June 30, 2008 and 2007



Bedford, Virginia

**BEDFORD COUNTY
PUBLIC SERVICE AUTHORITY**

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2008

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the Fiscal Year Ended
June 30, 2008*

PREPARED BY THE ADMINISTRATIVE DEPARTMENT

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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INTRODUCTORY SECTION

Bedford County Public Service Authority
1723 Falling Creek Road
Bedford, VA 24523-3137
(540) 586-7679 (phone)
(540) 586-5805 (fax)
psa@bcpsa.com



September 26, 2008

Board of Directors
Bedford County Public Service Authority
Bedford, Virginia

The Comprehensive Annual Financial Report (CAFR) for the Bedford County Public Service Authority, ("the Authority"), is hereby submitted for the fiscal year ended June 30, 2008. Management assumes full responsibility for the completeness and reliability of the information contained in this report. To the best of our knowledge and belief, the enclosed financial data is accurate in all material respects and fairly presents the financial position, results of operations, and cash flows of the Authority.

Since its inception, the Authority has had its financial statements audited by a Certified Public Accountant. The annual audit of this Comprehensive Annual Financial Report has been performed by Brown, Edwards & Company, L.L.P. Certified Public Accountants. This audit was conducted 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 Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. The independent auditor's report is presented in the Financial Section on page 1.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Organization and Function

The Authority was chartered in 1970 pursuant to the Virginia Water and Sewer Authorities Act, Chapter 51 Title 15.2 of the Code of Virginia 1950 as amended, by the Board of Supervisors of Bedford County. The Authority is authorized to acquire, finance, contract, operate, and maintain water systems, sewer systems, sewerage disposal and treatment systems, and other facilities or combinations thereof, and to borrow money and to issue its revenue bonds to pay all or any part of the cost of such systems and facilities and related financing costs. The Authority has no taxing power. The revenues of the Authority are primarily derived from water and sewage disposal charges based on metered and unmetered water consumption of the Authority's users of the system.

The Authority's Board of Directors consist of seven members, one for each election district in Bedford County, who are appointed for four (4) year terms by their respective Board of Supervisors representative members. Regular meetings of the Board of Directors are held the third Tuesday of every month, with special meetings scheduled as needed.

The Authority provides water service to the following major service areas within the County: Forest, Smith Mountain Lake, and Stewartsville. At the end of the fiscal year, water connections totaled 7,988. In the Forest area, water is purchased from the City of Lynchburg. The Authority renewed its water purchase contract with the City of Lynchburg at the end of FY 2007. The new contract is effective for 15 years from July 1, 2007 through June 30, 2022. At the end of year thirteen (June 30, 2020), each party will notify the other of its intention to terminate the contract at the end of year 15 or renew the contract in 10 year increments. If one or both parties wishes to terminate the contract they must do so in writing 2 years prior to the 10-year renewal period. In the Smith Mountain Lake area, water is provided from the Highpoint surface water plant and from 6 well systems. The Authority is continuing to construct new water lines in the Smith Mountain Lake area in order to connect to one central water supply eliminating the need to operate numerous individual well systems; this improves its operating efficiencies. In the Stewartsville area, water is purchased from the Western Virginia Water Authority to provide service to customers along the Route 24 corridor. The original contract was signed in 1999 with the City of Roanoke and revised in 2005 after the merger of the utility systems in the City and County of Roanoke into the Western Virginia Water Authority in July 2004. The Authority also operates another well system just west of the Bedford City limits.

Sewage treatment is provided in the Forest area of Bedford County through the Lynchburg Regional Wastewater Plant. The Authority has purchased sufficient capacity in the City's interceptor lines to allow for one million gallons per day of sewage to flow to the regional plant. The Authority also operates two wastewater treatment plants (WWTP) in the Montvale and Moneta areas of Bedford County; the Montvale WWTP has a capacity of 50,000 gallons per day, while the Moneta WWTP has a capacity of 500,000 gallons per day. At fiscal year end, total sewer connections totaled 1,303. The Authority also operates the wastewater systems for the Bedford County Public School System.

The Authority is not required to adopt a legal budget, but as part of its bond covenants the Authority's Board of Directors must adopt an annual budget before the first day of each fiscal year. The budget is prepared by the Finance and Administrative departments and serves as a framework for the Authority's financial planning for the year. The Executive Director has authorization from the Board to move funds within the line item operating budget without further Board action, provided that a report of revenues and expenditures is presented at the monthly Board meeting. The Executive Director can also reprioritize any of the items on the capital budget, provided the total spent does not exceed the approved budget.

Local Economic Condition and Outlook

Bedford County consists of 764 square miles and is located in west-central Virginia just east of the Roanoke metropolitan area. The county is considered to be one of the fastest growing areas in the Commonwealth of Virginia. Bedford is an area of great scenic diversity with the Blue Ridge Mountains to the west, the James River to the northeast, and Smith Mountain Lake to the south.

The most recent population figures for the County are 66,750 (*source: US Census Bureau*). During the past ten years, water connections have increased from 5,362 to 7,988 connections and sewer connections have increased from 624 to 1,303 connections at the end of the current fiscal year (refer to the statistical section for a 10-year review of revenue and connection totals). The 2008 Bedford County Community Profile reports an unemployment rate of 2.9%, compared to Virginia at 3.0% and the Country at 4.6%. The manufacturing industry employs 29% of the Bedford work force, with the service industry, retail trade, local government, and construction being the next largest employers.

Relevant Financial Policies

The Authority's accounting records are maintained on the accrual basis of accounting under which revenues are recognized when earned and expenses are recognized when incurred.

The Authority operates as an independent entity as allowed by the Virginia Water and Sewer Authorities Act. Under this act and the Authority's charter sufficient rates and fees are established so that the Authority can pay its operating expenses, principal and interest payments, and provide a margin of revenue that is sufficient to cover any contingencies that may arise. As part of the annual budget, process rates are examined to insure they are adequate for the Authority's obligations.

Risk Management

The Authority relies on several techniques to minimize potential risk; safety training for employees, proper maintenance of equipment and facilities, continued observation for potential hazards, and prompt response upon discovery of a problem. By doing this, the Authority reduces potential risks that improve customer service and overall organizational performance. Worker's compensation, property, vehicle, equipment, and liability insurance is provided by Virginia Municipal League programs (more information on the Authority's risk management program can be found in Note 10 to the financial statements).

Major Initiatives and Accomplishments

- During FY 2008, 24,916 l.f. of water line and 5,146 l.f. of sewer line were installed.
- Developer Dedications totaled \$2 million and included 21,376 l.f. of waterline and 18,164 l.f. of sewer line.
- The waterline extension in Goode was completed. This project was funded through a grant obtained by the Virginia Department of Environmental Quality (DEQ).
- Other completed projects include the demolition of the EQ Basin in Forest, water and sewer lines for the New London Business and Technology Center, and tank rehabilitation projects at Hillcrest and Mountain View Shores.
- A major revision to the water and sewer master plan report is almost complete. This report shows existing pipes and the location of future projects that the Authority would like to construct.
- The Authority has also continued changing out manual read meters to automated radio read meters. This will allow the Authority to change from a bimonthly to a monthly billing cycle thus improving cash flow.
- Other items were also purchased to improve efficiencies at the Authority. They include: a sewer jet cleaning trailer, an additional tow vehicle, a large format scanner for Engineering, and a check scanner that allows electronic submission of deposits, eliminating trips to the bank for deposits.

For the upcoming fiscal year, the Authority's focus will be on long range financial planning and the development of a strategic plan. The Authority will also continue to change to radio read meters and will hopefully change to a monthly billing cycle by the end of FY 2009. Work is underway on a GIS system that should be functional by the end of FY 2009 and will allow departments to locate the Authority's assets as well as easier access to as-built plans and maintenance records. There are also several automated systems that will be implemented this year, including a work order system and database storage solutions. Several improvements will also be made to the Authority's office facility, including paving the back parking lot, an inventory storage building and adding another shed to house equipment.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Bedford County Public Service Authority for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2007. This was the twelfth consecutive year that the Authority has received 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.

The preparation of this report would not have been possible without the hard work and dedication of the Authority's Finance department. We wish to express our appreciation to all departments who contributed information used to prepare this report. Appreciation is also given to the Board of Directors of the Authority who have encouraged and supported the progressive and responsible conduct of the Authority's financial affairs.

Respectfully submitted,

Brian M. Key, PE
Executive Director

Jill A. Wooldrige
Finance and Benefits Coordinator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Bedford County
Public Service Authority
Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Charles S. Cox

President

Jeffrey R. Emer

Executive Director

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2008

MEMBERS OF THE BOARD

Thomas Segroves – Chairman

Roger Hessenius – Vice Chairman

Gerald Foutz

Carl Wells

Robert Flynn

Roy Dooley

Melvin Templeton

Brian M. Key – Executive Director

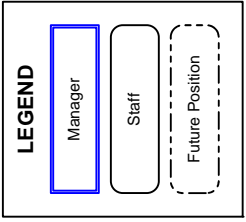
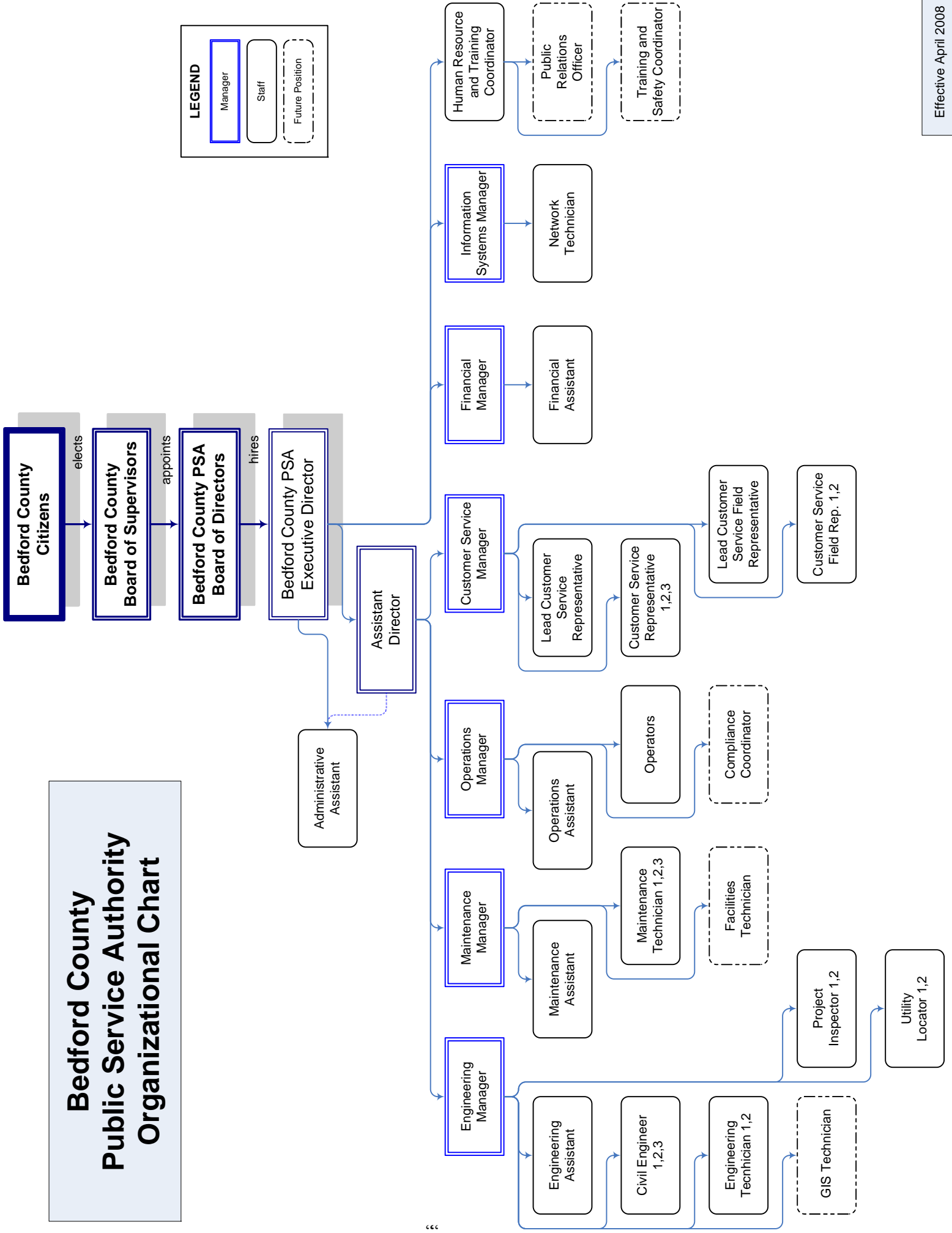
INDEPENDENT AUDITOR

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

ATTORNEYS

Glenn, Feldmann, Darby & Goodlatte

Bedford County Public Service Authority Organizational Chart



FINANCIAL SECTION

**Financial Section contains the
Basic Financial Statements.**

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Bedford County Public Service Authority
Bedford, Virginia

We have audited the accompanying financial statements of the Bedford County Public Service Authority as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Authority's 2007 financial statements and was audited by other auditors. In their report dated October 10, 2007, they expressed an unqualified opinion.

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 Authorities, Boards and Commissions*, 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bedford County Public Service Authority as of June 30, 2008, and the changes in financial position and its cash flows 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 September 26, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 is important for assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 8 and the Analysis of Funding Progress for Defined Benefit Pension Plan are not required parts of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's financial statements. The Introductory, Schedule of Departmental Operating Income, and Statistical sections are presented for the purpose of additional analysis and are not a required part of the financial statements. They have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 26, 2008

Management's Discussion and Analysis

As management of the Bedford County Public Service Authority (the "Authority"), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Bedford County Public Service Authority for the fiscal year ended June 30, 2008. 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 - iv of this report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$38,557,017 (*net assets*). Of this amount, \$(822,158) (*unrestricted net assets*) may be used to meet the Authority's ongoing obligations to customers and creditors.
- The Authority's total net assets increased during the fiscal year by \$2,073,268. The primary cause for this increase relates to capital contributions.

Overview of the Financial Statements

This discussion and analysis is intended as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Enterprise fund financial statements. Since the Authority engages only in business-type activities, the *enterprise fund financial statements* and *notes* are prepared in a manner similar to private-sector businesses.

The ***statement of net assets*** presents information on the Authority's assets and liabilities as of June 30, 2008 and June 30, 2007, 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 Authority is improving or deteriorating.

The ***statement of revenues, expenses, and changes in fund net assets*** presents information showing how the Authority's net assets changed between fiscal years 2008 and 2007. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of cash flows. Thus, some of the revenues and expenses that are reported in this statement will only affect cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The ***statement of cash flows*** supplements the above two statements by presenting the changes in cash position as a result of the Authority's activities over the last two fiscal years.

These statements can be found on pages 10 through 12 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 13 through 25 of this report.

Other (required supplementary) information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 27 of this report.

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 Authority, assets exceeded liabilities by \$38,557,017 at the close of the most recent fiscal year. At the close of the previous fiscal year, assets exceeded liabilities by \$36,483,749.

By far the largest portion of the Authority's net assets (102%) reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Authority uses these capital assets to provide services to customers; consequently, these assets are *not* available for future spending. Although the Authority'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.

Condensed Statement of Net Assets

	2008	2007	2006
Current Assets	\$ 2,696,777	\$ 3,370,353	\$ 4,791,922
Restricted investments	2,681,918	4,350,785	7,566,496
Capital assets, net	65,098,263	62,178,476	53,064,526
Bond issuance costs, net	335,749	364,827	393,905
Total Assets	\$ 70,812,707	\$ 70,264,441	\$ 65,816,849
Current Liabilities	\$ 4,648,233	\$ 4,539,138	\$ 4,834,792
Long-term debt	27,607,457	29,241,554	30,796,185
Total Liabilities	\$ 32,255,690	\$ 33,780,692	\$ 35,630,977
Invested in capital assets, net of related debt	\$ 39,379,175	\$ 36,589,085	\$ 21,623,772
Restricted net assets			8,197,558
Unrestricted	(822,158)	(105,336)	364,542
Total Net Assets	\$ 38,557,017	\$ 36,483,749	\$ 30,185,872

Financial Analysis (Continued)

Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets

	2008	2007	2006
Revenues:			
Operating Revenues:			
Water Sales	\$ 3,335,895	\$ 3,045,864	\$ 2,770,724
Facility Fees	1,310,719	1,666,819	1,527,253
Sewer Service	692,191	618,495	506,637
Wastewater treatment plant operation fees	100,028	106,197	111,850
Other Revenues from customers	335,679	362,298	227,821
Non-operating revenues:			
Investment Income	147,412	367,678	572,397
Total Revenues	\$ 5,921,924	\$ 6,167,351	\$ 5,716,682
Expenses:			
Operating Expenses:			
Water & Sewer Systems	\$ 2,102,713	\$ 1,933,656	\$ 1,849,955
Salaries & Benefits	1,868,171	1,750,203	1,381,456
Management & general	204,748	189,564	163,609
Customer Service & information Systems	177,850	147,645	126,892
Vehicles	106,331	86,051	73,590
Engineering, Operations and Maintenance	25,491	33,350	52,096
Depreciation	2,055,829	1,760,151	1,242,497
Non-operating Expenses:			
Loss on disposal of capital assets	187,444	12,265	133,617
Interest expense- net of capitalized interest	1,212,063	1,024,977	1,024,634
Total Expenses	\$ 7,940,640	\$ 6,937,862	\$ 6,048,346
Loss before capital contributions	(2,018,716)	(770,511)	(331,664)
Capital Contributions	4,091,984	7,068,388	2,252,102
Changes in net assets	2,073,268	6,297,877	1,920,438
Net assets- July 1	36,483,749	30,185,872	28,265,434
Net assets- June 30	\$ 38,557,017	\$ 36,483,749	\$ 30,185,872

Financial Analysis (Continued)

At the end of the current fiscal year, the Authority is able to report positive balances in total net assets. The same situation held true for the prior two fiscal years. At the end of fiscal years 2008 and 2007, the Authority had negative balances in unrestricted net assets. In fiscal year 2006, the Authority had positive balances in all categories of net assets.

During the current fiscal year the Authority's net assets increased by \$2,073,268. Operating revenues decreased by \$25,161, or 0.43% and operating expenses increased by \$640,513 or 10.86%. During the previous fiscal year the Authority's net assets increased by \$6,297,877. Also, in the previous fiscal year operating revenues increased by \$655,388 or 13% and operating expenses increased by \$1,010,525 or 21%.

Key elements of these changes are as follows:

- Facility Fees decreased during the year due to fewer connections related to the housing market and economic conditions.
- Investment income decreased as construction proceeds continued to be drawn down as projects neared completion on the 2005 Virginia Resources Authority (VRA) funded projects.
- Expenses related to water and sewer system operations increased as new facilities were being added and the cost to maintain the systems increased. The Authority's water purchases from the City of Lynchburg were on the rise as more water lines were added in the Forest and New London areas of Bedford County.
- Vehicle expenses continued to increase as new vehicles and equipment were added, and the cost of fuel continued to rise.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2008 amounted to \$65,098,763 (net of accumulated depreciation). This investment in capital assets includes land and land rights, buildings, water and sewer systems, vehicles, equipment, and furniture and fixtures. The total increase in the Authority's investment in capital assets for the current fiscal year was 4.77%. Additional information related to capital assets is located in Note 4 of the *Notes to Financial Statements*.

	Capital Assets		
	2008	2007	2006
Land and land rights	\$ 202,699	\$ 202,699	\$ 69,481
Construction in progress	1,768,957	2,020,229	9,531,719
Water and sewer systems	71,181,853	66,608,139	48,945,256
Vehicles	1,193,347	991,762	693,302
Office Facilities	1,676,973	1,664,395	1,626,045
Information Systems Equipment	989,631	813,867	651,190
Total Book Value	77,013,460	72,301,091	61,516,993
Less- accumulated depreciation	(11,915,197)	(10,122,615)	(8,452,467)
Total- net of accumulated depreciation	\$ 65,098,263	\$ 62,178,476	\$ 53,064,526

Capital Asset and Debt Administration (Continued)

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

- Developer dedications of water and sewer lines throughout Bedford County totaled \$2,038,414. Other funds received from developers for capital related project activity totaled \$25,250.
- Vehicle and Equipment additions totaled \$228,129 for the year. This included 5 new and replacement vehicles, 2 all terrain vehicles to access lines that are not accessible by tractor, and a trailer mounted sewer jet cleaner.
- A total of \$175,764 was spent on Information Technology. This included new and replacement computers, a large format scanner, a check scanner, new servers for database management and software.
- The Highpoint Water Treatment Plant membrane equipment was upgraded to handle additional production at a cost of \$123,000.
- The following projects were placed into service during the fiscal year:

Goode Waterline Project	\$ 1,598,776
New London Business and Technology Center (Water and Sewer)	\$ 549,403
Mountain View Shores Tank Rehabilitation	\$ 94,195
Hillcrest Tank Rehabilitation	\$ 48,094

Long-term debt. At the end of the fiscal year, the Authority had \$28,002,112 in bonds and notes outstanding versus \$29,531,713 last year, a decrease of 5.17% as shown below. The key factor in this decrease was the principal payments on the outstanding obligations.

The Authority's Virginia Resource Authority Bonds are rated "AAA" from Standard and Poor's. Other obligations include accrued vacation and sick pay. More detailed information on the Authority's long-term liabilities is presented in the *notes to the basic financial statements*.

	Long-term Debt		
	2008	2007	2006
Lynchburg Sewer System Bonds	\$ 1,670,032	\$ 1,825,756	\$ 1,987,956
2002A Pooled Loan Bonds	11,180,000	11,690,000	12,185,000
2002B Pooled Loan Bonds	2,680,000	3,005,000	3,325,000
2004 Building Fund Bonds	367,080	450,957	531,896
2005 Revenue Bonds	12,105,000	12,560,000	13,000,000
Unamortized costs on bonds	352,794	381,848	410,902
	\$ 28,354,906	\$ 29,913,561	\$ 31,440,754

Requests for information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Bedford County Public Service Authority, Finance Department, 1723 Falling Creek Road, Bedford, VA 24523.

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BASIC FINANCIAL STATEMENTS

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2008

	2008	(For Comparative Purposes Only) 2007
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,592,728	\$ 2,288,062
Accounts receivable (Note 3)	915,171	904,270
Inventory	124,752	174,382
Prepays	64,126	3,639
Total current assets	<u>2,696,777</u>	<u>3,370,353</u>
Noncurrent assets		
Restricted investments (Note 2)	2,681,918	4,350,785
Bond issuance costs, net of amortization	335,749	364,827
Capital assets: (Note 4)		
Nondepreciable	1,971,656	2,222,928
Depreciable, net	<u>63,126,607</u>	<u>59,955,548</u>
Total noncurrent assets	<u>68,115,930</u>	<u>66,894,088</u>
Total assets	<u>\$ 70,812,707</u>	<u>\$ 70,264,441</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 661,650	\$ 319,031
Accrued liabilities	126,373	25,362
Deferred revenue	1,866,140	2,279,190
Interest payable	304,422	317,887
Compensated absences (Note 6)	70,972	61,389
Current maturities of long-term debt (Note 6)	<u>1,618,676</u>	<u>1,536,279</u>
Total current liabilities	<u>4,648,233</u>	<u>4,539,138</u>
Long-term liabilities		
Customer security deposits	476,854	462,636
Compensated absences (Note 6)	12,524	10,194
Due to other governmental units (Note 5)	381,849	391,442
Long-term debt – due in more than one year (Note 6)	<u>26,736,230</u>	<u>28,377,282</u>
Total long-term liabilities	<u>27,607,457</u>	<u>29,241,554</u>
Total liabilities	<u>32,255,690</u>	<u>33,780,692</u>
NET ASSETS (DEFICIT)		
Invested in capital assets, net of related debt	39,379,175	36,589,085
Unrestricted	<u>(822,158)</u>	<u>(105,336)</u>
Total net assets	<u>38,557,017</u>	<u>36,483,749</u>
Total liabilities and net assets	<u>\$ 70,812,707</u>	<u>\$ 70,264,441</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2008

	2008	(For Comparative Purposes Only) 2007
	<u>2008</u>	<u>2007</u>
OPERATING REVENUES		
Water sales	\$ 3,335,895	\$ 3,045,864
Facility fees	1,310,719	1,666,819
Sewer service	692,191	618,495
Wastewater treatment plant operation fees	100,028	106,197
Review fees	101,460	148,943
Meter base installation fees	52,479	60,800
Account changes	28,860	38,150
Other	111,046	76,329
Penalties	41,834	38,076
	<u>5,774,512</u>	<u>5,799,673</u>
Total operating revenues		
OPERATING EXPENSES		
Water and sewer systems	2,102,713	1,933,656
Depreciation and amortization	2,055,829	1,760,151
Salaries and employee benefits	1,868,171	1,750,203
Customer service and information systems	177,850	147,645
Management and general	204,748	189,564
Vehicles	106,331	86,051
Engineering, operations, and maintenance	25,491	33,350
	<u>6,541,133</u>	<u>5,900,620</u>
Total operating expenses		
Operating loss	<u>(766,621)</u>	<u>(100,947)</u>
NONOPERATING REVENUES (EXPENSES)		
Loss on disposal of capital assets	(187,444)	(12,265)
Investment income	147,412	367,678
Interest expense	(1,212,063)	(1,024,977)
	<u>(1,252,095)</u>	<u>(669,564)</u>
Total nonoperating expenses		
Loss before capital contributions	(2,018,716)	(770,511)
CAPITAL CONTRIBUTIONS (Note 7)	<u>4,091,984</u>	<u>7,068,388</u>
Change in net assets	2,073,268	6,297,877
Net assets – beginning at July 1	<u>36,483,749</u>	<u>30,185,872</u>
Net assets – ending at June 30	<u>\$ 38,557,017</u>	<u>\$ 36,483,749</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2008

	2008	(For Comparative Purposes Only) 2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 5,364,779	\$ 6,341,024
Cash paid for goods and services	(2,285,371)	(3,607,530)
Cash paid to employees	(1,755,247)	(1,733,196)
Net cash provided by operating activities	<u>1,324,161</u>	<u>1,000,298</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,066,824)	(3,684,736)
Principal paid on long-term borrowings	(1,545,872)	(1,513,873)
Interest paid on long-term borrowings	(1,225,528)	(1,045,038)
Proceeds from sale of capital assets	2,450	-
Net cash used in capital and related financing activities	<u>(3,835,774)</u>	<u>(6,243,647)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	147,412	367,678
Net change in investments	1,668,867	3,215,711
Net cash provided by investing activities	<u>1,816,279</u>	<u>3,583,389</u>
Net decrease in cash and cash equivalents	(695,334)	(1,659,960)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	2,288,062	3,948,022
Ending at June 30	<u>\$ 1,592,728</u>	<u>\$ 2,288,062</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (766,621)	\$ (100,947)
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,055,829	1,760,151
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(10,901)	(179,247)
Inventory	49,630	(55,505)
Prepays	(60,487)	(3,639)
Increase (decrease) in:		
Accounts payable and accrued liabilities	443,630	(1,153,067)
Deferred revenue	(413,050)	704,356
Customer security deposits	14,218	16,242
Compensated absences	11,913	11,954
Net cash provided by operating activities	<u>\$ 1,324,161</u>	<u>\$ 1,000,298</u>
SCHEDULE OF NONCASH ACTIVITIES		
Contributions of capital assets	<u>\$ 4,091,981</u>	<u>\$ 7,068,388</u>
Contributions of capital assets related to new debt issuance	<u>\$ 6,678</u>	<u>\$ -</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

Reporting entity:

The Bedford County Public Service Authority (the "Authority") was chartered June 8, 1970 under the Water and Sewer Authorities Act of 1950 of the Commonwealth of Virginia. The Authority primarily serves water and sewer needs of the Smith Mountain Lake, Forest, Montvale, Stewartsville, New London, and Boonsboro areas of Bedford County, Virginia. The Authority operates on a Board-administrator form of government. The Board consists of a Chairman and six other Board members, who are appointed by the Bedford County Board of Supervisors. The Authority is not a component unit of the County of Bedford, since it is neither fiscally dependent on nor governed by the County.

Measurement focus and basis of accounting:

The Authority's financial statements are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the Authority's financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Authority also has the *option* of following subsequent private-sector guidance, subject to this same limitation. The Authority has elected not to follow subsequent private-sector guidance.

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of facility fees intended to recover the cost of connecting new customers to the system. Operating expenses 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.

Cash and cash equivalents:

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities three months or less from the date of acquisition.

Accounts receivable:

Accounts receivable are stated without an allowance for doubtful accounts. The Authority requires customers to maintain a deposit and considers any uncollectible amounts to be immaterial. Uncollectible accounts of approximately \$16,000 were charged off during the year.

Unbilled accounts receivable:

Unbilled accounts receivable consist of amounts earned as of year end, but not yet billed because billing dates do not coincide with year end.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

Inventory:

Inventory consists of grinder pumps, parts, meters, and supplies on hand at year-end, reported at the lower of cost (first-in, first-out) or market. Inventory is generally used for construction and for operation and maintenance work and is not held for resale. Costs of inventory are charged to construction or operations when used at moving average cost.

Investments:

Investments have been reported at fair value in the statement of net assets. Changes in the fair value of investments are recorded as nonoperating income in the statement of revenues, expenses and changes in fund net assets. Fair value is estimated based on quoted market prices at year end.

Bond issuance costs:

Bond issuance costs are being amortized over the life of the related debt on the straight-line method.

Capital assets:

Capital assets are stated at cost, except for donated assets, which are recorded at fair market value at the date of acquisition. The threshold for recording capital assets has been set at \$1,000. Depreciation of property and equipment is computed using the straight-line method over useful lives as follows:

Transmission/distribution lines	50-66 years
Sewer system	50-66 years
Reservoirs, standpipes and source of supply structures	50-66 years
Leasehold improvements	20 years
Motor vehicles	5-7 years
Office furniture, fixtures and equipment	5-7 years
Maintenance and engineering equipment	5-10 years

Capitalization of interest:

Interest expense applicable to indebtedness used to construct new facilities is capitalized during the period of construction as part of the cost of such facilities. Other interest costs of the Authority are treated as nonoperating expenses. The interest capitalized for the year ended June 30, 2008 was \$49,365.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

Compensated absences:

The vacation policy of the Authority provides for up to 120 hours per year of earned vacation leave, depending on years of service. Employees may carry over a maximum of 150 hours vacation leave to the succeeding year, dependent upon years of employment. The Authority's sick leave policy provides for a maximum of 96 hours per year. Employees may carry over a maximum of 2,880 hours to the succeeding year. Accumulated vacation (the full amount earned) and sick leave (eight hours for each full year of service after five years of employment) is payable upon termination of employment. At June 30, 2008, the accrued liability for compensated absences amounted to \$83,496.

Deferred revenue:

Deferred revenue consists of monies or tangible assets given to the Authority under prescribed conditions by developers in exchange for credit vouchers to be used to pay availability fees (both water and sewer) in order to connect to the Authority's system. The Authority recognizes the revenue when the credit voucher is redeemed.

Net assets:

Net assets are the difference between assets and liabilities. Net assets invested in capital assets, net of related debt represent capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction, or improvement of those assets.

Comparative information:

The basic financial statements include certain prior year summarized comparative information in total, but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the prior year from which the summarized information was derived.

Estimates:

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ from those estimates.

Reclassifications:

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 2. Cash and Investments

Deposits:

At year-end, the Authority's deposits with banks were \$877,789. Of the bank balances, \$100,000 was covered by federal depository insurance and \$777,789 was collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), section 2.2-440 *et. seq.* of the *Code of Virginia*. Under the provisions of the Act, banks holding public deposits in excess of the amounts insured by federal depository insurance must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings institutions are required to collateralize 100% of deposits in excess of federal depository insurance limits. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments and authorities of compliance by banks and savings institutions.

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Investor Services; banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool ("LGIP").

The Authority has invested bond proceeds subject to rebate of arbitrage earnings in the Virginia State Non-Arbitrage Program ("SNAP"). SNAP is designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. These programs provide comprehensive investment management, accounting, and arbitrage rebate calculation services for proceeds of general obligation and revenue tax-exempt financing of Virginia local governments.

Investments (including the portions considered cash equivalents) consisted of the following at June 30, 2008:

Investment Type	Fair Value	Maturity
Money Market Account	\$ 877,789	None
LGIP	714,773	6 months
SNAP	2,681,918	3 months
	\$ 4,274,480	

The items above are reflected in the statements as follows:

Deposits and investments:	
Cash on hand	\$ 166
Deposits	877,789
Investments	3,396,691
	\$ 4,274,646

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 2. Cash and Investments (Continued):

Investments: (Continued)

The items above are reflected in the statements as follows: (Continued)

Statement of net assets:	
Cash and cash equivalents	\$ 1,592,728
Restricted investments	2,681,918
	\$ 4,274,646

Interest rate risk:

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's investment policy specifies that no investment may have a maturity greater than one year from the date of purchase.

Credit risk:

The Authority has no policy regarding credit risk. The investments in LGIP and SNAP funds are rated AAAM by Standard and Poor's.

Investment restrictions:

Reserve Fund. In connection with issuance of the 1993 Virginia Resource Authority (VRA) bonds, the Authority and the VRA agreed to establish and maintain the Bedford County Public Service Authority Reserve Fund, pledged as additional collateral for the local bonds. The Authority and County of Bedford each made an initial deposit of \$182,009, equal to the reserve requirement. Interest earned on the reserve requirement is paid to the County of Bedford on a monthly basis. Upon retirement of the bonds, the Reserve Fund will be refunded to the Authority. The carrying value of the Reserve Fund was \$364,018 at June 30, 2008.

Construction Fund. The Construction Fund consists of unexpended VRA bond proceeds to be used for construction. The Construction Fund amounted to \$2,317,900 at June 30, 2008.

Debt Coverage Reserve Fund. The Authority established a Debt Coverage Reserve Fund with the LGIP to ensure its debt coverage requirements would be met. Establishing this account gave the Authority more time to implement new billing rates. The Debt Coverage Reserve Fund amounted to \$399,961 at June 30, 2008. This is included in cash and cash equivalents.

Note 3. Accounts Receivable

Accounts receivable consist of the following:

	Billed	Unbilled	Total
Water	\$ 314,783	\$ 353,664	\$ 668,447
Sewer	156,810	48,793	205,603
Other	41,121	-	41,121
	\$ 512,714	\$ 402,457	\$ 915,171

(Continued)

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning Balance, as restated*</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated				
Land and land rights	\$ 202,699	\$ -	\$ -	\$ 202,699
Construction in progress	<u>2,020,229</u>	<u>2,537,293</u>	<u>(2,788,565)</u>	<u>1,768,957</u>
Total capital assets, not being depreciated	<u>2,222,928</u>	<u>2,537,293</u>	<u>(2,788,565)</u>	<u>1,971,656</u>
Capital assets, being depreciated				
System, lines and source of supply structures	66,608,139	4,867,552	(293,838)	71,181,853
Leasehold improvements (PSA offices)	793,776	-	-	793,776
Vehicles and equipment	991,762	228,129	(26,544)	1,193,347
Office facilities	870,619	12,578	-	883,197
Information systems equipment	<u>813,867</u>	<u>175,764</u>	<u>-</u>	<u>989,631</u>
Total capital assets, being depreciated	<u>70,078,163</u>	<u>5,284,023</u>	<u>(320,382)</u>	<u>75,041,804</u>
Less accumulated depreciation for:				
System, lines and source of supply structures	(8,590,344)	(1,727,319)	239,285	(10,078,378)
Leasehold improvements (PSA offices)	(272,287)	(39,363)	-	(311,650)
Vehicles and equipment	(527,731)	(130,941)	23,939	(634,733)
Office facilities	(161,572)	(56,743)	-	(218,315)
Information systems equipment	<u>(570,681)</u>	<u>(101,440)</u>	<u>-</u>	<u>(672,121)</u>
Total accumulated depreciation	<u>(10,122,615)</u>	<u>(2,055,806)</u>	<u>263,224</u>	<u>(11,915,197)</u>
Total capital assets being depreciated, net	<u>59,955,548</u>	<u>3,228,217</u>	<u>(57,158)</u>	<u>63,126,607</u>
Total capital assets, net	<u>\$ 62,178,476</u>	<u>\$ 5,765,510</u>	<u>\$ (2,845,723)</u>	<u>\$ 65,098,763</u>

*See Note 13.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 4. Capital Assets (Continued)

The leasehold improvement represents the Authority's administrative building, which is located on land leased from the County of Bedford. The lease began on March 30, 1999 and is for an initial term of 40 years, with renewal options for four additional ten-year periods. The land reverts to the County at the end of the lease.

Construction commitments:

The Authority's active construction projects as of June 30 are as follows:

<u>Project</u>	<u>Spent to Date</u>	<u>Remaining Balance</u>
Smith Mountain Lake Withdrawal Permit	\$ 46,188	\$ 2,000
Gross Point Waterline	1,643,867	463,155
Meter Change-out Program	65,483	150,000
Homestead Drive Sewer Line	4,350	118,440
Fleming Mountain NLE	3,000	41,000
Waywood Hills Waterline Extension	6,069	228,000
	<u>\$ 1,768,957</u>	<u>\$ 1,002,595</u>

Note 5. Due to Other Governmental Units

Due to other governmental units consists of unsecured advances from the County of Bedford with no stated maturity date or interest rate, as follows:

Operating advances:

June 30, 1988	\$ 319,849
June 30, 1989	<u>62,000</u>
	<u>\$ 381,849</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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

Note 6. Long-Term Liabilities

The following is a summary of the Authority's long-term debt transactions for the year:

	<u>Beginning July 1</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending June 30</u>	<u>Due Within One Year</u>
Lynchburg Sewer System					
Bonds	\$ 1,825,756	\$ 6,678	\$ 162,402	\$ 1,670,032	\$ 162,610
2002A Pooled Loan Bonds	11,690,000	-	510,000	11,180,000	530,000
2002B Pooled Loan Bonds	3,005,000	-	325,000	2,680,000	340,000
2004 Building Fund Bonds	450,957	-	83,877	367,080	86,922
2005 Revenue Bonds	<u>12,560,000</u>	<u>-</u>	<u>455,000</u>	<u>12,105,000</u>	<u>470,000</u>
	29,531,713	6,678	1,536,279	28,002,112	1,589,532
Add:					
Unamortized premium on:					
2002A Pooled Loan Bonds	41,185	-	2,601	38,584	2,601
2002B Pooled Loan Bonds	106,370	-	13,436	92,934	13,436
2005 Revenue Bonds	<u>234,293</u>	<u>-</u>	<u>13,017</u>	<u>221,276</u>	<u>13,107</u>
	<u>\$ 29,913,561</u>	<u>\$ 6,678</u>	<u>\$ 1,565,333</u>	<u>\$ 28,354,906</u>	<u>\$ 1,618,676</u>

The Lynchburg Sewer System Bonds were issued on various dates from 1993 to 2002 in the total amount of \$3,236,174. An additional \$6,678 was issued in 2008 due to new wastewater treatment capital projects. The bonds are due in annual installments ranging from \$2,600 to \$36,000, with interest rates from 1.75% to 5.0% per annum, paid annually, through June 15, 2038.

The 2002A Pooled Loan Bonds were issued on June 1, 2002 in the amount of \$13,580,000. The bonds are due in annual installments ranging from \$450,000 to \$1,020,000, with interest rates from 3.1% to 5.1% per annum, paid semi-annually, through April 1, 2023.

The 2002B Pooled Loan Bonds were issued on October 15, 2002 in the amount of \$4,135,000. The bonds are due in annual installments ranging from \$195,000 to \$435,000, with interest rates from 3.0% to 5.5% per annum, paid semi-annually, through November 15, 2019.

The 2004 Building Fund Bonds were issued on July 23, 2004 in the amount of \$610,000. The bonds are due in annual installments of \$100,247, with interest at 3.63% per annum, paid annually, through July 23, 2011.

The 2005 Revenue Bonds were issued on May 17, 2005 in the amount of \$13,000,000. The bonds are due in annual installments ranging from \$440,000 to \$935,000, with interest rates from 3.28% to 4.32% per annum, paid semi-annually, through October 1, 2025.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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

Note 6. Long-Term Liabilities (Continued)

The annual requirements to amortize bond principal and related interest are as follows:

Fiscal Year	Pooled Loan Bonds		Lynchburg Sewer System Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 870,000	\$ 667,505	\$ 162,610	\$ 33,030
2010	900,000	625,900	162,944	30,295
2011	945,000	585,395	163,172	27,550
2012	980,000	544,165	163,409	24,796
2013	1,030,000	500,465	163,653	22,035
2014-2018	4,500,000	1,776,700	694,706	68,948
2019-2023	4,635,000	732,105	155,067	9,827
2024-2028	-	-	1,170	896
2029-2033	-	-	1,465	594
2034-2038	-	-	1,836	214
	<u>\$ 13,860,000</u>	<u>\$ 5,432,235</u>	<u>\$ 1,670,032</u>	<u>\$ 218,185</u>

Fiscal Year	2004 Building Fund Bonds		2005 Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 86,922	\$ 13,325	\$ 470,000	\$ 499,665	\$ 1,589,532	\$ 1,213,525
2010	90,077	10,170	485,000	483,013	1,638,021	1,149,378
2011	93,346	6,900	500,000	465,408	1,701,518	1,085,253
2012	96,735	3,511	520,000	447,407	1,760,144	1,019,879
2013	-	-	540,000	428,680	1,733,653	951,180
2014-2018	-	-	3,065,000	1,769,929	8,259,706	3,615,577
2019-2023	-	-	3,825,000	993,799	8,615,067	1,735,731
2024-2028	-	-	2,700,000	177,551	2,701,170	178,447
2029-2033	-	-	-	-	1,465	594
2034-2038	-	-	-	-	1,836	214
	<u>\$ 367,080</u>	<u>\$ 33,906</u>	<u>\$ 12,105,000</u>	<u>\$ 5,265,452</u>	<u>\$ 28,002,112</u>	<u>\$ 10,949,778</u>

The following is a summary of changes in compensated absences for the year:

	Beginning July 1	Additions	Reductions	Ending June 30	Due Within One Year
Compensated absences	<u>\$ 71,583</u>	<u>\$ 61,389</u>	<u>\$ 49,476</u>	<u>\$ 83,496</u>	<u>\$ 70,972</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 7. Capital Contributions

Capital contributions by source are summarized as follows:

Developers and customers	\$ 2,084,484
County of Bedford – capital debt assistance	2,000,000
County of Bedford – other capital assistance	<u>7,500</u>
	<u>\$ 4,091,984</u>

Note 8. Defined Benefit Pension Plan

A. Plan Description

The Authority contributes to the Virginia Retirement System (“VRS”), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the “System”). All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after 5 years of service. Employees are eligible for an unreduced retirement benefit at age 65 with 5 years of service or at age 50 with 30 years of service if elected by the employer, payable monthly for life in an amount equal to 1.7% of their average final compensation (“AFC”) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual reported compensation to the VRS. This 5% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The Authority’s contribution rate for the fiscal year ended 2008 was 5% of annual covered payroll.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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

Note 8. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost

For fiscal year 2008, the Authority's annual pension cost of \$150,740 was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2007 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a 7.5% investment rate of return, (b) projected salary increases ranging from 3.75% to 5.60% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2008	\$ 150,740	100 %	\$ -
June 30, 2007	\$ 142,853	100 %	\$ -
June 30, 2006	\$ 100,356	100 %	\$ -

D. Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 90.26% funded. The actuarial accrued liability for benefits was \$1,542,408, and the actuarial value of assets was \$1,392,172, resulting in an unfunded actuarial accrued liability (UAAL) of \$150,236. The covered payroll (annual payroll of active employees covered by the plan) was \$1,209,681, and ratio of the UAAL to the covered payroll was 12.42%.

Note 9. Service Contracts

City of Lynchburg:

Effective July 1, 2007, the Authority renewed its water purchase contract with the City of Lynchburg. The new contract is effective through June 30, 2022. The contract is renewable in 10-year increments, if mutually agreed. Substantially all of water for the Forest service area are purchased under the contract.

Western Virginia Water Authority (WVWA):

The Authority has an agreement through February 2014 to purchase surplus water from the WVWA at a bulk rate, which is determined by a mutually agreed upon formula. The agreement also establishes minimum annual average daily quantities to be purchased. The water purchased serves the Stewartsville area of Bedford County.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 9. Service Contracts (Continued)

Franklin County:

Effective October 18, 2002, the Authority entered into a 12-year agreement with Franklin County, Virginia to provide up to 400,000 gallons per day of water to residents and businesses near Smith Mountain Lake.

Note 10. Risk Management

The Risk Management Programs of the Authority are as follows:

Worker's Compensation:

Worker's Compensation Insurance is provided through the Virginia Mutual Self Insurance Association. During fiscal 2008, total premiums paid were \$18,270. Benefits are those afforded through the State of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based upon payroll, job rates and claims experience.

General Liability and Other:

The Authority provides general liability and other insurance through policies with the Virginia Municipal League Pool. General liability, and business and automobile have a \$1,000,000 limit. Boiler and machinery coverage maintains an additional \$2,000,000 umbrella policy over all forms of liability insurance. The Virginia Municipal League Pool was organized to formulate, develop, and administer on behalf of the member localities, a program of insurance, lower costs for that coverage, and a comprehensive loss control program. Pool members are not subject to a supplemental assessment in the event of deficiencies. The Pool maintains a re-insurance policy, which prevents members' responsibility for the Pool's liabilities if the assets of the Pool were exhausted. The Pool limits membership to small- to medium-sized Virginia localities and currently has approximately 500 members.

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

Note 11. Commitments and Contingencies

Arbitrage:

The Authority has certain debt instruments subject to arbitrage regulations. The Authority is working to ensure that the final spend down test for the 2005 Revenue Bonds is met by funding general government projects currently in progress instead of utility projects that were deferred due to construction issues. During 2008, approximately \$94,000 of rebate liabilities were calculated and have been shown as a liability, however management is of the opinion that ultimately no amounts will be required to be rebated.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 11. Commitments and Contingencies (Continued)

Litigation:

The Authority has been named a defendant in a \$500,000 lawsuit relating to an automobile accident. In counsel's opinion, the Authority has adequate insurance coverage to cover any potential settlement

Note 12. New Accounting Standards

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

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

GASB Statement No. 50, *Pension Disclosures-an amendment of GASB Statements No. 25 and No. 27*, more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB) and, in doing so, is expected to enhance information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by employers that provide pension benefits. **Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect them to be material.** This statement will be effective for the year ending June 30, 2009.

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

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

Note 13. Prior Period Adjustment

A prior period adjustment was made to record \$133,218 in land contributed by a developer in 2006 to be used as additional prepayment credits, restating capital assets and deferred revenue at June 30, 2007.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2008**

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as a Percentage of Payroll
June 30, 2005	\$ 991,429	\$ 1,246,772	\$ 255,343	79.52%	\$ 967,329	26.40%
June 30, 2006	\$ 1,149,420	\$ 1,334,054	\$ 184,634	86.16%	\$ 999,802	18.47%
June 30, 2007	\$ 1,392,172	\$ 1,542,408	\$ 150,236	90.26%	\$ 1,209,681	12.42%

SUPPORTING SCHEDULE

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

SCHEDULE OF DEPARTMENTAL OPERATING INCOME

Year Ended June 30, 2008

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Water sales	\$ 3,335,895	\$ -	\$ 3,335,895
Facility fees	919,969	390,750	1,310,719
Sewer service	-	692,191	692,191
Wastewater treatment plant operation fees	-	100,028	100,028
Review fees	101,460	-	101,460
Meter base installation fees	52,479	-	52,479
Penalties	33,732	8,102	41,834
Account charges	21,946	6,914	28,860
Other	111,046	-	111,046
	<u>4,576,527</u>	<u>1,197,985</u>	<u>5,774,512</u>
OPERATING EXPENSES			
Water and sewer systems	1,627,625	475,088	2,102,713
Salaries and employee benefits	1,420,557	447,614	1,868,171
Depreciation and amortization	1,159,479	896,350	2,055,829
Management and general	155,690	49,058	204,748
Customer service and information services	135,237	42,613	177,850
Vehicles	80,854	25,477	106,331
Engineering operations and maintenance	19,383	6,108	25,491
	<u>4,598,825</u>	<u>1,942,308</u>	<u>6,541,133</u>
Operating income (loss)	<u>\$ (22,298)</u>	<u>\$ (744,323)</u>	<u>\$ (766,621)</u>

STATISTICAL SECTION

This part of the Bedford County Public Service Authority'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 Authority's financial health.

Contents

Financial Trends

Tables 1-4

These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

Revenue Capacity

Tables 5-14

These schedules contain information to help the reader access the Authority's most significant revenue source, water and sewer charges.

Debt Capacity

Table 15

These schedules present information to help the reader access the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.

Demographic and Economic Information

Table 16-18

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Authority's financial activities take place.

Operating Information

Tables 19-20

These schedules contain information about the Authority's operations and resources to help the reader understand how the Authority's financial information relates to the services the Authority provides.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The Authority implemented GASB Statement 34 in fiscal year 2001; schedules presenting information relating to GASB Statement 34 include information beginning in that year.

Table 1

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NET ASSETS BY COMPONENT
LAST EIGHT FISCAL YEARS**

	Fiscal Year							
	2008	2007	2006	2005	2004	2003	2002	2001
Primary Government								
Invested in capital assets, net of related debt	\$ 39,379,175	\$ 36,589,085	\$ 21,623,772	\$ 9,641,489	\$ 24,225,423	\$ 21,956,242	\$ 21,019,775	\$ 17,707,920
Restricted	-	-	8,197,558	17,912,328	-	-	-	-
Unrestricted	(822,158)	(105,336)	364,542	711,617	1,555,524	1,677,170	1,005,813	1,573,326
Total primary government net assets	\$ 38,557,017	\$ 36,483,749	\$ 30,185,872	\$ 28,265,434	\$ 25,780,947	\$ 23,633,412	\$ 22,025,588	\$ 19,281,246

Table 2

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**CHANGES IN NET ASSETS
LAST EIGHT FISCAL YEARS**

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Total Nonoperating Revenues/ (Expenses)	Income/(Loss) before Capital Contributions	Capital Contributions	Changes in Net Assets
2008	\$ 5,774,512	\$ 6,541,133	\$ (766,621)	\$ (1,252,095)	\$ (2,018,716)	\$ 4,091,984	\$ 2,073,268
2007	\$ 5,799,673	\$ 5,900,620	\$ (100,947)	\$ (669,564)	\$ (770,511)	\$ 7,068,388	\$ 6,297,877
2006	\$ 5,144,285	\$ 4,890,095	\$ 254,190	\$ (585,854)	\$ (331,664)	\$ 2,252,102	\$ 1,920,438
2005	\$ 4,210,668	\$ 4,304,456	\$ (93,788)	\$ (676,809)	\$ (770,597)	\$ 3,255,084	\$ 2,484,487
2004	\$ 3,911,378	\$ 3,850,061	\$ 61,317	\$ (786,741)	\$ (725,424)	\$ 2,872,959	\$ 2,147,535
2003	\$ 3,847,557	\$ 3,473,082	\$ 374,475	\$ (625,042)	\$ (250,567)	\$ 1,858,391	\$ 1,607,824
2002	\$ 3,566,850	\$ 3,230,715	\$ 336,135	\$ (254,702)	\$ 81,433	\$ 2,662,909	\$ 2,744,342
2001	\$ 3,029,097	\$ 2,652,930	\$ 376,167	\$ (194,188)	\$ 181,979	\$ 1,376,119	\$ 1,558,098

Table 3

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**OPERATING EXPENSES
LAST TEN FISCAL YEARS**

Employment Costs							
Fiscal Year	Water	Sewer	Water and Sewer Systems	General Office and Departmental Expenses	Subtotal, Expenses before Depreciation and Amortization	Depreciation and Amortization	Total
2008	\$ 1,420,557	\$ 447,614	\$ 2,102,713	\$ 514,420	\$ 4,485,304	\$ 2,055,829	\$ 6,541,133
2007	\$ 1,362,533	\$ 387,670	\$ 1,933,656	\$ 456,610	\$ 4,140,469	\$ 1,760,151	\$ 5,900,620
2006	\$ 1,206,837	\$ 174,619	\$ 1,849,955	\$ 416,187	\$ 3,647,598	\$ 1,242,496	\$ 4,890,094
2005	\$ 1,197,526	\$ 168,110	\$ 1,459,387	\$ 393,892	\$ 3,218,915	\$ 1,085,541	\$ 4,304,456
2004	\$ 1,036,593	\$ 132,836	\$ 1,173,461	\$ 594,746	\$ 2,937,636	\$ 924,119	\$ 3,861,755
2003	\$ 951,974	\$ 87,078	\$ 1,024,708	\$ 565,645	\$ 2,629,405	\$ 843,677	\$ 3,473,082
2002	\$ 818,475	\$ 59,555	\$ 1,081,577	\$ 498,991	\$ 2,458,598	\$ 772,117	\$ 3,230,715
2001	\$ 686,589	\$ 92,299	\$ 801,328	\$ 386,173	\$ 1,966,389	\$ 686,541	\$ 2,652,930
2000	\$ 542,285	\$ 71,993	\$ 791,634	\$ 389,941	\$ 1,795,853	\$ 570,373	\$ 2,366,226
1999	\$ 427,166	\$ 36,013	\$ 806,294	\$ 260,027	\$ 1,529,500	\$ 463,638	\$ 1,993,138

Table 4

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
NONOPERATING REVENUES AND EXPENSES
LAST TEN FISCAL YEARS

Fiscal Year	Interest Expense ^a	Investment Income	Gain (Loss) on Disposal of Capital Assets	Total Nonoperating Expenses
2008	\$ (1,212,063)	\$ 147,412	\$ (187,444)	\$ (1,252,095)
2007	\$ (1,024,977)	\$ 367,678	\$ (12,265)	\$ (669,564)
2006	\$ (1,024,634)	\$ 572,397	\$ (133,617)	\$ (585,854)
2005	\$ (836,747)	\$ 175,150	\$ (15,212)	\$ (676,809)
2004	\$ (632,809)	\$ 103,157	\$ (257,089)	\$ (786,741)
2003	\$ (857,582)	\$ 232,540	\$ -	\$ (625,042)
2002	\$ (310,799)	\$ 56,097	\$ -	\$ (254,702)
2001	\$ (311,712)	\$ 117,524	\$ -	\$ (194,188)
2000	\$ (240,069)	\$ 132,593	\$ 2,100	\$ (105,376)
1999	\$ (250,606)	\$ 132,242	\$ (4,170)	\$ (122,534)

^a Net of capitalized amounts

Table 5

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Water Revenue</u>	<u>Sewer Revenue</u>	<u>Water Facility Fees from Availability Revenue</u>	<u>Sewer Facility Fees from Availability Revenue</u>	<u>Penalties and Fees ^a</u>	<u>Miscellaneous ^b</u>	<u>Total</u>
2008	\$ 3,335,895	\$ 792,219	\$ 919,969	\$ 390,750	\$ 224,633	\$ 111,046	\$ 5,774,512
2007	\$ 3,045,864	\$ 724,692	\$ 1,015,519	\$ 651,300	\$ 285,969	\$ 76,329	\$ 5,799,673
2006	\$ 2,770,724	\$ 618,487	\$ 1,068,878	\$ 458,375	\$ 203,212	\$ 24,609	\$ 5,144,285
2005	\$ 2,466,691	\$ 541,954	\$ 849,932	\$ 183,625	\$ 163,105	\$ 5,361	\$ 4,210,668
2004	\$ 2,196,634	\$ 574,608	\$ 772,317	\$ 211,742	\$ 154,747	\$ 1,330	\$ 3,911,378
2003	\$ 2,279,847	\$ 517,751	\$ 734,439	\$ 130,812	\$ 178,148	\$ 6,560	\$ 3,847,557
2002	\$ 2,104,362	\$ 472,467	\$ 623,589	\$ 217,737	\$ 145,089	\$ 3,606	\$ 3,566,850
2001	\$ 1,922,728	\$ 379,502	\$ 467,869	\$ 147,843	\$ 103,072	\$ 8,083	\$ 3,029,097
2000	\$ 1,875,877	\$ 355,488	\$ 484,763	\$ 141,962	\$ 72,403	\$ -	\$ 2,930,493
1999	\$ 1,732,795	\$ 279,360	\$ 442,032	\$ 157,509	\$ 71,729	\$ -	\$ 2,683,425

^a Penalties and Fees include review fees, account charges and meter installation fees.

^b Miscellaneous includes reconnect fees, cellular antennae rental on water tanks, and other miscellaneous revenue.

Table 6

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST TEN FISCAL YEARS

Fiscal Year	Water				Sewer			
	Gallons Produced (000's)	Gallons Billed (000's)	Other Unbilled Uses	Water Accountability	Gallons Treated (000's)	Gallons Billed (000's)	Other Unbilled Uses	Sewer Accountability
2008	692,156	584,365	53,673	92.18%	139,175	127,911	5,438	95.81%
2007	650,341	535,457	45,267	89.30%	111,432	111,432	-	100.00%
2006	601,620	504,070	22,801	87.58%	104,986	104,986	-	100.00%
2005	549,245	470,502	24,618	90.15%	86,431	98,967	-	114.50%
2004	494,826	421,137	2,491	85.61%	95,374	92,025	-	96.49%
2003	519,276	436,424	-	84.04%	90,247	92,718	-	102.74%
2002	515,739	427,074	-	82.81%	70,071	88,420	-	126.19%
2001	410,391	405,841	-	98.89%	67,683	81,701	-	120.71%
2000	439,809	399,492	-	90.83%	68,835	78,639	-	114.24%
1999	373,862	344,964	-	92.27%	62,977	69,962	-	111.09%

Note: Other unbilled uses include water that is used for flushing and new construction. During FY 2002-03, the Authority purchased and installed metering equipment that more fully allowed it to monitor these uses.

Table 7

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**ANNUAL CONNECTIONS
LAST TEN FISCAL YEARS**

Fiscal Year	Water Connections	Sewer Connections	Total New Connections
2008	250	123	373
2007	357	255	612
2006	415	129	544
2005	306	38	344
2004	324	51	375
2003	287	60	347
2002	320	52	372
2001	239	37	276
2000	368	66	434
1999	213	51	264

Note: Connections are the total connections sold within a fiscal year. Customers may pay connection charges and wait to connect to the system. Connections sold do not necessarily represent new customers that are active and paying monthly rates.

Table 8**BEDFORD COUNTY PUBLIC SERVICE AUTHORITY****NUMBER OF WATER CUSTOMERS BY TYPE
LAST NINE FISCAL YEARS**

Fiscal Year	Residential	Commercial	Industrial	Institutional	Irrigation	Total
2008	7,716	236	14	20	2	7,988
2007	7,316	236	14	20	0	7,586
2006	6,884	248	19	37	41	7,229
2005	6,343	222	17	37	41	6,660
2004	6,163	268	17	32	50	6,530
2003	5,846	265	17	30	44	6,202
2002	5,569	257	18	36	43	5,923
2001	5,265	255	17	29	30	5,596
2000	5,048	244	19	31	20	5,362

Notes:

1. Data is only available for the current fiscal year and eight prior years. Prior to FY 2000, this data was maintained according to meter size.
2. Institutional includes governmental and educational user types.
3. Beginning in FY 2005-2006, the BCPSA began more closely examining our user type classifications.

Table 9**BEDFORD COUNTY PUBLIC SERVICE AUTHORITY****NUMBER OF SEWER CUSTOMERS BY TYPE
LAST NINE FISCAL YEARS**

Fiscal Year	Residential	Commercial	Industrial	Institutional	nm	Total
2008	1,166	120	8	8	1	1,303
2007	1,064	115	6	7	0	1,192
2006	834	84	7	11	1	937
2005	750	67	7	10	1	835
2004	694	108	7	9	2	820
2003	644	107	7	9	2	769
2002	607	85	6	9	2	709
2001	562	80	5	8	2	657
2000	529	77	8	8	2	624

Notes:

1. Data is only available for the current fiscal year and eight prior years. Prior to FY 2000, this data was maintained according to meter size.
2. Institutional includes governmental and educational user types.
3. Beginning in FY 2005-2006, the BCPSA began more closely examining our user type classifications.
4. “nm” denotes no meter and sanitary sewer service only.

Table 10

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**TEN LARGEST WATER CUSTOMERS
CURRENT YEAR**

Customer	2008	
	Revenue	Percentage
Franklin County	\$ 111,853	3.35%
Barr Laboratories	94,675	2.84
Boonsboro Country Club	38,156	1.14
Jefferson Forest High School	37,941	1.14
Hill City Rental (Jefferson Ridge Apartments)	17,997	0.54
Blue Ridge Regional Jail	7,314	0.22
Thomas Jefferson Elementary School	6,757	0.20
The Forest Partners (Food Lion Shopping Center)	6,368	0.19
Mail America	5,360	0.16
CDR LLC/Cedar Rock Mobile Home Park	5,230	0.16
Subtotal (10 largest)	331,651	9.94%
Balance from other customers	3,004,244	90.06%
Grand totals	\$ 3,335,895	100.00%

Table 11

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**TEN LARGEST SEWER CUSTOMERS
CURRENT YEAR**

Customer	2008	
	Revenue	Percentage
Barr Laboratories	\$ 94,372	11.90%
Jefferson Forest High School	19,164	2.42
Hill City Rental (Jefferson Ridge Apartments)	17,895	2.26
Coleman Family LLC	6,560	0.83
Thomas Jefferson Elementary School	6,483	0.82
Blue Ridge Regional Jail	5,843	0.74
The Forest Partners (Food Lion Shopping Center)	5,728	0.72
Mail America	5,038	0.64
M&M Cleaners	4,748	0.60
Runk & Pratt of Forest	4,125	0.52
Subtotal (10 largest)	169,956	21.45
Balance from other customers	622,263	78.55
Grand totals	\$ 792,219	100.00%

Table 12

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**SCHEDULE OF WATER AND SEWER RATES
LAST TEN FISCAL YEARS**

Fiscal Year	Water			Sewer		
	Base Charge ¹	Volume	Rate per 1,000 Gallons	Base Charge ¹	Rate per 1,000 Gallons	Unmetered Sewer Service ²
July 1996 – December 2001	\$ 15.00	0-50,000 gallons Over 50,000	\$ 3.56 \$ 2.50	\$ 15.00	\$ 3.25	n/a
January 2002 – January 2006	\$ 16.00	n/a	\$ 3.75	\$ 16.00	\$ 4.00	\$ 50.00
January 2006 – June 2007	\$ 18.00	n/a	\$ 4.10	\$ 18.00	\$ 4.10	\$ 50.00
July 2007 – present	\$ 18.00	n/a	\$ 4.26	\$ 18.00	\$ 4.26	\$ 50.00

¹ Base charges are billed on a bi-monthly basis.

² Unmetered sewer service is billed per bi-monthly billing cycle for customers that are not connected to the Authority's water supply but do have sewer service.

Table 13

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
SCHEDULE OF WATER AND SEWER FACILITY FEES
JULY 1996 – DECEMBER 2001

	<u>Water</u>	<u>Sewer</u>
Single family residence	\$ 1,750.00	\$ 2,000.00
Multi-family (per unit)	\$ 1,312.50	\$ 1,500.00
Mobile home (per unit)	\$ 1,312.50	\$ 1,500.00
Mobile home park (per space)	\$ 1,312.50	\$ 1,500.00
Motels (per room)	\$ 284.67	\$ 325.33
Restaurants (per seat)	\$ 109.67	\$ 125.33
Shopping center (per sq. foot)	\$ 0.66	\$ 0.75
Office space (per sq. foot)	\$ 0.33	\$ 0.38
Factories (per person per shift)	\$ 109.67	\$ 125.33
Warehouses (per sq. foot)	\$ 0.06	\$ 0.07
Service stations (per vehicle service space)	\$ 22.17	\$ 25.33
Laundromats (per machine)	\$ 1,093.75	\$ 1,250.00
Nursing homes (per bed)	\$ 437.50	\$ 500.00
Elderly care facilities (per bed)	\$ 218.75	\$ 250.00
Hospitals (per bed)	\$ 656.25	\$ 750.00
Doctor's office (per office)	\$ 1,093.75	\$ 1,250.00
High schools (per person)	\$ 35.00	\$ 40.00
Elementary schools (per person)	\$ 22.17	\$ 25.33
Boarding schools (per person)	\$ 163.92	\$ 187.33
Community colleges (per person)	\$ 32.67	\$ 37.33
Auditoriums, churches (per seat)	\$ 11.08	\$ 12.67
Picnic areas, camps (per person)	\$ 11.08	\$ 12.67
Swimming pools (per sq. foot)	\$ 0.82	\$ 0.93

Notes:

Beginning in 2002, availability fees were calculated based on meter size, the fees prior to 2002 are shown in a separate table due to the various components in determining the fees.

The minimum availability fee is \$1,000 for water and \$1,000 for sewer.

At its discretion, the Authority may elect to calculate the availability charge on an Equivalent Residential Connection (ERC) basis. For purposes of this calculation, one ERC equals GPD (gallons per day).

Table 14

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
SCHEDULE OF WATER AND SEWER FACILITY FEES
JANUARY 2002 – PRESENT

Facility Fees (based on meter size)	January 2002 – January 2006 ¹		January 2006 – Present ²	
	Water	Sewer	Water	Sewer
Residential 5/8"	\$ 2,250.00	\$ 2,750.00	\$ 2,250.00	\$ 3,000.00
3/4"	n/a	n/a	\$ 2,250.00	\$ 3,000.00
Per multi-family unit (individual meter)	\$ 1,687.50	\$ 2,062.50	n/a	n/a
Commercial 5/8"	\$ 2,250.00	\$ 2,750.00	n/a	n/a
1 ERC (equivalent residential connection)	\$ 2,250.00	\$ 2,750.00	\$ 2,250.00	\$ 3,000.00
1"	\$ 5,625.00	\$ 6,875.00	\$ 5,625.00	\$ 7,500.00
1-1/2"	\$ 9,844.00	\$ 12,031.00	\$ 9,844.00	\$ 13,125.00
2"	\$ 18,000.00	\$ 22,000.00	\$ 18,000.00	\$ 24,000.00
3"	\$ 36,000.00	\$ 44,000.00	\$ 36,000.00	\$ 48,000.00
4"	\$ 56,250.00	\$ 68,750.00	\$ 56,250.00	\$ 75,000.00
6"	\$ 112,500.00	\$ 137,500.00	\$ 112,500.00	\$ 150,000.00
8"	\$ 180,000.00	\$ 220,000.00	\$ 180,000.00	\$ 240,000.00
10"	n/a	n/a	\$ 295,000.00	\$ 394,000.00
12"	n/a	n/a	\$ 484,000.00	\$ 646,000.00

Notes:

¹ The minimum availability fee is \$2,250 for water and \$2,750 for sewer.

² The minimum availability fee is \$2,250 for water and \$3,000 for sewer.

Table 15

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**SCHEDULE OF DEBT COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year Ended June 30	Debt Coverage Reserve	Operating Revenues	Direct Operating Expenses**	Bedford County Support	Net Available for Debt Service	Principal	Interest	Total	Debt Coverage
2008	\$ 399,961	\$ 5,774,512	\$ 4,485,304	\$ 2,000,000	\$ 3,689,169	\$ 1,536,279	\$ 1,263,855	\$ 2,800,134	132%
2007	\$ 383,468	\$ 5,799,673	\$ 4,140,469	\$ 2,000,000	\$ 4,042,672	\$ 1,498,139	\$ 1,310,029	\$ 2,808,168	144%
2006	\$ 363,798	\$ 5,144,285	\$ 3,647,598	\$ 1,481,064	\$ 3,341,549	\$ 1,030,109	\$ 1,292,606	\$ 2,322,715	144%
2005	\$ 349,107	\$ 4,210,668	\$ 3,218,915	\$ 1,000,000	\$ 2,340,860	\$ 931,819	\$ 836,747	\$ 1,768,566	132%
2004	\$ -	\$ 3,911,378	\$ 2,937,636	\$ 1,000,000	\$ 1,973,742	\$ 806,636	\$ 783,495	\$ 1,590,131	124%
2003	\$ -	\$ 3,847,557	\$ 2,629,405	\$ 500,000	\$ 1,718,152	\$ 418,999	\$ 714,928	\$ 1,133,927	152%
2002	\$ -	\$ 3,566,850	\$ 2,458,598	\$ -	\$ 1,108,252	\$ 465,107	\$ 357,347	\$ 822,454	135%
2001	\$ -	\$ 3,029,097	\$ 1,966,389	\$ -	\$ 1,062,708	\$ 327,862	\$ 324,470	\$ 652,332	163%
2000	\$ -	\$ 2,930,493	\$ 1,795,853	\$ -	\$ 1,134,640	\$ 322,878	\$ 306,330	\$ 629,208	180%
1999	\$ -	\$ 2,683,425	\$ 1,559,500	\$ -	\$ 1,123,925	\$ 290,338	\$ 310,246	\$ 600,584	187%

**Excluding depreciation, interest, and amortization

Table 16

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**TEN LARGEST EMPLOYERS (BEDFORD COUNTY)
CURRENT YEAR AND NINE YEARS AGO**

Employer	2008			1999		
	Employees	Rank	% Total Employment	Employees	Rank	% Total Employment
Bedford County School Board	1,000+	1	7.69%+	1,000+	1	8.58%+
County of Bedford	500-999	2	3.84-7.69%	250-499	4	2.14-4.28%
Barr Laboratories, Inc.	250-499	3	1.92-3.84%	-	-	-
Nekoosa Packaging Corporation (Georgia Pacific)	250-499	4	1.92-3.84%	250-499	3	2.14-4.28%
Wal-Mart	250-499	5	1.92-3.84%	-	-	-
Mail America Communications	250-499	6	1.92-3.84%	250-499	5	2.14-4.28%
Alpha Omega Resources	250-499	7	1.92-3.84%	250-499	2	2.14-4.28%
Inservice America	250-499	8	1.92-3.84%	250-499	6	2.14-4.28%
Food Lion	100-249	9	0.77-1.92%	100-249	7	0.86-2.14%
Sentry Equipment Erectors	100-249	10	0.77-1.92%	100-249	9	0.86-2.14%
Grayson Wireless Electronics	-	-	-	100-249	8	0.86-2.14%
Bunker Hill Foods, Inc.	-	-	-	100-249	10	0.86-2.14%

Source: Virginia Employment Commission, Virginia's Electronic Labor Market Access (VELMA)

Table 17

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY
LAST TEN FISCAL YEARS

	Full-time Equivalent Employees as of June 30,									
	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Administration	4.0	5.0	4.0	3.0	3.0	1.0	1.0	1.0	1.0	1.0
Customer services	6.0	6.0	6.0	6.0	4.0	3.0	3.0	3.0	3.0	3.0
IT	1.0	1.0	1.0	1.0	1.0	1.0	0.5	0.5	0.5	0.5
Finance	2.0	2.0	1.0	1.0	1.0	-	-	-	-	-
Engineering	9.0	8.0	7.0	7.0	5.0	4.0	4.5	4.5	3.5	1.5
Plant operations	8.0	8.0	5.0	5.0	5.0	4.5	4.5	4.5	4.5	3.0
Maintenance	8.0	7.0	6.0	6.0	6.0	6.5	6.5	6.5	5.5	5.0
	38.0	37.0	30.0	29.0	25.0	20.0	20.0	20.0	18.0	14.0

Table 18

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
OTHER DEMOGRAPHIC DATA (BEDFORD COUNTY)
LAST TEN FISCAL YEARS

Year	Population ¹	Personal Income ² (thousands of dollars)	Per Capita Personal Income ²	Unemployment Rate
2008	66,457	\$ 2,237,837	\$ 33,674	3.7%
2007	*	\$ *	\$ *	3.1%
2006	65,033	\$ *	\$ *	3.1%
2005	63,600	\$ 2,304,368	\$ 32,333	3.1%
2004	62,800	\$ 2,196,637	\$ 31,317	3.5%
2003	61,700	\$ 2,054,229	\$ 29,761	3.9%
2002	61,100	\$ 2,018,540	\$ 29,622	4.5%
2001	61,000	\$ 1,972,182	\$ 29,205	3.2%
2000	60,371	\$ 1,868,032	\$ 27,898	1.9%
1999	59,700	\$ 1,757,761	\$ 26,731	1.9%

Sources: ¹Weldon Cooper Center for Public Service, University of Virginia.

²U.S. Census Bureau, includes Bedford City and County.

* Unavailable

Table 19

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**OPERATING INDICATORS
LAST TEN FISCAL YEARS**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Water meters read ¹	47,696	45,231	43,314	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Meter installations and change outs ²	854	597	598	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Payments transacted	<u>51,465</u>	<u>50,042</u>	<u>46,033</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
	<u>100,015</u>	<u>95,870</u>	<u>89,945</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

n/a = not available – Prior to 2006, this data was not tracked.

¹Number of meters read for billing purposes

²Includes a pilot switch-out in 2006

Table 20

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**CAPITAL ASSET STATISTICS
LAST TEN FISCAL YEARS**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Miles of water line	193	184	171	169	n/a	n/a	n/a	n/a	n/a	n/a
Miles of sewer line	54	50	42	33	n/a	n/a	n/a	n/a	n/a	n/a
Water pump stations	2	2	2	2	n/a	n/a	n/a	n/a	n/a	n/a
Sewer pump stations	8	8	4	3	n/a	n/a	n/a	n/a	n/a	n/a
Water storage tanks	11	11	12	12	n/a	n/a	n/a	n/a	n/a	n/a
Wastewater treatment plants	2	2	1	1	n/a	n/a	n/a	n/a	n/a	n/a
Water treatment plants	9	9	10	10	n/a	n/a	n/a	n/a	n/a	n/a

n/a = not available

Prior to 2005, this data was not tracked on a consistent basis.

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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**

Board of Directors
Bedford County Public Service Authority
Bedford, Virginia

We have audited the basic financial statements of the Bedford County Public Service Authority as of and for the year ended June 30, 2008, and have issued our report thereon dated September 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control. **We consider the deficiencies described as 08-1 and 08-2 in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.**

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

Internal Control over Financial Reporting (Continued)

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

Compliance and Other Matters

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

We also noted certain matters that we reported to management of the Authority in a separate letter dated September 26, 2008.

The Authority's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information of management, the board, and state regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 26, 2008

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

SUMMARY OF COMPLIANCE MATTERS

June 30, 2008

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

STATE COMPLIANCE MATTERS

Code of Virginia:

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

LOCAL COMPLIANCE MATTERS

Authority By-Laws

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2008

A. FINDINGS – FINANCIAL STATEMENT AUDIT

08-1: 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 cash receipts, accounts receivable, cash disbursements, and accounts payable.

Recommendation:

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

Management's Response:

Management understands this concern, however, the current staff size limits the separation of duties in regards to these functions.

08-2: Financial Reporting (Material Weakness)

Condition:

We noted a prior period adjustment during the current year related to recording of land contributed by a developer in exchange for prepayment credits. The land and related deferred revenue were not recorded in the proper accounting period.

Recommendation:

We suggest management implement more thorough procedures to identify and record developer contributions in the proper accounting period and to ensure appropriate completeness of all contributions received and the related credits, if applicable.

Management's Response:

Management concurs.