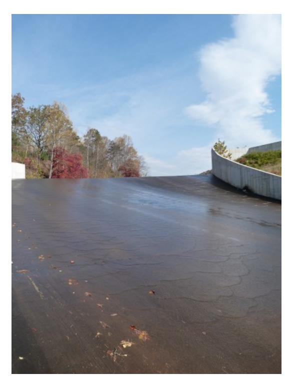
Bedford Regional Water Authority

Comprehensive Annual Financial Report

Bedford, Virginia



For the Fiscal Year Ending June 30, 2017

BEDFORD REGIONAL
WATER AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2017

BEDFORD REGIONAL WATER AUTHORITY

BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2017

PREPARED BY THE FINANCE DEPARTMENT

BEDFORD REGIONAL WATER AUTHORITY

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Bedford Regional Water Authority

October 3, 2017

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, 2017. 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, 2017.

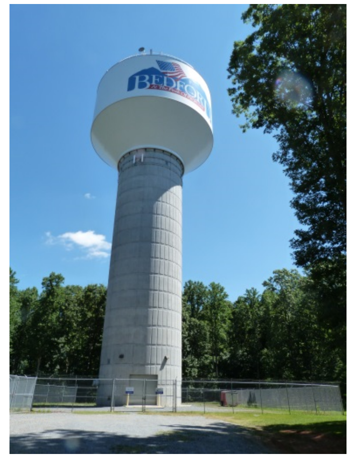
This audit was conducted in accordance with the following:

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 is 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 13,736. Water service is provided as follows:

- **Smith Mountain Lake (SML) Central –** Until April 2017 water was provided by the High Point Water Treatment Plant (WTP), which uses membrane technology to treat water that is withdrawn from Smith Mountain Lake. The High Point WTP is rated at 1.0 million gallons per day ("MGD") and provides the majority of the water in this area. In April 2017, the Smith Mountain Lake Water Treatment Facility ("SML WTF") began operations. The SML WTF is jointly owned with the Western Virginia Water Authority and uses membrane technology to treat water withdrawn from Smith Mountain Lake. The SML WTF is rated at 4.0 million gallons per day, with expansion capability of 6.0 MGD (without expanding the building). In addition, two independent well systems are located in the Mountain View Shores and Valley Mill Crossing subdivisions.

Organization and Function **(Continued)**

- **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; approximately 500,000 gallons of water from the SML WTF serves this area on a daily basis.

- **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.
- **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; approximately 400,000 gallons from the SML WTF serves this area on a daily basis.

At the end of the fiscal year, sewer connections totaled 4,698. 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 122 corridor. The Moneta WWTP has a current capacity of 0.5 MGD and can readily be expanded to treat 1.5 MGD.
- **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).

Organization and Function **(Continued)**

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

The most recent population figure for the County is 68,676 and 6,222 for the Town (*source: Bedford County Community Profile, 2017*). The 2017 Bedford Community Profile reports an unemployment rate, as of June 2017, of 4.1% for the County; compared to the same time period where Virginia was at 3.9% and the Country was at 4.5%.

Relevant Financial Policies

The BRWA'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 BRWA 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: Credit Card Use, 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 2017 Developer Dedications included 6,227 linear feet of waterline totaling $329,658 and 5,373 linear feet of sewerline totaling $333,325
- Purchases funded through the Capital Improvement Program (CIP) included several vehicles, replacement computers and servers, mass meter change out program, two waterline replacements in subdivisions at Smith Mountain Lake and two sewerline replacement projects in the Central service area.

Smith Mountain Lake Water Treatment Facility:

On May 7, 2014, the Bedford Regional Water Authority and the Western Virginia Water Authority officially signed an agreement to jointly own and operate a new regional water treatment plant. By working together in equal partnership since that time, the new Smith Mountain Lake Water Treatment Facility has become a reality to serve the drinking water and fire protection needs of current and future customers within the greater region.

The facility was constructed as a progressive design/build agreement with Black & Veatch and Overland Contracting (OCI). While originally constructed to treat four million gallons of water per day from Smith Mountain Lake, the facility can be expanded to six million gallons per day capacity within the existing building to meet future demands. With a building expansion, that capacity can be expanded to twelve million gallons per day.

Project Timeline:

- December 17 2013- Entered contract with OCI for Phase 1 services (design)
- May 8, 2014- WVWA and BRWA sign agreement to jointly own and operate facility
- July 24, 2015- Entered contract with OCI for Phase 2 services
- September 8, 2015- Groundbreaking ceremony to mark the beginning of construction
- December 19, 2016- Raw Water Intake begins operation
- April 6, 2017- Water production begins at plant
- May 11, 2017- Water Treatment Facility Dedication and Open House

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, 2016. This was the third 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.

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, 2016

Executive Director/CEO

BEDFORD REGIONAL WATER AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2017

BOARD OF DIRECTORS

Elmer Hodge, Chairman

Carl H. Wells, Vice Chairman

Michael C. Moldenhauer

Robert Flynn

Cynthia Gunnoe

Walter Siehien

Thomas D. Segroves

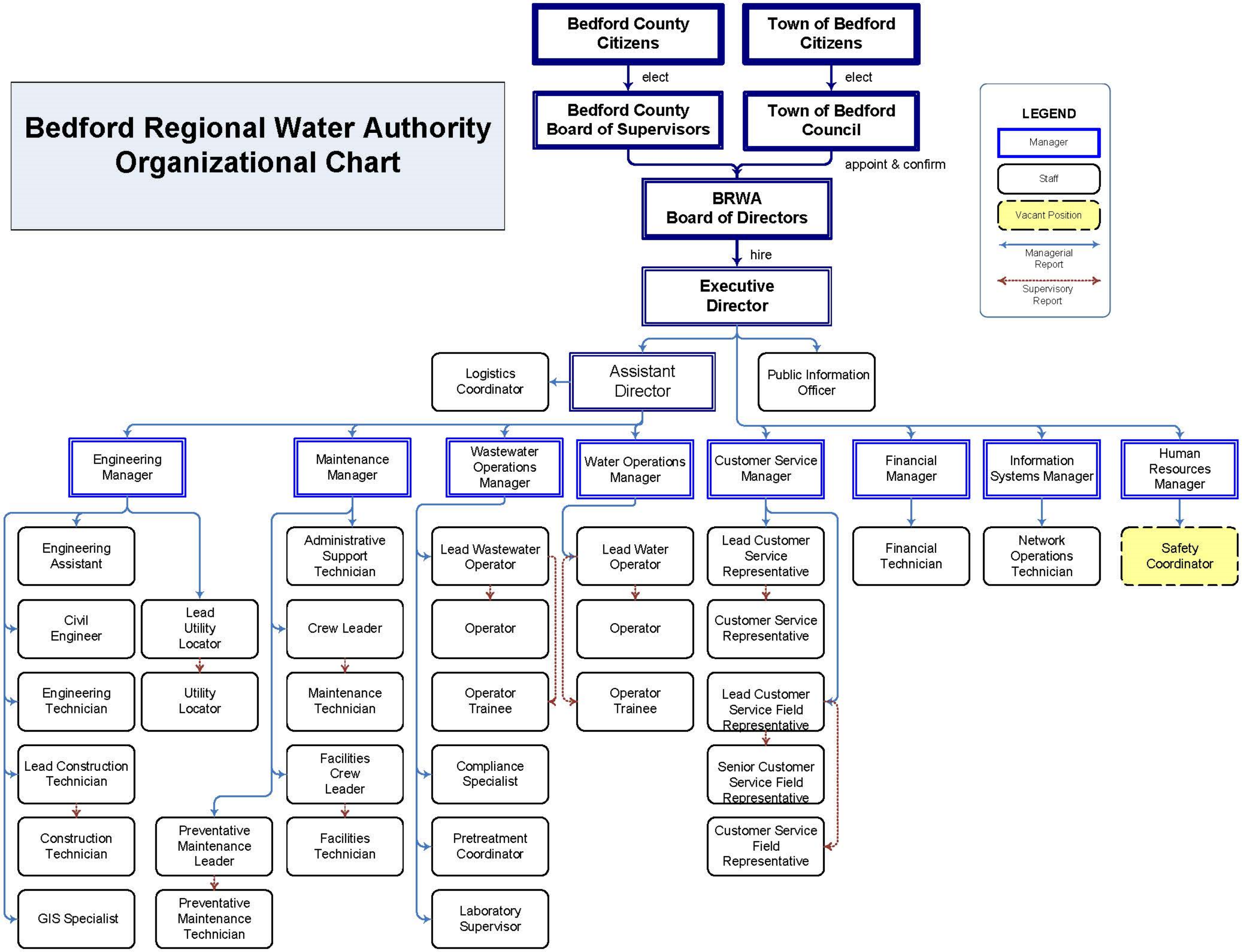
EXECUTIVE DIRECTOR

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, 2017, 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.

319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited the Authority's 2016 financial statements, and in our report dated October 5, 2016, expressed an unmodified opinion on those financial statements. The 2016 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, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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.

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 October 3, 2017 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
October 3, 2017

Management's Discussion and Analysis

The Bedford Regional Water Authority ("Authority") 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, 2017. 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 $69,416,157 (*net position)*. Of this amount $4,390,746 *(unrestricted net position)* may be used to meet the Authority's ongoing obligations to customers and creditors
- The Authority's total net position increased during the fiscal year by $3,643,556. 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, deferred outflows, liabilities, and deferred inflows as of June 30, 2017 and June 30, 2016, with the difference between the four reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority had improved or deteriorated.

The ***statement of revenues, expenses, and changes in net position*** presents information showing how the Authority's net position changed between fiscal years 2017 and 2016. 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.

Overview of the Financial Statements (Continued)

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 44 of this report.

Required supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 45 through 48 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 $69,416,157 at the close of the most recent fiscal year. At the close of the previous fiscal year, assets and deferred outflows exceeded liabilities and deferred inflows by $65,772,601.

By far the largest portion of the Authority's net position (90%) reflects its net 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

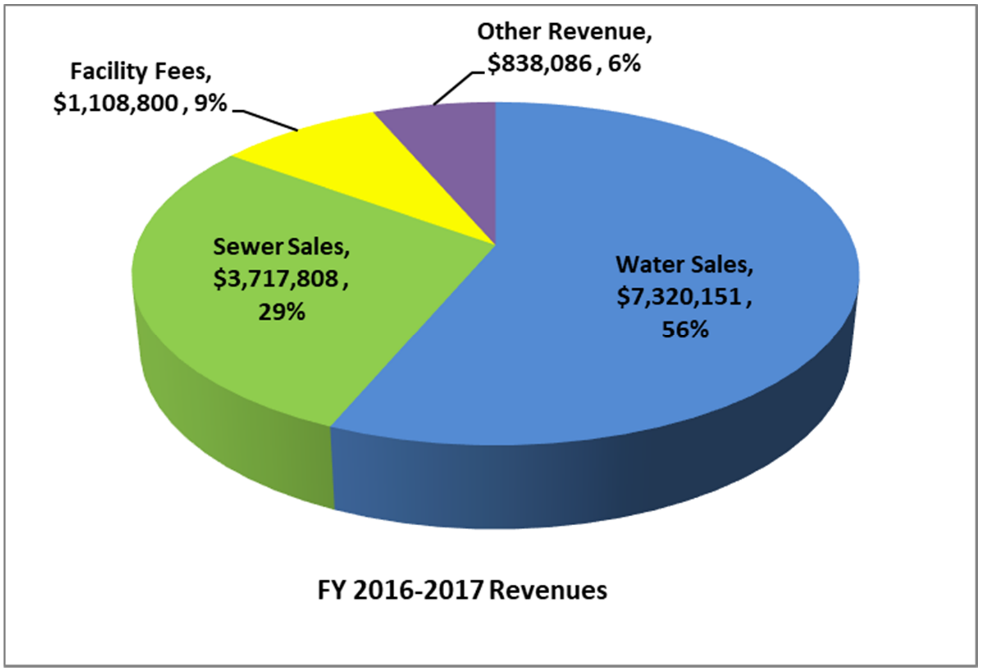
	2017	2016
Current assets	$ 8,041,154	$ 7,696,884
Cash and cash equivalent, restricted	4,514,684	20,245,853
Investments, restricted	1,669,570	-
Capital assets, net	108,787,254	96,181,765
Total Assets	123,012,662	124,124,502
Deferred loss on refunding	792,390	928,710
Differences between expected and actual experience	140,750	165,764
Net difference between projected and actual earnings on pension plan investments	96,060	-
Pension contributions subsequent to measurement date	199,239	196,030
Total Deferred Outflows of Resources	1,228,439	1,290,504
Current liabilities	4,807,360	6,788,123
Long-term liabilities	50,017,584	52,780,223
Total Liabilities	54,824,944	59,568,346
Net difference between projected and actual investment earnings on pension plan investments	-	74,059
Total Deferred Inflows of Resources	-	74,059
Net investment in capital assets	62,754,656	61,962,141
Restricted for:		
Capital improvements	434,870	164,177
Debt collateral	1,835,885	1,834,224
Unrestricted	4,390,746	1,812,059
Total Net Position	$ 69,416,157	$ 65,772,601

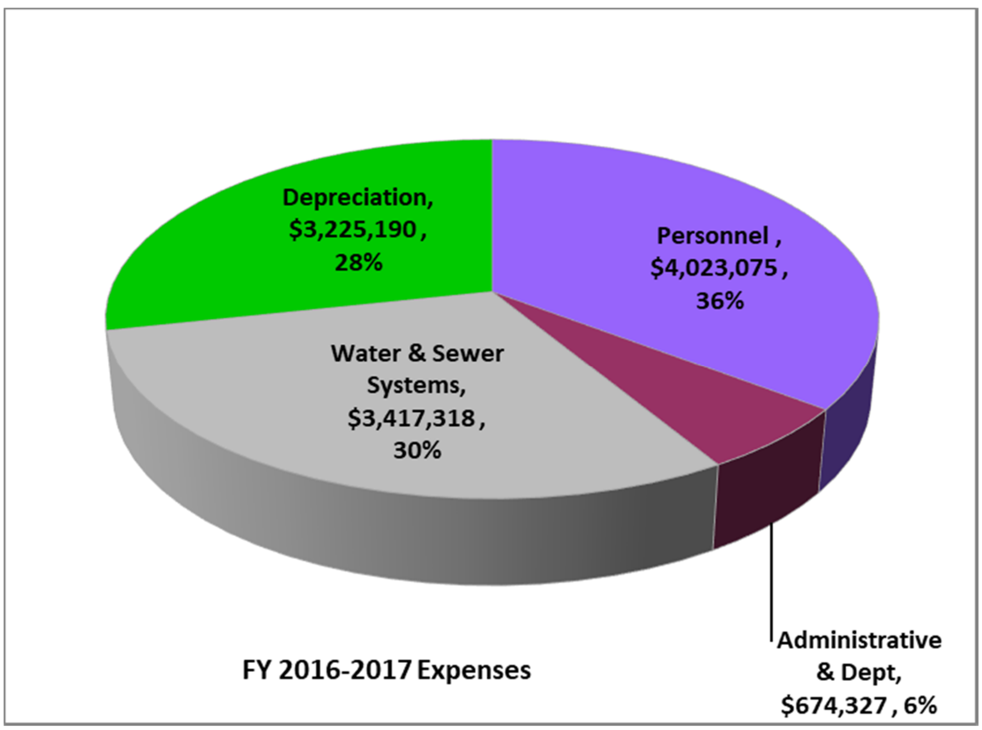
Financial Analysis (Continued)

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

	2017	2016
Revenues:		
Operating Revenues:		
Water sales	$ 7,320,151	$ 6,667,201
Facility fees	1,108,800	807,100
Sewer service	3,717,808	3,637,391
Wastewater treatment plant operation fees	271,520	151,523
Other revenues from customers	566,566	517,910
Total Revenues	12,984,845	11,781,125
Expenses:		
Operating Expenses:		
Water systems	1,960,333	2,209,621
Sewer systems	1,456,985	1,274,345
Salaries and employee benefits	4,023,075	3,723,314
Management and general	239,898	914,278
Customer service and information systems	187,386	216,201
Vehicles	167,557	197,254
Engineering, operations, and maintenance	79,486	81,552
Depreciation and amortization	3,225,190	3,154,534
Total Expenses	11,339,910	11,771,099
Nonoperating Revenues (Expenses):		
Gain on disposal of capital assets	10,044	(8,292)
Investment income	72,083	77,139
Interest expense	(1,125,038)	(1,438,201)
Total Nonoperating Revenues (Expenses)	(1,042,911)	(1,369,354)
Income (loss) before capital contributions	602,024	(1,359,328)
Capital contributions	3,041,532	2,288,690
Changes in net position	3,643,556	929,362
Net position - July 1	65,772,601	64,843,239
Net position - June 30	$ 69,416,157	$ 65,772,601

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 $3,643,556.

Operating revenues increased by $1,203,720 or 10.22% and operating expenses decreased by $431,189 or 3.66%.

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.
- Facility fees increased as a result of new development in the area.
- Water system expenses decreased as a result of a new water purchase contract with the City of Lynchburg.
- Salaries and employee benefits increased as result of hiring new employees and increases in insurance premiums.
- Management and general expenses decreased this year; in the previous year there were costs associated with a bond refunding.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2017 amounted to $108,787,254 (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

	2017	2016
Land and land rights	$ 1,010,476	$ 1,010,476
Construction in progress	27,044,762	13,950,030
Water and sewer systems	127,125,003	125,019,820
Vehicles	2,307,501	2,246,163
Office facilities	2,519,202	1,941,088
Information systems equipment	1,535,922	1,524,320
Total Book Value	161,542,866	145,691,897
Less- accumulated depreciation	(52,755,612)	(49,510,132)
Total- net of accumulated depreciation	$ 108,787,254	$ $96,181,765

Capital Asset and Debt Administration (Continued)

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

- Developer dedications of water and sewer lines throughout Bedford County totaled $687,961.
- A total of $22,034 was spent on Information Technology. This included phones and routers, computers, and switches.
- A total of $118,782 was spent on vehicles and equipment. This included two new trucks, and several other smaller equipment purchases.

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

Link Rd. Sewer replacement project	$ 105,597
Central Meter Change out Program	$ 144,497
Forest Area Meter change out program	$ 155,101
Garage at office facility	$ 578,114
Route 43 Sewerline Replacement project	$ 273,696
Dogwood Ln waterline replacement project	$ 141,530
Meadow Point waterline replacement project	$ 241,842

Long-term debt. At the end of the fiscal year, the Authority had $49,093,320 in bonds and notes outstanding, versus $51,521,418 last year, a decrease of 4.71% 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

	2017	**2016**
Lynchburg Sewer System Bonds	$ 1,042,670	$ 1,241,288
Assumed Debt from Town of Bedford	5,010,650	5,645,130
2015 VRA Bonds	30,960,000	31,225,000
2009B Pooled Loan Bonds	5,330,000	6,085,000
2012 Pooled Bonds	5,005,000	5,005,000
2014 Pooled Bonds	1,745,000	2,320,000
Unamortized premium on bonds	1,645,166	1,874,368
	$ 50,738,485	$ 53,395,786

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)586-7679.

FINANCIAL STATEMENTS

BEDFORD REGIONAL WATER AUTHORITY

STATEMENT OF NET POSITION

June 30, 2017

	2017	(For Comparative Purposes Only) 2016
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 4,586,707	$ 3,339,436
Accounts receivable (Note 3)	3,177,767	3,956,370
Inventory	214,425	278,586
Prepaids	62,255	122,492
Total current assets	8,041,154	7,696,884
Noncurrent assets		
Cash and cash equivalents, restricted (Note 2)	4,514,684	20,245,853
Investments, restricted (Note 2)	1,669,570	-
Capital assets (Note 4)		
Nondepreciable	28,055,238	14,960,506
Depreciable, net	80,732,016	81,221,259
Total noncurrent assets	114,971,508	116,427,618
Total assets	123,012,662	124,124,502
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	792,390	928,710
Differences between expected and actual experience (Note 7)	140,750	165,764
Net difference between projected and actual earnings on pension plan investments (Note 7)	96,060	-
Pension contributions subsequent to measurement date (Note 7)	199,239	196,030
Total deferred outflows of resources	1,228,439	1,290,504
LIABILITIES		
Current liabilities		
Accounts payable	1,445,063	3,500,668
Accrued liabilities	130,913	112,806
Interest payable	470,781	489,885
Current maturities of other long-term liabilities (Note 5)	2,760,603	2,684,764
Total current liabilities	4,807,360	6,788,123
Long-term liabilities		
Customer security deposits	590,732	616,888
Unearned revenue	864,709	1,007,165
Other long-term liabilities – due in more than one year (Note 5)	48,093,232	50,820,879
Net pension liability (Note 7)	468,911	335,291
Total long-term liabilities	50,017,584	52,780,223
Total liabilities	54,824,944	59,568,346
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual investment earnings on pension plan investments (Note 7)	-	74,059
NET POSITION		
Net investment in capital assets	62,754,656	61,962,141
Restricted for: (Note 2)		
Capital improvements	434,870	164,177
Debt collateral	1,835,885	1,834,224
Unrestricted	4,390,746	1,812,059
Total net position	$ 69,416,157	$ 65,772,601

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

BEDFORD REGIONAL WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2017

	2017	(For Comparative Purposes Only) 2016
OPERATING REVENUES		
Water sales	$ 7,320,151	$ 6,667,201
Facility fees	1,108,800	807,100
Sewer service	3,717,808	3,637,391
Wastewater treatment plant operation fees	271,520	151,523
Review fees	48,233	45,349
Meter base installation fees	66,828	54,686
Account changes	57,145	52,126
Other	222,783	207,354
Penalties	171,577	158,395
Total operating revenues	12,984,845	11,781,125
OPERATING EXPENSES		
Water systems	1,960,333	2,209,621
Sewer systems	1,456,985	1,274,345
Depreciation and amortization	3,225,190	3,154,534
Salaries and employee benefits	4,023,075	3,723,314
Management and general	239,898	914,278
Customer service and information systems	187,386	216,201
Vehicles	167,557	197,254
Engineering, operations, and maintenance	79,486	81,552
Total operating expenses	11,339,910	11,771,099
Operating income	1,644,935	10,026
NONOPERATING REVENUES (EXPENSES)		
Gain (loss) on disposal of capital assets	10,044	(8,292)
Investment income	72,083	77,139
Interest expense	(1,125,038)	(1,438,201)
Total nonoperating revenues (expenses)	(1,042,911)	(1,369,354)
Income (loss) before capital contributions	602,024	(1,359,328)
CAPITAL CONTRIBUTIONS (Note 6)	3,041,532	2,288,690
Change in net position	3,643,556	929,362
Net position – beginning at July 1	65,772,601	64,843,239
Net position – ending at June 30	$ 69,416,157	$ 65,772,601

BEDFORD REGIONAL WATER AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

	2017	(For Comparative Purposes Only) 2016
OPERATING ACTIVITIES		
Cash received from customers	$ 13,594,836	$ 10,115,938
Cash paid for goods and services	(6,537,101)	(1,878,547)
Cash paid to employees	(4,014,171)	(3,843,575)
Net cash provided by operating activities	3,043,564	4,393,816
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	(13,991,767)	(12,458,281)
Proceeds from revenue bond anticipation note and bond refunding	-	31,551,714
Principal paid on long-term borrowings	(2,428,098)	(5,329,114)
Interest paid on long-term borrowings	(1,876,048)	(1,468,978)
Proceeds from sale of capital assets	12,367	12,063
Net cash (used in) provided by capital and related financing activities	(15,929,975)	14,307,404
INVESTING ACTIVITIES		
Purchase of restricted investments	(1,669,570)	-
Interest received	72,083	77,139
Net cash (used in) provided by investing activities	(1,597,487)	77,139
Net (decrease) increase in cash and cash equivalents	(14,483,898)	18,778,359
CASH AND CASH EQUIVALENTS		
Beginning at July 1	23,585,289	4,806,930
Ending at June 30	$ 9,101,391	$ 23,585,289
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 4,586,707	$ 3,339,436
Cash and cash equivalents, restricted	4,514,684	20,245,853
	$ 9,101,391	$ 23,585,289
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,644,935	$ 10,026
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,225,190	3,154,534
Pension expense net of employer contributions	(14,694)	(48,601)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	778,603	(1,441,484)
Inventory	64,161	(109,877)
Prepaids	60,237	(25,406)
Increase (decrease) in:		
Accounts payable	(2,569,854)	3,149,987
Unearned revenue	(142,456)	(50,100)
Customer security deposits	(26,156)	(173,603)
Compensated absences and accrued liabilities	23,598	(71,660)
Net cash provided by operating activities	$ 3,043,564	$ 4,393,816
SCHEDULE OF NONCASH ACTIVITIES		
Contributions of capital assets	$ 687,961	$ 288,690
Capitalized interest	$ 731,952	$ 284,344
Capital asset purchases included in accounts payable	$ 514,249	$ -

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

Capital assets:

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

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, 2017 was $731,952.

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:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's 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 of net position reports a separate section for deferred outflows of resources which represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then. The Authority has four items that qualify for reporting in this category. The first is the deferred loss on refunding. A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Due to the relationship with outstanding debt, these deferred outflows are included in the calculation of net position, net investment in capital assets. The second item consists of differences between expected and actual experience for economic or demographic factors in the total pension liability measurement. The third item consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The fourth item is the net difference between projected and actual earnings on pension plan investments. These pension differences will be recognized in pension expense over the closed five year period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources which represents 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. The Authority has no items that qualify for reporting in this category.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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, or laws or regulations of other governments.

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).

The fair value of the positions in the external investment pool (Local Government Investment Pool) is 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. Local Government Investment Pool maintains a policy to operate in a manner consistent with SEC Rule 2a-7. Due to the nature of LGIP, it is considered a cash and cash equivalent on the statement of net position.

Note 2. Deposit and Investments (Continued)

Investments: (Continued)

The Authority has bond proceeds invested in the Virginia State Non-Arbitrage Program (SNAP). SNAP is a 2a-7 like pool 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 $4,079,814 stated at cost, which approximates fair value. These funds are classified as cash and cash equivalents, restricted, in the statement of net position.

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 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	$ 134,831	$ -	$ 134,831
Sewerline Replacement Fund	300,039	-	300,039
VRA Debt Service Fund	166,315	1,669,570	1,835,885
VRA Construction Fund	3,913,499	-	-
	$ 4,514,684	$ 1,669,570	$ 2,270,755

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.

Note 2. Deposits and Investments (Continued)

Deposit and investment restrictions: (Continued)

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.

Unspent Bond Proceeds. 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 $166,315 at June 30, 2017.

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, 2017.

Note 3. Accounts Receivable

Accounts receivable, net consists of the following:

	Billed	Unbilled	Total
Water	$ 1,013,478	$ 699,412	$ 1,712,890
Sewer	1,261,872	273,413	1,535,285
Other	261,933	-	261,933
	2,537,283	972,825	3,510,108
Less:			
Allowance for doubtful accounts	(332,341)	-	(332,341)
	$ 2,204,942	$ 972,825	$ 3,177,767

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	13,950,030	15,047,341	(1,952,609)	27,044,762
Total capital assets, not being depreciated	14,960,506	15,047,341	(1,952,609)	28,055,238
Capital assets, being depreciated				
System, lines, and source of supply structures	125,019,820	2,112,267	(7,084)	127,125,003
Leasehold improvements	1,941,088	578,114	-	2,519,202
Vehicles and equipment	2,246,163	118,782	(57,444)	2,307,501
Information systems equipment	1,524,320	22,034	(10,432)	1,535,922
Total capital assets, being depreciated	130,731,391	2,831,197	(74,960)	133,487,628
Less accumulated depreciation for:				
System, lines, and source of supply structures	(45,282,115)	(2,959,060)	4,763	(48,236,412)
Leasehold improvements	(1,313,166)	(124,874)	-	(1,438,040)
Vehicles and equipment	(1,660,706)	(128,737)	57,442	(1,732,001)
Information systems equipment	(1,254,145)	(105,446)	10,432	(1,349,159)
Total accumulated depreciation	(49,510,132)	(3,318,117)	72,637	(52,755,612)
Total capital assets being depreciated, net	81,221,259	(486,920)	(2,323)	80,732,016
Total capital assets, net	$ 96,181,765	$ 14,560,421	$ (1,954,930)	$ 108,787,254

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
Highpoint Waterline Replacement Phase 1 – Flow Water	$ 123,100
Smith Mountain Lake 6 MGD WTP – Phase 1 Design	12,553
Smith Mountain Lake 6 MGD WTP – Phase 2 Construction	8,818,000
Central WWTP Hypo Conversion - Study	7,250
Valley Mills Tank Rehab	49,000
	$ 9,009,903

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	$ 44,635,000	$ -	$ (1,595,000)	$ 43,040,000	$ 1,675,000
Lynchburg Sewer System Bonds	1,241,288	-	(198,618)	1,042,670	184,922
Due To Town of Bedford	5,645,130	-	(634,480)	5,010,650	642,643
Bond Premiums	1,874,368	-	(229,201)	1,645,167	229,201
Compensated absences	109,857	27,465	(21,974)	115,348	28,837
	$ 53,505,643	$ 27,465	$ (2,679,273)	$ 50,853,835	$ 2,760,603

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	$ 30,960,000
Water and Sewer Bonds	4.10-5.00	06/09/09	10/01/22	9,425,000	5,330,000
Water and Sewer Bonds	2.29-5.13	10/01/12	10/01/23	5,020,000	5,005,000
Water and Sewer Bonds	3.82-4.43	07/29/14	10/01/25	2,320,000	1,745,000
					43,040,000
	Plus unamortized bond premium				1,645,167
					$ 44,685,167
Due To Other Governmental Units:					
Lynchburg Sewer System Bonds	1.75-5.00%	Various	06/01/44	$ 3,236,174	$ 1,042,670
Due To Town of Bedford	Various	Various	02/21/26	7,501,599	5,010,650
					$ 6,053,320

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, 2017, $5,360,000 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, 2017, $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
2018	184,922	9,836	1,675,000	1,676,316	642,643	105,950
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
2023-2027	180,412	70	8,465,000	4,987,422	2,289,012	172,648
2028-2032	180,412	49	4,785,000	3,877,647	-	-
2033-2037	95,319	29	5,720,000	3,026,863	-	-
2038-2042	65,800	9	6,885,000	1,899,094	-	-
2043-2046	13,129	-	6,555,000	508,555	-	-
	$ 1,042,670	$ 19,588	$ 43,040,000	$ 21,754,575	$ 5,010,650	$ 611,040

Note 6. Capital Contributions

Capital contributions by source are summarized as follows:

Developers and customers	$ 687,961
Town of Bedford – capital asset assistance	353,571
County of Bedford – capital debt assistance	2,000,000
	$ 3,041,532

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 VRS Retirement Plan upon employment. This 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.

- **Hybrid Opt-In Election –** 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. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. 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.

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 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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **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. When buying service, members must purchase their most recent period of service first. 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. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **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 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. 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.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **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.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
  - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	12
Inactive members:	
Vested inactive members	3
Non-vested inactive members	10
Inactive members active elsewhere in VRS	4
Total inactive members	17
Active members	56
Total covered employees	85

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, 2017 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 $199,239 and $192,962 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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, 2015, 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, 2016.

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 - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 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, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees - Largest 10 – Non-LEOS and All Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

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
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50	6.28	1.04
Emerging Market Equity	6.00	10.00	0.60
Fixed Income	15.00	0.09	0.01
Emerging Debt	3.00	3.51	0.11
Rate Sensitive Credit	4.50	3.51	0.16
Non Rate Sensitive Credit	4.50	5.00	0.23
Convertibles	3.00	4.81	0.14
Public Real Estate	2.25	6.12	0.14
Private Real Estate	12.75	7.10	0.91
Private Equity	12.00	10.41	1.25
Cash	1.00	(1.50)	(0.02)
Total	100.00 %		5.83 %
		Inflation	2.50 %
		*Expected arithmetic nominal return	8.33 %

*Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%

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, 2018, 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, 2018 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, 2015	$ 3,688,227	$ 3,352,936	$ 335,291
Changes for the year:			
Service cost	253,398	-	253,398
Interest	251,090	-	251,090
Differences between expected and actual experience	6,745	-	6,745
Contributions – employer	-	192,962	(192,962)
Contributions – employee	-	123,748	(123,748)
Net investment income	-	62,939	(62,939)
Benefit payments, including refunds of employee contributions	(202,463)	(202,463)	-
Administrative expenses	-	(2,010)	2,010
Other changes	-	(26)	26
Net changes	308,770	175,150	133,620
Balances at June 30, 2016	$ 3,996,997	$ 3,528,086	$ 468,911

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	$ 1,165,039	$ 468,911	$ (89,479)

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of $181,477. At June 30, 2017, 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	$ 140,750	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	96,060	-
Employer contributions subsequent to the measurement date	199,239	-
Total	$ 436,049	$ -

Note 7. Defined Benefit Pension Plan (Continued)

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

The $199,239 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, 2018. 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
2018	$ 37,334
2019	37,335
2020	81,530
2021	66,897
2022	13,683
Thereafter	31

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 8. 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 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 2017 was $243,299. There were no current year additions to debt but related capital assets under this agreement increased $37,139 for 2017.

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 2017 were $1,110,274.

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 has 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 is constructing a water treatment facility and is considering the construction of additional transmission mains in Bedford County, some of which could 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. In the event that the Authority does not complete construction of 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, this agreement will terminate and the contract with the City dated July 1, 2007 shall be reinstated for the remainder of that contract term.

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 $(25,118) for water and $8,701 for sewer in 2017. 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 $33,333 for 2017.

(Continued)

Note 8. 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 2017, no sales were made under this agreement.

Note 9. 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 2017, total premiums paid were $26,444. 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.

(Continued)

Note 9. 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 10. 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 2017, approximately $70,000 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 Plant:

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 2017, $2,565,335 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. Construction commitments related to this project as of June 30, 2017 are disclosed in Note 4. 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.

(Continued)

Note 11. New Accounting Standards

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

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of an irrevocable split-interest agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2018.

(Continued)

Note 11. New Accounting Standards (Continued)

GASB Statement No. 83, *Certain Asset Retirement Obligations* establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 84, *Fiduciary Activities* establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation
- Reporting amounts previously reported as goodwill and "negative" goodwill
- Classifying real estate held by insurance entities
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB
- Classifying employer-paid member contributions for OPEB
- Simplifying certain aspects of the alternative measurement method for OPEB
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

Note 11. New Accounting Standards (Continued)

GASB Statement No. 86, *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

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

REQUIRED SUPPLEMENTARY INFORMATION

BEDFORD REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2017

	Plan Year		
	2016	2015	2014
Total Pension Liability			
Service cost	$ 253,398	$ 259,350	$ 129,078
Interest on total pension liability	251,090	215,254	199,921
Difference between expected and actual experience	6,745	196,404	-
Benefit payments, including refunds of employee contributions	(202,463)	(115,683)	(104,210)
Net change in total pension liability	308,770	555,325	224,789
Total pension liability - beginning	3,688,227	3,132,902	2,908,113
Total pension liability - ending	3,996,997	3,688,227	3,132,902
Plan Fiduciary Net Position			
Contributions – employer	192,962	182,137	178,165
Contributions – employee	123,748	113,206	111,120
Net investment income	62,939	145,164	398,747
Benefit payments, including refunds of employee contributions	(202,463)	(115,683)	(104,210)
Administrative expenses	(2,010)	(1,782)	(1,975)
Other	(26)	(30)	21
Net change in plan fiduciary net position	175,150	323,012	581,868
Plan fiduciary net position - beginning	3,352,936	3,029,924	2,448,056
Plan fiduciary net position - ending	3,528,086	3,352,936	3,029,924
Net pension liability – ending	$ 468,911	$ 335,291	$ 102,978
Plan fiduciary net position as a percentage of total pension liability	88%	91%	97%
Covered employee payroll	$ 2,444,270	$ 2,289,281	$ 2,160,777
Net pension liability as a percentage of covered employee payroll	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 2016 information was presented in the entity's fiscal year 2017 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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2017

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					
2017	$ 199,239	$ 199,239	$ -	$ 2,638,936	7.55%
2016	$ 192,962	$ 192,962	$ -	$ 2,444,270	7.89%
2015	$ 183,600	$ 183,600	$ -	$ 2,289,281	8.02%

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

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

Note 1. Changes of Benefit Terms

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, 2016 are not material.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

SUPPORTING SCHEDULE

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF DEPARTMENTAL OPERATING INCOME

Year Ended June 30, 2017

	Water	Sewer	Total
OPERATING REVENUES			
Water sales	$ 7,320,151	$ -	$ 7,320,151
Facility fees	638,200	470,600	1,108,800
Sewer service	-	3,717,808	3,717,808
Wastewater treatment plant operation fees	199,193	72,327	271,520
Review fees	25,667	22,566	48,233
Meter base installation fees	66,828	-	66,828
Account charges	39,470	17,675	57,145
Other	186,380	36,403	222,783
Penalties	108,391	63,186	171,577
Total operating revenues	8,584,280	4,400,565	12,984,845
OPERATING EXPENSES			
Water systems	1,960,333	-	1,960,333
Sewer systems	-	1,456,985	1,456,985
Depreciation and amortization	1,649,458	1,575,732	3,225,190
Salaries and employee benefits	2,252,922	1,770,153	4,023,075
Management and general	134,343	105,555	239,898
Customer service and information services	104,936	82,450	187,386
Vehicles	93,832	73,725	167,557
Engineering, operations, and maintenance	44,513	34,973	79,486
Total operating expenses	6,240,337	5,099,573	11,339,910
Operating income (loss)	$ 2,343,943	$ (699,008)	$ 1,644,935

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

Financial Trends ***Tables 1-4***

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

Revenue Capacity ***Tables 5-13***

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

Debt Capacity ***Table 14-16***

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

Demographic and Economic Information ***Tables 17-19***

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

Operating Information ***Tables 20-21***

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

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

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 four 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.

Table 1

BEDFORD REGIONAL WATER AUTHORITY

NET POSITION BY COMPONENT
LAST FOUR FISCAL YEARS

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

Table 2

BEDFORD REGIONAL WATER AUTHORITY

CHANGES IN NET POSITION
LAST FOUR 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
2017	$ 12,084,845	$ 11,339,910	$ 1,644,735	$ (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

Note: GASB Statement No. 68 was adopted in fiscal year 2015

Table 3

BEDFORD REGIONAL WATER AUTHORITY

OPERATING EXPENSES
LAST FOUR 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
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 FOUR FISCAL YEARS

Fiscal Year	Gain (Loss) on Disposal of Capital Assets	Interest Expense [a]	Investment Income	Total Nonoperating Revenues (Expenses)
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 FOUR FISCAL YEARS

Fiscal Year	Water Revenue	Sewer Revenue	Water Facility Revenue	Sewer Facility Revenue	Penalties and Fees [a]	Miscellaneous [b]	Total
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 FOUR 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
2017	1,086,440	857,395	10,819	79.91%	470,931	297,722	650,550	63.36%
2016	1,080,997	804,929	27,431	77.00	500,682	325,629	-	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 FOUR FISCAL YEARS

Fiscal Year	Water Connections	Sewer Connections	Total New Connections
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 FOUR FISCAL YEARS

Fiscal Year	Residential	Commercial	Industrial	Institutional	Irrigation	Total
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 FOUR FISCAL YEARS

Fiscal Year	Residential	Commercial	Industrial	Institutional[1]	nm[2]	Total
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	2017 Revenue	2017 Percentage
Western Virginia Water Authority (Franklin County)	$ 233,099	3.18%
TEVA Pharmaceuticals	72,115	0.99
Cintas Corporation	63,656	0.87
WINOA USA, Inc.	41,213	0.56
The Gables of Spring Creek	36,538	0.50
The Gables of Jefferson Commons	33,810	0.46
The Matrix Group	25,485	0.35
Centra Bedford Memorial Hospital	13,771	0.19
Milner's Mobile Home Park	13,345	0.18
Jefferson Forest High School	13,097	0.18
Subtotal (10 largest)	546,129	7.46
Balance from other customers	6,774,021	92.54
Grand totals	$ 7,320,150	100.00%

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

Table 11

BEDFORD REGIONAL WATER AUTHORITY

TEN LARGEST SEWER CUSTOMERS
CURRENT YEAR

	2017	
Customer	**Revenue**	**Percentage**
Cintas Corporation	$ 78,268	2.11%
TEVA Pharmaceuticals	73,654	1.98
The Matrix Group	53,200	1.43
The Gables of Spring Creek	47,716	1.28
The Gables of Jefferson Commons	44,106	1.19
Bedford Weaving Mill	30,165	0.81
National Park Service	24,577	0.66
Centra Bedford Memorial Hospital	23,230	0.62
Bedford County Solid Waste Department	19,942	0.54
Jefferson Forest School	17,113	0.46
Subtotal (10 largest)	411,971	11.08
Balance from other customers	3,305,837	88.92
Grand totals	$ 3,717,808	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"	$20.00	$22.00	$42.00	$19.00	$31.00	$50.00	$25.00	$36.00	$61.00
3/4"	24.00	23.00	47.00	29.00	33.00	62.00	36.00	40.00	76.00
1"	31.00	29.00	60.00	40.00	43.00	83.00	50.00	51.00	101.00
1-1/2"	44.00	46.00	90.00	66.00	67.00	133.00	84.00	73.00	157.00
2"	66.00	69.00	135.00	N/A	N/A	N/A	N/A	N/A	N/A
Monthly Fixed Charges – Commercial and Industrial									
5/8"	20.00	22.00	42.00	22.00	34.00	56.00	31.00	46.00	77.00
3/4"	24.00	23.00	47.00	30.00	38.00	68.00	45.00	48.00	93.00
1"	31.00	29.00	60.00	39.00	48.00	87.00	50.00	57.00	107.00
1-1/2"	44.00	46.00	90.00	54.00	70.00	124.00	103.00	80.00	183.00
2"	66.00	69.00	135.00	104.00	100.00	204.00	154.00	109.00	263.00
3"	115.00	120.00	235.00	268.00	168.00	436.00	377.00	178.00	555.00
4"	184.00	194.00	378.00	453.00	270.00	723.00	613.00	280.00	893.00
6"	348.00	367.00	715.00	1,134.00	521.00	1,655.00	1,174.00	531.00	1,705.00
8"	522.00	541.00	1,063.00	N/A	N/A	N/A	N/A	N/A	N/A
10"	828.00	861.00	1,689.00	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	$7.20	$12.65	$2.75	$2.60	$5.35	$2.75	$2.60	$5.35
Over 3,000	5.45	7.20	12.65	3.50	6.20	9.70	3.80	8.00	11.80
Commodity Charges per 1000 gallons – Commercial									
First 3,000	5.45	7.20	12.65	2.75	2.60	5.35	2.75	2.60	5.35
Over 3,000	5.45	7.20	12.65	3.50	7.50	11.20	5.00	9.30	14.30
Commodity Charges per 1000 gallons – Industrial (400,000 gallon per month minimum)									
First 600,000	5.10	6.80	11.90	3.50	5.50	9.00	5.10	6.80	11.90
Over 600,000	5.10	6.80	11.90	3.10	5.00	8.10	5.10	6.80	11.90

Table 13

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF WATER AND SEWER FACILITY FEES

Facility Fees (based on meter size)	2016-2017[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 FOUR 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
2017	$ 2,251,667	$ 12,984,845	$ 8,114,720	$ 2,000,000	$ 9,121,792	$ 2,502,505	$ 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 FOUR 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
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 FOUR FISCAL YEARS

Fiscal Year Ended June 30	Outstanding Debt	Number of Connections[1]	Debt Per Connection	Estimated Population Served[2]	Debt Per Capita	Income Per Capita[3]	Debt Per Capita as a % of Income Per Capita
2017	$ 50,738,487	18,434	$ 2,752	$ 46,085	$ 1,101	$ 41,307	2.67
2016	53,395,786	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

[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	2017 Employees	2017 Rank
Bedford County School Board	1,000+	1
County of Bedford	500-999	2
Centra Health	250-499	3
Mail America Communications	250-499	4
TEVA Pharmaceuticals	250-499	5
Wal-Mart	250-499	6
GP Big Island LLC	250-499	7
Manpower International	250-499	8
Sam Moore Furniture, LLC	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 FOUR FISCAL YEARS

Year	Population [1]	Personal Income [2] *(thousands of dollars)*	Per Capita Personal Income	Unemployment Rate [1]
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 FOUR FISCAL YEARS

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

Table 20

BEDFORD REGIONAL WATER AUTHORITY

OPERATING INDICATORS
LAST FOUR FISCAL YEARS

	2017	**2016**	**2015**	**2014**
Water meters read[1]	84,139	82,263	80,043	79,117
Meter installations and change outs	1,510	3,125	2,470	263
Payments transacted	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 FOUR FISCAL YEARS

	2017	**2016**	**2015**	**2014**
Miles of water line	362	352	352	352
Miles of sewer line	141	141	141	144
Water pump stations	2	2	2	2
Sewer pump stations	22	22	22	22
Water storage tanks	12	12	12	12
Wastewater treatment plants	3	3	3	3
Water treatment plants	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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 3, 2017.

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 2017-001 in internal control that we consider to be a material weakness.**

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
October 3, 2017

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF FINDING AND RESPONSE
Year Ended June 30, 2017

A. FINDING – FINANCIAL STATEMENT AUDIT

2017-001: 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.

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, 2017

A. FINDING – FINANCIAL STATEMENT AUDIT

2017-001: 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

SCHEDULE OF PRIOR AUDIT FINDING
Year Ended June 30, 2017

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