



Comprehensive Annual
Financial Report
For the Fiscal Years Ended
June 30, 2011 and 2010

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

*For the Fiscal Year Ended
June 30, 2011*

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

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psa@bcpsa.com



August 18, 2011

Board of Directors
Bedford County Public Service Authority
Bedford, Virginia

The Comprehensive Annual Financial Report (CAFR) for the Bedford County Public Service Authority, (“Authority”), is hereby submitted for the fiscal year ended June 30, 2011. The Authority’s 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 the following:

- 1) auditing standards generally accepted in the United States of America, and
- 2) 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.

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

Organization and Function

The Authority was chartered in June 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; furthermore, it is able 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 users of the system.

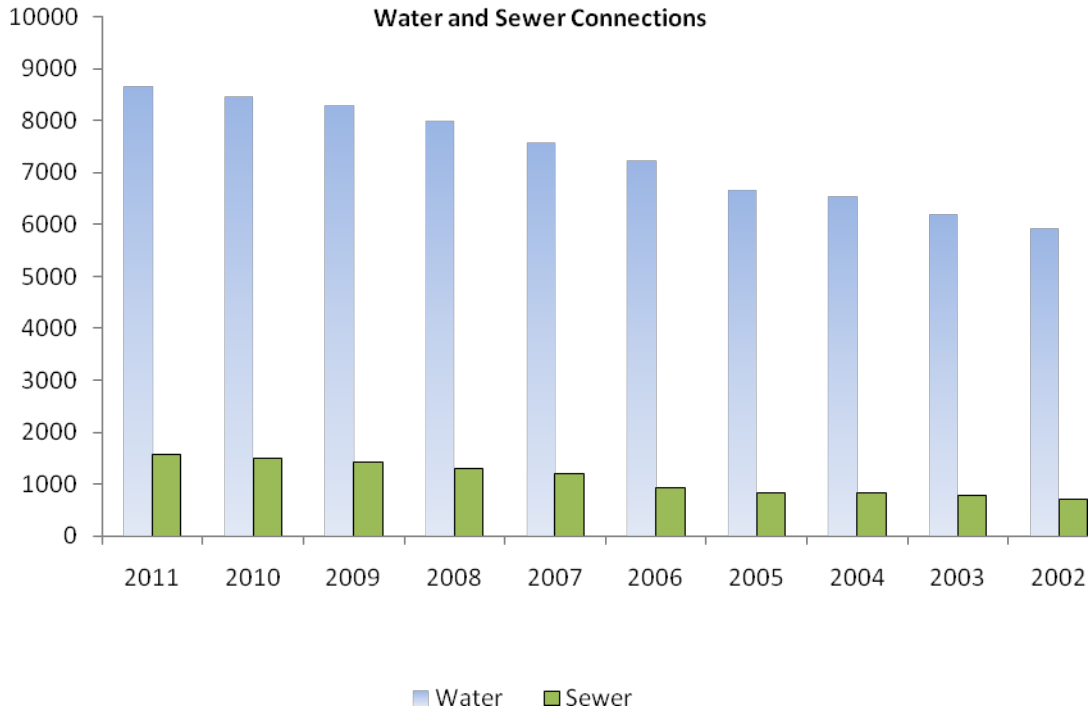
There are seven members of the Bedford County Public Service Authority Board of Directors; each member is appointed by the Bedford County Board of Supervisors, who are elected by the citizens of Bedford County. Each board member represents a voting district of the County; they are appointed to serve a four year term, and they may be reappointed for an unlimited number of additional terms. There are three standing committees comprised of two board members each; they include the Water and Sewer committee, the Finance committee, and the Personnel committee. Regular meetings of the Authority Board of Directors are held the third Tuesday of every month at the Authority's office, with special meetings scheduled as needed.

At the end of the fiscal year, water connections totaled 8,648. Water service is provided as follows:

- Forest/Boonsboro/New London- The water for this area is purchased from the City of Lynchburg; the contract is effective for fifteen 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 fifteen or renew the contract in ten year increments. If one or both parties wishes to terminate the contract they must do so in writing two years prior to the ten year renewal period.
- Smith Mountain Lake- The Authority produces most of the water at the High Point Water Treatment Plant, which uses the lake as the source. In addition, the Authority operates two well systems in subdivisions located near the Smith Mountain Lake dam.
- Stewartsville- The water for Stewartsville is purchased from the Western Virginia Water Authority; the contract was originally executed on February 2, 1999, and was recently renewed on December 1, 2010 with an expiration date of June 30, 2020.
- Central- The Authority operates a well system for the Hillcrest subdivision that is just outside the Bedford City limits.

At the end of the fiscal year, sewer connections totaled 1,557.

- Forest/Boonsboro/New London- Sewage is collected by the Authority and then transmitted to the City of Lynchburg's Regional Wastewater Treatment Plant (WWTP). The Regional Sewage Treatment Plant Agreement was executed on June 6, 1974, and it is in effect in perpetuity. The regional plant is rated at 22 million gallons per day (MGD), and the Authority has purchased 1.0mgd capacity in the WWTP and sufficient capacity in the City's interceptor lines allow for one million gallons per day of sewage to flow to and be treated by the regional plant.
- Moneta- Near Smith Mountain Lake, the Authority owns and operates a WWTP and a collection system, which includes four pump stations and several miles of gravity and force main sewer pipe. The Moneta WWTP has a current capacity of 500,000 gallons per day and can readily be expanded to treat 1,500,000 gallons per day.
- Montvale- The Authority owns and operates a 50,000 gallon per day WWTP, which is located adjacent to the Montvale Elementary School and the Montvale Recreational Park. The collection system in Montvale includes a 20,000 gallon per day pump station.



The Authority is not legally required to adopt a budget; however, 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 has a land area of 764 square miles consisting primarily of rolling hills and mountainous terrain; it is located in west-central Virginia, just east of the Roanoke metropolitan area and just west of the Lynchburg 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 north-east and Smith Mountain Lake to the south.

The most recent population figure for the County, as of 2010, is 68,676 (source: *Virginia Workforce Connection*). During the past ten years water connections have increased from 5,923 to 8,648 connections and sewer connections have increased from 709 to 1,557 connections; these figures are based on the end of the fiscal year, and a ten year review of revenue and connection totals can be found in the statistical section. The 2010 Bedford County Community Profile reports an unemployment rate, as of May 2011, of 5.7%; compared to the same time period where Virginia was at 5.9% and the Country was at 8.7%.

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.

The Authority has adopted the following financial policies: Credit Card Use, Purchasing, Employee Awards, Capital Assets, Investments, Debt Management, and Disposal of Surplus Property.

The Authority has a small finance staff, consisting of only one full time employee. There is another employee that serves as a backup to the department. Due to the small staff, there is a concern relating to segregation of duties. As part of the Authority's internal controls, the Executive Director signs off on payroll reports and bank reconciliations. Given the small staff, duties are divided as much as possible.

Major Initiatives and Accomplishments

The following are a few of the major initiatives that the Authority has recently accomplished:

- During FY 2011 Developer Dedications included 4,994 l.f. of waterline and 7,105 l.f. of sewer line and totaled \$524,401.
- Implemented the Fats, Oils, and Grease program (FOG program). This program monitors the discharge of fats, oils, and grease into the sewer system by customers. Fats, Oils, and Grease are a common cause of blockages and sanitary sewer overflows in sewer systems across the United States. The Authority is in the process of inspecting all food service establishments to ensure compliance with the program.
- In the Customer Service department, began offering auto debit as a payment option for customers, began using a pressure sealing system to minimize staff time spent on sending past due statements and other mailings, and obtained a bulk mailing permit to decrease the costs of mass mailings sent out by the Authority.
- Began offering a Flexible Spending Account (FSA) as an added benefit for Authority employees.
- Completed an internal salary survey to allow the Authority to compare its compensation of employees to market value.
- Completed a high service pump upgrade at the Highpoint Water Treatment Plant, to allow for increased water production during peak times.
- Some capital purchases included several computer replacements, a trencher and rock breaker attachment for the maintenance department, server replacements, and a fire flow meter vault replacement for the Forest Elementary School.
- Prepared the Authority's first annual report. The report can be viewed on the Authority's website, www.bcpsa.com.

For the upcoming year the Authority will focus on long range planning. As part of this focus the Authority will develop a Capital Improvement Plan (CIP), a financial plan, a vision statement and a strategic plan. The Authority will also contact property owners that are in subdivisions adjacent or nearby the Authority's systems to encourage participation in the Neighborhood Line extension program (NLE).

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, 2010. This was the fifteenth 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 Financial and Administrative departments. We wish to express our appreciation to all of the departments who contributed information used to prepare this report. Appreciation is also given to Brian M. Key, Executive Director, and to the Board of Directors for their interest in, and support of, the Authority's pursuit of financial reporting excellence.

Respectfully submitted,



Jill W. Underwood
Financial Manager

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, 2010

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.



President

Executive Director

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2011

BOARD OF DIRECTORS

Gerald Foutz, Chairman

Roy E. Dooley, Jr., Vice Chairman

Robert Flynn

Jerry L. Falwell, Jr.

Roger W. Hessenius

Thomas D. Segroves

Carl H. Wells

EXECUTIVE DIRECTOR

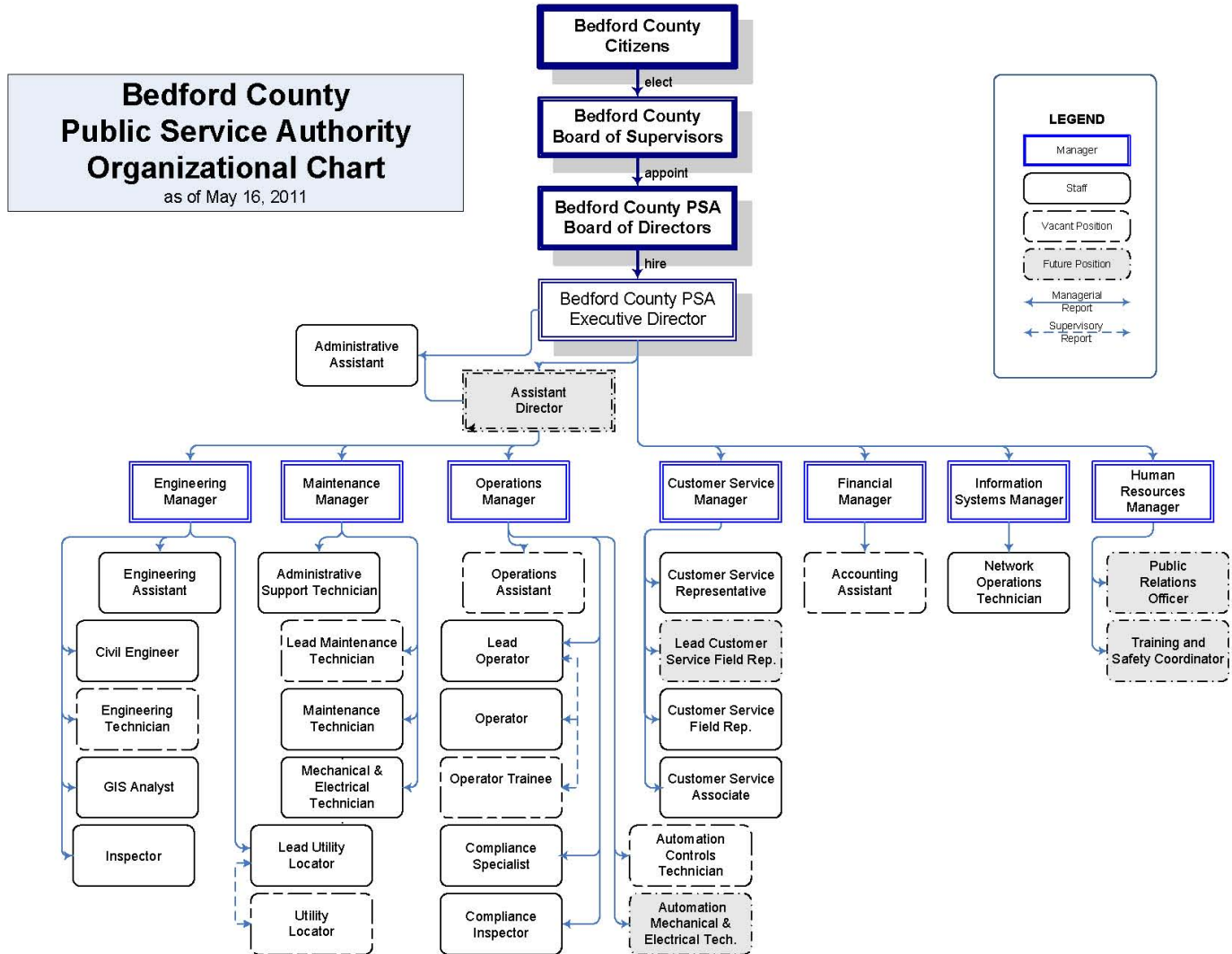
Brian M. Key, PE, Secretary/Treasurer

INDEPENDENT AUDITORS

Brown, Edwards & Company, LLP

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, 2011, 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 2010 financial statements and, in our report dated September 13, 2010, we expressed an unqualified opinion on the respective financial statements.

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, 2011, and the changes in its financial position and 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 August 18, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements as a whole. The Introductory Section, Schedule of Departmental Operating Income, and Statistical Section are presented for purposes of additional analysis and are not a required part of the financial statements. The Schedule of Departmental Operating Income is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information to the underlying accounting and other records used to prepare the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The Introductory and Statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Brown, Edwards & Company, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
August 18, 2011

Management's Discussion and Analysis

The Bedford County Public Service Authority (the "Authority") has prepared this Management's Discussion and Analysis (MD&A) as a supplement to the Authority's financial statements, to provide a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2011. The Authority encourages the information presented here to be considered in conjunction with additional details that we have furnished in our letter of transmittal, which can be found on pages i-v of this financial report.

Financial Highlights

- The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$43,403,836 (*net assets*). Of this amount \$1,394,050 (*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 \$749,029. The primary cause for this increase relates to capital contributions and facility fees received by customers in order to connect to the Authority's system.

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, 2011 and June 30, 2010, 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 2011 and 2010. 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 9 through 11 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 12 through 26 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 \$43,403,836 at the close of the most recent fiscal year. At the close of the previous fiscal year, assets exceeded liabilities by \$42,654,807.

By far the largest portion of the Authority's net assets (96.8%) 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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 3,301,008	\$ 2,937,651	\$ 2,345,653
Restricted investments	775,782	896,975	1,367,003
Capital assets, net	65,637,551	66,824,758	67,320,062
Bond issuance costs, net	247,123	270,047	258,224
Total Assets	<u>69,961,464</u>	<u>70,929,431</u>	<u>71,290,942</u>
Current Liabilities	2,597,336	2,372,346	2,422,453
Long-term debt	23,960,292	25,902,278	27,757,344
Total Liabilities	<u>26,557,628</u>	<u>28,274,624</u>	<u>30,179,797</u>
Invested in capital assets, net of related debt	42,009,786	41,539,997	41,104,093
Unrestricted	1,394,050	1,114,810	7,052
Total Net Assets	<u>\$ 43,403,836</u>	<u>\$ 42,654,807</u>	<u>\$ 41,111,145</u>

Financial Analysis (continued)**Condensed Statements of Revenues, Expenses and Changes in Fund Net Assets**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Revenues:			
Operating Revenues:			
Water Sales	\$ 3,903,395	\$ 3,849,670	\$ 3,569,027
Facility Fees	461,875	854,125	911,344
Sewer Service	1,330,661	1,070,281	839,973
Wastewater treatment plant operation fees	66,486	109,719	96,347
Other Revenues from customers	281,876	253,537	340,971
Non-operating revenues:			
Investment Income	3,368	30,928	66,707
Total Revenues	<u>\$ 6,047,661</u>	<u>\$ 6,168,260</u>	<u>\$ 5,824,369</u>
Expenses:			
Operating Expenses:			
Water & Sewer Systems	\$ 2,400,041	\$ 2,387,648	\$ 2,331,226
Salaries & Benefits	1,734,517	1,798,933	2,062,034
Management & General	179,237	154,470	155,514
Customer Service & Information Systems	139,332	121,224	138,747
Vehicles	115,050	80,824	96,057
Engineering, Operations, and Maintenance	13,238	10,538	14,588
Depreciation	2,257,971	2,242,339	2,223,432
Non-operating Expenses:			
(Gain)/Loss on disposal of capital assets	(19,150)	(33,794)	161,097
Interest expense- net of capitalized interest	1,019,780	1,070,135	1,176,818
Total Expenses	<u>\$ 7,840,016</u>	<u>\$ 7,832,317</u>	<u>\$ 8,359,513</u>
Loss before capital contributions	\$ (1,792,355)	\$ (1,664,057)	\$ (2,535,144)
Capital Contributions	2,541,384	3,207,719	5,089,272
Changes in net assets	749,029	1,543,662	2,554,128
Net assets- July 1	<u>42,654,807</u>	<u>41,111,145</u>	<u>38,557,017</u>
Net assets- June 30	<u>\$ 43,403,836</u>	<u>\$ 42,654,807</u>	<u>\$ 41,111,145</u>

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 the three most current fiscal years, the Authority had positive balances in unrestricted net assets.

During the current fiscal year, the Authority's net assets increased by \$749,029.

Operating revenues decreased by \$93,039 or 1.5% and operating expenses increased by \$43,410 or 0.64%. During the previous fiscal year, the Authority's net assets increased by \$1,543,662. Also, in the previous fiscal year, operating revenues increased by \$379,670 or 6.6% and operating expenses decreased by \$225,622 or 3.2%.

Key elements of these changes are as follows:

- Income from facility fees was lower than the previous year due to less commercial development.
- Investment income was lower due to the proceeds from the 2005 VRA being used in the early part of FY 2011.
- Revenue from water sales and sewer service were increased due to the new connections from FY 2010 and FY 2011.
- Expenses related to the operation of the water and sewer systems were increased due to the increased cost to purchase water and treat sewer. There were also several repairs performed to the Moneta WWTP.
- Salaries and employee benefits were decreased due to several positions that were vacated and not filled until later in the fiscal year.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2011 amounted to \$65,637,551 (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 decrease in the Authority's investment in capital assets for the current fiscal year was (1.78)%. Additional information related to capital assets is located in Note 4 of the *Notes to Financial Statements*.

	Capital Assets		
	2011	2010	2009
Land and land rights	\$ 210,689	\$ 210,689	\$ 210,689
Construction in progress	123,344	268,956	477,717
Water and sewer systems	79,304,981	78,179,379	76,528,245
Vehicles	1,284,169	1,302,525	1,298,979
Office Facilities	1,870,374	1,860,260	1,757,310
Information Systems Equipment	1,215,623	1,152,312	1,021,515
Total Book Value	84,009,180	82,974,121	81,294,455
Less- accumulated depreciation	(18,371,629)	(16,149,363)	(13,974,393)
Total- net of accumulated depreciation	\$ 65,637,551	\$ 66,824,758	\$ 67,320,062

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 \$524,401.
- Vehicle and Equipment additions totaled \$25,304 for the year. This included a trencher and rock breaker attachment, as well as a trailer.
- A total of \$63,311 was spent on Information Technology. This includes several computer replacements, a meter reading handheld unit for Customer Service, a new copier for the Annex building, vehicle fleet maintenance software, the auto debit and E-statements modules for billing, and several new servers.
- The following projects were placed into service during the fiscal year:

Lakes to Forest Preliminary Engineering Report (PER)	\$45,961
Route 221 Waterline Relocation (VDOT project).....	\$139,955
CAER Facility (water portion)	\$84,527
CAER Facility (sewer portion).....	\$46,875

Long-term debt. At the end of the fiscal year, the Authority had \$23,149,409 in bonds and notes outstanding versus \$24,869,318 last year, a decrease of 6.92% 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 & Poor’s. Other obligations include accrued paid time off (PTO). More detailed information on the Authority’s long-term liabilities is located in Note 6 of the *Notes to Financial Statements*.

Long-term Debt

	2011	2010	2009
Lynchburg Sewer System Bonds	\$ 1,347,674	\$ 1,529,237	\$ 1,508,037
2002A Pooled Loan Bonds	-	580,000	10,650,000
2002B Pooled Loan Bonds	1,630,000	1,995,000	2,340,000
2004 Building Fund Bonds	96,735	190,081	280,158
2005 Revenue Bonds	10,650,000	11,150,000	11,635,000
2009B Pooled Loan Bonds	9,425,000	9,425,000	-
Unamortized costs on bonds	1,063,776	1,163,910	323,740
Deferred costs on Refunding	(719,074)	(788,329)	(48,446)
	\$ 23,494,111	\$ 25,244,899	\$ 26,688,489

Requests for information

This financial report is designed to provide a general overview of the Authority’s finances. For additional financial information contact the Finance Department in person or by mail at 1723 Falling Creek Road, Bedford, VA 24523, by email at finance@bcpsa.com or by telephone at (540) 586-7679.

FINANCIAL STATEMENTS

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF NET ASSETS

June 30, 2011

	2011	(For Comparative Purposes Only) 2010
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 1,995,843	\$ 1,620,979
Accounts receivable (Note 3)	1,201,022	1,214,583
Inventory	53,806	58,552
Prepays	50,337	43,537
Total current assets	<u>3,301,008</u>	<u>2,937,651</u>
Noncurrent assets		
Restricted investments (Note 2)	775,782	896,975
Bond issuance costs, net of amortization	247,123	270,047
Capital assets: (Note 4)		
Nondepreciable	334,033	479,645
Depreciable, net	65,303,518	66,345,113
Total noncurrent assets	<u>66,660,456</u>	<u>67,991,780</u>
Total assets	<u>\$ 69,961,464</u>	<u>\$ 70,929,431</u>
LIABILITIES		
Current liabilities		
Accounts payable	\$ 395,845	\$ 226,240
Accrued liabilities (Note 11)	102,570	97,161
Interest payable	243,267	261,683
Compensated absences (Note 6)	35,522	37,800
Current maturities of long-term debt (Note 6)	1,820,132	1,749,462
Total current liabilities	<u>2,597,336</u>	<u>2,372,346</u>
Long-term liabilities		
Customer security deposits	248,893	311,427
Deferred revenue	1,550,076	1,601,201
Compensated absences (Note 6)	106,567	113,399
Due to other governmental units (Note 5)	380,777	380,814
Long-term debt – due in more than one year (Note 6)	21,673,979	23,495,437
Total long-term liabilities	<u>23,960,292</u>	<u>25,902,278</u>
Total liabilities	<u>26,557,628</u>	<u>28,274,624</u>
NET ASSETS		
Invested in capital assets, net of related debt	42,009,786	41,539,997
Unrestricted	1,394,050	1,114,810
Total net assets	<u>43,403,836</u>	<u>42,654,807</u>
Total liabilities and net assets	<u>\$ 69,961,464</u>	<u>\$ 70,929,431</u>

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

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
Year Ended June 30, 2011

	2011	(For Comparative Purposes Only) 2010
	<u>2011</u>	<u>2010</u>
OPERATING REVENUES		
Water sales	\$ 3,903,395	\$ 3,849,670
Facility fees	461,875	854,125
Sewer service	1,330,661	1,070,281
Wastewater treatment plant operation fees	66,486	109,719
Review fees	41,887	29,082
Meter base installation fees	34,163	31,500
Account changes	28,650	25,910
Other	115,341	116,446
Penalties	61,835	50,599
	<u>6,044,293</u>	<u>6,137,332</u>
OPERATING EXPENSES		
Water and sewer systems	2,400,041	2,387,648
Depreciation and amortization	2,257,971	2,242,339
Salaries and employee benefits	1,734,517	1,798,933
Management and general	179,237	154,470
Customer service and information systems	139,332	121,224
Vehicles	115,050	80,824
Engineering, operations, and maintenance	13,238	10,538
	<u>6,839,386</u>	<u>6,795,976</u>
Total operating expenses	<u>6,839,386</u>	<u>6,795,976</u>
Operating loss	<u>(795,093)</u>	<u>(658,644)</u>
NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of capital assets	19,150	33,794
Investment income	3,368	30,928
Interest expense	(1,019,780)	(1,070,135)
	<u>(997,262)</u>	<u>(1,005,413)</u>
Total nonoperating revenues (expenses)	<u>(997,262)</u>	<u>(1,005,413)</u>
Loss before capital contributions	<u>(1,792,355)</u>	<u>(1,664,057)</u>
CAPITAL CONTRIBUTIONS (Note 7)		
	<u>2,541,384</u>	<u>3,207,719</u>
Change in net assets	749,029	1,543,662
Net assets – beginning at July 1	<u>42,654,807</u>	<u>41,111,145</u>
Net assets – ending at June 30	<u>\$ 43,403,836</u>	<u>\$ 42,654,807</u>

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

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	2011	(For Comparative Purposes Only) 2010
OPERATING ACTIVITIES		
Cash received from customers	\$ 5,944,195	\$ 5,639,669
Cash paid for goods and services	(2,679,347)	(2,841,910)
Cash paid to employees	(1,738,218)	(1,814,037)
Net cash provided by operating activities	<u>1,526,630</u>	<u>983,722</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from intergovernmental capital debt assistance	2,000,000	2,000,000
Acquisition and construction of capital assets	(477,806)	(410,285)
Principal paid on long-term borrowings	(1,770,657)	(1,663,096)
Proceeds from bond refunding	-	10,382,867
Escrow payments to refunding trust	-	(10,245,826)
Debt issuance costs on refunding	-	(137,093)
Interest paid on long-term borrowings	(1,047,012)	(1,106,843)
Proceeds from sale of capital assets	19,150	123,012
Net cash used in capital and related financing activities	<u>(1,276,325)</u>	<u>(1,057,264)</u>
INVESTING ACTIVITIES		
Interest received	3,368	30,928
Net change in investments	121,191	470,028
Net cash provided by investing activities	<u>124,559</u>	<u>500,956</u>
Net increase in cash and cash equivalents	374,864	427,414
CASH AND CASH EQUIVALENTS		
Beginning at July 1	1,620,979	1,193,565
Ending at June 30	<u>\$ 1,995,843</u>	<u>\$ 1,620,979</u>
Reconciliation of operating loss to net cash provided by operating activities:		
Operating loss	\$ (795,093)	\$ (658,644)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	2,257,971	2,242,339
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	13,561	(177,277)
Inventory	4,746	36,515
Prepays	(6,800)	(23,822)
Increase (decrease) in:		
Accounts payable	169,605	(99,899)
Deferred revenue	(51,125)	(165,875)
Customer security deposits	(62,534)	(154,511)
Compensated absences and accrued liabilities	(3,701)	(15,104)
Net cash provided by operating activities	<u>\$ 1,526,630</u>	<u>\$ 983,722</u>
SCHEDULE OF NONCASH ACTIVITIES		
Contributions of capital assets	541,384	\$ 1,207,719
Increase in Lynchburg Sewer System rights	<u>\$ 50,711</u>	<u>\$ 209,219</u>

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

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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.

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

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 net of an allowance for doubtful accounts. The Authority calculates its allowance for doubtful accounts using historical collection data and specific account analysis.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 is \$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
Motor vehicles	5-7 years
Office furniture, fixtures, and equipment	5-7 years
Maintenance and engineering equipment	5-10 years

Leasehold improvements include administrative and other facilities constructed and additions affixed to those facilities on land leased from Bedford County. These leasehold improvements are depreciated over the shorter of the useful life of the asset or the remaining term of the lease. The lease term includes all reasonably assured renewals.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1. Summary of Significant Accounting Policies (Continued)

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. Interest capitalized for the year ended June 30, 2011 was \$8,816.

Compensated absences:

The paid-time-off (PTO) policy of the Authority provides for up to 296 hours per year of earned vacation leave, depending on years of service. Employees may carry over an unlimited amount of PTO hours to the succeeding year. Upon termination, the first 200 hours of accumulated PTO is 100% payable and the next 200 hours is 50% payable

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 facility 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 represents 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.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 2. Cash and Investments

Deposits:

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

Investments:

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).

Investments (including the portions considered cash equivalents) consisted of the following at June 30, 2011:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Money Market Account	\$ 2,040,093	None
LGIP	<u>731,532</u>	6 months
	<u>\$ 2,771,625</u>	

The items above are reflected in the statements as follows:

Statement of net assets:		
Cash and cash equivalents	\$ 1,995,843	
Restricted investments	<u>775,782</u>	
	<u>\$ 2,771,625</u>	

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 2. Cash and Investments (Continued)

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 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 \$364,017 at June 30, 2011. As this is an internal restriction, this amount is not included with restricted net assets.

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. When compliance with the debt coverage requirement is contingent upon this fund, such as the current year, this amount will be shown as restricted. The Debt Coverage Reserve Fund amounted to \$408,900 at June 30, 2011. As this is an internal restriction, this amount is not included with restricted net assets.

Note 3. Accounts Receivable

Accounts receivable, net consist of the following:

	<u>Billed</u>	<u>Unbilled</u>	<u>Total</u>
Water	\$ 416,047	\$ 395,013	\$ 811,060
Sewer	262,567	90,330	352,897
Other	88,865	-	88,865
	<u>767,479</u>	<u>485,343</u>	<u>1,252,822</u>
Less:			
Allowance for doubtful accounts	<u>(51,800)</u>	<u>-</u>	<u>(51,800)</u>
	<u>\$ 716,479</u>	<u>\$ 485,343</u>	<u>\$ 1,201,022</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	<u>Beginning July 1</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending June 30</u>
Capital assets, not being depreciated				
Land and land rights	\$ 210,689	\$ -	\$ -	\$ 210,689
Construction in progress	<u>268,956</u>	<u>227,601</u>	<u>(373,213)</u>	<u>123,344</u>
Total capital assets, not being depreciated	<u>479,645</u>	<u>227,601</u>	<u>(373,213)</u>	<u>334,033</u>
Capital assets, being depreciated				
System, lines, and source of supply structures	78,179,379	1,125,602	-	79,304,981
Leasehold improvements	1,860,260	10,114	-	1,870,374
Vehicles and equipment	1,302,525	25,304	(43,660)	1,284,169
Information systems equipment	<u>1,152,312</u>	<u>63,311</u>	<u>-</u>	<u>1,215,623</u>
Total capital assets, being depreciated	<u>82,494,476</u>	<u>1,224,331</u>	<u>(43,660)</u>	<u>83,675,147</u>
Less accumulated depreciation for:				
System, lines, and source of supply structures	(13,663,702)	(1,956,252)	-	(15,619,954)
Leasehold improvements	(729,092)	(101,406)	-	(830,498)
Vehicles and equipment	(921,578)	(125,842)	43,660	(1,003,760)
Information systems equipment	<u>(834,991)</u>	<u>(82,426)</u>	<u>-</u>	<u>(917,417)</u>
Total accumulated depreciation	<u>(16,149,363)</u>	<u>(2,265,926)</u>	<u>43,660</u>	<u>(18,371,629)</u>
Total capital assets being depreciated, net	<u>66,345,113</u>	<u>(1,041,595)</u>	<u>-</u>	<u>65,303,518</u>
Total capital assets, net	<u>\$ 66,824,758</u>	<u>\$ (813,994)</u>	<u>\$ (373,213)</u>	<u>\$ 65,637,551</u>

(Continued)

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 has no active construction projects as of June 30, 2011.

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	\$ 318,777
June 30, 1989	<u>62,000</u>
	<u>\$ 380,777</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

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	\$ 1,529,237	\$ 50,711	\$ (232,274)	\$ 1,347,674	\$ 182,427
2002A Pooled Loan Bond	580,000	-	(580,000)	-	-
2002B Pooled Loan Bonds	1,995,000	-	(365,000)	1,630,000	380,000
2004 Building Fund Bonds	190,081	-	(93,346)	96,735	96,735
2005 Revenue Bonds	11,150,000	-	(500,000)	10,650,000	520,000
2009B Pooled Loan Bonds	9,425,000	-	-	9,425,000	610,000
	<u>24,869,318</u>	<u>50,711</u>	<u>(1,770,620)</u>	<u>23,149,409</u>	<u>1,789,162</u>
Add:					
Unamortized premium on:					
2002B Pooled Loan Bonds	66,062	-	(13,436)	52,626	13,436
2005 Revenue Bonds	195,243	-	(13,016)	182,227	13,107
2009B Pooled Loan Bonds	902,605	-	(73,682)	828,923	73,682
Less:					
Deferred costs on:					
2002B Pooled Loan Bonds	(40,258)	-	8,188	(32,070)	(8,188)
2009B Pooled Loan Bonds	(748,071)	-	61,067	(687,004)	(61,067)
	<u>\$ 25,244,899</u>	<u>\$ 50,711</u>	<u>\$ (1,801,499)</u>	<u>\$ 23,494,111</u>	<u>\$ 1,820,132</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 \$50,711 was issued in 2011 due to new wastewater treatment capital projects. The bonds are due in annual installments ranging from \$183,321 to \$9,279, with interest rates from 1.75% to 5.0% per annum, paid annually, through June 1, 2021.

The 2002A Pooled Loan Bonds were issued on June 1, 2002 in the amount of \$13,580,000. Bonds, totaling \$9,515,000, were refunded in 2009 with 2009B Pooled Loan Bonds. The remaining bonds of \$580,000 were repaid on April 1, 2011. The 2009B Pooled Loan Bonds are due in annual installments ranging from \$610,000 to \$1,000,000, with interest rates from 4.1% to 5.0% per annum, paid annually through October 2022.

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 will be paid in full, effective July 2011.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 6. Long-Term Liabilities (Continued)

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.

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

Fiscal Year	Pooled Loan Bonds		Lynchburg Sewer System		2009 Refunding	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 380,000	\$ 65,750	\$ 182,427	\$ 30,418	\$ 610,000	\$ 418,300
2013	400,000	48,150	183,321	27,007	645,000	390,165
2014	415,000	27,775	164,867	23,565	670,000	364,494
2015	435,000	8,700	165,824	20,091	695,000	337,616
2016	-	-	161,511	16,584	720,000	307,081
2017-2021	-	-	489,724	32,559	4,135,000	996,597
2022-2026	-	-	-	-	1,950,000	96,644
	<u>\$ 1,630,000</u>	<u>\$ 150,375</u>	<u>\$ 1,343,674</u>	<u>\$ 150,224</u>	<u>\$ 9,425,000</u>	<u>\$ 2,910,897</u>

Fiscal Year	2004 Building Fund Bonds		2005 Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 96,735	\$ 3,511	\$ 520,000	\$ 437,017	\$ 1,789,162	\$ 954,996
2013	-	-	540,000	418,820	1,768,321	884,142
2014	-	-	560,000	399,591	1,809,867	815,425
2015	-	-	585,000	375,806	1,880,824	742,213
2016	-	-	610,000	347,831	1,491,511	671,496
2017-2021	-	-	3,510,000	1,282,381	8,134,724	2,311,537
2022-2026	-	-	4,325,000	467,603	6,275,000	564,247
	<u>\$ 96,735</u>	<u>\$ 3,511</u>	<u>\$ 10,650,000</u>	<u>\$ 3,729,049</u>	<u>\$ 23,149,409</u>	<u>\$ 6,944,056</u>

The following is a summary of changes in compensated absences 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>
Compensated absences	<u>\$ 151,199</u>	<u>\$ 28,690</u>	<u>\$ 37,800</u>	<u>\$ 142,089</u>	<u>\$ 35,522</u>

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 7. Capital Contributions

Capital contributions by source are summarized as follows:

Developers and customers	\$ 524,401
County of Bedford – capital debt assistance	2,000,000
Franklin County capital contributions	<u>16,983</u>
	<u>\$ 2,541,384</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 (professional) employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

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

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 8. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

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

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is -0-%. 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 the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended June 30, 2011 was 4.27% of annual covered payroll.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

Note 8. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost

For fiscal year 2011, the Authority's annual pension cost of \$116,611 for VRS was equal to the Authority's required and actual contributions. The required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a 7.5% investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 3.50% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the Authority's assets is equal to the modified market value of assets over a five year period. 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. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2011	\$ 116,611	100 %	\$ -
June 30, 2010	\$ 133,447	100 %	\$ -
June 30, 2009	\$ 150,550	100 %	\$ -

D. Funded Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date, the plan was 85.89% funded. The actuarial accrued liability for benefits was \$2,291,557, and the actuarial value of assets was \$1,968,235 resulting in an unfunded actuarial accrued liability (UAAL) of \$323,322. The covered payroll (annual payroll of active employees covered by the plan) was \$1,234,999, and ratio of the UAAL to the covered payroll was 26.18%. The schedule of funding progress for the postemployment defined benefit plan immediately follows the notes to the financial statements and shows whether the actuarial value of the plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time.

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 ten-year increments, if mutually agreed. Substantially all water for the Forest service area are purchased under the contract.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 9. Service Contracts (Continued)

Western Virginia Water Authority (WVWA):

The Authority has an agreement through June 30, 2020 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. In addition, as part of this agreement, the Authority has agreed to provide water to residents and businesses near Smith Mountain Lake. Certain terms exist as part of this agreement that include a capital requirement for both parties to fund their proportionate share of any expansion to the related facilities should existing capacity no longer be sufficient.

Mariner's Landing Water and Sewer Company:

Effective May 13, 2009, the Authority entered into an agreement to sell water to the Mariner's Landing Water and Sewer Company (Mariner's Landing), a utility company regulated by the State Corporation Commission of the Commonwealth of Virginia. The agreement may be terminated within 180 days written notice by either party. No minimum purchase amounts are stipulated in the contract. The Authority will charge Mariner's Landing a rate based upon a mutually agreed upon formula. The water purchased serves the Mariner's Landing area of Bedford County.

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 year 2011, total premiums paid were \$18,122. Benefits are those afforded through the Commonwealth 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, 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.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 10. Risk Management (Continued)

General liability and other: (Continued)

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.

Unemployment benefits:

The Authority does not pay state unemployment taxes for employees to draw upon should they be terminated and qualify for unemployment. Instead, should an employee be terminated and qualify for unemployment benefits, the state will pay the employee and charge the Authority for reimbursement.

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 2011, approximately \$55,800 of rebate liabilities were calculated and have been included in accrued liabilities; however, management is of the opinion that ultimately no amounts will be required to be rebated.

Litigation:

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

Water and sewer purchases:

The Authority has agreements to purchase water and sewer services from the City of Lynchburg. Under these agreements, the Authority is charged provisional rates for water purchases and sewer services which are then adjusted in subsequent fiscal years for the actual cost of providing those services to the Authority. These adjustments totaled \$15,821 for water and \$(40,828) for sewer in 2011. The adjustments are not estimable and are therefore accounted for in the year they are charged to the Authority.

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 12. New Accounting Standards

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

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

GASB Statement No. 61 *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

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

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

GASB Statement No. 64 *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* was issued to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit provider. The statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The statement will be effective for the year ending June 30, 2012.

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

REQUIRED SUPPLEMENTARY INFORMATION

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2011**

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, 2008	\$ 1,648,605	\$ 1,706,437	\$ 57,832	96.61%	\$ 1,298,320	4.45%
June 30, 2009	\$ 1,852,288	\$ 1,943,991	\$ 91,703	95.28%	\$ 1,415,334	6.48%
June 30, 2010	\$ 1,968,235	\$ 2,291,557	\$ 323,322	85.89%	\$ 1,234,999	26.18%

SUPPORTING SCHEDULE

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

SCHEDULE OF DEPARTMENTAL OPERATING INCOME

Year Ended June 30, 2011

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Water sales	\$ 3,903,395	\$ -	\$ 3,903,395
Facility fees	304,875	157,000	461,875
Sewer service	-	1,330,661	1,330,661
Wastewater treatment plant operation fees	-	66,486	66,486
Review fees	41,887	-	41,887
Meter base installation fees	34,163	-	34,163
Account charges	21,725	6,925	28,650
Other	115,341	-	115,341
Penalties	47,474	14,361	61,835
	<u>4,468,860</u>	<u>1,575,433</u>	<u>6,044,293</u>
OPERATING EXPENSES			
Water and sewer systems	1,747,686	652,355	2,400,041
Depreciation and amortization	1,179,803	1,078,168	2,257,971
Salaries and employee benefits	1,277,645	456,872	1,734,517
Management and general	132,026	47,211	179,237
Customer service and information services	102,632	36,700	139,332
Vehicles	84,746	30,304	115,050
Engineering, operations, and maintenance	9,751	3,487	13,238
	<u>4,534,289</u>	<u>2,305,097</u>	<u>6,839,386</u>
Operating loss	<u>\$ (65,429)</u>	<u>\$ (729,664)</u>	<u>\$ (795,093)</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 5-13

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

Debt Capacity

Table 14-15

These schedules present information to help the reader assess 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

Tables 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 TEN FISCAL YEARS**

	Fiscal Year									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Primary Government										
Invested in capital assets, net of related debt	\$42,009,786	\$41,539,997	\$41,104,093	\$39,379,175	\$36,589,085	\$21,623,772	\$ 9,641,489	\$24,225,423	\$21,956,242	\$21,019,775
Restricted	-	-	-	-	-	8,197,558	17,912,328	-	-	-
Unrestricted	1,394,050	1,114,810	7,052	(822,158)	(105,336)	364,542	711,617	1,555,524	1,677,170	1,005,813
Total primary government net assets	<u>\$43,403,836</u>	<u>\$42,654,807</u>	<u>\$41,111,145</u>	<u>\$38,557,017</u>	<u>\$36,483,749</u>	<u>\$30,185,872</u>	<u>\$28,265,434</u>	<u>\$25,780,947</u>	<u>\$23,633,412</u>	<u>\$22,025,588</u>

Table 2

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

CHANGES IN NET ASSETS
LAST TEN 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
2011	\$ 6,044,293	\$ 6,839,386	\$ (795,093)	\$ (997,262)	\$ (1,792,355)	\$ 2,541,384	\$ 749,029
2010	\$ 6,137,332	\$ 6,795,976	\$ (658,644)	\$ (1,005,413)	\$ (1,664,057)	\$ 3,207,719	\$ 1,543,665
2009	\$ 5,757,662	\$ 7,021,598	\$ (1,263,936)	\$ (1,271,208)	\$ (2,535,144)	\$ 5,089,272	\$ 2,554,128
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

Table 3

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**OPERATING EXPENSES
LAST TEN FISCAL YEARS**

Fiscal Year	Water Systems	Sewer Systems	Employment Costs	General Office and Departmental Expenses	Subtotal, Expenses before Depreciation and Amortization	Depreciation and Amortization	Total
2011	\$ 1,747,686	\$ 652,355	\$ 1,734,517	\$ 446,857	\$ 4,581,415	\$ 2,257,971	\$ 6,839,386
2010	\$ 1,874,665	\$ 512,983	\$ 1,798,933	\$ 367,056	\$ 4,553,637	\$ 2,242,339	\$ 6,795,976
2009	\$ 1,858,887	\$ 472,339	\$ 2,062,034	\$ 404,906	\$ 4,798,166	\$ 2,223,432	\$ 7,021,598
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

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
2011	\$ (1,019,780)	\$ 3,368	\$ 19,150	\$ (997,262)
2010	\$ (1,070,135)	\$ 30,928	\$ 33,794	\$ (1,005,413)
2009	\$ (1,176,818)	\$ 66,707	\$ (161,097)	\$ (1,271,208)
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)

^a Net of capitalized amounts

Table 5

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**OPERATING REVENUES BY SOURCE
LAST TEN FISCAL YEARS**

Fiscal Year	Water Revenue	Sewer Revenue	Water Facility Revenue	Sewer Facility Revenue	Penalties and Fees ^a	Miscellaneous ^b	Total
2011	\$ 3,903,395	\$ 1,397,147	\$ 304,875	\$ 157,000	\$ 166,535	\$ 115,341	\$ 6,044,293
2010	\$ 3,849,670	\$ 1,180,000	\$ 527,625	\$ 326,500	\$ 137,091	\$ 116,446	\$ 6,137,332
2009	\$ 3,569,027	\$ 936,320	\$ 491,344	\$ 420,000	\$ 215,414	\$ 125,557	\$ 5,757,662
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

^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
2011	711,043	621,065	19,311	90.06%	160,480	149,913	2,953	95.26%
2010	681,511	577,341	24,890	88.37%	149,610	135,828	4,247	93.63%
2009	687,019	588,568	38,893	91.33%	138,584	130,914	-	94.47%
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%

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
2011	107	42	149
2010	174	67	241
2009	145	64	209
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

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 TEN FISCAL YEARS**

Fiscal Year	Residential	Commercial	Industrial	Institutional	Irrigation	Total
2011	8,145	361	30	60	52	8,648
2010	7,987	331	31	42	81	8,472
2009	7,865	302	31	42	52	8,292
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

Notes:

1. Institutional includes governmental and educational user types.
2. 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 TEN FISCAL YEARS**

Fiscal Year	Residential	Commercial	Industrial	Institutional	nm	Total
2011	1,332	186	14	24	1	1,557
2010	1,301	154	14	22	1	1,492
2009	1,261	132	14	22	1	1,430
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

Notes:

1. Institutional includes governmental and educational user types.
2. Beginning in FY 2005-2006, the BCPSA began more closely examining our user type classifications.
3. “nm” denotes no meter and sanitary sewer service only.

Table 10

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**TEN LARGEST WATER CUSTOMERS
CURRENT YEAR**

Customer	2011	
	Revenue	Percentage
Western Virginia Water Authority (Franklin County)	\$ 184,927	4.74%
Barr Laboratories	157,025	4.02
Hill City Rental – Jefferson Ridge Apartments	15,240	0.39
The Gables of Jefferson Commons	14,886	0.38
Boonsboro Country Club	14,190	0.37
Jefferson Forest High School	14,071	0.36
Mail America	12,391	0.32
Milner’s Mobile Home Park	10,943	0.28
Thomas Jefferson Elementary School	8,943	0.23
Seckman Printing	8,317	0.21
Subtotal (10 largest)	440,933	11.30
Balance from other customers	3,462,462	88.70
Grand totals	<u>\$ 3,903,395</u>	<u>100.00%</u>

Note: Prior to 2005, this data was not tracked. Information for the period nine years prior to the current period will begin in 2014.

Table 11

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**TEN LARGEST SEWER CUSTOMERS
CURRENT YEAR**

Customer	2011	
	Revenue	Percentage
Barr Laboratories	\$ 217,592	17.64%
Hill City Rental – Jefferson Ridge Apartments	20,968	1.70
Jefferson Forest High School	18,824	1.53
Mail America	17,562	1.43
The Gables of Jefferson Commons	15,671	1.27
Thomas Jefferson Elementary School	10,703	0.87
Blue Ridge Regional Jail	9,984	0.81
Seckman Printing	9,838	0.80
Car Care Center, LLC	8,995	0.73
Bedford County Solid Waste Department	7,125	0.58
Subtotal (10 largest)	337,262	27.34
Balance from other customers	896,217	72.66
Grand totals	<u>\$ 1,233,479</u>	<u>100.00%</u>

Note: Prior to 2005, this data was not tracked. Information for the period nine years prior will begin in 2014.

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
January 2002 – January 2006	\$ 16.00	n/a	\$ 3.75	\$ 16.00	\$ 4.00	\$ 25.00
January 2006 – September 2008	\$ 18.00	n/a	\$ 4.26	\$ 18.00	\$ 4.26	\$ 37.50
September 2008 – June 2009	\$ 20.00	n/a	\$ 4.50	\$ 20.00	\$ 5.00	\$ 50.00
July 2009 – June 2010	\$ 20.00	n/a	\$ 5.00	\$ 20.00	\$ 6.00	\$ 50.00
July 2010 – June 2011	\$ 20.00	n/a	\$ 5.00	\$ 20.00	\$ 7.00	\$ 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
JANUARY 2002 – PRESENT**

Facility Fees (based on meter size)	January 2002 - January 2006 ¹		January 2006 - August 2008 ²		August 2008 - present ²	
	Water	Sewer	Water	Sewer	Water	Sewer
Residential 5/8"	\$ 2,250.00	\$ 2,750.00	\$ 2,250.00	\$ 3,000.00	\$ 2,250.00	\$ 3,000.00
3/4"	n/a	n/a	\$ 2,250.00	\$ 3,000.00	\$ 3,375.00	\$ 5,000.00
Per multi-family unit (individual meter)	\$ 1,687.50	\$ 2,062.50	n/a	n/a	n/a	n/a
Commercial 5/8"	\$ 2,250.00	\$ 2,750.00	n/a	n/a	n/a	n/a
1 ERC (equivalent residential connection)	\$ 2,250.00	\$ 2,750.00	\$ 2,250.00	\$ 3,000.00	\$ 2,250.00	\$ 3,000.00
1"	\$ 5,625.00	\$ 6,875.00	\$ 5,625.00	\$ 7,500.00	\$ 5,625.00	\$ 7,500.00
1-1/2"	\$ 9,844.00	\$ 12,031.00	\$ 9,844.00	\$ 13,125.00	\$ 9,844.00	\$ 13,125.00
2"	\$ 18,000.00	\$ 22,000.00	\$ 18,000.00	\$ 24,000.00	\$ 18,000.00	\$ 24,000.00
3"	\$ 36,000.00	\$ 44,000.00	\$ 36,000.00	\$ 48,000.00	\$ 36,000.00	\$ 48,000.00
4"	\$ 56,250.00	\$ 68,750.00	\$ 56,250.00	\$ 75,000.00	\$ 56,250.00	\$ 75,000.00
6"	\$ 112,500.00	\$ 137,500.00	\$ 112,500.00	\$ 150,000.00	\$ 112,500.00	\$ 150,000.00
8"	\$ 180,000.00	\$ 220,000.00	\$ 180,000.00	\$ 240,000.00	\$ 180,000.00	\$ 240,000.00
10"	n/a	n/a	\$ 295,000.00	\$ 394,000.00	\$ 295,000.00	\$ 394,000.00
12"	n/a	n/a	\$ 484,000.00	\$ 646,000.00	\$ 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 14

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
2011	\$ 408,900	\$ 6,044,293	\$ 4,581,415	\$ 2,000,000	\$ 3,871,778	\$ 1,789,162	\$ 964,996	\$ 2,754,158	141%
2010	\$ 408,053	\$ 6,137,332	\$ 4,553,637	\$ 2,000,000	\$ 3,991,748	\$ 1,719,908	\$ 1,033,069	\$ 2,752,977	145%
2009	\$ 406,829	\$ 5,757,662	\$ 4,798,166	\$ 2,000,000	\$ 3,366,325	\$ 1,589,532	\$ 1,213,598	\$ 2,803,130	120%
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%

**Excluding depreciation, interest, and amortization

Table 15

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**OUTSTANDING DEBT BY CATEGORY
LAST TEN FISCAL YEARS**

Fiscal Year Ended June30	Lynchburg Sewer System Bonds	Pooled Loan Bonds	Building Fund Bonds	2005 Revenue Bond	Uamortized Premium	Deferred Loss on Refunding	Total
2011	\$ 1,347,674	\$ 11,055,000	\$ 96,735	\$ 10,650,000	\$ 1,063,776	\$ (719,074)	\$ 23,494,111
2010	\$ 1,529,237	\$ 12,000,000	\$ 190,081	\$ 11,150,000	\$ 1,163,910	\$ (788,329)	\$ 25,244,899
2009	\$ 1,508,037	\$ 12,990,000	\$ 280,158	\$ 11,635,000	\$ 323,740	\$ (48,446)	\$ 26,688,489
2008	\$ 1,670,032	\$ 13,860,000	\$ 367,080	\$ 12,105,000	\$ 352,794	\$ (56,634)	\$ 28,298,272
2007	\$ 1,825,756	\$ 14,695,000	\$ 450,957	\$ 12,560,000	\$ 381,848	\$ (64,822)	\$ 29,848,739
2006	\$ 1,987,956	\$ 15,510,000	\$ 531,896	\$ 13,000,000	\$ 410,902	\$ (73,010)	\$ 31,367,744
2005	\$ 2,148,961	\$ 16,300,000	\$ 610,000	\$ 13,000,000	\$ 439,956	\$ (81,198)	\$ 32,417,719
2004	\$ 2,311,779	\$ 17,070,000	\$ -	\$ -	\$ 195,669	\$ (89,385)	\$ 19,488,063
2003	\$ 2,473,415	\$ 17,715,000	\$ -	\$ -	\$ 211,707	\$ (97,573)	\$ 20,302,549
2002	\$ 2,503,530	\$ 18,150,000	\$ -	\$ -	\$ 53,976	\$ -	\$ 20,707,506

Table 16

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

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

Employer	2011		2002	
	Employees	Rank	Employees	Rank
Bedford County School Board	1,000+	1	1,000+	1
County of Bedford	500-999	2	250-499	2
Barr Laboratories Inc.	500-999	3	250-499	7
Staffmark Investment LLC	500-999	4	-	-
Elwood Staffing Services, Inc.	250-499	5	-	-
Mail America Communications	250-499	6	100-249	8
GP Big Island LLC (formerly Nekoosa Packaging Corporation	250-499	7	250-499	3
Wal-Mart	250-499	8	-	-
Inservice America	100-249	9	250-499	4
Food Lion	100-249	10	250-499	5
Alpha Omega Resources	-	-	250-499	6
Emeritus Corporation	-	-	100-249	9
Sentry Equipment Erectors	-	-	100-249	10

Source: Virginia Employment Commission, Quarterly Census of Employment and Wages (QCEW)

Table 17

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 ³
2011	68,676	\$ *	\$ *	5.7%
2010	67,154	\$ 2,618,524	\$ 35,934	6.5%
2009	66,831	\$ 2,421,037	\$ 33,674	6.9%
2008	66,457	\$ 2,237,837	\$ 33,647	3.7%
2007	*	\$ *	\$ *	2.9%
2006	66,507	\$ *	\$ *	2.9%
2005	65,286	\$ 2,276,982	\$ 32,282	3.1%
2004	63,919	\$ 2,148,905	\$ 30,961	3.5%
2003	62,779	\$ 2,055,234	\$ 30,052	3.9%
2002	61,866	\$ 2,018,540	\$ 29,795	4.5%

Sources: ¹ Virginia Workforce Connection.

² Virginia Workforce Connection, includes Bedford City and County.

³ Bedford Community Profile, VEC Economic Information Services Division.

* Unavailable

Table 18

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

	Full-time Equivalent Employees as of June 30,									
	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Administration	4.0	4.0	5.0	4.0	5.0	4.0	3.0	3.0	1.0	1.0
Customer services	4.5	5.0	5.0	6.0	6.0	6.0	6.0	4.0	3.0	3.0
IT	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	0.5
Finance	1.0	1.0	1.0	2.0	2.0	1.0	1.0	1.0	-	-
Engineering	6.0	8.0	8.0	9.0	8.0	7.0	7.0	5.0	4.0	4.5
Plant operations	8.0	7.0	8.0	8.0	8.0	5.0	5.0	5.0	4.5	4.5
Maintenance	7.0	8.0	8.0	8.0	7.0	6.0	6.0	6.0	6.5	6.5
	<u>31.5</u>	<u>34.0</u>	<u>36.0</u>	<u>38.0</u>	<u>37.0</u>	<u>30.0</u>	<u>29.0</u>	<u>25.0</u>	<u>20.0</u>	<u>20.0</u>

Table 19

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**OPERATING INDICATORS
LAST TEN FISCAL YEARS**

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Water meters read ¹	51,491	50,267	47,670	47,696	45,231	43,314	n/a	n/a	n/a	n/a
Meter installations and change outs ²	505	243	353	854	597	598	n/a	n/a	n/a	n/a
Payments transacted	50,305	46,929	40,844	51,465	50,042	46,033	n/a	n/a	n/a	n/a

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>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Miles of water line	245	208	204	193	184	171	169	n/a	n/a	n/a
Miles of sewer line	65	65	58	54	50	42	33	n/a	n/a	n/a
Water pump stations	2	2	2	2	2	2	2	n/a	n/a	n/a
Sewer pump stations	9	9	9	8	8	4	3	n/a	n/a	n/a
Water storage tanks	8	8	8	11	11	12	12	n/a	n/a	n/a
Wastewater treatment plants	2	2	2	2	2	1	1	n/a	n/a	n/a
Water treatment plants	5	5	5	9	9	10	10	n/a	n/a	n/a

n/a = not available

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

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 financial statements of the Bedford County Public Service Authority as of and for the year ended June 30, 2011, and have issued our report thereon dated August 18, 2011. 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 for the purpose of expressing 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design of operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiency described as 08-1 in the accompanying schedule of findings and responses to be a material weakness in internal control over financial reporting.**

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, 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 noted certain other matters that we reported to management of the Authority in a separate letter dated August 18, 2011.

The Authority's response to the finding identified in our audit is 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
August 18, 2011

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY

**SCHEDULE OF FINDING AND RESPONSE
Year Ended June 30, 2011**

A. FINDING – 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.