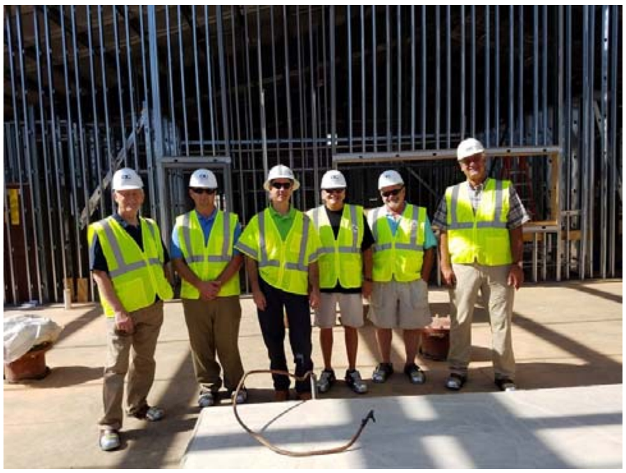
Bedford Regional Water Authority



Comprehensive Annual Financial Report

Bedford, Virginia

For the Fiscal Year Ending

June 30, 2016

BEDFORD REGIONAL WATER AUTHORITY

BEDFORD, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended
June 30, 2016

PREPARED BY THE FINANCE DEPARTMENT

BEDFORD REGIONAL WATER AUTHORITY

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BEDFORD REGIONAL WATER AUTHORITY

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INTRODUCTORY SECTION

October 5, 2016

Board of Directors
Bedford Regional Water Authority
Bedford, Virginia

The Comprehensive Annual Financial Report (CAFR) for the Bedford Regional Water Authority is hereby submitted for the fiscal year ended June 30, 2016. The Authority's management assumes full responsibility for the completeness and reliability of the information contained in this report. To the best of our knowledge and belief, the enclosed financial data is accurate in all material respects and fairly presents the financial position, results of operations, and cash flows of the Authority.

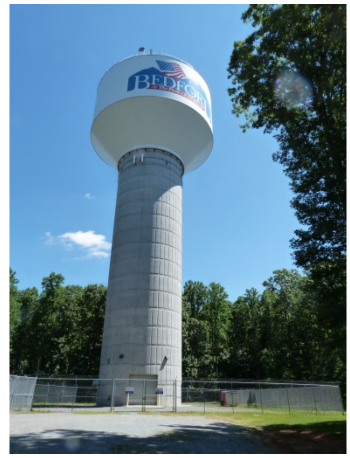
The annual audit of this Comprehensive Annual Financial Report has been performed by Brown, Edwards & Company, L.L.P. Certified Public Accountants. This audit was conducted in accordance with the following:

1) auditing standards generally accepted in the United States of America, and
2) the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

The independent auditor's report is presented in the Financial Section on page 1.

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

Organization and Function



The Authority was chartered 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.

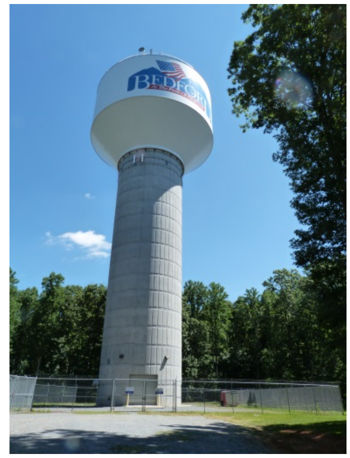
The Authority operates on a Board-administrator form of government. The Board consists of a Chairman and six other Board members. Three members are appointed by the Bedford County Board of Supervisors, three are appointed by the Town Council and the seventh member was nominated by the other six members and confirmed by the Bedford County Board of Supervisors and the Town Council. There are three standing committees comprised of two board members each; they include the Policies and Projects Committee, the Finance Committee, and the Personnel Committee. Regular meetings of the Authority Board of Directors are held the third Tuesday of every month at the Authority's office, with special meetings scheduled as needed.

At the end of the fiscal year, water connections totaled 12,861. Water service is provided as follows:

- **Forest Central** – water is provided to the Forest, New London, and Boonsboro areas of the County with water purchased from the City of Lynchburg and distributed by the Authority; the contract is effective for fifteen years from July 1, 2007 through June 30, 2022. At the end of year thirteen (June 30, 2020), each party will notify the other of its intention to terminate the contract at the end of year fifteen or renew the contract in ten year increments. If one or both parties wishes to terminate the contract they must do so in writing two years prior to the ten year renewal period.
- **Smith Mountain Lake (SML) Central** – water is 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 addition, two independent well systems are located in the Mountain View Shores and Valley Mill Crossing subdivisions.
- **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.

Organization and Function **(Continued)**

At the end of the fiscal year, sewer connections totaled 4,576. 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).

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.

Local Economic Condition and Outlook (Continued)

The most recent population figure for the County is 68,676 and 6,222 for the Town (*source: Bedford County Community Profile, 2016*). The 2016 Bedford Community Profile reports an unemployment rate, as of June 2015, of 4.4% for the County; compared to the same time period where Virginia was at 4.4% and the Country was at 5.3%.

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 ensure they are adequate for the Authority's obligations.

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.

The Authority employs a basic system of accounting controls involving segregation of duties to the extent possible, given the small staff. Two signatures (the Executive Director's and a Board member) are required for all checks and all bank accounts are reconciled monthly. There are no cost-effective set of accounting controls that can guarantee complete freedom from the unauthorized use of assets, freedom from the risk of managerial override, freedom from the risk of collusion, or errors in financial data; however, we believe that because these controls are subject to constant review and evaluation, the internal control framework of the Authority is sound.

Major Initiatives and Accomplishments

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

- During FY 2016, Developer Dedications included 2,749 l.f. of waterline and totaled $288,690.
- Some capital purchases included several vehicles, replacement computers and servers, mass meter change out program and mobile reading unit and a small waterline replacement project.

Major Initiatives and Accomplishments (Continued)

- Construction began on the new water treatment plant at Smith Mountain Lake and new waterlines along Route 122 and Route 460. This project will provide a great amount of benefits to the community, some of which include:

  - providing redundant backup sources for the Lakes, Central, and Forest service areas.
  - saving over $28 million over the next 50 years by producing water instead of purchasing it.
  - allowing for more efficient service to customers.
  - offering the ability to provide water service along the new waterlines.

  The project is currently on schedule and will be complete mid fiscal year 2017.

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, 2015. This was the second 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, 2015

Executive Director/CEO

BEDFORD REGIONAL WATER AUTHORITY

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2016

BOARD OF DIRECTORS

Elmer Hodge, Chairman

Carl H. Wells, Vice Chairman

Michael C. Moldenhaur

Robert Flynn

Cynthia Gunnoe

Walter Siehien

Thomas D. Segroves

EXECUTIVE DIRECTOR

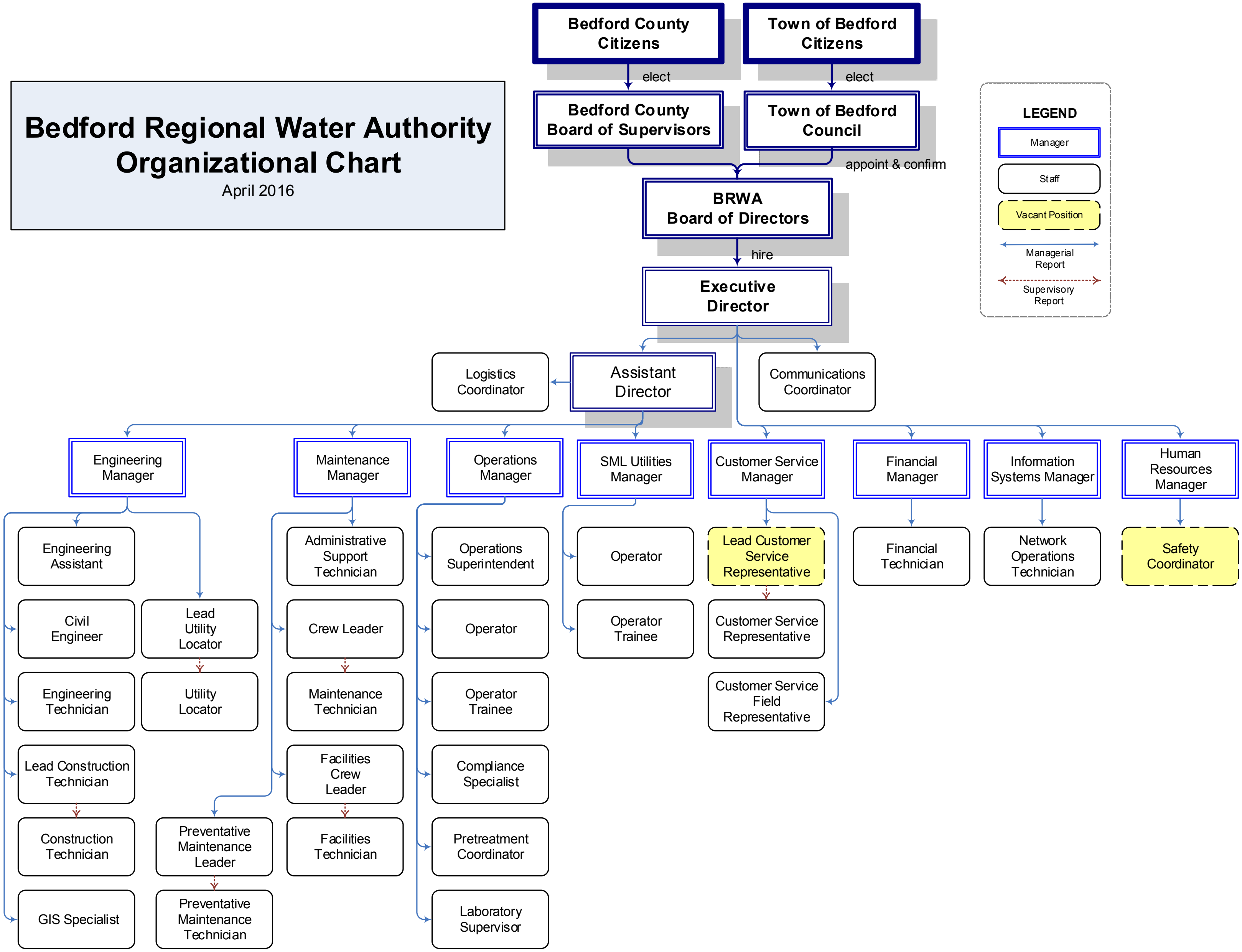
Brian M. Key, PE, Secretary/Treasurer

INDEPENDENT AUDITORS

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

Bedford Regional Water Authority Organizational Chart

April 2016



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, 2016, 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, 2016, 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 2015 financial statements, and in our report dated October 28, 2015, expressed an unmodified opinion on those financial statements. The 2015 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, 2015, 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 5, 2016 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 5, 2016

Management's Discussion and Analysis

The Bedford Regional Water Authority (the "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, 2016. It is encouraged that the information presented herein 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 resources of the Authority exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $65,772,601 (*net position)*. Of this amount $1,812,059 *(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 $929,362. The primary cause for this increase relates to the rate equalization process 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, 2016 and June 30, 2015, 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 2016 and 2015. 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).

Overview of the Financial Statements (Continued)

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

These statements can be found on pages 12 through 14 of this report.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 15 through 40 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 41 through 44 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 $65,772,601 at the close of the most recent fiscal year. At the close of the previous fiscal year, liabilities and deferred inflows exceeded assets and deferred outflows by $64,843,239.

By far the largest portion of the Authority's net position (94%) 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

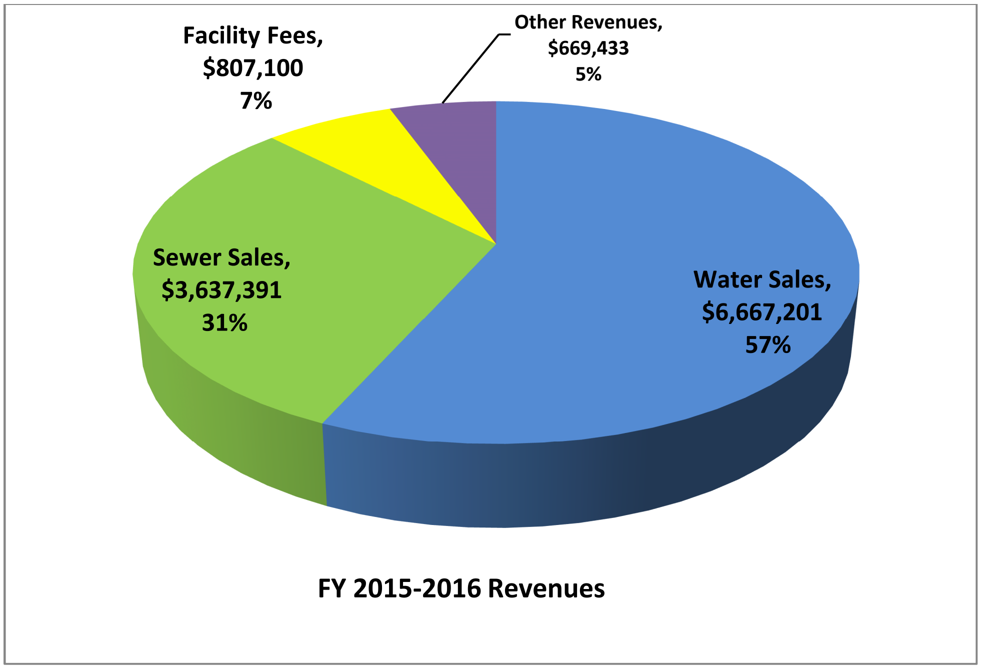
	2016	2015
Current assets	$ 7,696,884	$ 6,141,598
Cash and cash equivalent, restricted	20,245,853	1,446,013
Capital assets, net	96,181,765	86,416,536
Total Assets	124,124,502	94,004,147
Deferred loss on refunding	928,710	1,065,030
Differences between expected and actual experience	165,764	-
Pension contributions subsequent to measurement date	196,030	183,600
Total Deferred Outflows of Resources	1,290,504	1,248,630
Current liabilities	6,788,123	2,930,188
Long-term liabilities	52,780,223	27,302,571
Total Liabilities	59,568,346	30,232,759
Net difference between projected and actual investment earnings on pension plan investments	74,059	176,779
Total Deferred Inflows of Resources	74,059	176,779
Net investment in capital assets	61,962,141	61,289,580
Restricted	1,998,401	238,334
Unrestricted	1,812,059	3,315,325
Total Net Position	$ 65,772,601	$ 64,843,239

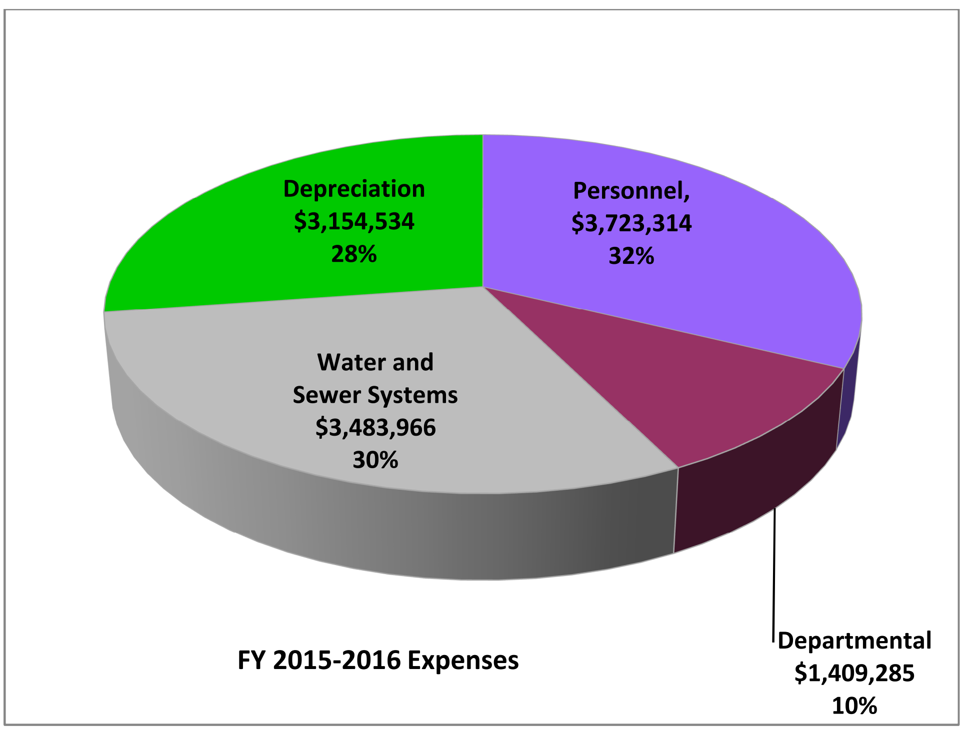
Financial Analysis (Continued)

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

	2016	2015
Revenues:		
Operating Revenues:		
Water sales	$ 6,667,201	$ 6,048,086
Facility fees	807,100	789,500
Sewer service	3,637,391	3,273,277
Wastewater treatment plant operation fees	151,523	84,633
Other revenues from customers	517,910	504,363
Total Revenues	11,781,125	10,699,859
Expenses:		
Operating Expenses:		
Water systems	2,209,621	2,193,011
Sewer systems	1,274,345	1,227,407
Salaries and employee benefits	3,723,314	3,210,176
Management and general	914,278	236,377
Customer service and information systems	216,201	193,701
Vehicles	197,254	164,633
Engineering, operations, and maintenance	81,552	49,004
Depreciation and amortization	3,154,534	3,129,278
Total Expenses	11,771,099	10,403,587
Nonoperating Revenues (Expenses):		
Gain on disposal of capital assets	(8,292)	1,759
Investment income	77,139	-
Interest expense	(1,438,201)	(795,665)
Total Nonoperating Revenues (Expenses)	(1,369,354)	(793,906)
Loss before capital contributions	(1,359,328)	(497,634)
Capital Contributions	2,288,690	3,949,363
Changes in net position	929,362	3,451,729
Net position - July 1	64,843,239	61,391,510
Net position - June 30	$ 65,772,601	$ 64,843,239

Financial Analysis (Continued)





Financial Analysis (Continued)

At the end of the current fiscal year, the Authority was able to report positive 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 $929,362.

Operating revenues increased by $1,081,266 or 10.11% and operating expenses increased by $1,367,512 or 13.14%.

Key elements of these changes are as follows:

- Water sales and sewer service increased as a result of rate increases as well as increases in consumption and customer base.
- Operating expenses related to the water and sewer systems increased due to increased consumption and purchases related to the system.
- Salaries and employee benefits increased due to raises and new positions, but was offset by changes in the net pension liability.

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of June 30, 2016 amounted to $96,181,765 (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

	2016	2015
Land and land rights	$ 1,010,476	$ 1,010,476
Construction in progress	13,950,030	2,274,192
Water and sewer systems	125,019,820	123,923,259
Vehicles	2,246,163	2,155,134
Office Facilities	1,941,088	1,905,981
Information systems equipment	1,524,320	1,493,671
Total book value	145,691,897	132,762,713
Less - accumulated depreciation	(49,510,132)	(46,346,177)
Total - net of accumulated depreciation	$ 96,181,765	$ 86,416,536

Capital Asset and Debt Administration

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

- Developer dedications of water and sewer lines throughout Bedford County totaled $288,690.
- A total of $57,872 was spent on Information Technology. This included phones and routers, computers, and switches.
- A total of $135,139 was spent on vehicles and equipment. This included five new vehicles, trailers, and several other smaller equipment purchases.
- The following projects were placed into service during the fiscal year:

Fences and Electric Gates at two facilities	$ 17,313
Cubicles & furniture for Annex building	$ 26,907
Central District meter change out program	$141,245
SCADA for two facilities	$ 37,169
Mountain View Shores Waterline Replacement	$ 48,376

Long-term debt. At the end of the fiscal year, the Authority had $51,521,418 in bonds and notes outstanding, versus $25,625,532 last year, an increase of 101% as shown below. There was an increase due to the 2015 VRA debt issuance to fund the Smith Mountain Lake Water Treatment Plant and Route 122/460 Waterline project. Other 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

	2016	2015
Lynchburg Sewer System Bonds	$ 1,241,288	$ 1,438,882
Assumed Debt from Town of Bedford	5,645,130	6,271,650
2015 VRA Bonds	31,225,000	-
2014 Wells Fargo BAN	-	3,200,000
2005 Revenue Bonds	-	585,000
2009B Pooled Loan Bonds	6,085,000	6,805,000
2012 Pooled Bonds	5,005,000	5,005,000
2014 Pooled Bonds	2,320,000	2,320,000
Unamortized premium on bonds	1,874,368	1,774,133
	$ 53,395,786	$ 27,399,665

Requests for information

This financial report is designed to provide a general overview of the Authority's finances. For additional financial information contact the Authority'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, 2016

	2016	(For Comparative Purposes Only) 2015
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	$ 3,339,436	$ 3,360,917
Accounts receivable (Note 3)	3,956,370	2,514,886
Inventory	278,586	168,709
Prepaids	122,492	97,086
Total current assets	7,696,884	6,141,598
Noncurrent assets		
Cash and cash equivalents, restricted (Note 2)	20,245,853	1,446,013
Capital assets (Note 4)		
Nondepreciable	14,960,506	3,284,668
Depreciable, net	81,221,259	83,131,868
Total noncurrent assets	116,427,618	87,862,549
Total assets	124,124,502	94,004,147
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	928,710	1,065,030
Differences between expected and actual experience (Note 7)	165,764	-
Pension contributions subsequent to measurement date (Note 7)	196,030	183,600
Total deferred outflows of resources	1,290,504	1,248,630
LIABILITIES		
Current liabilities		
Accounts payable	3,500,668	350,681
Accrued liabilities	112,806	185,943
Interest payable	489,885	237,355
Current maturities of other long-term liabilities (Note 5)	2,684,764	2,156,209
Total current liabilities	6,788,123	2,930,188
Long-term liabilities		
Customer security deposits	616,888	790,491
Unearned revenue	1,007,165	1,057,265
Other long-term liabilities – due in more than one year (Note 5)	50,820,879	25,351,837
Net pension liability (Note 7)	335,291	102,978
Total long-term liabilities	52,780,223	27,302,571
Total liabilities	59,568,346	30,232,759
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual investment earnings on pension plan investments (Note 7)	74,059	176,779
NET POSITION		
Net investment in capital assets	61,962,141	61,289,580
Restricted for:		
Capital improvements	164,177	238,334
Debt collateral	1,834,224	-
Unrestricted	1,812,059	3,315,325
Total net position	$ 65,772,601	$ 64,843,239

Exhibit 2

BEDFORD REGIONAL WATER AUTHORITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING REVENUES		
Water sales	$ 6,667,201	$ 6,048,086
Facility fees	807,100	789,500
Sewer service	3,637,391	3,273,277
Wastewater treatment plant operation fees	151,523	84,633
Review fees	45,349	83,310
Meter base installation fees	54,686	56,438
Account changes	52,126	38,055
Other	207,354	173,824
Penalties	158,395	152,736
Total operating revenues	11,781,125	10,699,859
OPERATING EXPENSES		
Water systems	2,209,621	2,193,011
Sewer systems	1,274,345	1,227,407
Depreciation and amortization	3,154,534	3,129,278
Salaries and employee benefits	3,723,314	3,210,176
Management and general	914,278	236,377
Customer service and information systems	216,201	193,701
Vehicles	197,254	164,633
Engineering, operations, and maintenance	81,552	49,004
Total operating expenses	11,771,099	10,403,587
Operating income	10,026	296,272
NONOPERATING REVENUES (EXPENSES)		
Gain (loss) on disposal of capital assets	(8,292)	1,759
Investment income	77,139	-
Interest expense	(1,438,201)	(795,665)
Total nonoperating revenues (expenses)	(1,369,354)	(793,906)
Loss before capital contributions	(1,359,328)	(497,634)
CAPITAL CONTRIBUTIONS (Note 6)	2,288,690	3,949,363
Change in net position	929,362	3,451,729
Net position – beginning at July 1	64,843,239	61,391,510
Net position – ending at June 30	$ 65,772,601	$ 64,843,239

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

Exhibit 3

BEDFORD REGIONAL WATER AUTHORITY
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING ACTIVITIES		
Cash received from customers	$ 10,115,938	$ 10,644,103
Cash paid for goods and services	(1,878,547)	(4,219,110)
Cash paid to employees	(3,843,575)	(3,385,304)
Net cash provided by operating activities	4,393,816	3,039,689
CAPITAL AND RELATED FINANCING ACTIVITIES		
County of Bedford – capital debt assistance	2,000,000	2,000,000
Acquisition and construction of capital assets	(12,458,281)	(2,208,431)
Proceeds from revenue bond anticipation note and bond refunding	31,551,714	4,656,446
Principal paid on long-term borrowings	(5,329,114)	(2,510,665)
Escrow payments to refunding trust	-	(2,605,673)
Interest paid on long-term borrowings	(1,468,978)	(933,238)
Proceeds from sale of capital assets	12,063	5,194
Net cash provied by (used in) capital and related financing activities	14,307,404	(1,596,367)
INVESTING ACTIVITIES		
Interest received	77,139	-
Net cash provided by investing activities	77,139	-
Net increase in cash and cash equivalents	18,778,359	1,443,322
CASH AND CASH EQUIVALENTS		
Beginning at July 1	4,806,930	3,363,608
Ending at June 30	$ 23,585,289	$ 4,806,930
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 3,339,436	$ 3,360,917
Cash and cash equivalents, restricted	20,245,853	1,446,013
	$ 23,585,289	$ 4,806,930
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 10,026	$ 296,272
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	3,154,534	3,129,278
Pension expense net of employer contributions	(48,601)	(185,735)
Change in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(1,441,484)	(397,088)
Inventory	(109,877)	(22,708)
Prepaids	(25,406)	(34,630)
Increase (decrease) in:		
Accounts payable	3,149,987	(97,639)
Unearned revenue	(50,100)	(20,000)
Customer security deposits	(173,603)	361,332
Compensated absences and accrued liabilities	(71,660)	10,607
Net cash provided by operating activities	$ 4,393,816	$ 3,039,689
SCHEDULE OF NONCASH ACTIVITIES		
Contributions of capital assets	$ 288,690	$ 1,568,704
County of Bedford – capital debt assistance	$ -	$ 380,659
Increase in Lynchburg Sewer System rights	$ -	$ 196,904
Capitalized interest	$ 284,344	$ 77,844

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

Note 1. Summary of Significant Accounting Policies

Reporting entity:

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

Measurement focus and basis of accounting:

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

The Authority distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of facility fees intended to recover the cost of connecting new customers to the system. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Cash and cash equivalents:

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

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.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Inventory:

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

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, 2016 was $284,344.

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 three 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.

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 only has one item that qualifies for reporting in this category, the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

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.

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. Cash and Investments

Deposits:

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

Investments:

Statutes authorize the Authority to invest in obligations of the United States or agencies thereof; obligations of the Commonwealth of Virginia or political subdivisions thereof; 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. Cash and Investments (Continued)

Interest rate risk:

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

Credit risk:

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

Cash and cash equivalents restrictions:

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

	Cash and Cash Equivalents, Restricted	Net Position, Restricted
New Projects Reserve Fund	$ 91,592	$ 91,592
Sewerline Replacement Fund	72,585	72,585
VRA Debt Service Fund	1,834,224	1,834,224
VRA Construction Fund	18,247,452	-
	$ 20,245,853	$ 1,998,401

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

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

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.

Note 2. Cash and Investments (Continued)

Cash and cash equivalents restrictions: (Continued)

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 $1,834,224 at June 30, 2016.

The Authority also established a debt service fund with LGIP to ensure its debt coverage requirements would be met. When compliance with debt coverage requirements is contingent upon this fund, which is not the case in the current year, this amount will be shown as restricted cash. The debt service fund with LGIP amounted to $412,399 at June 30, 2016. As there is no current year restriction, this amount is not included with restricted net position.

Note 3. Accounts Receivable

Accounts receivable, net consists of the following:

	Billed	Unbilled	Total
Water	$ 845,684	$ 743,817	$ 1,589,501
Sewer	1,116,501	323,781	1,440,282
Other	1,258,928	-	1,258,928
	3,221,113	1,067,598	4,288,711
Less:			
Allowance for doubtful accounts	(332,341)	-	(332,341)
	$ 2,888,772	$ 1,067,598	$ 3,956,370

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	2,274,192	12,560,292	(884,454)	13,950,030
Total capital assets, not being depreciated	3,284,668	12,560,292	(884,454)	14,960,506
Capital assets, being depreciated				
System, lines, and source of supply structures	123,923,259	1,127,359	(30,798)	125,019,820
Leasehold improvements	1,905,981	35,107	-	1,941,088
Vehicles and equipment	2,155,134	135,139	(44,110)	2,246,163
Information systems equipment	1,493,671	57,872	(27,223)	1,524,320
Total capital assets, being depreciated	129,478,045	1,355,477	(102,131)	130,731,391
Less accumulated depreciation for:				
System, lines, and source of supply structures	(42,378,509)	(2,914,049)	10,443	(45,282,115)
Leasehold improvements	(1,215,857)	(97,309)	-	(1,313,166)
Vehicles and equipment	(1,587,966)	(116,850)	44,110	(1,660,706)
Information systems equipment	(1,163,845)	(117,523)	27,223	(1,254,145)
Total accumulated depreciation	(46,346,177)	(3,245,731)	81,776	(49,510,132)
Total capital assets being depreciated, net	83,131,868	(1,890,254)	(20,355)	81,221,259
Total capital assets, net	$ 86,416,536	$ 10,670,038	$ (904,809)	$ 96,181,765

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
Route 43 North Sewer Replacement	$ 12,546
Smith Mountain Lake 6 MGD WTP – Contract A	12,553
Smith Mountain Lake 6 MGD WTP – Phase 2 Construction	21,034,208
Membrane Repurposing Study	21,223
	$ 21,080,530

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	$ 14,715,000	$ 31,225,000	$ (1,305,000)	$ 44,635,000	$ 1,595,000
Lynchburg Sewer System Bonds	1,438,882	-	(197,594)	1,241,288	198,618
Due To Town of Bedford	6,271,650	-	(626,520)	5,645,130	634,480
Revenue Bond Anticipation Notes	3,200,000	-	(3,200,000)	-	-
Bond Premiums	1,774,133	326,714	(226,479)	1,874,368	229,201
Compensated absences	108,381	28,571	(27,095)	109,857	27,465
	$ 27,508,046	$ 31,580,285	$ (5,582,688)	$ 53,505,643	$ 2,684,764

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	$ 31,225,000
Water and Sewer Bonds	4.10-5.00	06/09/09	10/01/22	9,425,000	6,085,000
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	2,320,000
					44,635,000
Plus unamortized bond premium					1,874,368
					$ 46,509,368
Due To Other Governmental Units:					
Lynchburg Sewer System Bonds	1.75-5.00%	Various	06/01/44	$ 3,236,174	$ 1,241,288
Due To Town of Bedford	Various	Various	02/21/26	7,501,599	5,645,130
					$ 6,886,418

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, 2016, $5,385,000 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, 2016, $2,450,000 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
2017	$ 198,618	$ 13,238	$ 1,595,000	$ 1,746,384	$ 634,480	$ 116,472
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
2022-2026	180,412	74	10,085,000	5,411,291	2,771,355	245,530
2027-2031	180,412	54	4,635,000	4,025,394	-	-
2032-2037	116,592	33	5,510,000	3,216,478	-	-
2037-2041	74,046	12	6,630,000	2,147,509	-	-
2042-2046	19,692	-	8,040,000	784,941	-	-
	$ 1,241,288	$ 32,826	$ 44,635,000	$ 23,500,960	$ 5,645,130	$ 727,513

Note 6. Capital Contributions

Capital contributions by source are summarized as follows:

Developers and customers	$ 288,690
County of Bedford – capital debt assistance	2,000,000
	$ 2,288,690

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 an agent multiple-employer plan 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. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at *http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf*.

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 is 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 –** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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 non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age –** Age 65 or age 60 for hazardous duty employees.
- **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. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **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. 50 with at least five years of creditable service for hazardous duty employees.
- **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%.
- **Disability Coverage** for 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.

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 non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age –** Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **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. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **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%.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

- **Eligible Members –** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members –** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and 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.
- **Creditable Service –**
  - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service and is generally subject to the same terms as in Plans 1 and 2.
  - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting –**
  - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
  - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component:** See definition under Plan 1.
  - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **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. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 7. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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. This is not applicable to hazardous duty employees.
- **Earliest Unreduced 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. This is not applicable to hazardous duty employees.
  - **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.
- **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 and 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 –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	9
Inactive members:	
Vested inactive members	4
Non-vested inactive members	8
Inactive members active elsewhere in VRS	3
Total inactive members	15
Active members	55
Total covered employees	79

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, 2016 was 8.02% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 $196,030 and $183,600 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees - Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Note 7. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

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, 2014 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.

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

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:

Note 7. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return (Continued)

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 %

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.

Note 7. Defined Benefit Pension Plan (Continued)

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, 2014	$ 3,132,902	$ 3,029,924	$ 102,978
Changes for the year:			
Service cost	259,350	-	259,350
Interest	215,254	-	215,254
Differences between expected and actual experience	196,404	-	196,404
Contributions – employer	-	182,137	(182,137)
Contributions – employee	-	113,206	(113,206)
Net investment income	-	145,164	(145,164)
Benefit payments, including refunds of employee contributions	(115,683)	(115,683)	-
Administrative expenses	-	(1,782)	1,782
Other changes	-	(30)	30
Net changes	555,325	323,012	232,313
Balances at June 30, 2015	$ 3,688,227	$ 3,352,936	$ 335,291

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	$ 974,028	$ 335,291	$ (176,969)

Note 7. Defined Benefit Pension Plan (Continued)

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of $147,429. At June 30, 2016, 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	$ 165,764	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	74,059
Employer contributions subsequent to the measurement date	196,030	-
Total	$ 361,794	$ 74,059

The $196,030 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, 2017. 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
2017	$ 1,076
2018	1,076
2019	1,077
2020	45,272
2021	30,640
Thereafter	12,564

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 2016 was $222,292. There were no current year additions to debt but related capital assets under this agreement increased $8,426 for 2016.

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 2016 were $1,464,265.

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 $30,270 for water and $(1,292) for sewer in 2016. 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 $43,395 for 2016.

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 2016, 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 2016, total premiums paid were $28,472. Benefits are those afforded through the Commonwealth of Virginia as outlined in the *Code of Virginia* Section 65.2-100; premiums are based upon payroll, job rates, and claims experience.

Note 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 2016, approximately $68,000 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 2016, $4,214,934 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, 2016 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.

Note 11. New Accounting Standards

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. 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 will be effective for the year ending June 30, 2017.

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

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 78*, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

(Continued)

Note 11. New Accounting Standards

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the 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 (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) 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, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 4

BEDFORD REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2016

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

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

Exhibit 5

BEDFORD REGIONAL WATER AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2016

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					
2016	$ 196,030	$ 196,030	$ -	$ 2,444,270	8.02%
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 two years of data is available. However, additional years will be included as they become available.

BEDFORD REGIONAL WATER AUTHORITY

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2015

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, 2015 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

Teacher cost-sharing pool
- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

SUPPORTING SCHEDULE

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF DEPARTMENTAL OPERATING INCOME

Year Ended June 30, 2016

	Water	Sewer	Total
OPERATING REVENUES			
Water sales	$ 6,667,201	$ -	$ 6,667,201
Facility fees	529,700	277,400	807,100
Sewer service	-	3,637,391	3,637,391
Wastewater treatment plant operation fees	89,503	62,020	151,523
Review fees	24,139	21,210	45,349
Meter base installation fees	54,686	-	54,686
Account charges	35,347	16,779	52,126
Other	170,029	37,325	207,354
Penalties	97,916	60,479	158,395
Total operating revenues	7,668,521	4,112,604	11,781,125
OPERATING EXPENSES			
Water systems	2,209,621	-	2,209,621
Sewer systems	-	1,274,345	1,274,345
Depreciation and amortization	1,599,031	1,555,503	3,154,534
Salaries and employee benefits	2,122,289	1,601,025	3,723,314
Management and general	707,630	206,648	914,278
Customer service and information services	123,235	92,966	216,201
Vehicles	112,435	84,819	197,254
Engineering, operations, and maintenance	46,484	35,068	81,552
Total operating expenses	6,920,725	4,850,374	11,771,099
Operating income (loss)	$ 747,796	$ (737,770)	$ 10,026

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 two 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 THREE FISCAL YEARS

	Fiscal Year 2016	Fiscal Year 2015	Fiscal Year 2014
Primary Government			
Net investment in capital assets	$ 61,962,141	$ 61,289,580	$ 59,491,970
Restricted	1,998,401	238,334	533,542
Unrestricted	1,812,059	3,315,325	1,647,890
Total primary government net position	$ 65,772,601	$ 64,843,239	$ 61,673,402

Table 2

BEDFORD REGIONAL WATER AUTHORITY

CHANGES IN NET POSITION
LAST THREE FISCAL YEARS

Fiscal Year	Operating Revenues	Operating Expenses	Operating Income (Loss)	Total Nonoperating Revenues (Expenses)	Loss before Capital Contributions	Capital Contributions	Transfer of Operations	Change in Net Position
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 THREE 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
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 THREE FISCAL YEARS

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

Fiscal Year	Water Revenue	Sewer Revenue	Water Facility Revenue	Sewer Facility Revenue	Penalties and Fees [a]	Miscellaneous [b]	Total
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 THREE 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
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 THREE FISCAL YEARS

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

Fiscal Year	Residential	Commercial	Industrial	Institutional	Irrigation	Total
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 THREE FISCAL YEARS

Fiscal Year	Residential	Commercial	Industrial	Institutional[1]	nm[2]	Total
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

	2016	
Customer	**Revenue**	**Percentage**
Western Virginia Water Authority (Franklin County)	$ 180,397	2.70%
TEVA Pharmaceuticals	56,467	0.84
Cintas Corporation	49,835	0.75
WINOA USA, Inc.	39,141	0.59
The Gables of Jefferson Commons	29,962	0.45
The Matrix Group	20,568	0.31
Owens Rental Properties, LLC	15,154	0.23
Bedford Weaving Mill	13,633	0.20
Centra Bedford Memorial Hospital	10,604	0.16
Bedford Elementary School	4,525	0.07
Subtotal (10 largest)	420,286	6.30
Balance from other customers	6,246,915	93.70
Grand totals	$ 6,667,201	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

	2016	
Customer	**Revenue**	**Percentage**
TEVA Pharmaceuticals	$ 60,933	1.72%
Cintas Corporation	60,192	1.70
The Gables of Jefferson Commons	38,183	1.08
The Matrix Group	35,475	1.00
Bedford County Solid Waste Department	29,797	0.84
Centra Bedford Memorial Hospital	17,990	0.51
Bedford County Jail	12,827	0.36
Bedford Weaving Mill	9,835	0.28
WINOA USA, Inc.	9,018	0.25
Bedford Elementary School	6,326	0.18
Subtotal (10 largest)	280,576	7.92
Balance from other customers	3,262,272	92.08
Grand totals	$ 3,542,848	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"	$17.00	$18.50	$35.50	$18.20	$31.50	$49.70	$25.00	$37.11	$62.11
3/4"	21.00	21.00	42.00	27.66	32.54	60.20	37.27	41.03	78.30
1"	27.59	25.24	52.83	38.13	41.78	79.91	50.00	50.26	100.26
1-1/2"	38.08	39.68	77.76	62.88	63.00	125.88	84.06	70.02	154.08
2"	55.92	58.00	113.92	N/A	N/A	N/A	N/A	N/A	N/A
Monthly Fixed Charges – Commercial									
5/8"	17.00	18.50	35.50	22.00	35.25	57.25	31.00	48.38	79.38
3/4"	21.00	21.00	42.00	30.82	38.11	68.93	46.88	49.49	96.37
1"	27.59	25.24	52.83	37.50	47.34	84.84	50.70	56.74	107.44
1-1/2"	38.08	39.68	77.76	49.33	67.10	116.43	105.26	78.47	183.73
2"	55.92	58.00	113.92	99.38	93.01	192.39	156.90	104.38	261.28
3"	94.96	99.36	194.32	269.74	153.99	423.73	394.94	165.37	560.31
4"	150.08	158.08	308.16	457.85	245.71	703.56	640.13	257.09	897.22
6"	277.12	293.12	570.24	1,175.99	468.86	1,644.85	1,221.42	480.24	1,701.66
8"	401.00	414.00	815.00	1,175.99	468.86	1,644.85	1,221.42	480.24	1,701.66
10"	615.60	637.60	1,253.20	1,175.99	468.86	1,644.85	1,221.42	480.24	1,701.66

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	$5.40	$7.10	$12.50	$1.50	$1.25	$2.75	$1.50	$1.25	$2.75
Over 3,000	5.40	7.10	12.50	3.30	6.00	9.30	3.80	8.00	11.80
Commodity Charges per 1000 gallons – Commercial									
First 3,000	5.40	7.10	12.50	1.50	1.25	2.75	1.50	1.25	2.75
Next 7,000	5.40	7.10	12.50	3.70	7.40	11.10	4.85	9.50	14.35
Over 10,000	5.40	7.10	12.50	3.30	7.00	10.30	4.85	9.50	14.35
Commodity Charges per 1000 gallons – Industrial (400,000 gallon per month minimum)									
First 600,000	5.10	6.90	12.00	3.15	5.42	8.57	5.10	6.90	12.00
Over 600,000	5.10	6.90	12.00	2.80	4.79	7.59	5.10	6.90	12.00

Table 13

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF WATER AND SEWER FACILITY FEES

Facility Fees (based on meter size)	2015-2016[1] Water	2015-2016[1] 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 THREE 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
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 THREE FISCAL YEARS

Fiscal Year Ended June 30	Lynchburg Sewer System Bonds	Pooled Loan Bonds	Due to Town of Bedford	2014 Revenue Bond Anticipation Note	Unamortized Premium	Total
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 THREE 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
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
2014	27,795,031	16,658	1,669	41,645	667	41,066	1.63

[1] Connections from Tables 8 and 9

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

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

Table 17

BEDFORD REGIONAL WATER AUTHORITY

TEN LARGEST EMPLOYERS (BEDFORD TOWN AND COUNTY)
CURRENT YEAR

Employer	2016 Employees	2016 Rank
Bedford County School Board	1,000+	1
County of Bedford	500-999	2
Centra Health	250-499	3
TEVA Pharmaceuticals	250-499	4
Mail America Communications	250-499	5
Wal-Mart	250-499	6
GP Big Island LLC	250-499	7
Workforce Solutions	250-499	8
Sam Moore Furniture, LLC	250-499	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 THREE FISCAL YEARS

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

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

Table 20

BEDFORD REGIONAL WATER AUTHORITY

OPERATING INDICATORS
LAST THREE FISCAL YEARS

	2016	2015	2014
Water meters read[1]	82,263	80,043	79,117
Meter installations and change outs	3,125	2,470	263
Payments transacted	75,193	73,617	77,676

[1] Number of meters read for billing purposes

Table 21

BEDFORD REGIONAL WATER AUTHORITY

CAPITAL ASSET STATISTICS
LAST THREE FISCAL YEARS

	2016	2015	2014
Miles of water line	352	352	352
Miles of sewer line	141	141	144
Water pump stations	2	2	2
Sewer pump stations	22	22	22
Water storage tanks	12	12	12
Wastewater treatment plants	3	3	3
Water treatment plants	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, 2016, 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 5, 2016.

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 2013-001 in internal control that we consider to be a material weakness.**

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Compliance and Other Matters

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

Authority's Response to Finding

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

Purpose of this Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
October 5, 2016

BEDFORD REGIONAL WATER AUTHORITY

SCHEDULE OF FINDING AND RESPONSE
Year Ended June 30, 2016

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.

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.