Bedford Regional Water Authority

Comprehensive Annual Financial Report

Bedford, Virginia

For the Fiscal Year Ending

June 30, 2018

BEDFORD REGIONAL
WATER AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2018

BEDFORD REGIONAL WATER AUTHORITY

BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2018

PREPARED BY THE FINANCE DEPARTMENT

BEDFORD REGIONAL WATER AUTHORITY

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November 6, 2018

Board of Directors
Bedford Regional Water Authority
Bedford, Virginia

The Comprehensive Annual Financial Report (CAFR) for the Bedford Regional Water Authority (the "Authority") is hereby submitted for the fiscal year ended June 30, 2018. The CAFR was prepared by the Authority in conformity with U.S. Generally Accepted Accounting Principles (GAAP) and with emphasis on disclosure of the financial activities of the Authority. Responsibility for both the completeness and reliability of the information, including all disclosures, rest with the Authority, and is based upon a framework of internal control that has been established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. 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.

The basic financial statements have been audited by our independent auditors, Brown, Edwards & Company, L.L.P., who have issued an unmodified ("clean") opinion of the financial statements of the Authority as of and for the year ended June 30, 2018.

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 December 18, 2012 under the Virginia Water and Waste Authorities Act and Sewer Authorities Act, Chapter 51 Title 15.2 of the Code of Virginia 1950 as amended, by concurrent resolutions adopted by the Bedford County Board of Supervisors and the City Council of the City of Bedford, Virginia (now the Town of Bedford). 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 revenues of the Authority are based on consumption charges from the system users. The Authority does not have taxing power.

The Authority operates on a Board-administrator form of government. The Board consists of a Chair and six other Board members. Three members are appointed by the Bedford County Board of Supervisors, three are appointed by the Town Council and the seventh member was nominated by the other six members and confirmed by the Bedford County Board of Supervisors and the Town Council. There are three standing committees comprised of two board members each; they include the Policies and Projects 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 13,812. Water service is provided as follows:

- **Forest Central** - water is provided to the Forest, New London, and Boonsboro areas of the County with water purchased from the City of Lynchburg and distributed by the Authority; 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. With the completion of the SML WTF and waterlines, an additional source of water is available to the Forest area.

- **Stewartsville** - water is provided to the Stewartsville area with water purchased from the Western Virginia Water Authority and then distributed by the Authority. The contract was renewed on December 1, 2010 with an expiration date of June 30, 2020.

Organization and Function **(Continued)**

- **Bedford Central** - water is provided to the area inside and around the Town of Bedford through the Central WTP located on Mountain Water Drive just outside of Town. The plant uses a surface water reservoir located at the foothills of the Peaks of Otter. The WTP is rated at 3.0 MGD. With the completion of the SML WTF and waterlines an additional source of water is available to the Central district.

- **Mountain View Shores** - water in this subdivision is provided from a groundwater source accessed by three wells. Water from the three wells is filtered using greensand pressure filters and treated with chlorine, soda ash, permanganate, and a blended phosphate product before entering the distribution system.

- **Smith Mountain Lake Central Water System** - the source for the Lakes service area is Smith Mountain Lake, a reservoir maintained by American Electric Power for generation of hydroelectric power. In calendar year 2017, over 50% of the water was primarily treated at the Smith Mountain Lake Water Treatment Facility. This facility is one of the few membrane filtration plants in the state designed to treat surface water in accordance with the Safe Drinking Water Act and all other Virginia Department of Health guidelines. The filtration process requires no chemical addition and instead uses water being pressurized through filtration membranes, with chlorine being added after filtration for disinfection in the distribution system to meet requirements set by the regulatory agencies. This system also provides water to customers in the Town of Bedford and Forest Central. The Smith Mountain Lake Water Treatment Facility ("SML WTF") is jointly owned with the Western Virginia Water Authority and is rated at 4.0 million gallons per day, with expansion capability of 6.0 MGD (without expanding the building).

At the end of the fiscal year, sewer connections totaled 4,742. Sewer service is provided as follows:

- **Forest Central** - sewer service is provided to the Forest and New London areas of the County by collecting the wastewater and transmitting it to the Lynchburg Regional Wastewater Treatment Plant ("WWTP") for treatment. 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 MGD, and the Authority has purchased 1.0 MGD capacity in the WWTP and sufficient capacity in the City's interceptor lines allow for 1.0 MGD of sewage to flow to the regional plant.

- **Lakes Central** - sewer service is provided in Moneta by the Moneta WWTP to the Lakes community and along the Route 122 corridor. The Moneta WWTP has a current capacity of 0.5 MGD and can readily be expanded to treat 1.5 MGD.

Organization and Function **(Continued)**

- **Montvale** - sewer service is provided in the Montvale area by the Montvale WWTP, located behind the Montvale Elementary School. The Montvale WWTP is rated at 0.05 MGD and provides service to Montvale Elementary School, Montvale Library, Montvale Center for Business, and central Montvale community.

- **Bedford Central** - sewer service is provided inside and around the Town of Bedford using a WWTP located on Orange Street in Bedford. The Central WWTP is rated at 2.0 million gallons per day (MGD).

The Authority is not legally required to adopt a budget; however, it is a requirement of the bond covenants that the Authority's Board of Directors 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. Authorization is given to the Executive Director to move funds within the line item operating budget without further Board action, provided that a financial report 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 did not exceed the approved budget.

Local Economic Condition and Outlook

Bedford County is one of the fastest growing areas in the Commonwealth of Virginia. It encompasses 764 square miles of Piedmont Plateau in the Western Central portion of Virginia and is bordered by the Blue Ridge Mountains to the west, the James River to its northeast and Smith Mountain Lake to the south. It has rolling, hilly terrain with elevations ranging from 800 to 4,200 feet above sea level.

The most recent population figure for Bedford County, including the Town is 77,724 Town (*source: 2015 Census*). The 2018 Bedford Community Profile reports an unemployment rate, as of June 2018, of 3.9% for the County; compared to the same time period where Virginia was at 3.8% and the Country was at 4.4%.

Relevant Financial Policies

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.

The Authority operates as an independent entity as allowed by the Virginia Water and Waste 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.

Relevant Financial Policies **(Continued)**

The Authority has adopted the following financial policies: Purchasing Cards, Purchasing, Employee Awards, Capital Assets, Investments, Debt Management, Post Issuance Compliance, Alternate Delivery, PPEA, and Disposal of Surplus Property. It is believed that our procedures provided reasonable assurance that assets were properly recorded and protected and that financial data could be confidently used in the preparation of reports and projections.

Major Initiatives and Accomplishments

The following are a few of the major initiatives that the Authority accomplished during the fiscal year:

- During FY 2018 Developer Dedications included 3,243 linear feet of waterline totaling $328,465 and 4,155 linear feet of sewerline totaling $310,248.
- Purchases funded through the Capital Improvement Program (CIP) included several vehicles, replacement computers and servers, meter change out program, a sewer camera, repairs and upgrades at the Central WWTP, several sewer replacement projects within the Town of Bedford, valve replacement projects and tank rehabilitation projects.
- The Authority completed the new Smith Mountain Lake Water Treatment Facility, and interconnected the Lakes, Town, and Forest water systems; by doing so, we drastically improved our reliability for all three of these service areas while also reducing the water production and purchase costs

- The Authority transitioned from every-other-month billing to monthly billing. By reading the meters every month, we are now able to more quickly identify customer leaks; it also made the bills a little easier to pay, since the cost of the service is now split into 2 smaller bills instead of 1 larger bill.

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 Regional Water Authority for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2017. This was the fourth year that the Authority has received this prestigious award; its predecessor, the Bedford County Public Service Authority, received this award for eighteen consecutive years. 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.

Awards and Acknowledgements **(Continued)**

A Certificate of Achievement is valid for a period of one year only. We believe that the current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it 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 the Board of Directors for their interest in, and support of, the Authority's pursuit of financial reporting excellence.

Respectfully submitted,

Jill W. Underwood

Jill W. Underwood
Financial Manager

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Bedford Regional Water Authority

Virginia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morrill

Executive Director/CEO

BEDFORD REGIONAL WATER AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2018

BOARD OF DIRECTORS

Elmer Hodge, Chairman

Carl H. Wells, Vice Chairman

Michael C. Moldenhauer

Robert Flynn

Cynthia Gunnoe

Walter Siehien

Thomas D. Segroves

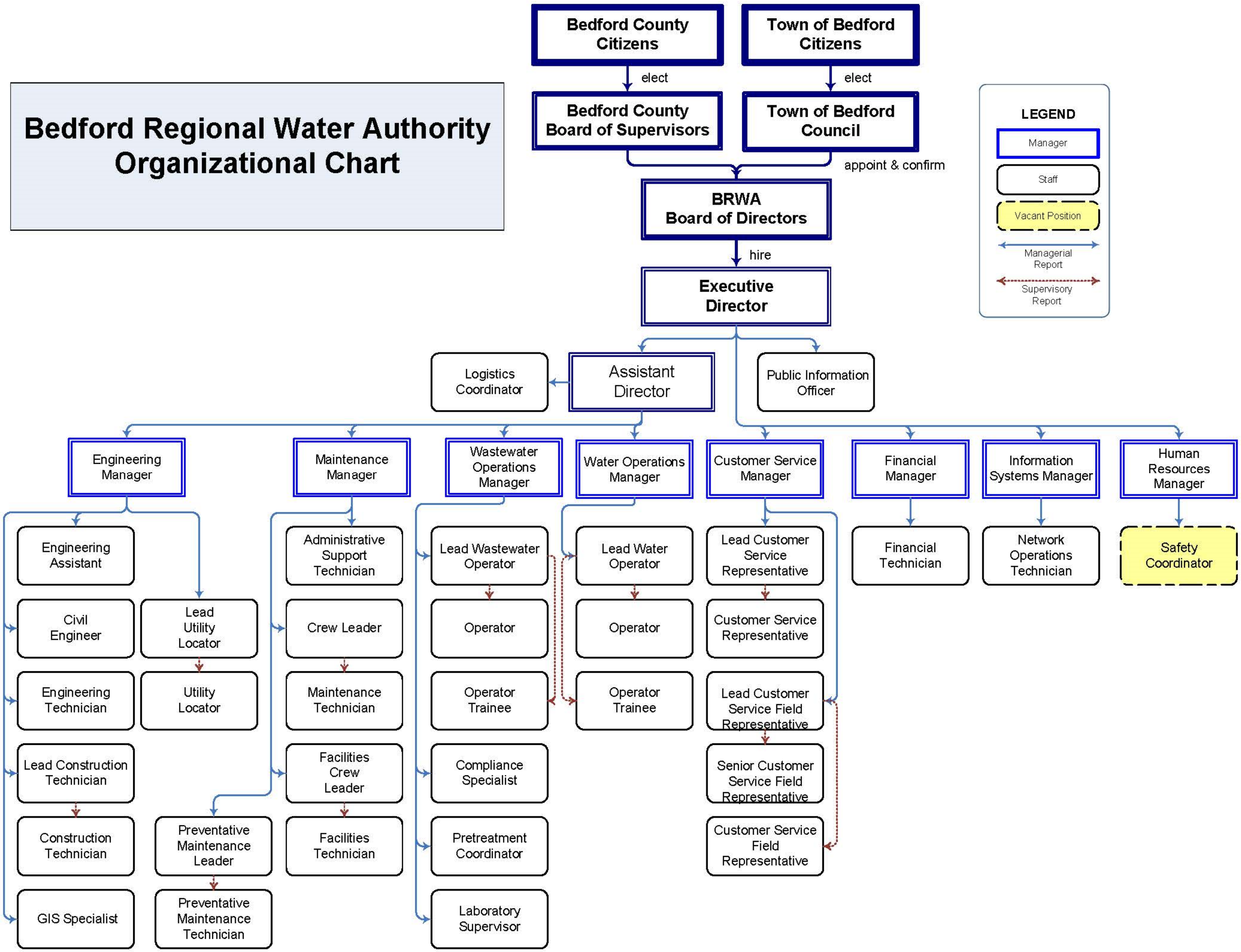
EXECUTIVE DIRECTOR

Brian M. Key, PE, Secretary/Treasurer

INDEPENDENT AUDITORS

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

Bedford Regional Water Authority Organizational Chart



FINANCIAL SECTION

Financial Section contains the Basic Financial Statements.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Board of Directors
Bedford Regional Water Authority
Bedford, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the Bedford Regional Water Authority (the "Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Specifications for Audits of 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Report on the Financial Statements (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Bedford Regional Water Authority, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 12 to the financial statements, in 2018 the Authority adopted new accounting guidance, *GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pension*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Authority's 2017 financial statements, and in our report dated October 3, 2017, expressed an unmodified opinion on those financial statements. The 2017 financial information is provided for comparative purposes only. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived. Because information to restate prior years in relation to GASB 75, discussed above, is not readily available, the comparative information has not been restated.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. 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 basic financial statements.

Report on the Financial Statements (Continued)

Other Information (Continued)

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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of departmental operating income is fairly stated in all material respects in relation to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2018 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* in considering the Authority's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 6, 2018

Management's Discussion and Analysis

In 2018, the Authority adopted GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The overall effect of this new standard is to reflect the Authority's long-term other postretirement benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability which has now been recorded, was only disclosed. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Authority record a net OPEB liability directly on the statement of net position. Beginning net position has been restated as discussed in Note 12, and this has had a significant impact on the Authority's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

The Bedford Regional Water Authority ("BRWA") has prepared this Management's Discussion and Analysis (MD&A) as a supplement to the financial statements, to provide a narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2018. It is encouraged that the information presented herein to be considered in conjunction with additional details that have been furnished in the letter of transmittal, which can be found on pages i-vi of this financial report.

In October of 2012 the Bedford County Public Service Authority entered into a consolidation agreement with the City of Bedford and County of Bedford. As part of the City of Bedford's reversion to a Town, the Authority and the City of Bedford water and sewer departments merged into the Bedford Regional Water Authority ("Authority"); the complete merger was effective on July 1, 2013

Financial Highlights

- The assets and deferred outflows of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $72,891,368 (*net position)*. Of this amount $6,183,496 *(unrestricted net position)* may be used to meet the BRWA's ongoing obligations to customers and creditors

  The Authority's total net position increased during the fiscal year by $3,699,474. The primary cause for this increase relates to the rate equalization due to consolidation and capital contributions 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 engaged only in business-type activities, the *enterprise fund financial statements* and *notes* were prepared in a manner similar to private-sector businesses.

The ***statement of net position*** presents information on the Authority's assets and liabilities as of June 30, 2018 and June 30, 2017, with the difference between the two reported as net position. Increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority had improved or deteriorated.

Overview of the Financial Statements (Continued)

The ***statement of revenues, expenses, and changes in net position*** presents information showing how the Authority's net position changed between fiscal years 2018 and 2017. All changes in net position 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 12 through 14 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 15 through 50 of this report.

R***equired 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 and other postemployment benefits to its employees. Required supplementary information can be found on pages 51 through 56 of this report.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Authority, assets and deferred outflows exceeded liabilities and deferred inflows by $72,891,368 at the close of the most recent fiscal year. At the close of the previous fiscal year, liabilities and deferred inflows exceeded assets and deferred outflows by $69,416,157.

By far the largest portion of the Authority's net assets (88%) reflects its investment in capital assets, The Authority uses these capital assets to provide services to customers; consequently, these assets were *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.

Financial Analysis (Continued)

Condensed Statement of Net Position

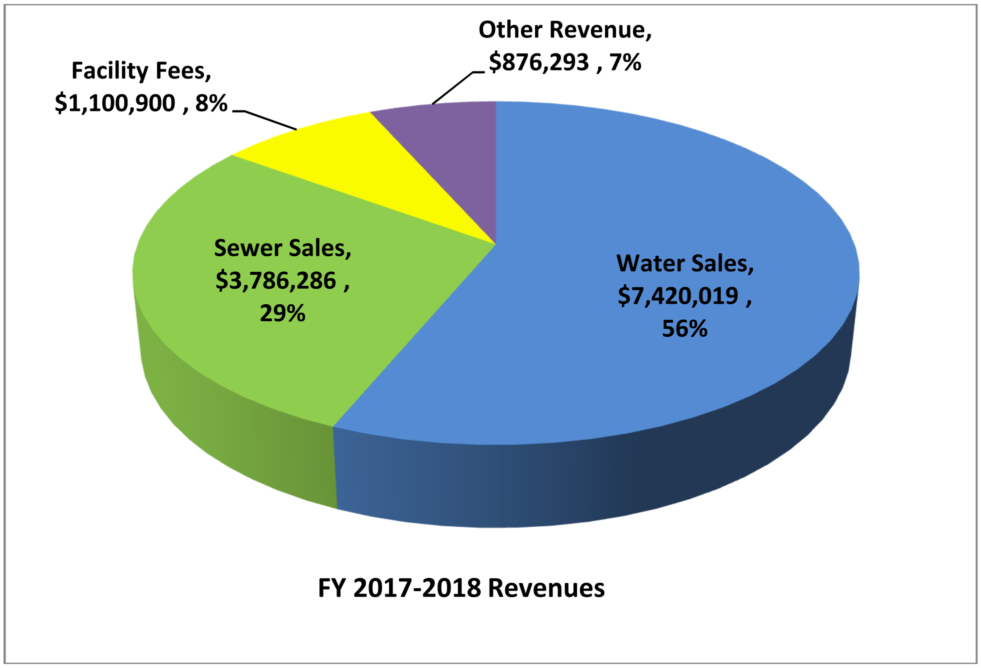
	2018	2017
Current assets	$ 9,134,852	$ 8,041,154
Cash and cash equivalent, restricted	3,735,370	4,514,684
Investments, restricted	1,669,570	1,669,570
Capital assets, net	108,653,581	108,787,254
Total Assets	123,193,373	123,012,662
Deferred loss on refunding	656,070	792,390
Deferred outflows related to pensions	426,385	436,049
Deferred outflows related to other postemployment benefits	24,765	-
Total Deferred Outflows of Resources	1,107,220	1,228,439
Current Liabilities	4,253,705	4,807,360
Long-Term liabilities	46,995,005	50,017,584
Total Liabilities	51,248,710	54,824,944
Deferred inflows related to pensions	136,515	-
Deferred inflows related to other postemployment benefits	24,000	-
Total Deferred Inflows of Resources	160,515	-
Net investment in capital assets	64,413,555	62,754,656
Restricted for:		
Capital improvements	510,107	434,870
Debt collateral	1,784,210	1,835,885
Unrestricted	6,183,496	4,390,746
Total Net Position	$ 72,891,368	$ 69,416,157

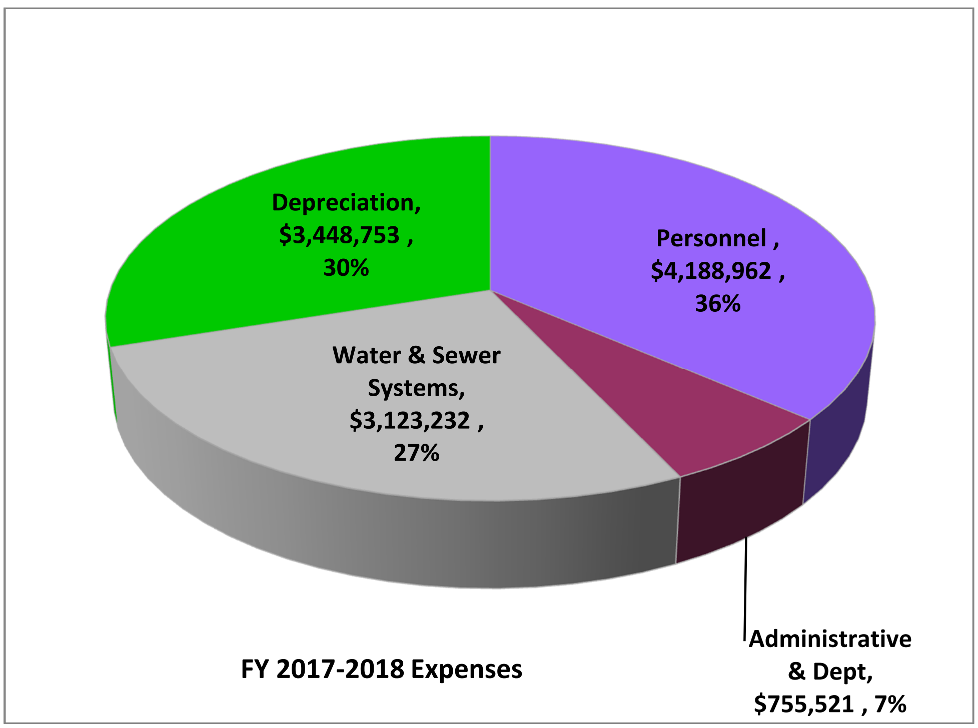
Financial Analysis (Continued)

Condensed Statement of Revenues, Expenses and Changes In Net Position

	2018	2017
Revenues:		
Operating Revenues		
Water Sales	$ 7,420,019	$ 7,320,151
Facility Fees	1,110,900	1,108,800
Sewer Service	3,786,286	3,717,808
Wastewater treatment plant operation fees	304,883	271,520
Other revenues from customers	571,410	566,566
Total Revenues	13,183,498	12,984,845
Expenses:		
Operating Expenses:		
Water Systems	1,783,950	1,960,333
Sewer systems	1,339,282	1,456,985
Salaries and employee benefits	4,188,962	4,023,075
Management and general	229,158	239,898
Customer service and information systems	248,033	187,386
Vehicles	199,994	167,557
Engineering, operations and operations	78,336	79,486
Depreciation and amortization	3,448,753	3,225,190
Total Expenses	11,516,468	11,339,910
Nonoperating Revenues (Expenses):		
Gain in disposal of capital assets	35,463	10,044
Investment income	59,307	72,083
Interest expense	(764,195)	(1,125,038)
Total Nonoperating Revenues (Expenses)	(669,425)	(1,042,911)
Income before capital contributions	997,605	602,024
Capital Contributions	2,701,869	3,041,532
Changes in net position	3,699,474	3,643,556
Net position – July 1	69,191,894	65,772,601
Net position– June 30	$ 72,891,368	$ 69,416,157

Financial Analysis (Continued)





Financial Analysis (Continued)

At the end of the current fiscal year, the Authority was able to report positive balances in total net position. The same held true for the prior fiscal year. At the end of the current fiscal year, the Authority had positive balances in unrestricted net position.

During the current fiscal year the Authority's net position increased by $3,699,474.

Operating revenues increased by $198,653 or 1.53% and operating expenses increased by $176,558 or 1.56%.

Key elements of these changes are as follows:

- Water and sewer sales increased due to a rate increase, as well as an increase in customers.
- Water system expenses decreased as a result of increased usage from the Smith Mountain Lake Water Treatment Facility, and a decrease of purchased water from the City of Lynchburg.
- Depreciation expense increased due to the addition of capital assets.
- Salaries and employee benefits increased as result of hiring new employees and increases in insurance premiums and other benefits.
- Customer service and billing related expenses increased due to the change from bimonthly to monthly billing.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2018 amounted to $108,653,581 (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. Additional information related to capital assets is located in Note 4 of the *Notes to Financial Statements*.

Capital Assets

	2018	2017
Land and land rights	$ 1,010,476	$ 1,010,476
Construction in progress	319,623	27,044,762
Water and sewer systems	156,856,614	127,125,003
Vehicles and equipment	2,496,626	2,307,501
Office Facilities	2,528,602	2,519,202
Information Systems Equipment	1,576,018	1,535,922
Total Book Value	164,787,959	161,542,866
Less - accumulated depreciation	(56,134,378)	(52,755,612)
Total - net of accumulated depreciation	$ 108,653,581	$ 108,787,254

Capital Asset and Debt Administration

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

- Developer dedications of water and sewer lines throughout Bedford County totaled $701,869.
- A total of $29,731,611 was added to water and sewer infrastructure.
- A total of $40,096 was spent on Information Technology. This included phones and routers, computers, and switches.
- A total of $351,994 was spent on vehicles and equipment. This included new vehicles, an excavator, and several other smaller equipment purchases.

The following projects were placed into service during the fiscal year:

Smith Mountain Lake Water Treatemnt Facility	$ 15,883,890
Lakes to Forest Waterlines	$ 12,304,675
Moneta WWTP Biowheel	$ 87,063
Field Trace Sewer Replacement	$ 78,800
Forest Area Meter change out program	$ 56,540
Multiple sewer rehabilitation projects	$ 174,988
Valve replacement projects	$ 37,350
Tank Rehabilitation projects	$ 79,368
Meadow Point waterline replacement project	$ 241,842

Long-term debt. At the end of the fiscal year, the Authority had $46,590,755 in bonds and notes outstanding, versus $49,093,319 last year, a decrease of 5.10% as shown below. Outstanding obligations decreased as a result of principal payments being made.

The Authority's Virginia Resource Authority Bonds are rated "AAA" from Standard and Poor's. Other obligations include accrued paid time off (PTO). More detailed information on the Authority's long-term liabilities is located in Note 5 of the N*otes to Financial Statements.*

Long-Term Debt

	2018	2017
Lynchburg Sewer System Bonds	$ 857,748	$ 1,042,670
Assumed Debt from Town of Bedford	4,368,007	5,010,650
2015 VRA Bonds	30,685,000	30,960,000
2009B Pooled Loan Bonds	4,540,000	5,330,000
2012 Pooled Bonds	4,395,000	5,005,000
2014 Pooled Bonds	1,745,000	1,745,000
Unamortized premium on bonds	1,415,964	$1,645,167
	$ 48,006,719	$ 50,738,487

Requests for information

This financial report is designed to provide a general overview of the Authority's finances. For additional financial information contact the BRWA's Finance Department in person or by mail at 1723 Falling Creek Road, Bedford, VA 24523, by email at finance@brwa.com or by telephone at (540)586-76

FINANCIAL STATEMENTS

BEDFORD REGIONAL WATER AUTHORITY

STATEMENT OF NET POSITION
June 30, 2018

	2018	(For Comparative Purposes Only) 2017
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 6,385,073	$ 4,586,707
Accounts receivable (Note 3)	2,292,730	3,177,767
Inventory	381,702	214,425
Prepaids	75,347	62,255
Total current assets	9,134,852	8,041,154
Noncurrent assets		
Cash and cash equivalents, restricted (Note 2)	3,735,370	4,514,684
Investments, restricted (Note 2)	1,669,570	1,669,570
Capital assets (Note 4)		
Nondepreciable	1,330,099	28,055,238
Depreciable, net	107,323,482	80,732,016
Total noncurrent assets	114,058,521	114,971,508
Total assets	123,193,373	123,012,662
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	656,070	792,390
Deferred outflows related to pensions (Note 7)	426,385	436,049
Deferred outflows related to other postemployment benefits (Note 8)	24,765	-
Total deferred outflows of resources	1,107,220	1,228,439
LIABILITIES		
Current liabilities		
Accounts payable	737,025	1,445,063
Accrued liabilities	139,587	130,913
Interest payable	449,732	470,781
Current maturities of other long-term liabilities (Note 5)	2,927,361	2,760,603
Total current liabilities	4,253,705	4,807,360
Long-term liabilities		
Customer security deposits	619,819	590,732
Unearned revenue	676,109	864,709
Other long-term liabilities – due in more than one year (Note 5)	45,197,628	48,093,232
Net pension liability (Note 7)	286,449	468,911
Net other postemployment benefit liabilities (Note 8)	215,000	-
Total long-term liabilities	46,995,005	50,017,584
Total liabilities	51,248,710	54,824,944
DEFERRED INFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 7)	136,515	-
Deferred outflows related to other postemployment benefits (Note 8)	24,000	-
Total deferred outflows of resources	160,515	-
NET POSITION		
Net investment in capital assets	64,413,555	62,754,656
Restricted for: (Note 2)		
Capital improvements	510,107	434,870
Debt collateral	1,784,210	1,835,885
Unrestricted	6,183,496	4,390,746
Total net position	$ 72,891,368	$ 69,416,157

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

Exhibit 2

BEDFORD REGIONAL WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING REVENUES		
Water sales	$ 7,420,019	$ 7,320,151
Facility fees	1,100,900	1,108,800
Sewer service	3,786,286	3,717,808
Wastewater treatment plant operation fees	304,883	271,520
Review fees	39,328	48,233
Meter base installation fees	104,900	66,828
Account changes	59,527	57,145
Other	242,575	222,783
Penalties	125,080	171,577
Total operating revenues	13,183,498	12,984,845
OPERATING EXPENSES		
Water systems	1,783,950	1,960,333
Sewer systems	1,339,282	1,456,985
Depreciation and amortization	3,448,753	3,225,190
Salaries and employee benefits	4,188,962	4,023,075
Management and general	229,158	239,898
Customer service and information systems	248,033	187,386
Vehicles	199,994	167,557
Engineering, operations, and maintenance	78,336	79,486
Total operating expenses	11,516,468	11,339,910
Operating income	1,667,030	1,644,935
NONOPERATING REVENUES (EXPENSES)		
Gain on disposal of capital assets	35,463	10,044
Investment income	59,307	72,083
Interest expense	(764,195)	(1,125,038)
Total nonoperating revenues (expenses)	(669,425)	(1,042,911)
Income before capital contributions	997,605	602,024
CAPITAL CONTRIBUTIONS (Note 6)	2,701,869	3,041,532
Change in net position	3,699,474	3,643,556
Net position – beginning at July 1, as restated (Note 12)	69,191,894	65,772,601
Net position – ending at June 30	$ 72,891,368	$ 69,416,157

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

Exhibit 3

BEDFORD REGIONAL WATER AUTHORITY

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING ACTIVITIES		
Cash received from customers	$ 13,909,022	$ 13,594,836
Cash paid for goods and services	(4,841,715)	(6,537,101)
Cash paid to employees	(4,223,678)	(4,014,171)
Net cash provided by operating activities	4,843,629	3,043,564
CAPITAL AND RELATED FINANCING ACTIVITIES		
County of Bedford – capital debt assistance	2,000,000	2,000,000
Town of Bedford – capital asset assistance	-	353,571
Acquisition and construction of capital assets	(1,624,679)	(13,991,767)
Principal paid on long-term borrowings	(2,502,565)	(2,428,098)
Interest paid on long-term borrowings	(1,792,103)	(1,876,048)
Proceeds from sale of capital assets	35,463	12,367
Net cash used in capital and related financing activities	(3,883,884)	(15,929,975)
INVESTING ACTIVITIES		
Purchase of restricted investments	-	(1,669,570)
Interest received	59,307	72,083
Net cash provided by (used in) investing activities	59,307	(1,597,487)
Net increase (decrease) in cash and cash equivalents	1,019,052	(14,483,898)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	9,101,391	23,585,289
Ending at June 30	$ 10,120,443	$ 9,101,391
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 6,385,073	$ 4,586,707
Cash and cash equivalents, restricted	3,735,370	4,514,684
	$ 10,120,443	$ 9,101,391
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,667,030	$ 1,644,935
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,448,753	3,225,190
Pension expense net of employer contributions	(36,283)	(14,694)
Other postemployment benefit expense net of employer contributions	(10,028)	-
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	885,037	778,603
Inventory	(167,277)	64,161
Prepaids	(13,092)	60,237
Increase (decrease) in:		
Accounts payable	(782,593)	(2,569,854)
Unearned revenue	(188,600)	(142,456)
Customer security deposits	29,087	(26,156)
Compensated absences and accrued liabilities	11,595	23,598
Net cash provided by operating activities	$ 4,843,629	$ 3,043,564
SCHEDULE OF NONCASH ACTIVITIES		
Contributions of capital assets	$ 701,869	$ 687,961
Capitalized interest	$ 1,006,859	$ 731,952
Capital asset purchases included in accounts payable	$ 588,804	$ 514,249

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

Note 1. Summary of Significant Accounting Policies

Reporting entity

The Bedford Regional Water Authority (the "Authority") was chartered December 18, 2012 under the Water and Wastewater Authorities Act, §§15.2-5100, et seq. of the *Code of Virginia*, 1950, as amended, by concurrent resolutions adopted by the Bedford County Board of Supervisors and the City Council of the City of Bedford, Virginia (now the Town of Bedford, Virginia) (the "Town"). The Authority primarily serves water and sewer needs of the Smith Mountain Lake, Forest, Montvale, Stewartsville, New London, Town of Bedford, and Boonsboro areas of Bedford County, Virginia (the "County"). The Authority operates on a Board-administrator form of government. The Board consists of a Chairman and six other Board members, three of whom are appointed by the County Board of Supervisors, three of whom are appointed by the Town Council of the Town, and the seventh of whom is nominated by the six directors and confirmed by the County Board of Supervisors and the Town Council. The Authority is not a component unit of the County nor of the Town.

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.

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 consist of cash on hand, demand deposits, and short-term investments with original maturities three months or less from the date of acquisition.

Investments

The Authority's investments consist of municipal bonds with original maturities greater than one year 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.

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, and meters reported at cost. 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.

Capital assets

Capital assets are stated at cost, except for donated assets, which are recorded at fair market value at the date of acquisition. Donated capital assets are reported at acquisition value. 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:

System, lines, and source of supply structures	50-66 years
Leasehold improvements	5-40 years
Vehicles and equipment	5-10 years
Information systems equipment	3-10 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.

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, 2018 was $1,006,859.

Compensated absences

The paid-time-off (PTO) policy of the Authority provides for up to 312 hours per year of earned vacation leave, depending on years of service. Employees that are Plan 1 or Plan 2 VRS participants may carry over 640 hours to the succeeding year. Employees that are Hybrid Plan VRS participants may carry over 352 hours to the succeeding year. Upon termination, one half of the accumulated PTO balance is payable at 100% of the employee's current pay rate. Compensated absences are accrued when incurred.

Note 1. Summary of Significant Accounting Policies (Continued)

Pensions and Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to pensions and OPEB, information about the fiduciary net position of the Authority's Plans and the additions to/deductions from the Authority's Plans' net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred outflows/inflows of resources

In addition to assets, the statement that presents net position reports a separate section for deferred outflows of resources. These items represent a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement that presents financial position reports a separate section for deferred inflows or resources. These items represent an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

Unearned revenue

Unearned 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.

Fair value measurement

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Commercial paper and corporate bonds are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Net position

Net position is the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt and related deferred inflows or outflows of resources related to the acquisition, construction, or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Estimates

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

Note 2. Deposits and Investments

Deposits

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

Investments

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; obligations of the International Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP and VIP).

The fair value of the positions in the external investment pools (Local Government Investment Pool and Virginia Investment Pool) are the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. The pools maintain a policy to operate in a manner consistent with SEC Rule 2a-7. Due to the nature of LGIP and VIP, they are considered a cash and cash equivalent on the statement of net position.

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

Investments in the SNAP accounts consist of money market funds in the amount of $3,225,263 stated at cost, which approximates fair value. These funds are classified as cash and cash equivalents, restricted, in the statement of net position.

(Continued)

Note 2. Deposit and Investments (Continued)

Interest rate risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The Authority's investment policy limits certain investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates; however, it follows the *Code of Virginia* for investment compliance matters.

Credit risk

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

Deposit and investment restrictions

Cash and cash equivalents, investments, restricted, and net position, restricted consist of the following:

	Cash and Cash Equivalents, Restricted	Investments, Restricted	Net Position, Restricted
New Projects Reserve Fund	$ 177,656	$ -	$ 177,656
Sewerline Replacement Fund	332,451	-	332,451
VRA Debt Service Fund	114,640	1,669,570	1,784,210
VRA Construction Fund	3,110,623	-	-
	$ 3,735,370	$ 1,669,570	$ 2,294,317

New Projects Reserve Fund. The County of Bedford and the Authority entered into an agreement to set aside 40% of the County's and Authority's portion of funds received from the lease of two water tanks to wireless service providers. The Authority held all funds until capital costs for making the tanks co-locatable for the lessors were recovered, then the County receives 40%, placed in this reserve fund. The funds in this reserve account are to be held for future capital projects for the benefit of the County, as the County deems appropriate.

Sewerline Replacement Fund. The Authority established a sewerline replacement fund as required by the DEQ consent order inherited from the Town as part of the consolidation agreement.

Note 2. Deposits and Investments (Continued)

Deposit and investment restrictions (Continued)

Unspent Bond Proceeds. A Bond from Virginia Resources Authority in the amount of $31,225,000 was issued on October 7, 2015 to provide financing for design, engineering, and construction work for the Authority's Smith Mountain Lake water treatment plant and intake facility. Bond proceeds not spent on the project are included in VRA Construction Fund above, and are included with the associated debt in the net position classification, net investment in capital assets.

VRA Debt Service Fund. The Authority established a debt service fund with SNAP to ensure its debt coverage requirements would be met. This fund is required by the 2015 debt issuance, and represents the highest debt service payment due during the life of the debt issue. Compliance with the debt coverage requirement is contingent upon this fund, therefore this amount is shown as restricted cash and net position. The debt service fund with SNAP amounted to $114,640 at June 30, 2018.

The Authority also purchased municipal bonds through PNC Capital Markets which serves as a debt service fund to ensure its debt coverage requirements are met. Those bonds mature on November 15, 2026 and are measured using a Level 2 input as it relates to fair value measurement. The debt service fund with PNC Capital Markets amounted to $1,669,570 at June 30, 2018.

Note 3. Accounts Receivable

Accounts receivable, net consists of the following:

	Billed	Unbilled	Total
Water	$ 753,674	$ 532,065	$ 1,285,739
Sewer	731,134	279,920	1,011,054
Other	328,278	-	328,278
	1,813,086	811,985	2,625,071
Less:			
Allowance for doubtful accounts	(332,341)	-	(332,341)
	$ 1,480,745	$ 811,985	$ 2,292,730

(Continued)

Note 4. Capital Assets

Capital asset activity for the year was as follows:

	Beginning July 1	Increases	Decreases	Ending June 30
Capital assets, not being depreciated				
Land and land rights	$ 1,010,476	$ -	$ -	$ 1,010,476
Construction in progress	27,044,762	1,901,900	(28,627,039)	319,623
Total capital assets, not being depreciated	28,055,238	1,901,900	(28,627,039)	1,330,099
Capital assets, being depreciated				
System, lines, and source of supply structures	127,125,003	29,731,611	-	156,856,614
Leasehold improvements	2,519,202	9,400	-	2,528,602
Vehicles and equipment	2,307,501	351,994	(162,869)	2,496,626
Information systems equipment	1,535,922	40,096	-	1,576,018
Total capital assets, being depreciated	133,487,628	30,133,101	(162,869)	163,457,860
Less accumulated depreciation for:				
System, lines, and source of supply structures	(48,236,412)	(3,155,557)	-	(51,391,969)
Leasehold improvements	(1,438,040)	(151,636)	-	(1,589,676)
Vehicles and equipment	(1,732,001)	(155,642)	162,869	(1,724,774)
Information systems equipment	(1,349,159)	(78,800)	-	(1,427,959)
Total accumulated depreciation	(52,755,612)	(3,541,635)	162,869	(56,134,378)
Total capital assets being depreciated, net	80,732,016	26,591,466	-	107,323,482
Total capital assets, net	$ 108,787,254	$ 28,493,366	$ (28,627,039)	$ 108,653,581

(Continued)

Note 4. Capital Assets (Continued)

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

Construction commitments

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

Project	Total Remaining Commitment
Central WWTP Hypo Conversation – Construction	$ 768,405
Central WWTP Hypo Conversion – Submittal Review	6,983
BRWA Administration Parking Lot – Design	37,700
	$ 813,088

Note 5. Long-Term Liabilities

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

	Beginning July 1	Additions	Reductions	Ending June 30	Due Within One Year
Revenue Bonds	$ 43,040,000	$ -	$ (1,675,000)	$ 41,365,000	$ 1,885,000
Lynchburg Sewer System Bonds	1,042,670	-	(184,922)	857,748	132,578
Due To Town of Bedford	5,010,650	-	(642,643)	4,368,007	651,014
Bond Premiums	1,645,167	-	(229,203)	1,415,964	229,201
Compensated absences	115,348	81,559	(78,637)	118,270	29,568
	$ 50,853,835	$ 81,559	$ (2,810,405)	$ 48,124,989	$ 2,927,361

Note 5. Long-Term Liabilities (Continued)

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Outstanding
Revenue Bonds:					
Virginia Resources Authority					
Water and Sewer Bonds	2.13-5.13%	10/07/15	04/01/46	$ 31,225,000	$ 30,685,000
Water and Sewer Bonds	4.10-5.00	06/09/09	10/01/22	9,425,000	4,540,000
Water and Sewer Bonds	2.29-5.13	10/01/12	10/01/23	5,020,000	4,395,000
Water and Sewer Bonds	3.82-4.43	07/29/14	10/01/25	2,320,000	1,745,000
					41,365,000
		Plus unamortized bond premium			1,415,964
					$ 42,780,964
Due To Other Governmental Units:					
Lynchburg Sewer System Bonds	1.75-5.00%	Various	06/01/44	$ 3,236,174	$ 857,748
Due To Town of Bedford	Various	Various	02/21/26	7,501,599	4,368,007
					$ 5,225,755

Prior Year Defeasance of Debt

In 2012, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds through their maturity date. The deferred costs are being amortized over the life of the new bonds as a component of interest expense. As a result, the liability for those bonds has been removed from the financial statements. At June 30, 2018, $4,690,000 of these bonds remains outstanding.

In 2014, the Authority defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds through their maturity date. The deferred costs are being amortized over the life of the new bonds as a component of interest expense. As a result, the liability for those bonds has been removed from the financial statements. At June 30, 2018, $1,835,000 of these bonds remains outstanding.

Note 5. Long-Term Liabilities (Continued)

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

Fiscal	Lynchburg Sewer System Bonds		Revenue Bonds		Due To Town of Bedford	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2019	132,578	6,397	1,885,000	1,597,316	651,014	95,218
2020	108,657	2,920	2,205,000	1,500,009	470,611	84,273
2021	45,359	262	2,375,000	1,395,322	475,027	80,070
2022	36,082	16	2,490,000	1,286,031	482,343	72,881
2023	36,082	16	2,620,000	1,160,588	490,012	65,475
2024-2028	180,413	66	6,745,000	4,661,341	1,799,000	107,173
2029-2033	180,413	45	4,935,000	3,724,169	-	-
2034-2038	74,047	25	5,945,000	2,824,759	-	-
2039-2043	57,554	5	7,155,000	1,639,175	-	-
2044-2046	6,563	-	5,010,000	289,550	-	-
	$ 857,748	$ 9,752	$ 41,365,000	$ 20,078,260	$ 4,368,007	$ 505,090

Note 6. Capital Contributions

Capital contributions by source are summarized as follows:

Developers and customers	$ 701,869
County of Bedford – capital debt assistance	2,000,000
	$ 2,701,869

The County of Bedford contributes funding annually to assist in the payment of debt service for water and sewer lines and plant expansion.

Note 7. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of the Bedford Regional Water Authority, (the “Political Subdivision”) are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are as follows:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013 and have not taken a refund.

- **Hybrid Opt-In Election –** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service –** Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

(Continued)

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Vesting –** Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit –** The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.
- **Normal Retirement Age –** Age 65.
- **Earliest Unreduced Retirement Eligibility –** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.
- **Earliest Reduced Retirement Eligibility –** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Eligibility** – For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.
  - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
    - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
    - The member retires on disability.
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
    - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election –** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction.
- **Creditable Service –** Same as Plan 1.
- **Vesting –** Same as Plan 1.
- **Calculating the Benefit –** See definition under Plan 1.
- **Average Final Compensation –** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.
- **Normal Retirement Age –** Normal Social Security retirement age.
- **Earliest Unreduced Retirement Eligibility –** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
    - **Eligibility** – Same as Plan 1.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service –** Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members –** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members –** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions –** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Creditable Service –**
  - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn credible service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional credible service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
  - **Defined Contributions Component –** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting –**
  - **Defined Benefit Component –** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
  - **Defined Contributions Component –** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component –** See definition under Plan 1.
  - **Defined Contribution Component –** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.
- **Normal Retirement Age –**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component –** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement –**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.

(Continued)

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service –**
  - **Defined Benefit Component –** Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
  - **Defined Contribution Component –** Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	13
Inactive members:	
Vested inactive members	4
Non-vested inactive members	15
Inactive members active elsewhere in VRS	6
Total inactive members	25
Active members	62
Total covered employees	100

Note 7. Defined Benefit Pension Plan (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 7.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $214,380 and $194,197 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Note 7. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.50%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 7. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2016, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (a) – (b)**
Balances at June 30, 2016	$ 3,996,997	$ 3,528,086	$ 468,911
Changes for the year:			
Service cost	273,841	-	273,841
Interest	274,839	-	274,839
Differences between expected and actual experience	127,083	-	127,083
Assumption changes	(89,886)	-	(89,886)
Contributions – employer	-	194,197	(194,197)
Contributions – employee	-	130,927	(130,927)
Net investment income	-	445,970	(445,970)
Benefit payments, including refunds of employee contributions	(141,460)	(141,460)	-
Administrative expenses	-	(2,349)	2,349
Other changes	-	(406)	406
Net changes	444,417	626,879	(182,462)
Balances at June 30, 2017	$ 4,441,414	$ 4,154,965	$ 286,449

Note 7. Defined Benefit Pension Plan (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	$ 1,022,012	$ 286,449	$ (304,997)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the political subdivision recognized pension expense of $173,055. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 212,005	$ -
Change in assumptions	-	72,862
Net difference between projected and actual earnings on pension plan investments	-	63,653
Employer contributions subsequent to the measurement date	214,380	-
Total	$ 426,385	$ 136,515

Note 7. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The $214,380 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2019	$ 5,846
2020	50,041
2021	35,408
2022	(17,808)
2023	2,003
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Authority also participates in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

Plan Descriptions

Group Life Insurance Program

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

In addition to the Basic Group Life Insurance Benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp

The GLI is administered by the VRS along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia. The plan is considered a multiple employer, cost sharing plan.

Contributions

Contributions to the VRS OPEB program was based on actuarially determined rates from an actuarial valuation as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB program is as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution	$14,765
June 30, 2017 Contribution	$13,737

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

OPEB Liability OPEB Expense and Deferred Inflows and Outflows of Resources Related to OPEB

The net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the net OPEB liability was based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	$	215,000
June 30, 2017 proportion		0.01432 %
June 30, 2016 proportion		0.01362 %
June 30, 2018 expense	$	4,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 5,000
Change in assumptions	-	11,000
Net difference between projected and actual earnings on OPEB plan investments	-	8,000
Changes in proportion	10,000	-
Employer contributions subsequent to the measurement date	14,765	-
Total	$ 24,765	$ 24,000

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

The deferred outflows of resources related to OPEB resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (3,000)
2020	(3,000)
2021	(3,000)
2022	(3,000)
2023	(1,000)
Thereafter	(1,000)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017:

Inflation	2.5%
Salary increases, including inflation:	
• Locality- general employees	3.5 – 5.35%
Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	GLI: 7.0%

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be the percent noted above to simplify preparation of OPEB liabilities.

Mortality rates used for the VRS OPEB plan is the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 7.

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Net OPEB Liability

The net OPEB liability represent the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amount for the VRS OPEB program is as follows (amounts expressed in thousands):

	Group Life Insurance Program
Total OPEB Liability	$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net OPEB liability (asset)	$ 1,504,840
Plan fiduciary net position as a percentage of total OPEB liability	48.86%

The total liability is calculated by the VRS actuary and the fiduciary net position is reported in the VRS financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the VRS notes to the financial statements and required supplementary information.

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Long-Term Expected Rate of Return

Group Life Insurance

The long-term expected rate of return on VRS investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00 %	4.54 %	1.82 %
Fixed Income	15.00	0.69	0.10
Credit Strategies	15.00	3.96	0.59
Real Assets	15.00	5.76	0.86
Private Equity	15.00	9.53	1.43
Total	100.00 %		4.80 %
	Inflation		2.50 %
	*Expected arithmetic nominal return		7.30 %

* The above allocation provides for a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected rate of return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Note 8. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Discount Rate

The discount rate used to measure the GLI liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the OPEB liability will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the OPEB plan fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the Authority, as well as what the Authority's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current discount rate:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	$ 279,000	$ 215,000	$ 164,000

OPEB Plan Fiduciary Net Position

Information about the VRS OPEB plan fiduciary net position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9. Service Contracts

City of Lynchburg

The Authority, as well as Amherst County and the Campbell County Utilities and Service Authority, have a sewage treatment agreement with the City of Lynchburg. This perpetual agreement shall continue in full force and in effect until terminated by mutual agreement. As part of this agreement, each member of the Regional Sewage Treatment Plant is responsible for their proportionate share of improvements to Joint-Use Facilities. As the City performs additions to specified portions of the system, the Authority shows its proportionate share of improvements as additions to debt and capital assets. Sewage treatment under this agreement for 2018 was $241,407. There were no current year additions to debt but related capital assets under this agreement increased $32,919 for 2018.

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 is purchased under the contract. Water purchases under this contract for 2018 were $698,980.

On June 30, 2015, the Authority entered into a new water purchase contract with the City of Lynchburg. This new contract supersedes the July 1, 2007 contract and had an effective starting date of October 1, 2016 and ending date of June 30, 2036. The contract is automatically renewed in ten-year increments, upon the conclusion of the initial 20 year period. The Authority constructed a water treatment facility and additional transmission mains in Bedford County, some of which serve the Forest area of Bedford County. The Authority must purchase at least an average of 1.25 million gallons of water per day from the City measured on an annual basis for the period beginning July 1, 2016 and ending June 30, 2017 and at least an average of 1.0 million gallons of water per day measured on an annual basis thereafter until the termination of the contract. The contract had a provision that if the Authority did not complete construction on the Route 460 waterline connecting the Smith Mountain Lake and Town of Bedford Central Water System to the Forest Water System by July 1, 2018, the 2015 agreement would terminate and the contract with the City dated July 1, 2007 would be reinstated for the remainder of the contract term. Since the construction was completed prior to July 1, 2018, the 2015 contract remains in effect.

Under the agreements to purchase water and sewer services from the City of Lynchburg, 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, resulting in credits or (expenses) towards current year purchases, totaled $(6,719) for water and $10,593 for sewer in 2018. The adjustments are not estimable and are therefore accounted for in the year they are charged to the Authority.

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. Water purchases under this agreement were $28,397 for 2018.

(Continued)

Note 9. Service Contracts (Continued)

Western Virginia Water Authority (WVWA) (Continued)

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.

Each party has the ability to transfer any portion of their ownership of capacity in the Smith Mountain Lake Water Treatment Plant to the other party, at terms that are mutually agreed to at the time of the transfer. Either party may, on or after July 1, 2024, and following one year's written notice period, require the other party to purchase its interest in the Smith Mountain Water Facility at its then depreciated book value.

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. During 2018, no sales were made under this agreement.

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 Municipal Self Insurance Association ("VML"). During fiscal year 2018, total premiums paid were $35,162. 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.

Note 10. Risk Management (Continued)

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 from small to medium-sized Virginia localities and currently has approximately 500 members.

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

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 2018, approximately $73,000 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.

Smith Mountain Lake Water Treatment Facility

The Authority entered into an agreement with the Western Virginia Water Authority (WVWA) on May 7, 2014 whereby both parties desire to share in the construction cost, ownership, operation, and liabilities of the Smith Mountain Lake Water Treatment Plant (the "Plant") that is expected to be completed in the fall of 2017. The total cost of this project is $14 million, which will be split between the Authority and WVWA. During 2018, $689,637 was received from WVWA to offset its portion of expenses for the project. The Authority is funding their portion of the project with the October 2015 debt issuance. As part of this agreement, the Authority will lease certain real estate to the Plant. This ground lease shall continue in effect until June 30, 2030, unless renewed or terminated. Base rent for the real estate is $20,000 per year.

Note 12. Adoption of New Standard and Prior Period Restatement

In the current year, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard replaces the requirements of GASB Statements No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensive and comparably measure the annual costs of the other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatement of net position from the adoption of GASB Statement No. 75.

Net position, June 30, 2017, as previously stated	$ 69,416,157
Recognition of other post-employment benefit liability and deferred outflow in accordance with GASB 75	(224,263)
Net position, June 30, 2017, as restated	$ 69,191,894

Note 13. New Accounting Standards

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

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

(Continued)

Note 13. New Accounting Standards (Continued)

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Major Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

(Continued)

Note 13. New Accounting Standards (Continued)

The requirements of this Statement are effective for periods beginning after December 15, 2018.The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

BEDFORD REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2018

	Actuarially Determined Contribution			
	2017	**2016**	**2015**	**2014**
Total Pension Liability				
Service cost	$ 273,841	$ 253,398	$ 259,350	$ 129,078
Interest on total pension liability	274,839	251,090	215,254	199,921
Difference between expected and actual experience	127,083	6,745	196,404	-
Changes in assumptions	(89,886)	-	-	-
Benefit payments, including refunds of employee contributions	(141,460)	(202,463)	(115,683)	(104,210)
Net change in total pension liability	444,417	308,770	555,325	224,789
Total pension liability – beginning	3,996,997	3,688,227	3,132,902	2,908,113
Total pension liability – ending	4,441,414	3,996,997	3,688,227	3,132,902
Plan Fiduciary Net Position				
Contributions – employer	194,197	192,962	182,137	178,165
Contributions – employee	130,927	123,748	113,206	111,120
Net investment income	445,970	62,939	145,164	398,747
Benefit payments, including refunds of employee contributions	(141,460)	(202,463)	(115,683)	(104,210)
Administrative expenses	(2,349)	(2,010)	(1,782)	(1,975)
Other	(406)	(26)	(30)	21
Net change in plan fiduciary net position	626,879	175,150	323,012	581,868
Plan fiduciary net position - beginning	3,528,086	3,352,936	3,029,924	2,448,056
Plan fiduciary net position - ending	4,154,965	3,528,086	3,352,936	3,029,924
Net pension liability - ending	$ 286,449	$ 468,911	$ 335,291	$ 102,978
Plan fiduciary net position as a percentage of total pension liability	94%	88%	91%	97%
Covered employee payroll	$ 2,638,936	$ 2,444,270	$ 2,289,281	$ 2,160,777
Net pension liability as a percentage of covered employee payroll	11%	19%	15%	5%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

EXHIBIT 5

BEDFORD REGIONAL WATER AUTHORITY

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REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
Primary Government					
2018	$ 214,380	$ 214,380	$ -	$ 2,839,461	7.55%
2017	$ 194,197	$ 194,197	$ -	$ 2,638,936	7.36%
2016	$ 192,962	$ 192,962	$ -	$ 2,444,270	7.89%
2015	$ 183,600	$ 183,600	$ -	$ 2,289,281	8.02%

This schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only four years of data is available. However, additional years will be included as they become available.

The covered employee payroll amounts above are for the Authority's fiscal year - i.e. the covered employee payroll on which required contributions were based for the same year.

EXHIBIT 6

BEDFORD REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY – VRS GLI
June 30, 2018

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2018	0.0143%	$ 215,000	$ 2,641,731	8.14%	48.86%

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

The Notes to Required Supplementary Information are an integral part of this statement.

EXHIBIT 7

BEDFORD REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS – VRS GLI
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2018	$ 14,765	$ 14,765	$ -	$ 2,839,461	0.52%

This schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

BEDFORD REGIONAL WATER AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered in rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered in rates of disability retirement
- No changes to salary rates
- Increase Line of Duty Disability rates
- Applicable to: Pension, GLI OPEB, and HIC OPEB

All Others (Non 10 Largest) – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates
- Increased Line of Duty disability rates from 14% to 15%
- Applicable to: Pension and GLI OPEB

SUPPORTING SCHEDULE

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF DEPARTMENTAL OPERATING INCOME

Year Ended June 30, 2018

	Water	Sewer	Total
OPERATING REVENUES			
Water sales	$ 7,420,019	$ -	$ 7,420,019
Facility fees	664,000	436,900	1,100,900
Sewer service	-	3,786,286	3,786,286
Wastewater treatment plant operation fees	242,137	62,746	304,883
Review fees	18,664	20,664	39,328
Meter base installation fees	104,900	-	104,900
Account charges	41,352	18,175	59,527
Other	135,842	106,733	242,575
Penalties	78,376	46,704	125,080
Total operating revenues	8,705,290	4,478,208	13,183,498
OPERATING EXPENSES			
Water systems	1,783,950	-	1,783,950
Sewer systems	-	1,339,282	1,339,282
Depreciation and amortization	1,846,901	1,601,852	3,448,753
Salaries and employee benefits	2,345,819	1,843,143	4,188,962
Management and general	128,329	100,829	229,158
Customer service and information services	138,898	109,135	248,033
Vehicles	111,997	87,997	199,994
Engineering, operations, and maintenance	43,868	34,468	78,336
Total operating expenses	6,399,762	5,116,706	11,516,468
Operating income (loss)	$ 2,305,528	$ (638,498)	$ 1,667,030

STATISTICAL SECTION

This part of the Bedford Regional Water 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

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Notes:

On July 1, 2013 the Bedford County Public Service Authority and City of Bedford Water and Sewer department consolidated to form the Bedford Regional Water Authority, therefore only five years of statistical data are being presented. The ultimate goal is to present ten years of data.

The Authority implemented GASB Statement 68 and restated beginning net position for 2015. The restatement is not included in the prior year data.

The Authority implemented GASB Statement 75 and restated beginning net position for 2018. The restatement is not included in the prior year data.

Table 1

BEDFORD REGIONAL WATER AUTHORITY

NET POSITION BY COMPONENT
LAST FIVE FISCAL YEARS

	Fiscal Year 2018	2017	2016	2015	2014
Primary Government					
Net investment in capital assets	$ 64,413,555	$ 62,754,656	$ 61,962,141	$ 61,289,580	$59,491,970
Restricted	2,294,317	2,270,755	1,998,401	238,334	533,542
Unrestricted	6,183,496	4,390,746	1,812,059	3,315,325	1,647,890
Total primary government net position	$ 72,891,368	$ 69,416,157	$ 65,772,601	$ 64,843,239	$ 61,673,402

Table 2

BEDFORD REGIONAL WATER AUTHORITY

CHANGES IN NET POSITION
LAST FIVE FISCAL YEARS

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Total Nonoperating Revenues (Expenses)	Income (Loss) before Capital Contributions	Capital Contributions	Transfer of Operations	Change in Net Position
2018	$ 13,183,498	$ 11,516,468	$ 1,667,030	$ (669,425)	$ 997,605	$ 2,701,869	$ -	$ 3,699,474
2017	12,984,845	11,339,910	1,644,935	(1,042,911)	602,024	3,041,532	-	3,643,556
2016	11,781,125	11,771,099	10,026	(1,369,354)	(1,359,328)	2,288,690	-	929,362
2015	10,699,859	10,403,587	296,272	(793,906)	(497,634)	3,949,363	-	3,451,729
2014	9,437,450	10,157,922	(720,472)	(936,482)	(1,656,954)	2,679,469	60,652,044	61,674,559

Table 3

BEDFORD REGIONAL WATER AUTHORITY

OPERATING EXPENSES
LAST FIVE 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
2018	$ 1,783,950	$ 1,339,282	$ 4,188,962	$ 755,521	$ 8,067,715	$ 3,448,753	$ 11,516,468
2017	1,960,333	1,456,985	4,023,075	674,327	8,114,720	3,225,190	11,339,910
2016	2,209,621	1,274,345	3,723,314	1,409,285	8,616,565	3,154,534	11,771,099
2015	2,193,011	1,227,407	3,210,176	643,715	7,274,309	3,129,278	10,403,587
2014	2,040,075	1,165,537	3,264,722	613,096	7,083,430	3,074,492	10,157,922

Table 4

BEDFORD REGIONAL WATER AUTHORITY

NONOPERATING REVENUES AND EXPENSES
LAST FIVE FISCAL YEARS

Fiscal Year	Gain (Loss) on Disposal of Capital Assets	Interest Expense [a]	Investment Income	Total Nonoperating Revenues (Expenses)
2018	$ 35,463	$ (764,195)	$ 59,307	$ (669,425)
2017	10,044	(1,125,038)	72,083	(1,042,911)
2016	(8,292)	(1,438,201)	77,139	(1,369,354)
2015	1,759	(795,665)	-	(793,906)
2014	-	(936,482)	-	(936,482)

[a] Net of capitalized amounts

Table 5

BEDFORD REGIONAL WATER AUTHORITY

OPERATING REVENUES BY SOURCE
LAST FIVE FISCAL YEARS

Fiscal Year	Water Revenue	Sewer Revenue	Water Facility Revenue	Sewer Facility Revenue	Penalties and Fees [a]	Miscellaneous [b]	Total
2018	$ 7,662,156	$ 3,849,032	$ 664,000	$ 436,900	$ 328,835	$ 242,575	$ 13,183,498
2017	7,519,344	3,790,135	638,200	470,600	343,783	222,783	12,984,845
2016	6,756,704	3,699,411	529,700	277,400	310,556	207,354	11,781,125
2015	6,070,708	3,335,288	546,157	243,343	330,539	173,824	10,699,859
2014	5,413,660	3,050,474	408,500	159,400	231,009	174,407	9,437,450

[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 REGIONAL WATER AUTHORITY

WATER PRODUCED AND CONSUMED AND WASTEWATER TREATED
LAST FIVE FISCAL YEARS

	Water				Sewer			
Fiscal Year	Gallons Produced (000's)	Gallons Billed (000's)	Other Unbilled Uses (000's)	Water Accountability	Gallons Treated (000's)	Gallons Billed (000's)	Other Unbilled Uses	Sewer Accountability
2018	1,207,069	917,950	31,194	78.63%	538,400	330,082	558	61.41%
2017	1,086,440	858,199	10,015	79.91	470,931	324,911	-	68.99
2016	1,080,997	836,616	27,808	79.97	500,777	334,434	-	65.04
2015	1,086,774	832,842	17,761	78.27	453,312	331,637	7,989	74.92
2014	1,053,128	788,118	43,444	78.96	485,695	293,591	8,668	62.23

Note: Other unbilled uses include water that is used for flushing and new construction.

Table 7

BEDFORD REGIONAL WATER AUTHORITY

ANNUAL CONNECTIONS
LAST FIVE FISCAL YEARS

Fiscal Year	Water Connections	Sewer Connections	Total New Connections
2018	456	232	688
2017	206	107	313
2016	399	147	546
2015	153	45	198
2014	159	41	200

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 REGIONAL WATER AUTHORITY

NUMBER OF WATER CUSTOMERS BY TYPE
LAST FIVE FISCAL YEARS

Fiscal Year	Residential	Commercial	Industrial	Institutional	Irrigation	Total
2018	12,894	807	25	73	13	13,812
2017	12,800	787	24	68	57	13,736
2016	11,956	764	23	68	50	12,861
2015	11,737	768	23	67	15	12,610
2014	11,381	756	23	70	43	12,273

Note: Institutional includes governmental and educational user types.

Table 9

BEDFORD REGIONAL WATER AUTHORITY

NUMBER OF SEWER CUSTOMERS BY TYPE
LAST FIVE FISCAL YEARS

Fiscal Year	Residential	Commercial	Industrial	Institutional[1]	nm[2]	Total
2018	4,123	564	9	46	0	4,742
2017	4,071	575	9	43	0	4,698
2016	3,969	556	8	43	0	4,576
2015	3,918	562	8	43	0	4,531
2014	3,784	547	8	45	1	4,385

[1] Institutional includes governmental and educational user types.

[2] nm denotes no meter and sanitary sewer service only.

Table 10

BEDFORD REGIONAL WATER AUTHORITY

TEN LARGEST WATER CUSTOMERS
CURRENT YEAR

Customer	2018 Revenue	2018 Percentage
Western Virginia Water Authority (Franklin County)	$ 169,601	2.29%
WINOA USA, Inc.	74,375	1.00
Cintas Corporation	56,809	0.77
The Gables of Spring Creek	49,252	0.66
A. Shulman	32,307	0.44
National Park Service	32,236	0.43
Jefferson Forest High School	24,423	0.33
English Meadows	23,586	0.32
Raintree Village	19,089	0.26
Centra Bedford Memorial Hospital	18,494	0.25
Subtotal (10 largest)	500,172	6.75
Balance from other customers	6,919,847	93.25
Grand totals	$ 7,420,019	100.00%

Note: Information for the period nine years prior to the current period will begin in 2023.

BEDFORD REGIONAL WATER AUTHORITY

TEN LARGEST SEWER CUSTOMERS
CURRENT YEAR

Customer	2018 Revenue	2018 Percentage
Cintas Corporation	$ 69,420	1.86%
A. Shulman	57,701	1.55
English Meadows	46,537	1.25
The Gables of Spring Creek	46,424	1.25
Raintree Village	32,376	0.87
Jefferson Forest High School	32,237	0.87
National Park Service	32,236	0.87
Jefferson Forest Manor Apartments	24,416	0.65
Bedford Memorial Hospital	19,915	0.53
Bedford County Jail	18,868	0.51
Subtotal (10 largest)	380,130	10.21
Balance from other customers	3,342,131	89.79
Grand totals	$ 3,722,261	100.00%

Note: Information for the period nine years prior to the current period will begin in 2023.

Table 12

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF WATER AND SEWER RATES
CURRENT YEAR

Base and Minimum Charges (billed on a bi-monthly basis)

Meter Size	Forest, Lakes, Stewartsville, and Montvale Service Areas			Center Service Area					
				Inside Town of Bedford			Adjacent to Town		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Monthly Fixed Charges - Residential									
5/8"	$21.00	$22.00	$43.00	$20.00	$30.00	$50.00	$24.00	$34.00	$58.00
3/4"	25.00	25.00	50.00	30.00	32.00	62.00	35.00	37.00	72.00
1"	34.00	33.00	67.00	42.00	45.00	87.00	50.00	51.00	101.00
1-1/2"	50.00	52.00	102.00	69.00	70.00	139.00	84.00	76.00	160.00
Monthly Fixed Charges – Commercial and Industrial									
5/8"	21.00	22.00	43.00	22.00	32.00	54.00	30.00	40.00	70.00
3/4"	25.00	25.00	50.00	30.00	37.00	67.00	43.00	45.00	88.00
1"	34.00	33.00	67.00	40.00	51.00	91.00	50.00	54.00	104.00
1-1/2"	50.00	52.00	102.00	58.00	73.00	131.00	100.00	82.00	182.00
2"	76.00	80.00	156.00	108.00	106.00	214.00	151.00	114.00	265.00
3"	135.00	140.00	275.00	266.00	180.00	446.00	359.00	192.00	551.00
4"	218.00	230.00	448.00	448.00	300.00	748.00	585.00	308.00	893.00
6"	419.00	440.00	859.00	1,092.00	570.00	1,662.00	1,126.00	580.00	1,706.00
8"	643.00	670.00	1,313.00	N/A	N/A	N/A	N/A	N/A	N/A
10"	1,040.00	1,080.00	2,120.00	N/A	N/A	N/A	N/A	N/A	N/A

Commodity Charges Per 1,000 Gallons

Monthly Usage	Forest, Lakes, Stewartsville, and Montvale Service Areas			Center Service Area					
				Inside Town of Bedford			Adjacent to Town		
	Water	Sewer	Total	Water	Sewer	Total	Water	Sewer	Total
Commodity Charges per 1000 gallons - Residential									
First 3,000	$5.45	$7.25	$12.70	$3.15	$3.30	$6.45	$3.15	$3.30	$6.45
Over 3,000	5.45	7.25	12.70	3.80	6.40	10.20	3.80	7.90	11.70
Commodity Charges per 1000 gallons – Commercial									
First 3,000	5.45	7.25	12.70	3.15	3.30	6.45	3.15	3.30	6.45
Over 3,000	5.45	7.25	12.70	3.80	7.50	11.30	5.10	9.00	14.10
Commodity Charges per 1000 gallons – Industrial (400,000 gallon per month minimum)									
First 600,000	5.00	6.60	11.60	3.65	5.50	9.15	5.00	6.60	11.60
Over 600,000	5.00	6.60	11.60	3.30	5.10	8.40	5.00	6.60	11.60

Table 13

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF WATER AND SEWER FACILITY FEES

Facility Fees (based on meter size)	2017-2018[1] Water	Sewer
Residential 5/8”	$ 2,500	$ 3,500
3/4”	3,600	5,000
1”	6,300	8,700
1-1/2”	12,000	16,000
2”	25,000	35,000

[1] The minimum availability fee is $2,500 for water and $3,500 for sewer.

Table 14

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF DEBT COVERAGE
LAST FIVE FISCAL YEARS

Fiscal Year Ended June 30	Debt Coverage Reserve	Operating Revenues	Direct Operating Expenses[1]	Bedford County Support	Net Available for Debt Service	Principal	Interest	Total	Debt Coverage
2018	$ 2,205,250	$ 13,183,498	$ 8,067,715	$ 2,000,000	$ 9,321,033	$ 2,668,592	$ 1,698,931	$ 4,367,523	213%
2017	2,251,667	12,984,845	8,114,720	2,000,000	9,121,792	2,502,565	1,792,102	4,294,667	212
2016	2,246,623	11,781,125	8,616,565	2,000,000	7,411,183	2,428,098	1,876,094	4,304,192	172
2015	411,071	10,699,859	7,274,309	2,000,000	5,836,621	2,129,114	860,779	2,989,893	195
2014	410,612	9,437,450	7,083,430	2,000,000	4,764,632	2,504,102	921,679	3,425,781	139

[1] Excluding depreciation, interest, and amortization.

Table 15

BEDFORD REGIONAL WATER AUTHORITY

OUTSTANDING DEBT BY CATEGORY
LAST FIVE FISCAL YEARS

Fiscal Year Ended June 30	Lynchburg Sewer System Bonds	Pooled Loan Bonds	Due to Town of Bedford	Revenue Bond Anticipation Note	Unamortized Premium	Total
2018	$ 857,748	$ 41,365,000	$ 4,368,007	$ -	$ 1,415,964	$ 48,006,719
2017	1,042,670	43,040,000	5,010,650	-	1,645,167	50,738,487
2016	1,241,288	44,635,000	5,645,130	-	1,874,368	53,395,786
2015	1,438,882	14,715,000	6,271,650	3,200,000	1,774,133	27,399,665
2014	1,443,884	16,535,000	6,890,409	1,200,000	1,725,738	27,795,031

Table 16

BEDFORD REGIONAL WATER AUTHORITY

RATIOS OF OUTSTANDING DEBT
LAST FIVE FISCAL YEARS

Fiscal Year Ended June30	Outstanding Debt	Number of connections[1]	Debt per connection (3)= (1) / (2)	Estimated[2] Population Served (4)= (2) * 2.5	Debt per Capita (5)=(1) / (4)	Income[3] per Capita	Debt per Capita as a % Income per Capita (7)=(5) / (6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
2018	$ 48,006,719	18,554	$ 2,587	46,385	$ 1,035	$ 42,082	2.46%
2017	50,738,486	18,434	2,752	46,085	1,101	41,307	2.67%
2016	53,395,785	17,437	3,062	43,593	1,225	41,066	2.98%
2015	27,399,665	17,141	1,598	42,853	639	41,066	1.56%
2014	27,795,031	16,658	1,669	41,645	667	41,066	1.63%

[1] Connections from Tables 8 and 9.

[2] The Virginia Department of Health estimates 2.5 residents per connection; this number is used in lieu of the population data in Table 18 which is representative of the entire county and town.

[3] Per capita income from Table 18 (Source: Virginia Workforce Connection and Bureau of Economic Analysis). 2015 and 2016 information not available, therefore 2014 information was used.

Table 17

BEDFORD REGIONAL WATER AUTHORITY

TEN LARGEST EMPLOYERS (BEDFORD TOWN AND COUNTY)
CURRENT YEAR

Employer	2018 Employees	2018 Rank
Bedford County School Board	1,000+	1
County of Bedford	500-999	2
Centra Health	500-999	3
Wal-Mart	250-499	4
GP Big Island LLC	250-499	5
Barr Laboratories	250-499	6
Mail America Communications	250-499	7
Elwood Staffing Services, Inc.	250-499	8
Manpower International	100-249	9
Food Lion	100-249	10

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

Note: Information for the period nine years prior to the current period will begin in 2023.

Table 18

BEDFORD REGIONAL WATER AUTHORITY

OTHER DEMOGRAPHIC DATA (BEDFORD TOWN AND COUNTY)
LAST FIVE FISCAL YEARS

Year	Population [1]	Personal Income [2] *(thousands of dollars)*	Per Capita Personal Income	Unemployment Rate [1]
2018	77,724	$ 3,280,745	$ 42,082	3.9 %
2017	74,898	*	41,307	4.1
2016	74,898	*	*	4.4
2015	75,554	*	*	*
2014	74,898	3,075,785	41,066	5.81

[1] Virginia Workforce Connection, includes Bedford Town and County.

[2] Bureau of Economic Analysis, includes Bedford Town and County.

[*] Unavailable.

Table 19

BEDFORD REGIONAL WATER AUTHORITY

NUMBER OF EMPLOYEES BY IDENTIFIABLE ACTIVITY
LAST FIVE FISCAL YEARS

	Full-time Equivalent Employees as of June 30,				
	2018	**2017**	**2016**	**2015**	**2014**
Administration	5.5	5.0	5.0	5.0	4.0
Customer services	9.0	8.0	6.0	4.0	6.0
IT	2.0	2.0	2.0	2.0	2.0
Finance	1.5	1.5	1.5	1.5	1.5
Engineering	8.0	8.0	9.5	7.0	7.0
Plant operations	23.0	23.0	24.0	22.0	23.0
Maintenance	19.0	19.0	16.0	13.0	12.0
	68.0	66.5	64.0	54.5	55.5

Table 20

BEDFORD REGIONAL WATER AUTHORITY

OPERATING INDICATORS
LAST FIVE FISCAL YEARS

	2018	**2017**	**2016**	**2015**	**2014**
Water meters read[1]	122,864	84,139	82,263	80,043	79,117
Meter installations and change outs	795	1,510	3,125	2,470	263
Payments transacted	106,787	77,530	75,193	73,617	77,676

[1] Number of meters read for billing purposes.

Table 21

BEDFORD REGIONAL WATER AUTHORITY

CAPITAL ASSET STATISTICS
LAST FIVE FISCAL YEARS

	2018	**2017**	**2016**	**2015**	**2014**
Miles of water line	385	362	352	352	352
Miles of sewer line	145	141	141	141	144
Water pump stations	2	2	2	2	2
Sewer pump stations	22	22	22	22	22
Water storage tanks	12	12	12	12	12
Wastewater treatment plants	3	3	3	3	3
Water treatment plants	7	7	6	6	6

COMPLIANCE SECTION

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

To the Honorable Members of the Board of Directors
Bedford Regional Water Authority
Bedford, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Bedford Regional Water Authority (the "Authority"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 6, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **However as described in the accompanying schedule of finding and response, we identified a certain deficiency, described as item 2018-001 in internal control that we consider to be a material weakness.**

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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.***

Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying schedule of finding and response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 6, 2018

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF FINDING AND RESPONSE
Year Ended June 30, 2018

A. FINDING – FINANCIAL STATEMENT AUDIT

2018-001: 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. Segregating incompatible functions reduces the risk of exposure to errors and fraud.

Management's Response:

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

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF PRIOR AUDIT FINDING
Year Ended June 30, 2018

A. FINDING – FINANCIAL STATEMENT AUDIT

2013-001: 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.

Current Status: Condition still present.

BEDFORD REGIONAL WATER AUTHORITY
SUMMARY OF COMPLIANCE MATTERS
June 30, 2018

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

STATE COMPLIANCE MATTERS

Code of Virginia:

Cash and Investment Laws
Conflict of Interests Act
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act