

BTOP Comprehensive Community Infrastructure Community Anchor Institution and Network Points of Interest Detail Template

Please complete the Anchor Institution Details worksheet by providing information on Community Anchor Institutions that will be directly connected by the proposed network as necessary. All Community Anchor Institutions should be given a type from the specification. A Community Anchor Institution is considered a minority-serving institution if it is a post-secondary educational institution with enrollment of minority students exceeding 50% of its total enrollment. The "Project Role" column only requires a word or two, or a short phrase, not a detailed explanation of the role of project partners and community anchor institution provided in the essay portions of the application.

Please complete the Points of Interest worksheet by providing information on all points of interest (passive, non-environmentally controlled points of interconnection, cell tower points, may be excluded), collocation facilities, central offices, head ends, and other central office facilities, network access points to last mile service providers, Internet peering points, etc. For each point of interest you may provide either a street address or geocoordinates (lat/long). You must provide detail on what the point of interest is, whether it is already existing or will be created by the proposed project. Where more than one facility type applies, select the most appropriate facility type. For example, if a central office houses a point of interconnection, select central office as the facility type, or if a cell site is located on a tower, select tower as the facility type. Interconnection Available at the Facility field should be Yes if interconnection to the proposed network is available at that location, otherwise No. The brief description field is optional and can be used to convey a better understanding of what the facility is. You may use the space at the bottom of the table to provide additional notes, if desired.

The data provided via this template will be subject to automated processing. Applicants are therefore required to provide this upload as an Excel file, and not to convert it to a PDF or other format for upload. Additionally, applicants should not modify the format of this file.

all
ork. Add rows
cified list. A
dary
ment. The
xplanation. A
is should be

its of
e.g. splice
entralized
, and towers.
or both. You
ould be
ie larger
central office
e. The
roposed
onal, but may
ce provided at

ants are
PDF prior to

BTOP CCI Community Anchor Institutions Detail Template

Title: Southwest Virginia Middle Mile Project
 Easy Grants ID: 4506

Facility Name	Organization	Address Line 1	City	State	Zip	Facility Type	Minority Serving Institution Type	Project Role
	Fire & Rescue					Public Safety Entity	N/A	
	Medical Facility					Medical or Healthcare Provider	N/A	
	Mail Delivery Office					Other Government Facility	N/A	
	College					Community College	N/A	
	Mail Delivery Office					Other Government Facility	N/A	
	School					School (k-12)	N/A	
	College					Other Community Support Organization	N/A	
	Mail Delivery Office					Other Government Facility	N/A	
	Law Enforcement					Public Safety Entity	N/A	
	Government					Other Government Facility	N/A	
	Fire & Rescue					Public Safety Entity	N/A	
	Rescue					Public Safety Entity	N/A	
	Learning					Library	N/A	
	School					School (k-12)	N/A	
	Medical Facility					Medical or Healthcare Provider	N/A	
	School					School (k-12)	N/A	
	Learning					Library	N/A	
	Government					Other Government Facility	N/A	
	Law Enforcement					Public Safety Entity	N/A	
	School					School (k-12)	N/A	
	Rescue					Public Safety Entity	N/A	
	Transportation					Public Safety Entity	N/A	
	School					School (k-12)	N/A	
	School					School (k-12)	N/A	
	Fire & Rescue					Public Safety Entity	N/A	

Facility Name	Organization	Address Line 1	City	State	Zip	Facility Type	Minority Serving Institution Type	Project Role
	Fire & Rescue					Public Safety Entity	N/A	
	Fire & Rescue					Public Safety Entity	N/A	
	Fire & Rescue					Public Safety Entity	N/A	
	School					School (k-12)	N/A	
	Learning					Library	N/A	
						Other Community Support Organization	N/A	
						Other Community Support Organization	N/A	
	Rescue					Public Safety Entity	N/A	
	School					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	Volunteer Fire Dept.					Public Safety Entity	N/A	
	Community support group					Community Support	N/A	
	County School System					School (k-12)	N/A	
	Volunteer Fire and Rescue					Public Safety Entity	N/A	
	Volunteer Fire and Rescue					Public Safety Entity	N/A	
	Buchanan Co. governing body					Other Government Facility	N/A	
	County School System					School (k-12)	N/A	
	Health Dept.					Medical or Healthcare Provider	N/A	

Facility Name	Organization	Address Line 1	City	State	Zip	Facility Type	Minority Serving Institution Type	Project Role
	Mental Health Services					Medical or Healthcare Provider	N/A	
	Community Support					Other Community Support Center	N/A	
	Educational & training center					Community College	N/A	
	Medical or Healthcare Provider					Medical or Healthcare Provider	N/A	
	County School System					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	Technology Park					Other Government Facility	N/A	
	County School System					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	Clinic					Medical or Healthcare Provider	N/A	
	Volunteer Fire Dept					Public Safety Entity	N/A	
	Private school					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	Technology and Industrial Park					Other Government Facility	N/A	
	Volunteer Fire Dept.					Public Safety Entity	N/A	
	County School System					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	Clinic					Medical or Healthcare Provider	N/A	

Facility Name	Organization	Address Line 1	City	State	Zip	Facility Type	Minority Serving Institution Type	Project Role
	Educational & training center					Community College	N/A	
	Rescue Squad					Public Safety Entity	N/A	
	State park					Other Government Facility	N/A	
	Low Income Public Housing					Public Housing	N/A	
	Clinic					Medical or Healthcare Provider	N/A	
	Volunteer Fire Dept					Public Safety Entity	N/A	
	Education & Training center					Other Institution of Higher Education	N/A	
	Health Dept.					Medical or Healthcare Provider	N/A	
	County School System					School (k-12)	N/A	
	Low Income Public Housing					Public Housing	N/A	
	Repeater site					Public Safety Entity	N/A	
	Clinic					Medical or Healthcare Provider	N/A	
	County School System					School (k-12)	N/A	
	Rescue Squad					Public Safety Entity	N/A	
	Fire department					Public Safety Entity	N/A	
	Education & Training center					Other Institution of Higher Education	N/A	
	Water Plant					Other Government Facility	N/A	
	E911 Central Office					Public Safety Entity	N/A	

Facility Name	Organization	Address Line 1	City	State	Zip	Facility Type	Minority Serving Institution Type	Project Role
	Economic Development					Other Community Support C	N/A	
	State Highway Dept.					Other Government Facility	N/A	
	County School System					School (k-12)	N/A	
	Fire Department					Public Safety Entity	N/A	
	County School System					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	County School System					School (k-12)	N/A	
	Water & Sewer Authority					Other Government Facility	N/A	
	Hospital					Medical or Healthcare Provi	N/A	
	Wellness Center					Other Community Support C	N/A	
	Independent Tel. Co					Other Community Support C	N/A	
	Health Department					Medical or Healthcare Provi	N/A	
	Fire Dept.					Public Safety Entity	N/A	
	County School System					School (k-12)	N/A	
	Fire Department					Public Safety Entity	N/A	
	County School System					School (k-12)	N/A	
	Education & Training center					Other Institution of Higher E	N/A	
	Fire Department					Public Safety Entity	N/A	



Comprehensive Community Infrastructure Budget Narrative Template

Applicant Name: Bristol Virginia Utilities

EasyGrants Number: 4506

Organization Type: Municipality

Proposed Period of Performance: 2011 - 2015

Total Project Costs: \$37,264,255

Total Federal Grant Request: \$22,655,102

Total Matching Funds (Cash): \$5,653,776

Total Matching Funds (In-Kind): \$8,955,377

Total Matching Funds (Cash + In-Kind): \$14,609,153

Total Matching Funds (Cash + In-Kind) as Percentage of Total Project Costs: 39.2%

1. Administrative and legal expenses - \$759,933

- Provide a breakout of position(s), time commitment(s) such as hours or level-of-effort, and salary information/rates with a detailed explanation, and additional information as needed.

Staff	Hours	Years	Rate	Total Cost
CFO	244	3	\$93.69	\$68,581
CEO	200	3	\$125.00	\$75,000
CTO	500	3	\$78.13	\$117,195
Engineer	1,500	3	\$56.25	\$253,125
Project Manager	1,749	3	\$46.89	\$246,032
				\$759,933

These are the senior staff at BVU who will be responsible for implementing the grant. This is all considered as project management time. The hourly rates shown include a 35% benefit loading.



The cash match for this grant is guaranteed by the Virginia Tobacco Indemnification and Community Revitalization Commission. This is a state fund of Virginia that is funded through settlements with the tobacco companies. There is a letter in the grant filing from the Tobacco Commission guaranteeing to provide the **\$5,653,776** in cash matching should this grant be awarded. That represents 20% of the new capital costs in this category.

2. Land, structure, rights-of-way, appraisals, etc. - \$350,000

The grant calls for building 7 pre-fabricated huts to act as POP sites. These huts are large enough to allow for collocation with last mile providers. The huts included the full cost of building the huts and the power equipment needed to supply power and cool the huts. There are also several base equipment racks being installed in each hut, some of which will be used to house the network electronics that are used to light the proposed network. The fully installed cost of each hut is estimated at \$50,000. BVU has built many such huts and knows that this is a good approximation of the cost. The actual cost for each hut will probably vary slightly.

The cash match for this grant is guaranteed by the Virginia Tobacco Indemnification and Community Revitalization Commission. This is a state fund of Virginia that is funded through settlements with the tobacco companies. There is a letter in the grant filing from the Tobacco Commission guaranteeing to provide the **\$5,653,776** in cash matching should this grant be awarded. That represents 20% of the new capital costs in this category.

3. Relocation expenses and payment - \$0

There are no costs estimated for this category.

4. Architectural and engineering fees - \$1,388,150

This category of expense represents the cost of engineering the project. There are a large variety of costs that go into this category and we are not able ahead of time to give a detailed breakdown by exact item. Instead, the engineering is estimated at 6% of the cost of the construction.

BVU has constructed over 900 miles of fiber and we know that for our part of the world this is a very good estimate.

Following are some of the tasks that are included in this cost:

- Writing an RFP and helping to select the construction contractor(s)
- Negotiating and finalizing a contract with the contractor
- Establishing a process for how the contractor will bill the process
- Securing any rights-of-ways for huts.
- Acquiring all needed permits for railroad crossings, bridge crossings, etc.
- Ordering all construction materials
- Pole attachment analysis – determining which poles will need make-ready work.
- Field engineering – determining exactly how the network will be built. For example, which side of the road will the construction be done on, how will we get through intersections, how will we deal with strams, bridges, railroads, freeways, etc.
- Daily monitoring of construction – Making sure the contractors are doing what they are supposed to. Answering contractor questions.
- Preparing as-built drawings showing how the network was actually built.



The cash match for this grant is guranteed by the Virginia Tobacco Indemnification and Community Revitaliztion Commission. This is a state fund of Virginia that is funded through settlements with the tobacco companies. There is a letter in the grant filing from the Tobacco Commission guaranteeing to provide the \$5,653,776 in cash matching should this grant be awarded. That represents 20% of the new capital costs in this category.

5. Other architectural and engineering fees - \$0

There are no cost estimates for this category.

6. Project inspection fees - \$638,338

This category os expense represents the cost of inspection. Inspection is the process whereby BVU will verify that every part of the fiber network meets the specifications. We will make sure that splices are done properly. We will make sure that buried cable is buried to the right depth. We will make sure that fiber strunbg on poles has the proper tension. BVU has constructed over 900 miles of fiber and we know that for our part of the world inspection costs approximately 2% of the cost of a fiber project.

The cash match for this grant is guranteed by the Virginia Tobacco Indemnification and Community Revitaliztion Commission. This is a state fund of Virginia that is funded through settlements with the tobacco companies. There is a letter in the grant filing from the Tobacco Commission guaranteeing to provide the \$5,653,776 in cash matching should this grant be awarded. That represents 20% of the new capital costs in this category.

7. Site work - \$0

There are no cost estimates for this category.

8. Demolition and removal - \$0

There are no cost estimates for this category.

9. Construction - \$33,066,468

This category includes several items. It includes aerial fiber, buried fiber, spare fiber inventory, and two in-kind matches, all described as follows:

Aerial Fiber. The grant includes [redacted] of aerial fiber. This represents [redacted] of fiber at a constructed cost of [redacted] BVU has built over 900 miles of fiber in this region and we have always tracked the cost per mile, so we know this is a very good estimate of the costin our area. This cost includes several items: the cost of the fiber cable, make ready work to fix any poles that are not able to accpt a new fiber line, and the labor to construct the fiber line. In BVU's experience, the cost of materials for aerial fiber are about [redacted] The cost of make ready work to fix or upgrade existing poles is about [redacted] The remaining cost is labor.

Buried Fiber. The grant includes [redacted] of buriedl fiber. This represents [redacted] of buried fiber at a constructed cost of [redacted] BVU has built over 900 miles of fiber in this region and we have always tracked the cost per mile, so we know this is a very good estimate of the costin our area. This cost includes several items: the cost of the fiber cable, make ready work to fix any poles that are not able to accpt a new fiber line, and the labor to construct the fiber line. In BVU's experience, the cost of materials for buried fiber are about [redacted] The remaining cost is labor.



Fiber Inventory. The grant includes a small amount of fiber inventory, of [REDACTED]. It is important to keep spare fiber on hand for the various sizes of fiber in case there is a fiber cut. BVU would store this fiber in the grant region so that it is always close on hand in the case of a fiber cut.

Cash Match. The cash match for this grant is guaranteed by the Virginia Tobacco Indemnification and Community Revitalization Commission. This is a state fund of Virginia that is funded through settlements with the tobacco companies. There is a letter in the grant filing from the Tobacco Commission guaranteeing to provide the **\$5,653,776** in cash matching should this grant be awarded. That represents 20% of the new capital costs in this category.

In Kind Match. BVU is providing two different in-kind matches for the grant, both related to outside plant.

First is right-of-way. BVU has been able to obtain a statewide guarantee of right-of-way that allows them to build on any state highway. This is a unique arrangement and normally anybody who wants to build along a state highway has to apply for rights-of-ways for each stretch of every state highway they want to build on. BVU's statewide agreement means that BVU must only file minor paperwork explaining where they are building.

The normal process of obtaining state rights-of-way is expensive and time consuming. It generally requires the preparation of extensive drawings and documentation, both of which BVU is allowed to avoid.

BVU has placed a value of \$0.75 per foot of network constructed for this right-of-way. We estimate this is the savings from the ability to avoid the normal permitting process and the associated paperwork. This project proposes to build 2,044,300 feet of buried fiber along state rights-of-way, which, at \$0.75 per foot is an in-kind contribution of **\$1,533,225**. If this grant was being proposed by anybody other than BVU in Virginia, they would incur that kind of cost which would be added as a real cost to this project.

The second in-kind contribution is for existing fiber, electronics and POPs. These are all portions of the existing BVU network, without which this middle mile project could not be functional. Basically, the current grant request for middle mile is adding fiber to existing fiber routes to reach further into Southwest Virginia. This grant would not be possible had these earlier fiber routes not already been constructed.

BVU has done a detailed analysis of the routes that are necessary for the grant fiber routes to be function. BVU has determined that there are 55.4 miles of aerial fiber and 51.3 miles of buried fiber that provide the connectivity of the grant routes back to the BVU hub.

The value of the in-kind contribution is as follows:

- a) BVU determined the book value of the specific fiber routes that provide the in-kind matching. This was determined to be \$2,742,300 for the aerial fiber and \$3,180,600 for the buried fiber.
- b) BVU then looked at the electronics used to light these existing fiber routes and determined the value of the electronics to be \$1,105,000.
- c) BVU also determined that there were a number of POP sites, that is buildings that house the electronics that are necessary for the in-kind routes to function. The cost of the POP sites was determined to be \$1,690,000.
- d) BVU then deducted the accumulated depreciation from each of these in-kind investments to determine the book value today of these investments. The total in-kind value is calculated to be



\$7,422,152, which represents the book value of the in-kind assets less the amount that they have ben depreciated, to date.

10. Equipment - \$1,050,000

The grant includes fiber electronics in the equipment category. The following types of electronics are included in this grant:

[REDACTED] This is the electronics that us used to light the fiber for transport. This equipment is basically a laser and modulator system used to put light pulses on the fiber. [REDACTED] BVU has chosen [REDACTED] for this project since that is the vendor that is being used for the rest of the 900 mile BVU fiber network. It important that these new sections of fiber mesh seamlessly with the existing fiber network. [REDACTED]

[REDACTED] This is the equipment that creates the bridge between the middle mile and the last mile. BVU uses [REDACTED] equipment throughout the network and this is the equipment that would allow a last mile provider to bring cable TV, data or telephone services from the network into the last mile network. [REDACTED]

[REDACTED] An OLT is a device that allows a last mile provider to separate the signal into the individual fibers to get to customers. BVU uses [REDACTED] as the OLT provider throughout the system. This equipment would give last mile providers direct interface with customer foibers. [REDACTED]

Spare Electronics. The grant includes spare cards for all of the above brands of electronics. This cost has been estimated to be [REDACTED]

Test equipment. BVU already owns a lot of test equipment, but it is important to put some new test equipment into vans that will be working in this area, due to the remoteness of some of these fibers to BVU. The cost of test equipment in the grant is \$30,000 and would consist of equipment used to diagnose problems with fiber as well as equipment used to test the electronics.

The cash match for this grant is guranteed by the Virginia Tobacco Indemnification and Community Revitalization Commission. This is a state fund of Virginia that is funded through settlements with the tobacco companies. There is a letter in the grant filing from the Tobacco Commission guaranteeing to provide the \$5,653,776 in cash matching should this grant be awarded. That represents 20% of the new capital costs in this category.

11. Miscellaneous - \$40,000

This category includes the cost of preparing the grant. BVU has paid several outsider to help prepare the grant, plus they will have internal time devoted to prapring grant application material. This cost is estimated to be \$40,000, and the real number will be known once the grant is finished and submitted.

13. Contingencies - \$0

- Contingencies are an unallowable expenditures under BTOP.



15. Project (program) income - \$2,559,781

This is the projected revenue that will be generated during the first three years after gaining rant approval.

The revenue by year is: Year 1 - \$0, Year 2 - \$185,105, Year 3 – \$2,004,832.

The revenue is of several types:

- Transport revenue. This is the sales of 1 Gb and 2.5 Gb transport to last mile providers.
- Collocation. These are fees for the last mile providers to put equipment in the BVU POPs.
- Lst mile Net Income. BVU has alrady received some grants to provide last mile service and expects to continue to get funding to provide service in these areas. Thse revenues are the expected EBITDA (revenues minus operating expenses) derived from last mile customerrrs served by BVU.

Comprehensive Community Infrastructure Key Metrics Dashboard

Please refer to the CCI Grant Guidelines for instructions on completing this form.

Applicant Profile	
Applicant Name	Bristol Virginia Utilities
Title	BVU Southwest Virginia Middle Mile Project
Easygrants ID	4506
Headquarters	15022 Lee Highway, Bristol, VA 24202
Size (2009 Data) of Applicant Entity	<ul style="list-style-type: none"> Current Year Revenues: Employees:
Technology Type	Fiber-to-the-Premise
Key Partners	

Project Economics			
Budget Information		Project Financials	
Project Budget	\$37,312,889	Project Revenues (Yr 8)	\$5,311,792
Federal Contribution (%)	60.8%	Net Income and Margin (Yr 8)	\$3,889,877
Cash Match Amount (%)	15.2%	EBITDA and Margin (Yr 8)	\$5,123,027
In Kind Match Amount (%)	30.9%	Rate of Return (w/o BTOP Funds)	2.3%
Middle Mile/Last Mile Budget Allocation		Rate of Return (w/ BTOP Funds)	14.7%
Middle Mile Percentage (%)	100%	Cost Efficiency	
Last Mile Percentage (%)	0%	Cost per Mile (MM)	\$72,931
Rural Last Mile Percentage	0%	Cost per Household (LM)	

Market Territory	
Geographic Area(s)	
Middle Mile Network Composition	
Total Proposed Network Miles (MM only)	<ul style="list-style-type: none"> Total Miles: 494.7 Backbone Miles: 333.2 Lateral Miles: 25.9
New Construction Network Miles (MM only)	<ul style="list-style-type: none"> Total Miles: 388 Backbone Miles: 252.4 Lateral Miles: 135.6
Existing Applicant Network Miles Utilized (MM only)	<ul style="list-style-type: none"> Total Miles: 106.7 Backbone Miles: 80.8 Lateral Miles: 25.9
Leased Network Miles Utilized (MM only)	<ul style="list-style-type: none"> Total Miles: 0.0 Backbone Miles: 0.0 Lateral Miles: 0.0
Underserved/Unserved	<ul style="list-style-type: none"> Percentage of Backbone Miles in Underserved/Unserved Areas: 91% Percentage of Lateral Miles in Underserved/Unserved Areas: 95%
Existing Customer Base	
Existing Residential/Individual Customers within PFSA	0

Comprehensive Community Infrastructure Key Metrics Dashboard

Existing Business Customers within PFSA	0
Existing Community Anchor Institution Customers within PFSA	<ul style="list-style-type: none"> • Total CAI's: 0 • Community Colleges: 2 • Public Safety Entities: 2
Existing Third Party Service Provider Customers within PFSA	0
Potential Customer Base	
Market Potential Households (within PFSA)	<ul style="list-style-type: none"> • Total HH's: 18,997 • Located in Underserved/Unserved Areas: 14,193
Market Potential Businesses (within PFSA)	<ul style="list-style-type: none"> • Total Businesses: 525 • Located in Underserved/Unserved Areas: 525
Market Potential Community Anchor Institutions (within PFSA)	<ul style="list-style-type: none"> • Total CAI's: 122 • Located in Underserved/Unserved Areas: 122 • Community Colleges: 4 • Public Safety Entities: 39
Market Potential Third Party Service Providers (within PFSA)	<ul style="list-style-type: none"> • Total Third Party Service Providers in PFSA: 3 • Expressing Commitment or Letter of Interest: 3
Funded Network Coverage	
Households Connected to Network (via BTOP Funds by end of Year 3)	<ul style="list-style-type: none"> • Total Households Connected: 0 • Located in Underserved/Unserved Areas: 0
Businesses Connected to Network (via BTOP Funds by end of Year 3)	<ul style="list-style-type: none"> • Total Businesses Connected: 0 • Located in Underserved/Unserved Areas: 0
Community Anchor Institutions Directly Connected (via BTOP Funds by end of Year 3)	<ul style="list-style-type: none"> • Total Directly Connected CAI's: 0 • Located in Underserved/Unserved Areas: 0 • Community Colleges: 0 • Public Safety Entities: 0
Projected Subscribers by Year Five	<p><u>Directly Served by Applicant</u></p> <ul style="list-style-type: none"> • Community Anchor Institutions: 122 • Households: 5,628 • Businesses: 220 • Third Party Service Providers: 3 <p><u>Served by Proposed Network Via Third Party Service Provider</u></p> <ul style="list-style-type: none"> • Community Anchor Institutions: 0 • Households: 950 • Businesses: 40

Comprehensive Community Infrastructure Key Metrics Dashboard

Other	
Proposed MM Network Capacity	<ul style="list-style-type: none"> • Backbone: 2.5-40Gbps wavelengths, OC3-OC192 optical,1-10Gbps ethernet • Laterals: 2.5-40Gbps wavelengths, OC3-OC192 optical,1-10Gbps ethernet
Proposed LM Network Speed	<ul style="list-style-type: none"> • Highest offered speed tier: 100Mbps • Estimated Average speed for highest speed tier: 100Mbps
Total Points of Interconnection	<ul style="list-style-type: none"> • Total Pol's: 16 • Pol's in Underserved/Unserved Areas: 3 • Environmentally-controlled, non-passive Pols: 16
Jobs Created	<ul style="list-style-type: none"> • Direct Job-years: 295 • Indirect Job-years: 85 • Induced Job-years:
Required Time for Project Completion (Number of Required Quarters to Fully Build-out and Test Network and Make Ready for Commercial Service)	<p>Project will be ready for some commercial service after 18 months. It will be fully build within 2.5 years.</p>

Wesley R. Rosenbalm, PE

President and Chief Executive Officer, Bristol Virginia Utilities 2001-Present
Bristol Virginia Utilities (“BVU”) operates multiple utilities including electric, water, sewer, CATV, Internet and a telephone. Wes manages all aspects of the \$63 million dollar budget and supervise over 100 people. In addition, he oversees six distinct different companies under the BVU umbrella. Wes is the Vice Chair of the Bristol Sewer Oversight Committee that governs all sewer activities in two counties and two Cities in Virginia and Tennessee. Wes has worked with other members of BVU management and a financial consultant to secure capital through the bond market on several occasions. Recently, Wes negotiated a new power supply and transmission contract for BVU with an estimated peak of 135 MW. Wes was responsible for BVU entering the telecom business and has managed the process since inception. Wes worked with the Virginia State Corporation Commission Staff and other interested parties to formulate the rules and regulations to implement the requirements of the new legislation passed by the 2002 Virginia General Assembly. Wes also sits on the Bristol Economic Development Board. Wes has raised \$20 million of grant money for telecommunications projects at BVU since 2003.

Electrical and Fiber Operations Director, Gaffney Board of Public Works 1997 – 2001
The Gaffney Board of Public Works operates a multiple public utility system, including, electricity, fiber, water, and sewer and reports to a five-person elected board. Wes was the senior executive with primary operational responsibilities over both the electric and fiber optics departments. This included the creation and administration of the budget (\$18 million) for both departments. The long-range capital projects were developed from this position as well. Wes was called upon daily to make decisions concerning the financial, human resources, and technical aspects of the electrical and fiber optics departments. His duties encompassed: scheduling, ongoing education, and salary administration for 23 employees. He prepared the bid specifications and coordinated the bidding process for the Board's current fiber optic system. He sat on the Board of Directors of Piedmont Municipal Power Agency, which is an organization formed in the late 70's to buy a portion of a nuclear plant to produce power for ten South Carolina cities.

Technical Engineer Kentucky Utilities 1990 – 1997
Kentucky Utilities (“KU”) is an investor owned utility located in Lexington, Kentucky. Wes held an electrical project management position. While in this position, I created budgets and forecasts as well as bids as needed by KU. I organized field personnel for construction, testing and energizing electrical projects. I also designed, tested and commissioned electrical systems. This position gave me a concentrated understanding of how electrical systems work and interconnect with other utilities.

Education

University of Kentucky	Masters in Business Administration
University of Kentucky	BS Electrical Engineering
Western Kentucky University	Pre-Engineering

Awards

Wes has won numerous personal awards, and BVU has won many industry awards.

STACEY E. BRIGHT

Executive Vice President and Chief Financial Officer, BRISTOL VIRGINIA UTILITIES, BRISTOL, VIRGINIA – March 2003 to present

Serves as company's second in command, reporting to chief executive officer. Guides overall company policies and goals in addition to oversight of all accounting, finance, budgeting, regulatory and warehouse functions for the utilities four operating divisions, consisting of electric, water, waste water and fiber optic service operations. Also directs all day-to-day accounting, finance functions and regulatory relations, including reporting, monitoring and communicating with the VSCC and the Federal Communications Commission.

Successfully guided BVU as an international leader in municipal broadband, doubling company revenues and facilitating the addition of multiple BVU OptiNet services including On-Screen Caller ID, Video-on-Demand (VOD), Pay-Per-View and HD-TV. Guided BVU OptiNet's expanded deployment into eight other counties in Southwest Virginia, negotiating a fiscal co-ownership arrangement with the Cumberland Plateau Company for the network's expansion into four counties. Managed \$34 million in grant awards acquired from the Economic Development Administration and Tobacco Indemnification and Community Revitalization Commission.

Provided leadership in 2007 launch of a new OptiNet business unit called BVU FOCUS, a broadband consulting, management and operations department. Currently serves as CEO and CFO for FOCUS' first customer, MI-Connection, a consortium of towns in North Carolina that had purchased an aging Adelphia cable and Internet system.

Chief Financial Officer and Vice President, Finance and Marketing, EVAN ENERGY COMPANY L.C., KINGSPORT, TENNESSEE -1998 to 2003

Managed all accounting, budgeting and finance functions with a team staff of six persons. Created and successfully negotiated a \$60M oil and gas development project with Duke Energy Gas Transmission. Negotiated and administered a \$50M revolving credit facility with Duke Capital Partners. Managed fixed assets of \$40M. Direct cash management of ten operating accounts with an average daily balance of \$7M. Grew company from 5 to 150 employees.

Vice President , VIRGINIA GAS COMPANY, ABINGDON, VIRGINIA – 1995 to 1998

Managed all controller functions for three subsidiary companies. Corrected three years of adverse opinion financials in preparation for common stock IPO. Worked with owner on 3-person team to make public offering. Prepared SEC, NASDAQ and VSCC filings. Organized and conducted IPO road show presentations. In October 1996 raised \$9.2M in capital through IPO and in August 1997, through secondary offering raised another \$17M.

Revenue Accountant - PENN VIRGINIA OIL AND GAS CORPORATION, KINGSPORT, TENNESSEE - 1994 to 1995

EDUCATION

M.B.A., Finance, Virginia Polytechnic Institute and State University (Virginia Tech)

B.S., Accounting, University of Virginia at Wise, May 1994

MARK S. LANE

Chief Technical Officer, Bristol Virginia Utilities 2000-Present

Responsible for overseeing the design, construction, troubleshooting and maintenance of BVU's fiber network. This network has over 1,000 miles of fiber and has over 10,000 customers. Responsible for supervising the technical staff at BVU including engineers, technicians and help desk. Responsible for technical planning and engineering. Is the primary sales engineer and contact for large commercial telecom customers. Responsible for developing and implementing IP-based network solutions.

Owner, 3rd Wave Consulting 1994 - 2000

Responsible for project management, technical solution development, and resource procurement for a limited number of recurring customers. Responsible for development and operation of regional ISP dial-up, dedicated, hosting, and co-location services to a customer base of 1600+ subscribers. Sold in October 1999 to Planet Systems, Inc.

Co-Director of Information Services, Wellmont Health Services 1996 - 2000

Responsible for co-directorship of Information Services department, including a staff of 43 and an annual operating budget of \$5 million. Responsible for voice, data, and video LAN/WAN engineering, operations, and security encompassing five major hospitals and 50+ remote health care facilities. The network supported 2500+ IP nodes, 4300+ PBX ports, and 4 major video conferencing sites.

Network Administrator, Bristol Regional Medical Center 1986 - 1996

Responsible for LAN/WAN engineering, operations, and security encompassing one major hospital and 20+ remote health care facilities. The network supported 1100+IP nodes and 2100+ PBX ports, and was maintained by a staff of 6.

EDUCATION

1983-1986 University of Tennessee, Knoxville, TN *B.S. Computer Science*

AWARDS RECEIVED

Best Networked Hospitals Award	1995 Healthcare Technology
Imaging Innovator Award	1996 Healthcare Informatics
100 "Most Wired" Hospitals	1997 Healthcare Technology

David E. Copeland

PROFESSIONAL EXPERIENCE

- 6/2000-Present Vice President of Field Operations, Bristol Virginia Utilities
- 6/1997-6/2000 Journeyman Lineman and Line Foreman, Bristol Virginia Utilities
- 6/1992-6/1997 Apprentice Lineman, Bristol Virginia Utilities
- 1/1992-6/1992 Meter Technician, Bristol Virginia Utilities
- 6/1989-12/1991 Machinist, Bristol Compressor
- 3/1987-6/1989 Service Technician, Aqua Pools and Spas

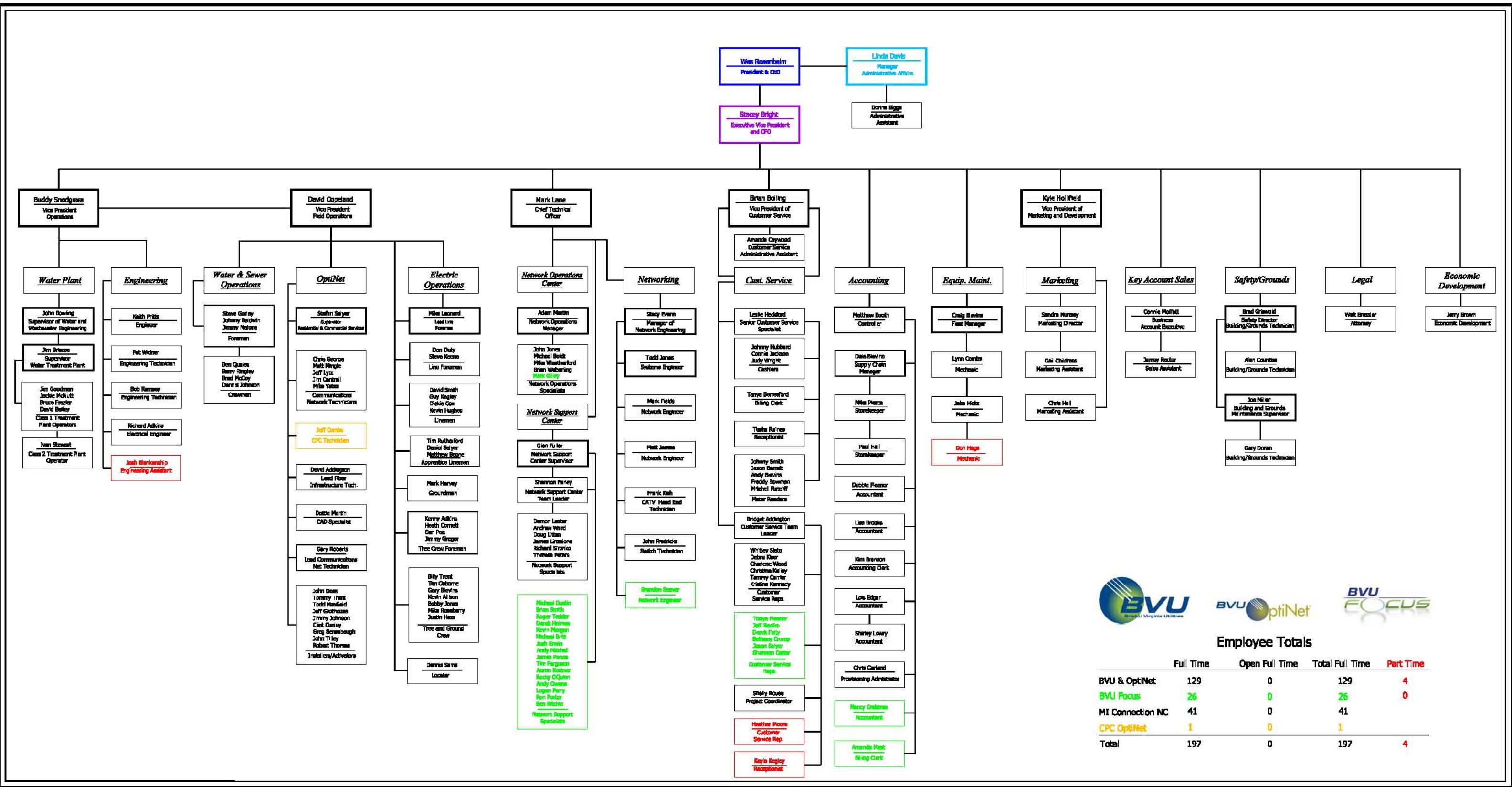
Recent Experience

- Supervises all BVU field crews and field operations.
- Responsible for engineering, design, splicing and testing design of new construction projects.
- Developed cable numbering scheme as well as splicing diagrams and fiber documentation procedures. Developed inventory management for fiber related cable and hardware.
- Certified Administrator of OmniPCX 4400 Phone System.
- Helped to develop departmental procedures and departmental goals.
- Knowledge of customer base and BVU's service area.

EDUCATION

AAS, Industrial Electronic Technology, 1992 - Virginia Highlands Community College

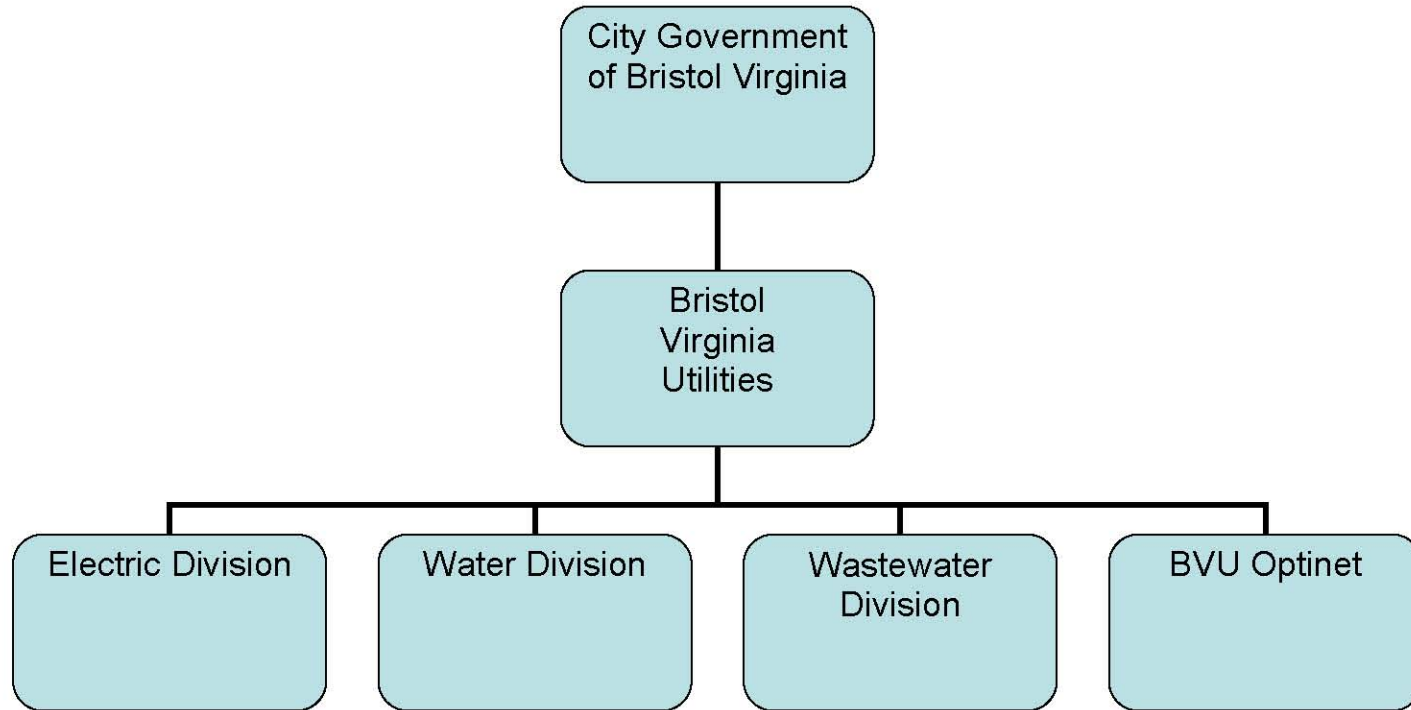
Continuing Education: Basic Electric Metering Phase1&2, Poly Phase Electric Metering Phases 1&2, TVPPA Apprentice Lineman course, Advanced Line worker Rubber Glove and Bucket Truck School, TVPPA Advanced Line worker Phases 1, 2&3, SIECOR Certification in Fiber Splicing and OTDR Testing, Tyton Termination and Testing of CAT 5 and 5E Cable, Fiber Camp Network Design, DWDM and PON Design, and Certified Administrator on the OMNIPCX4400 Phone System.



Employee Totals

	Full Time	Open Full Time	Total Full Time	Part Time
BVU & OptiNet	129	0	129	4
BVU Focus	26	0	26	0
MI Connection NC	41	0	41	
CPC OptiNet	1	0	1	
Total	197	0	197	4

Organization Chart



**U.S. Department of Commerce
Broadband Technology Opportunities Program
Authentication and Certifications**

1. I certify that I am the duly Authorized Organization Representative (AOR) of the applicant organization, and that I have been authorized to submit the attached application on its behalf.
2. I certify that I have examined this application, that all of the information and responses in this application, including certifications, and forms submitted, all of which are part of this grant application, are material representations of fact and true and correct to the best of my knowledge, that the entity(ies) that is requesting grant funding pursuant to this application and any subgrantees and subcontractors will comply with the terms, conditions, purposes, and federal requirements of the grant program; that no kickbacks were paid to anyone; and that a false, fictitious, or fraudulent statements or claims on this application are grounds for denial or termination of a grant award, and/or possible punishment by a fine or imprisonment as provided in 18 U.S.C. §1001 and civil violations of the False Claims Act.
3. I certify that the entity(ies) I represent has and will comply with all applicable federal, state, and local laws, rules, regulations, ordinances, codes, orders and programmatic rules and requirements relating to the project. I acknowledge that failure to do so may result in rejection or deobligation of the grant or loan award. I acknowledge that failure to comply with all federal and program rules could result in civil or criminal prosecution by the appropriate law enforcement authorities.
4. I certify that the entity(ies) I represent has and will comply with all applicable administrative and federal statutory, regulatory, and policy requirements set forth in the Department of Commerce Pre-Award Notification Requirements for Grants and Cooperative Agreements ("DOC Pre-Award Notification"), published in the Federal Register on February 11, 2008 (73 FR 7696), as amended; DOC Financial Assistance Standard Terms and Conditions (Mar. 8, 2009); the Department of Commerce American Recovery and Reinvestment Act Award Terms (Apr. 9, 2009); and any Special Award Terms and Conditions that are included by the Grants Officer in the award.
5. I certify that any funds awarded to the entity(ies) I represent as a result of this application will not result in any unjust enrichment of such entity(ies) or duplicate any funds such entity(ies) receives under federal universal service support programs administered by the Universal Service Administrative Corporation (USAC).
6. I certify that the entity(ies) I represent has secured access to pay the 20% of total project cost or has petitioned the Assistant Secretary of NTIA for a waiver of the matching requirement.

2-25-2010
Date


Authorized Organization Representative Signature

Wes Rosenbalm
Print Name

President and CEO
Title

Legend

Bristol Virginia Utilities
Middle - Mile Fiber-Optic Project



9 Pages

Withheld in their entirety
pursuant to FOIA Exemption 4
(5 U.S.C. § 552 (b)(4))

BRISTOL VIRGINIA UTILITIES
(Enterprise Funds of the City of Bristol, Virginia)

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2007

BRISTOL VIRGINIA UTILITIES

TABLE OF CONTENTS

	Page
Independent Auditor's Report	1-2

Basic Financial Statements

Exhibit 1 Combining Statement of Net Assets	4
Exhibit 2 Combining Statement of Revenues, Expenses and Changes in Fund Net Assets.....	5
Exhibit 3 Combining Statement of Cash Flows	6
Notes to Financial Statements	7-19

Required Supplementary Information

Exhibit 4 Analysis of Funding Progress for Defined Benefit Pension Plan.....	21
--	----

Other Information

Schedule 1 Water System Revenue Statistics (Unaudited).....	23
Schedule 2 Electric System Revenue and Purchased Power Statistics (Unaudited).....	24

Internal Control and Compliance

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
---	-------

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bristol Virginia Utilities
Bristol, Virginia

We have audited the accompanying financial statements of Bristol Virginia Utilities ("BVU"), enterprise funds of the City of Bristol, Virginia, as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of BVU's management. 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 and 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 Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Note 1, the financial statements present only BVU and do not purport to, and do not present fairly the financial position of the City of Bristol, Virginia as of June 30, 2007, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BVU as of June 30, 2007, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2007, on our consideration of BVU'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BVU has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. Also, the required supplementary information on Page 25 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it. Other information is presented for purposes of additional analysis and is not a required part of the financial statements. It has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 23, 2007

**BASIC FINANCIAL
STATEMENTS**

BRISTOL VIRGINIA UTILITIES

COMBINING STATEMENT OF NET ASSETS

June 30, 2007

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Subtotal</u>	<u>OptiNet</u>	<u>Totals</u>
ASSETS						
Current assets:						
Cash and cash equivalents (Note 2)	\$ 2,258,533	\$ 1,740,663	\$ 3,117,759	\$ 7,116,955	\$ 1,145,477	\$ 8,262,432
Receivables, net (Note 3)	4,672,654	261,639	236,373	5,170,666	422,343	5,593,009
Due from other governmental units (Note 11)	-	-	525,094	525,094	149,325	674,419
Due from other funds (Note 4)	740,339	-	20,761	761,100	74,694	835,794
Prepays	70,812	-	293	71,105	226,548	297,653
Inventories	924,476	188,048	21,108	1,133,632	1,087,640	2,221,272
Other current assets	<u>19,812</u>	<u>3,871</u>	<u>2,525</u>	<u>26,208</u>	<u>8,682</u>	<u>34,890</u>
Total current assets	<u>8,686,626</u>	<u>2,194,221</u>	<u>3,923,913</u>	<u>14,804,760</u>	<u>3,114,709</u>	<u>17,919,469</u>
Noncurrent assets:						
Restricted cash and cash equivalents (Note 2)	924,446	-	-	924,446	58,225	982,671
Restricted investments (Note 2)	2,254,050	420,415	-	2,674,465	3,314,722	5,989,187
Capital assets, net (Note 5)	35,821,816	8,238,270	10,269,823	54,329,909	44,137,658	98,467,567
Receivables, net (Note 3)	658,515	-	-	658,515	-	658,515
Prepays	193,440	-	-	193,440	480,877	674,317
Bond issuance costs, net	<u>512,106</u>	<u>90,904</u>	<u>-</u>	<u>603,010</u>	<u>728,100</u>	<u>1,331,110</u>
Total noncurrent assets	<u>40,364,373</u>	<u>8,749,589</u>	<u>10,269,823</u>	<u>59,383,785</u>	<u>48,719,582</u>	<u>108,103,367</u>
Total assets	<u>49,050,999</u>	<u>10,943,810</u>	<u>14,193,736</u>	<u>74,188,545</u>	<u>51,834,291</u>	<u>126,022,836</u>
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	3,255,731	115,639	32,359	3,403,729	1,248,131	4,651,860
Accrued interest payable	391,587	70,226	-	461,813	556,753	1,018,566
Accrued payroll and related liabilities	117,527	35,585	23,603	176,715	75,233	251,948
Customer deposits payable	924,446	-	-	924,446	58,225	982,671
Due to other governmental units (Note 11)	-	-	-	-	25,692	25,692
Due to other funds (Note 4)	558,495	12,623	2,756	573,874	817,569	1,391,443
Deferred revenue	-	-	-	-	197,133	197,133
Potential development credits	86,000	-	-	86,000	-	86,000
Bonds payable (Note 6)	479,207	82,022	-	561,229	751,729	1,312,958
Compensated absences (Note 6)	<u>82,948</u>	<u>52,668</u>	<u>52,893</u>	<u>188,509</u>	<u>83,811</u>	<u>272,320</u>
Total current liabilities	<u>5,895,941</u>	<u>368,763</u>	<u>111,611</u>	<u>6,376,315</u>	<u>3,814,276</u>	<u>10,190,591</u>
Noncurrent liabilities:						
Bonds payable (Note 6)	17,631,967	3,071,040	-	20,703,007	26,327,183	47,030,190
Deferred revenue	-	-	-	-	937,880	937,880
Retirement benefits payable (Note 7)	108,396	78,618	-	187,014	-	187,014
Compensated absences (Note 6)	<u>393,621</u>	<u>73,584</u>	<u>79,558</u>	<u>546,763</u>	<u>164,953</u>	<u>711,716</u>
Total noncurrent liabilities	<u>18,133,984</u>	<u>3,223,242</u>	<u>79,558</u>	<u>21,436,784</u>	<u>27,430,016</u>	<u>48,866,800</u>
Total liabilities	<u>24,029,925</u>	<u>3,592,005</u>	<u>191,169</u>	<u>27,813,099</u>	<u>31,244,292</u>	<u>59,057,391</u>
NET ASSETS						
Invested in capital assets, net of related debt	18,222,748	5,176,112	10,269,823	33,668,683	17,786,846	51,455,529
Unrestricted	<u>6,798,326</u>	<u>2,175,693</u>	<u>3,732,744</u>	<u>12,706,763</u>	<u>2,803,153</u>	<u>15,509,916</u>
Total net assets	<u>\$ 25,021,074</u>	<u>\$ 7,351,805</u>	<u>\$ 14,002,567</u>	<u>\$ 46,375,446</u>	<u>\$ 20,589,999</u>	<u>\$ 66,965,445</u>

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

BRISTOL VIRGINIA UTILITIES

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2007

	Electric	Water	Wastewater	Subtotal	OptiNet	Totals (Memorandum Only)
OPERATING REVENUES						
Charges for services	\$ 38,630,932	\$ 3,064,204	\$ 3,168,451	\$ 44,863,587	\$ 10,663,207	\$ 55,526,794
Rent from property	632,954	58,899	-	691,853	36,242	728,095
Forfeited discounts and penalties	185,062	57,302	63,177	305,541	63,114	368,655
Connections and transfers	224,027	92,968	32,539	349,534	-	349,534
Other	184,449	68,115	-	252,564	210,611	463,175
Total operating revenues	<u>39,857,424</u>	<u>3,341,488</u>	<u>3,264,167</u>	<u>46,463,079</u>	<u>10,973,174</u>	<u>57,436,253</u>
OPERATING EXPENSES						
Power and pumping	-	266,272	1,257,867	1,524,139	-	1,524,139
Purification and collection system	-	597,650	162,481	760,131	-	760,131
Transmission and distribution	1,638,255	253,847	-	1,892,102	-	1,892,102
Telephone, Broadband and CATV	-	-	-	-	5,299,751	5,299,751
Billing and collection	1,128,088	230,180	253,607	1,611,875	772,853	2,384,728
Sales promotion	399,415	-	-	399,415	-	399,415
Purchase of electricity	29,258,232	-	-	29,258,232	-	29,258,232
Administrative and general	2,911,077	748,805	798,158	4,458,040	1,490,112	5,948,152
Depreciation	1,735,498	432,796	603,285	2,771,579	3,072,622	5,844,201
Amortization	88,019	22,298	-	110,317	24,871	135,188
Total operating expenses	<u>37,158,584</u>	<u>2,551,848</u>	<u>3,075,398</u>	<u>42,785,830</u>	<u>10,660,209</u>	<u>53,446,039</u>
Operating income	<u>2,698,840</u>	<u>789,640</u>	<u>188,769</u>	<u>3,677,249</u>	<u>312,965</u>	<u>3,990,214</u>
NONOPERATING REVENUES (EXPENSES)						
Gain (loss) on sale of assets	10,324	(1,625)	-	8,699	4,404	13,103
Interest income	253,948	76,580	147,735	478,263	203,907	682,170
Interest expense	(789,179)	(144,197)	105	(933,271)	(1,146,081)	(2,079,352)
Net nonoperating revenues (expenses)	<u>(524,907)</u>	<u>(69,242)</u>	<u>147,840</u>	<u>(446,309)</u>	<u>(937,770)</u>	<u>(1,384,079)</u>
Income (loss) before capital contributions and transfers	2,173,933	720,398	336,609	3,230,940	(624,805)	2,606,135
CAPITAL CONTRIBUTIONS (Note 13)	-	-	-	-	1,180,429	1,180,429
TRANSFERS IN (OUT) (Note 4)	<u>(23,743,518)</u>	<u>-</u>	<u>-</u>	<u>(23,743,518)</u>	<u>23,393,518</u>	<u>(350,000)</u>
Change in net assets	(21,569,585)	720,398	336,609	(20,512,578)	23,949,142	3,436,564
NET ASSETS (DEFICIT) AT JULY 1	<u>46,590,659</u>	<u>6,631,407</u>	<u>13,665,958</u>	<u>66,888,024</u>	<u>(3,359,143)</u>	<u>63,528,881</u>
NET ASSETS AT JUNE 30	<u>\$ 25,021,074</u>	<u>\$ 7,351,805</u>	<u>\$ 14,002,567</u>	<u>\$ 46,375,446</u>	<u>\$ 20,589,999</u>	<u>\$ 66,965,445</u>

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

BRISTOL VIRGINIA UTILITIES
COMBINING STATEMENT OF CASH FLOWS
Year ended June 30, 2007

	Electric	Water	Wastewater	Subtotal	OptiNet	Totals (Memorandum Only)
OPERATING ACTIVITIES						
Receipts from customers	\$ 40,642,123	\$ 3,273,373	\$ 3,264,167	\$ 47,179,663	\$ 10,762,563	\$ 57,942,226
Payments to suppliers	(32,639,900)	(1,378,115)	(427,114)	(34,445,129)	(6,327,658)	(40,772,787)
Payments to employees	(2,695,167)	(718,639)	(787,132)	(4,200,938)	(1,235,058)	(5,435,996)
Interfund receipts (payments)	(969,148)	74,441	(210,005)	(1,104,712)	596,673	(508,039)
Other receipts (payments)	(1,398,464)	62,750	(1,264,803)	(2,600,517)	461,113	(2,139,404)
Net cash provided by operating activities	<u>2,939,444</u>	<u>1,313,810</u>	<u>575,113</u>	<u>4,828,367</u>	<u>4,257,633</u>	<u>9,086,000</u>
CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchases of capital assets	(2,616,040)	(812,007)	(471,248)	(3,899,295)	(5,075,210)	(8,974,505)
Principal paid on capital debt	(400,000)	(95,000)	(135,250)	(630,250)	(730,000)	(1,360,250)
Interest paid on capital debt	(789,179)	(144,197)	355	(933,021)	(1,146,081)	(2,079,102)
Capital contributions in aid of construction	510,725	155,521	39,219	705,465	1,180,429	1,885,894
Other payments	(37,000)	-	-	(37,000)	-	(37,000)
Net cash used in capital and related financing activities	<u>(3,331,494)</u>	<u>(895,683)</u>	<u>(566,924)</u>	<u>(4,794,101)</u>	<u>(5,770,862)</u>	<u>(10,564,963)</u>
INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	-	-	167,793	167,793	-	167,793
Purchase of investments	(169,013)	(18,353)	-	(187,366)	(23,154)	(210,520)
Interest received	253,948	76,580	147,735	478,263	203,907	682,170
Net cash provided by investing activities	<u>84,935</u>	<u>58,227</u>	<u>315,528</u>	<u>458,690</u>	<u>180,753</u>	<u>639,443</u>
Net increase (decrease) in cash and cash equivalents	(307,115)	476,354	323,717	492,956	(1,332,476)	(839,520)
CASH AND CASH EQUIVALENTS						
Beginning at July 1	<u>3,490,094</u>	<u>1,264,309</u>	<u>2,794,042</u>	<u>7,548,445</u>	<u>2,536,178</u>	<u>10,084,623</u>
Ending at June 30	<u>\$ 3,182,979</u>	<u>\$ 1,740,663</u>	<u>\$ 3,117,759</u>	<u>\$ 8,041,401</u>	<u>\$ 1,203,702</u>	<u>\$ 9,245,103</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 2,698,840	\$ 789,640	\$ 188,769	\$ 3,677,249	\$ 312,965	\$ 3,990,214
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation and amortization	1,823,517	455,094	603,257	2,881,868	3,097,493	5,979,361
Bad debt expense	212,237	-	-	212,237	56,219	268,456
Change in assets and liabilities						
(Increase) decrease in:						
Receivables, net	(842,107)	(22,716)	(3,019)	(867,842)	(180,554)	(1,048,396)
Due from other funds	(551,477)	91,163	12,380	(447,934)	(22,916)	(470,850)
Due from other governmental units	-	2,649	(27,664)	(25,015)	(110,581)	(135,596)
Inventories	(422,951)	(10,624)	820	(432,755)	21,780	(410,975)
Prepays	236,737	-	-	236,737	142,878	379,615
Other assets	6,769	763	120	7,652	9,432	17,084
(Decrease) increase in:						
Accounts payable and accrued liabilities	177,379	67,077	22,198	266,654	340,822	607,476
Accrued payroll and related liabilities	10,444	3,047	637	14,128	22,617	36,745
Customer deposits payable	37,530	-	-	37,530	6,450	43,980
Due to other funds	(417,671)	(16,722)	(222,385)	(656,778)	619,589	(37,189)
Due to other governmental units	-	-	-	-	25,692	25,692
Retirement benefits payable	(29,803)	(45,561)	-	(75,364)	-	(75,364)
Deferred revenue	-	-	-	-	(84,253)	(84,253)
Net cash provided by operating activities	<u>\$ 2,939,444</u>	<u>\$ 1,313,810</u>	<u>\$ 575,113</u>	<u>\$ 4,828,367</u>	<u>\$ 4,257,633</u>	<u>\$ 9,086,000</u>
NONCASH NONCAPITAL FINANCING ACTIVITIES						
Interfund transfer	<u>\$ (23,743,518)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (23,743,518)</u>	<u>\$ 23,393,518</u>	<u>\$ (350,000)</u>

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

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Bristol Virginia Utilities ("BVU") is composed of four enterprise funds of the City of Bristol, Virginia (the "City"). The financial position, results of operations, and cash flows of BVU are included in the City's Comprehensive Annual Financial Report.

Joint Venture

Jointly Owned Wastewater Facility

The City, in conjunction with the City of Bristol, Tennessee, established a jointly owned wastewater facility located in Bristol, Tennessee. The two cities are joint equitable owners of the facility. A six member Sewer Oversight Committee has advisory authority with respect to the facility. The City Council of each city appoints three members to the Oversight Committee.

B. Basic Financial Statements

BVU's financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. Since BVU is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For BVU, the basic financial statements and required supplementary information consist of:

- Enterprise fund financial statements
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Fund Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Required Supplementary Information
 - Analysis of Funding Progress for Defined Benefit Pension Plan

C. Measurement Focus and Basis of Accounting

BVU's financial statements are reported using the economic resources measurement focus and 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.

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

Charges between the government's proprietary funds and various other functions are not eliminated because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

BVU 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 BVU's principal ongoing operations. The principal operating revenues of BVU are charges to customers for sales and services. BVU also recognizes as operating revenue the portion of availability charges 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.

BVU reports the following major proprietary funds:

The *Electric fund* accounts for the activities of the electric operations.

The *Water fund* accounts for the activities of the water operations.

The *Wastewater fund* accounts for the activities of the wastewater distribution operations.

The *OptiNet fund* accounts for the activities of the fiber optic network.

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

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

D. Joint Administration

BVU utilizes a joint administrative department for the Electric, Water, Wastewater and OptiNet operations, which includes accounting, administration, billings, and collections. The shared administration, customer service, and other general expenses are allocated monthly based on the number of customers serviced by each fund, operating revenues of each fund, and plant in service of each fund. For the year ended June 30, the expenses of this department were allocated 49% to the electric system, 13% to the water system, 13% to the wastewater system, and 25% to the OptiNet system.

E. Cash and Cash Equivalents and Investments

BVU considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments are stated at fair value.

F. Accounts Receivable

Billings for services rendered by the electric, water and wastewater systems are handled by Central Service Association ("CSA"). The CSA provides separate revenue billings for each system, but is unable to render separate detailing of accounts receivable. As a result, the electric fund "purchases" the accounts receivable from the water and wastewater funds monthly. Accounts deemed uncollectible attributable to the water or wastewater systems are charged back against those systems as bad debt expense. Billings for the OptiNet system are maintained by BVU.

G. Allowance for Uncollectible Accounts

BVU calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis.

H. Inventories

Inventories, consisting of materials and supplies, are valued at the lower of average unit acquisition price or market.

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Capital assets are defined by BVU as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

Utility systems	25 – 50 years
Buildings	8 – 50 years
Equipment, machinery and vehicles	3 – 20 years
Fiber	25 years

J. Capitalization of Interest

BVU follows the policy of capitalizing net interest costs on funds borrowed to finance the construction of fixed assets. Interest of \$151,622 was capitalized for the year ended June 30.

K. Bond Issuance Costs and Premiums

Bond issuance costs and premiums are being amortized on the straight-line method over the life of the bonds.

L. Deferred Revenue

BVU recognizes revenue on leases ratably over the term of the lease. Amounts billed and collected before the applicable lease periods are deferred.

M. Potential Development Credits

The electric fund has a program through which real estate developers may be reimbursed for a portion of the cost of materials and installation of utility services. As developers pay for the services, a portion of their payments is set aside rather than being applied against the fund's cost. If developed properties are sold within a stipulated period of time, a pro-rata portion of the amounts set aside are returned to the developer. If developed properties are not sold within the stipulated time, the set aside payments remaining are retained and recorded as revenue.

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences

BVU has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred.

O. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect certain reported amounts and disclosures. Actual results could vary from the estimates.

Note 2. Deposits and Investments

Deposits

All cash of BVU is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

Investments

Statutes authorize BVU 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 for Reconstruction and Development (World Bank), the Asian Development 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).

There was no investment activity during the year other than certificates of deposits and a United States Treasury Securities Investment Trust Pool.

Restricted assets consist primarily of customer deposits, reserve accounts related to revenue and refunding bonds, and amounts for the costs of improvements to the Electric, Water and Wastewater and OptiNet Systems.

BRISTOL VIRGINIA UTILITIES

**NOTES TO FINANCIAL STATEMENTS
June 30, 2007**

Note 3. Receivables

Receivables, net, are as follows:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>OptiNet</u>
Accounts	\$ 4,815,361	\$ 261,639	\$ 236,373	\$ 508,705
Energy conservation loans	<u>731,683</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross receivables	5,547,044	261,639	236,373	508,705
Less allowance for uncollectibles	<u>(215,875)</u>	<u>-</u>	<u>-</u>	<u>(86,362)</u>
Net receivables	<u>\$ 5,331,169</u>	<u>\$ 261,639</u>	<u>\$ 236,373</u>	<u>\$ 422,343</u>

Energy Conservation Loans

BVU has a program whereby qualifying homeowners may obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate between 8% and 10%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property.

Note 4. Interfund Receivables, Payables, and Transfers

The composition of the interfund balances is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Water	\$ 2,007
Electric	Wastewater	2,083
Electric	OptiNet	736,249
Wastewater	OptiNet	20,761
OptiNet	Electric	73,379
OptiNet	Water	642
OptiNet	Wastewater	673
City of Bristol, Virginia – General Fund	Electric	485,116
City of Bristol, Virginia – General Fund	Water	9,974
City of Bristol, Virginia – General Fund	OptiNet	60,559

The purpose of each interfund balance is as follows:

Interfund balances generally resulted from a time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 4. Interfund Receivables, Payables, and Transfers (Continued)

Interfund transfers are as follows:

BVU submits tax equivalent payments to the City. An agreement between the City and BVU determines the amount to be transferred. The amount of tax equivalent payments in the current year totaled \$350,000.

Effective July 1, 2006, the Code of Virginia was amended to exempt from the cross-subsidization prohibitions internet access, broadband, information, and data transmission services provided by any locality providing telecommunications services on March 1, 2002. As a result, BVU transferred approximately \$23 million from the Electric Fund to OptiNet to satisfy advances owed by OptiNet to the Electric Fund.

Note 5. Capital Assets

Non-OptiNet	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated				
Land	\$ 1,196,310	\$ -	\$ -	\$ 1,196,310
Construction in progress	1,761,688	3,420,426	3,049,195	2,132,919
Total capital assets, not depreciated	<u>2,957,998</u>	<u>3,420,426</u>	<u>3,049,195</u>	<u>3,329,229</u>
Capital assets, depreciated				
Plant in service	88,161,311	2,971,653	389,302	90,743,662
Machinery and equipment	3,457,879	188,474	17,201	3,629,152
Total capital assets, depreciated	<u>91,619,190</u>	<u>3,160,127</u>	<u>406,503</u>	<u>94,372,814</u>
Less accumulated depreciation for				
Plant in service	(38,488,720)	(2,134,118)	(92,980)	(40,529,858)
Machinery and equipment	(2,189,509)	(637,461)	15,306	(2,842,276)
Total accumulated depreciation	<u>(40,678,229)</u>	<u>(2,771,579)</u>	<u>(77,674)</u>	<u>(43,372,134)</u>
Total capital assets, depreciated, net	<u>50,940,961</u>	<u>388,548</u>	<u>328,829</u>	<u>51,000,680</u>
Non-OptiNet, net	<u>\$ 53,898,959</u>	<u>\$ 3,808,974</u>	<u>\$ 3,378,024</u>	<u>\$ 54,329,909</u>
OptiNet				
Capital assets, not depreciated				
Land	\$ 3,990	\$ -	\$ -	\$ 3,990
Construction in progress	765,654	4,266,660	4,613,824	418,490
Total capital assets, not depreciated	<u>769,644</u>	<u>4,266,660</u>	<u>4,613,824</u>	<u>422,480</u>
Capital assets, depreciated				
Buildings	1,117,222	29,083	-	1,146,305
Fiber	24,726,757	3,187,666	4,029	27,910,394
Equipment	22,449,679	2,304,491	100,935	24,653,235
Furniture and fixtures	40,140	1,470	-	41,610
Transportation equipment	338,572	14,300	17,773	335,099
Total capital assets, depreciated	<u>48,672,370</u>	<u>5,537,010</u>	<u>122,737</u>	<u>54,086,643</u>
Less accumulated depreciation for				
Buildings	(106,687)	(44,985)	-	(151,672)
Fiber	(2,495,273)	(1,081,790)	5,268	(3,582,331)
Equipment	(4,466,738)	(1,906,724)	-	(6,373,462)
Furniture and fixtures	(19,087)	(5,779)	-	(24,866)
Transportation equipment	(223,563)	(33,344)	(17,773)	(239,134)
Total accumulated depreciation	<u>(7,311,348)</u>	<u>(3,072,622)</u>	<u>(12,505)</u>	<u>(10,371,465)</u>
OptiNet, net	<u>\$ 42,130,666</u>	<u>\$ 6,731,048</u>	<u>\$ 4,724,056</u>	<u>\$ 44,137,658</u>

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 5. Capital Assets (Continued)

Idle property in the amount of \$79,675 was held at June 30, 2007.

BVU received contributions in aid of construction of approximately \$833,000 for 2007. This amount is reported as a reduction in costs of the related assets.

Note 6. Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Non-OptiNet:					
Revenue and refunding bonds	\$ 22,820,000	\$ -	\$ 630,000	\$ 22,190,000	\$ 645,000
Compensated absences	649,079	537,503	451,309	735,273	188,509
	<u>\$ 23,469,079</u>	<u>\$ 537,503</u>	<u>\$ 1,081,309</u>	<u>\$ 22,925,273</u>	<u>\$ 883,509</u>
OptiNet:					
Revenue and refunding bonds	\$ 27,490,000	\$ -	\$ 730,000	\$ 26,760,000	\$ 745,000
Compensated absences	190,826	184,333	126,395	248,764	83,811
	<u>\$ 27,680,826</u>	<u>\$ 184,333</u>	<u>\$ 856,395</u>	<u>\$ 27,008,764</u>	<u>\$ 828,811</u>

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

Year Ended June 30	Non-OptiNet		OptiNet	
	Revenue and Refunding Bonds		Revenue and Refunding Bonds	
	Principal	Interest	Principal	Interest
2008	\$ 645,000	\$ 1,007,591	\$ 745,000	\$ 1,214,734
2009	655,000	993,885	755,000	1,198,903
2010	675,000	977,510	775,000	1,180,028
2011	700,000	950,510	805,000	1,149,028
2012	720,000	929,510	830,000	1,124,878
2013-2017	4,015,000	4,234,423	4,630,000	5,147,440
2018-2022	5,060,000	3,187,893	5,835,000	3,941,308
2023-2027	6,460,000	1,785,600	7,460,000	2,322,975
2028-2032	3,260,000	238,275	4,925,000	459,225
	<u>\$ 22,190,000</u>	<u>\$ 14,305,197</u>	<u>\$ 26,760,000</u>	<u>\$ 17,738,519</u>

Current portion of long-term debt are as follows:

Revenue and Refunding Bonds:	Principal	Premiums	Deferred Gains	Deferred Costs	Total
Electric	\$ 545,000	\$ 24,983	\$ 38,695	\$ (129,471)	\$ 479,207
Water	100,000	4,856	9,553	(32,387)	82,022
OptiNet	745,000	35,520	13,448	(42,239)	751,729
					<u>\$ 1,312,958</u>

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 6. Long-Term Liabilities (Continued)

Details of Long-Term Indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
<u>Revenue and Refunding Bonds:</u>					
Electric	2.00 – 5.25	07-03	07-30	19,335,000	18,815,000
Water	2.00 – 5.25	07-03	07-30	3,480,000	3,375,000
OptiNet	2.00 – 5.25	07-03	07-30	27,490,000	<u>26,760,000</u>
					48,950,000
			Bond premiums		1,496,687
			Deferred restructuring gain		902,316
			Deferred restructuring costs		<u>(3,005,855)</u>
					<u>\$ 48,343,148</u>

Note 7. Termination Benefits Payable

At June 30, 2007, BVU has a liability for voluntary termination benefits payable, resulting from early retirement incentives to three individuals until they reach retirement age under the Virginia Retirement System. The liability is measured at the discounted present value of expected future benefit payments, computed with an effective annual discount rate of 6%.

Note 8. Defined Benefit Pension Plan

A. Plan Description

BVU contributes to the Virginia Retirement System (“VRS”), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS as part of the City participant pool. All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with at least 30 years of service if elected by the employer, payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation.

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 8. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500 or downloaded from their website at <http://www.varetire.org/pdf/2006AnnuRept.pdf>.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2007 was 16.29% of annual covered payroll (including the employee share of 5% paid by the employer).

C. Annual Pension Cost

For fiscal year 2007, the City's annual pension cost of \$3,019,311 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.50% investment rate of return, (b) projected salary increases of 3.75% to 5.60% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of the short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years or less.

Three-Year Trend Information for the City

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2007	\$ 3,019,311	100%	\$ -
June 30, 2006	\$ 2,827,345	100%	\$ -
June 30, 2005	\$ 2,676,863	100%	\$ -

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 9. Service Contracts

BVU entered into a contract with a utility company to purchase electricity. This agreement commenced January 1, 2005, and ends December 31, 2007. In September 2006 BVU entered into an agreement with the Tennessee Valley Authority for the purchase of wholesale power for distribution. This contract will begin on January 1, 2008 and end December 31, 2027.

Note 10. Risk Management

The risk management programs of BVU are as follows:

Workmen's Compensation

BVU maintains commercial insurance with USF&G to cover workmen's compensation claims. Benefits are those afforded through the Commonwealth of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience. This insurance is a retrospectively rated policy. Management believes that any adjustment resulting from retrospective rating based on actual experience would not be material.

General Liability and Other

BVU maintains general liability and other insurance coverage through commercial insurance policies.

Healthcare

Healthcare insurance coverage is provided to employees through policies with Heritage National Health, a subsidiary of John Deere Health Care, Inc. Retired employees and dependents of employees are also covered by the program, provided they pay a premium.

Other

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.

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 11. Jointly-Owned Wastewater Facility

In 1979, the City of Bristol, Virginia and the City of Bristol, Tennessee entered into a contract for operation of a jointly-owned wastewater facility. The two cities are joint equitable owners in the facility, with ownership percentages determined by usage. Usage is determined by a cost-sharing formula included in the contract. Each City's share of future principal payments is determined yearly to reflect usage of the facility by each of the two cities during the fiscal year. The City's share of debt applicable to the facility at June 30 was approximately 45%. The plant's operating expenses are allocated between the two cities based on usage.

Audits of the facility are performed each year. At that time, amounts due to or from each locality are determined based on the yearly expenses allocated to each City and the contributions made by each. Separate financial statements of the Joint Sewerage System are available and may be obtained by writing to Bristol Virginia Utilities at 15550 Lee Highway, Bristol, Virginia 24202.

BVU's portion of the Joint Sewerage System is included on the wastewater fund's statement of net assets as follows:

Due from other governments:

Contributions in excess of allocated capital outlays.	\$ 187,881
Due from Joint Sewerage System	<u>337,213</u>
	<u>\$ 525,094</u>

Due from Joint Sewerage System consisted of the following:

Contributions to joint wastewater	\$ 1,818,124
Other income	<u>56,395</u>
Total contributions and other income	1,874,519
Expenditures – Bristol, Virginia's portion	<u>1,537,306</u>
	<u>\$ 337,213</u>
Land	\$ 181,015
Equipment, treatment and composting plant	18,048,751
Accumulated depreciation	<u>(11,197,691)</u>
Net capital assets	<u>\$ 7,032,075</u>

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 12. Leases

External leases

OptiNet leases network fiber optic cable to others. The leases are non-cancelable operating leases with terms of ten to twenty years. The lease terms required the entire lease amount to be paid on acceptance of the fiber. Receipts under these agreements have totaled approximately \$1,200,000 as of June 30, 2007.

Internal leases

Additionally, in November 2002, OptiNet entered into a lease agreement with the Electric fund for the use of certain fiber to allow the Electric fund to more efficiently operate and monitor the electric distribution system. The lease is a non-cancelable operating lease with an initial term of ten years. The lease terms required the entire lease amount of \$446,400 to be paid on acceptance of the fiber.

The amounts received are recorded as deferred revenue in the OptiNet fund with earned revenue recognized ratably over the initial term of the lease. The Electric fund recorded a prepaid for the initial payment with lease expense recognized ratably over the initial term of the lease.

Note 13. Capital Contributions

Capital Contributions consist of grants from the Virginia Tobacco Community Revitalization Commission and the U.S. Department of Commerce for fiber optic infrastructure expansion in Southwest Virginia.

Note 14. Subsequent Events

In August of 2007, BVU entered into a five year contract with a telecommunications system in North Carolina to manage and maintain the telecommunications system. The North Carolina system currently has approximately 10,500 customers. BVU will employ approximately sixteen new employees locally and twenty-four employees in North Carolina as a result of the contract.

Note 15. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. The Statement establishes standards for the measurement, recognition and display of Other Post Employment Benefit expense and related liabilities in the financial statements. Management has not completed the process of evaluating the impact that will result from adoption of the standard, and is therefore unable to disclose the impact of adoption. The requirements of the Statement are effective for BVU beginning with the year ended June 30, 2009.

**REQUIRED SUPPLEMENTARY
INFORMATION**

BRISTOL VIRGINIA UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2007

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 2006	\$ 62,611,996	\$ 74,634,326	\$ 12,022,330	83.9%	\$ 18,327,331	65.60%
June 30, 2005	\$ 58,809,665	\$ 72,309,237	\$ 13,499,572	81.3%	\$ 17,875,185	75.52%
June 30, 2004	\$ 56,923,305	\$ 67,790,628	\$ 10,867,323	84.0%	\$ 16,881,551	64.37%
June 30, 2003	\$ 56,270,165	\$ 62,366,360	\$ 6,096,195	90.2%	\$ 14,913,235	40.88%
June 30, 2002	\$ 56,058,366	\$ 57,943,147	\$ 1,884,781	96.7%	\$ 14,350,239	13.13%

The above schedule represents the City of Bristol, Virginia's funding progress for the defined benefit pension plan. Bristol Virginia Utilities is a fund of the City and is included in the above amounts.

OTHER INFORMATION

**BRISTOL VIRGINIA UTILITIES
WATER SYSTEM**

**REVENUE STATISTICS (UNAUDITED)
June 30, 2007 and 2006**

	2007			
	<u>Average Number of Customers Per Month</u>	<u>Revenue Per Customer</u>	<u>Gallons (000's) Sold</u>	<u>Revenue Per 1,000 Gallons</u>
Residential	6,839	\$ <u>211.66</u>	319,604	\$ <u>4.529</u>
Commercial and Industrial	1,131	\$ <u>1,030.46</u>	378,272	\$ <u>3.081</u>
Other Water Authorities	<u>12</u>	\$ <u>37,600.75</u>	<u>253,554</u>	\$ <u>1.780</u>
Totals	<u>7,982</u>	\$ <u>383.89</u>	<u>951,430</u>	\$ <u>3.221</u>

	2006			
	<u>Average Number of Customers Per Month</u>	<u>Revenue Per Customer</u>	<u>Gallons (000's) Sold</u>	<u>Revenue Per 1,000 Gallons</u>
Residential	6,814	<u>211.53</u>	320,125	\$ <u>4.503</u>
Commercial and Industrial	1,131	\$ <u>1,057.13</u>	403,648	\$ <u>2.962</u>
Other Water Authorities	<u>7</u>	\$ <u>52,498.57</u>	<u>216,203</u>	\$ <u>1.700</u>
Totals	<u>7,952</u>	\$ <u>377.83</u>	<u>939,976</u>	\$ <u>3.196</u>

	2007 (000's)	2006 (000's)
Total gallons pumped	1,384,846	1,363,823
Gallons used in operations	<u>24,581</u>	<u>46,079</u>
Gallons available for sale	1,360,265	1,317,744
Total gallons sold	<u>951,430</u>	<u>939,976</u>
Gallons lost	<u>408,835</u>	<u>377,768</u>
Loss as a percentage of gallons pumped	<u>29.52%</u>	<u>27.70%</u>

**BRISTOL VIRGINIA UTILITIES
ELECTRIC SYSTEM**

**REVENUE AND PURCHASED POWER STATISTICS (UNAUDITED)
June 30, 2007 and 2006**

REVENUES

	<u>\$</u>	<u>%</u>	<u>Average Number of Customers Per Month</u>	<u>%</u>	<u>Revenue Per Customer</u>	<u>Kilowatt Hours Sold</u>	<u>Revenue Per Kilowatt Hour</u>
<u>Residential</u>							
2007	<u>\$ 15,646,547</u>	40.50%	13,649	78.99%	<u>\$ 1,146.37</u>	213,752,867	<u>\$ 0.0732</u>
2006	<u>\$ 15,154,283</u>	39.14%	13,616	79.13%	<u>\$ 1,112.98</u>	209,536,462	<u>\$ 0.0723</u>
<u>Small Commercial</u>							
2007	<u>\$ 3,313,937</u>	8.58%	2,183	12.63%	<u>\$ 1,518.36</u>	41,236,905	<u>\$ 0.0804</u>
2006	<u>\$ 3,194,289</u>	8.25%	2,145	12.47%	<u>\$ 1,489.18</u>	39,846,164	<u>\$ 0.0802</u>
<u>Large Commercial and Industrial</u>							
2007	<u>\$ 18,698,588</u>	48.40%	321	1.86%	<u>\$ 58,235.93</u>	322,596,886	<u>\$ 0.0580</u>
2006	<u>\$ 19,401,635</u>	50.11%	328	1.91%	<u>\$ 59,151.33</u>	335,919,554	<u>\$ 0.0578</u>
<u>Street and Outdoor Lighting</u>							
2007	<u>\$ 971,860</u>	2.52%	1,126	6.52%	<u>\$ 863.30</u>	7,600,763	<u>\$ 0.1279</u>
2006	<u>\$ 968,254</u>	2.50%	1,118	6.50%	<u>\$ 866.06</u>	7,624,959	<u>\$ 0.1270</u>
<u>Totals</u>							
2007	<u>\$ 38,630,932</u>	100.00%	17,278	100.00%	<u>\$ 2,235.81</u>	585,187,421	<u>\$ 0.0660</u>
2006	<u>\$ 38,718,461</u>	100.00%	17,207	100.00%	<u>\$ 2,250.16</u>	592,927,139	<u>\$ 0.0653</u>

PURCHASED POWER

	<u>Cost</u>	<u>Kilowatt Hours Purchased</u>	<u>Cost Per Kilowatt Hour</u>
2007	<u>\$ 29,258,232</u>	606,585,000	<u>\$ 0.0482</u>
2006	<u>\$ 28,732,578</u>	608,059,240	<u>\$ 0.0473</u>

INTERNAL CONTROL AND COMPLIANCE

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 Board of Directors
Bristol Virginia Utilities
Bristol, Virginia

We have audited the financial statements of Bristol Virginia Utilities ("BVU"), enterprise funds of the City of Bristol, Virginia as of and for the year ended June 30, 2007, and have issued our report thereon dated October 23, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts to the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects BVU's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of BVU's financial statements that is more than inconsequential will not be prevented or detected by BVU's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of BVU, in a separate letter dated October 23, 2007.

This report is intended solely for the information and use of BVU's management, the Board of Director's, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 23, 2007

BRISTOL VIRGINIA UTILITIES
(Enterprise Funds of the City of Bristol, Virginia)

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2008

BRISTOL VIRGINIA UTILITIES

TABLE OF CONTENTS

Page
Independent Auditor's Report 1-2

Basic Financial Statements

Exhibit 1 Combining Statement of Net Assets4
Exhibit 2 Combining Statement of Revenues, Expenses and Changes in
Fund Net Assets.....5
Exhibit 3 Combining Statement of Cash Flows..... 6-7
Notes to Financial Statements 8-23

Required Supplementary Information

Exhibit 4 Analysis of Funding Progress for Defined Benefit Pension Plan25

Other Information

Schedule 1 Water System Revenue Statistics (Unaudited).....27
Schedule 2 Electric System Revenue and Purchased Power
Statistics (Unaudited)28

Internal Control and Compliance

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* 30-31

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Bristol Virginia Utilities
Bristol, Virginia

We have audited the accompanying financial statements of Bristol Virginia Utilities ("BVU"), enterprise funds of the City of Bristol, Virginia, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of BVU's management. 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 and 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 Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Note 1, the financial statements present only BVU and do not purport to, and do not present fairly the financial position of the City of Bristol, Virginia as of June 30, 2008, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BVU as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2008, on our consideration of BVU'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

BVU has not presented a management discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. Also, the required supplementary information on Page 23 is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information; however, we did not audit the information and express no opinion on it. Other information is presented for purposes of additional analysis and is not a required part of the financial statements. It has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 22, 2008

**BASIC FINANCIAL
STATEMENTS**

BRISTOL VIRGINIA UTILITIES

COMBINING STATEMENT OF NET ASSETS

June 30, 2008

	Electric	Water	Wastewater	Subtotal	OptiNet	Totals
ASSETS						
Current assets:						
Cash and cash equivalents (Note 2)	\$ 1,648,392	\$ 2,224,688	\$ 3,295,152	\$ 7,168,232	\$ 2,932,433	\$ 10,100,665
Receivables, net (Note 3)	6,556,224	178,436	219,423	6,954,083	1,149,263	8,103,346
Due from other governmental units (Note 12)	4,805	-	830,470	835,275	582,989	1,418,264
Due from other funds (Note 4)	927,210	-	-	927,210	166,111	1,093,321
Prepays	69,519	271	284	70,074	194,381	264,455
Inventories	1,420,789	172,211	11,835	1,604,835	982,547	2,587,382
Other current assets	14,980	3,077	4,104	22,161	18,741	40,902
Total current assets	10,641,919	2,578,683	4,361,268	17,581,870	6,026,465	23,608,335
Noncurrent assets:						
Restricted cash and cash equivalents (Note 2)	818,128	-	-	818,128	79,325	897,453
Restricted investments (Note 2)	2,223,328	414,320	-	2,637,648	3,245,419	5,883,067
Capital assets, net (Note 5)	37,214,445	8,411,141	10,314,487	55,940,073	50,078,280	106,018,353
Receivables, net (Note 3)	711,742	-	-	711,742	-	711,742
Prepays	148,800	-	-	148,800	389,813	538,613
Bond issuance costs, net	489,881	86,584	-	576,465	731,229	1,307,694
Total noncurrent assets	41,606,324	8,912,045	10,314,487	60,832,856	54,524,066	115,356,922
Total assets	52,248,243	11,490,728	14,675,755	78,414,726	60,550,531	138,965,257
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	3,570,996	137,318	11,445	3,719,759	2,384,194	6,103,953
Accrued interest payable	386,279	69,252	-	455,531	549,497	1,005,028
Accrued payroll and related liabilities	130,601	14,494	16,408	161,503	195,862	357,365
Customer deposits payable	818,128	-	-	818,128	79,325	897,453
Due to other governmental units (Note 11)	-	-	-	-	25,644	25,644
Due to other funds (Note 4)	721,593	15,716	4,567	741,876	927,210	1,669,086
Deferred revenue	-	-	-	-	776,258	776,258
Potential development credits	68,000	-	-	68,000	-	68,000
Bonds payable (Note 6)	489,207	82,022	-	571,229	761,729	1,332,958
Note payable (Note 6)	-	-	-	-	30,753	30,753
Compensated absences (Note 6)	155,287	60,592	42,001	257,880	117,092	374,972
Total current liabilities	6,340,091	379,394	74,421	6,793,906	5,847,564	12,641,470
Noncurrent liabilities:						
Bonds payable (Note 6)	17,142,762	2,989,018	-	20,131,780	26,100,952	46,232,732
Note payable (Note 6)	-	-	-	-	951,955	951,955
Deferred revenue	9,774	-	-	9,774	821,936	831,710
Retirement benefits payable (Note 8)	92,379	46,343	-	138,722	-	138,722
Compensated absences (Note 6)	363,679	67,435	99,311	530,425	165,961	696,386
Total noncurrent liabilities	17,608,594	3,102,796	99,311	20,810,701	28,040,804	48,851,505
Total liabilities	23,948,685	3,482,190	173,732	27,604,607	33,888,368	61,492,975
NET ASSETS						
Invested in capital assets, net of related debt	20,072,357	5,426,685	10,314,487	35,813,529	23,946,828	59,760,357
Unrestricted	8,227,201	2,581,853	4,187,536	14,996,590	2,715,335	17,711,925
Total net assets	\$ 28,299,558	\$ 8,008,538	\$ 14,502,023	\$ 50,810,119	\$ 26,662,163	\$ 77,472,282

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

BRISTOL VIRGINIA UTILITIES

COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS

Year ended June 30, 2008

	Electric	Water	Wastewater	Subtotal	OptiNet	Totals (Memorandum Only)
OPERATING REVENUES						
Charges for services	\$ 45,400,883	\$ 3,117,847	\$ 3,246,699	\$ 51,765,429	\$ 13,197,278	\$ 64,962,707
Rent from property	645,063	57,091	-	702,154	38,400	740,554
Forfeited discounts and penalties	154,533	56,730	62,879	274,142	55,275	329,417
Connections and transfers	147,950	31,815	20,226	199,991	-	199,991
Other	140,792	73,549	-	214,341	1,234,359	1,448,700
Total operating revenues	<u>46,489,221</u>	<u>3,337,032</u>	<u>3,329,804</u>	<u>53,156,057</u>	<u>14,525,312</u>	<u>67,681,369</u>
OPERATING EXPENSES						
Power and pumping	-	214,422	1,091,487	1,305,909	-	1,305,909
Purification and collection system	-	661,039	189,382	850,421	-	850,421
Transmission and distribution	1,573,582	276,655	-	1,850,237	-	1,850,237
Telephone, Broadband and CATV	-	-	-	-	7,155,429	7,155,429
Billing and collection	1,204,395	244,573	289,990	1,738,958	786,494	2,525,452
Sales promotion	293,129	-	-	293,129	-	293,129
Purchase of electricity	34,295,778	-	-	34,295,778	-	34,295,778
Administrative and general	3,069,482	737,462	823,122	4,630,066	1,705,427	6,335,493
Depreciation	1,788,351	458,095	599,893	2,846,339	3,402,088	6,248,427
Amortization	88,019	22,298	-	110,317	25,642	135,959
Total operating expenses	<u>42,312,736</u>	<u>2,614,544</u>	<u>2,993,874</u>	<u>47,921,154</u>	<u>13,075,080</u>	<u>60,996,234</u>
Operating income	<u>4,176,485</u>	<u>722,488</u>	<u>335,930</u>	<u>5,234,903</u>	<u>1,450,232</u>	<u>6,685,135</u>
NONOPERATING REVENUES (EXPENSES)						
Gain on sale of assets	10,813	-	43,433	54,246	385	54,631
Interest income	188,245	71,973	120,093	380,311	125,474	505,785
Interest expense	(747,059)	(137,728)	-	(884,787)	(1,152,695)	(2,037,482)
Net nonoperating revenues (expenses)	<u>(548,001)</u>	<u>(65,755)</u>	<u>163,526</u>	<u>(450,230)</u>	<u>(1,026,836)</u>	<u>(1,477,066)</u>
Income before capital contributions and transfers	3,628,484	656,733	499,456	4,784,673	423,396	5,208,069
CAPITAL CONTRIBUTIONS (Note 14)	-	-	-	-	5,648,768	5,648,768
TRANSFERS IN (OUT) (Note 4)	<u>(350,000)</u>	<u>-</u>	<u>-</u>	<u>(350,000)</u>	<u>-</u>	<u>(350,000)</u>
Change in net assets	3,278,484	656,733	499,456	4,434,673	6,072,164	10,506,837
NET ASSETS AT JULY 1	<u>25,021,074</u>	<u>7,351,805</u>	<u>14,002,567</u>	<u>46,375,446</u>	<u>20,589,999</u>	<u>66,965,445</u>
NET ASSETS AT JUNE 30	<u>\$ 28,299,558</u>	<u>\$ 8,008,538</u>	<u>\$ 14,502,023</u>	<u>\$ 50,810,119</u>	<u>\$ 26,662,163</u>	<u>\$ 77,472,282</u>

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

BRISTOL VIRGINIA UTILITIES
COMBINING STATEMENT OF CASH FLOWS
Year ended June 30, 2008

	Electric	Water	Wastewater	Subtotal	OptiNet	Totals (Memorandum Only)
OPERATING ACTIVITIES						
Receipts from customers	\$ 46,722,202	\$ 3,263,483	\$ 3,329,804	\$ 53,315,489	\$ 13,290,953	\$ 66,606,442
Payments to suppliers	(37,525,725)	(1,363,069)	(493,549)	(39,382,343)	(6,819,788)	(46,202,131)
Payments to employees	(2,910,641)	(771,082)	(808,945)	(4,490,668)	(2,827,562)	(7,318,230)
Interfund receipts (payments)	(373,773)	(12,894)	32,322	(354,345)	18,225	(336,120)
Other receipts (payments)	(2,367,264)	158,213	(1,401,208)	(3,610,259)	2,059,997	(1,550,262)
Net cash provided by operating activities	<u>3,544,799</u>	<u>1,274,651</u>	<u>658,424</u>	<u>5,477,874</u>	<u>5,721,825</u>	<u>11,199,699</u>
CAPITAL AND RELATED FINANCING ACTIVITIES						
Purchases of capital assets	(3,788,790)	(719,244)	(686,481)	(5,194,515)	(8,509,824)	(13,704,339)
Proceeds from the sale of capital assets	71,940	-	35,000	106,940	-	106,940
Principal paid on capital debt	(545,000)	(100,000)	-	(645,000)	(762,292)	(1,407,292)
Proceeds from borrowings	-	-	-	-	535,500	535,500
Interest paid on capital debt	(747,059)	(137,728)	-	(884,787)	(1,152,697)	(2,037,484)
Capital contributions in aid of construction	546,684	88,278	50,357	685,319	5,816,267	6,501,586
Other payments	(18,000)	-	-	(18,000)	(35,500)	(53,500)
Net cash used in capital and related financing activities	<u>(4,480,225)</u>	<u>(868,694)</u>	<u>(601,124)</u>	<u>(5,950,043)</u>	<u>(4,108,546)</u>	<u>(10,058,589)</u>
INVESTING ACTIVITIES						
Proceeds from sales and maturities of investments	30,722	-	-	30,722	69,303	100,025
Purchase of investments	-	6,095	-	6,095	-	6,095
Interest received	188,245	71,973	120,093	380,311	125,474	505,785
Net cash provided by investing activities	<u>218,967</u>	<u>78,068</u>	<u>120,093</u>	<u>417,128</u>	<u>194,777</u>	<u>611,905</u>
Net increase (decrease) in cash and cash equivalents	(716,459)	484,025	177,393	(55,041)	1,808,056	1,753,015
CASH AND CASH EQUIVALENTS						
Beginning at July 1	<u>3,182,979</u>	<u>1,740,663</u>	<u>3,117,759</u>	<u>8,041,401</u>	<u>1,203,702</u>	<u>9,245,103</u>
Ending at June 30	<u>\$ 2,466,520</u>	<u>\$ 2,224,688</u>	<u>\$ 3,295,152</u>	<u>\$ 7,986,360</u>	<u>\$ 3,011,758</u>	<u>\$ 10,998,118</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO EXHIBIT 1						
Cash and cash equivalents	\$ 1,648,392	\$ 2,224,688	\$ 3,295,152	\$ 7,168,232	\$ 2,932,433	\$ 10,100,665
Cash and cash equivalents, restricted	818,128	-	-	818,128	79,325	897,453
Total Cash and Cash Equivalents	<u>\$ 2,466,520</u>	<u>\$ 2,224,688</u>	<u>\$ 3,295,152</u>	<u>\$ 7,986,360</u>	<u>\$ 3,011,758</u>	<u>\$ 10,998,118</u>

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

(Continued)

BRISTOL VIRGINIA UTILITIES

COMBINING STATEMENT OF CASH FLOWS
Year ended June 30, 2008

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>Subtotal</u>	<u>OptiNet</u>	<u>Totals (Memorandum Only)</u>
RECONCILIATION OF OPERATING INCOME						
TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating income	\$ 4,176,485	\$ 722,488	\$ 335,930	\$ 5,234,903	\$ 1,450,232	\$ 6,685,135
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:						
Depreciation and amortization	1,876,370	480,393	599,893	2,956,656	3,427,730	6,384,386
Bad debt expense	246,943	-	-	246,943	73,161	320,104
Change in assets and liabilities						
(Increase) decrease in:						
Receivables, net	(2,183,740)	83,203	16,950	(2,083,587)	(800,081)	(2,883,668)
Due from other funds	(186,871)	(271)	20,761	(166,381)	(91,416)	(257,797)
Due from other governmental units	(4,805)	15,716	(315,126)	(304,215)	(433,664)	(737,879)
Inventories	(496,313)	15,837	9,273	(471,203)	105,093	(366,110)
Prepays	45,933	-	-	45,933	123,231	169,164
Other current assets	4,832	794	(1,570)	4,056	(10,059)	(6,003)
(Decrease) increase in:						
Accounts payable and accrued liabilities	352,354	34,031	2,412	388,797	1,352,229	1,741,026
Accrued payroll and related liabilities	13,074	(32,642)	(21,660)	(41,228)	(68,505)	(109,733)
Customer deposits payable	(106,318)	-	-	(106,318)	21,100	(85,218)
Due to other funds	(186,902)	(12,623)	11,561	(187,964)	109,641	(78,323)
Due to other governmental units	-	-	-	-	(48)	(48)
Retirement benefits payable	(5,157)	(32,275)	-	(37,432)	-	(37,432)
Deferred revenue	(1,086)	-	-	(1,086)	463,181	462,095
Net cash provided by operating activities	<u>\$ 3,544,799</u>	<u>\$ 1,274,651</u>	<u>\$ 658,424</u>	<u>\$ 5,477,874</u>	<u>\$ 5,721,825</u>	<u>\$ 11,199,699</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES						
Capital asset acquisitions financed through debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

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

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

Bristol Virginia Utilities ("BVU") is composed of four enterprise funds of the City of Bristol, Virginia (the "City"). The financial position, results of operations, and cash flows of BVU are included in the City's Comprehensive Annual Financial Report.

Joint Venture

Jointly Owned Wastewater Facility

The City, in conjunction with the City of Bristol, Tennessee, established a jointly owned wastewater facility located in Bristol, Tennessee. The two cities are joint equitable owners of the facility. A six member Sewer Oversight Committee has advisory authority with respect to the facility. The City Council of each city appoints three members to the Oversight Committee.

B. Basic Financial Statements

BVU's financial statements are presented in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – For State and Local Governments*. Since BVU is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For BVU, the basic financial statements and required supplementary information consist of:

- Enterprise fund financial statements
 - Statement of Net Assets
 - Statement of Revenues, Expenses, and Changes in Fund Net Assets
 - Statement of Cash Flows
 - Notes to Financial Statements
- Required Supplementary Information
 - Analysis of Funding Progress for Defined Benefit Pension Plan

C. Measurement Focus and Basis of Accounting

BVU's financial statements are reported using the economic resources measurement focus and 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.

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

Charges between the government's proprietary funds and various other functions are not eliminated because elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

BVU 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 BVU's principal ongoing operations. The principal operating revenues of BVU are charges to customers for sales and services. BVU also recognizes as operating revenue the portion of availability charges 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.

BVU reports the following major proprietary funds:

The *Electric fund* accounts for the activities of the electric operations.

The *Water fund* accounts for the activities of the water operations.

The *Wastewater fund* accounts for the activities of the wastewater distribution operations.

The *OptiNet fund* accounts for the activities of the fiber optic network.

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

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

D. Joint Administration

BVU utilizes a joint administrative department for the Electric, Water, Wastewater and OptiNet operations, which includes accounting, administration, billings, and collections. The shared administration, customer service, and other general expenses are allocated monthly based on the number of customers serviced by each fund, operating revenues of each fund, and plant in service of each fund. For the year ended June 30, the expenses of this department were allocated 49% to the electric system, 12% to the water system, 13% to the wastewater system, and 26% to the OptiNet system.

E. Cash and Cash Equivalents and Investments

BVU considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

Investments are stated at fair value.

F. Accounts Receivable

Billings for services rendered by the electric, water and wastewater systems are handled by Central Service Association ("CSA"). The CSA provides separate revenue billings for each system, but is unable to render separate detailing of accounts receivable. As a result, the electric fund "purchases" the accounts receivable from the water and wastewater funds monthly. Accounts deemed uncollectible attributable to the water or wastewater systems are charged back against those systems as bad debt expense. Billings for the OptiNet system are maintained by BVU.

G. Allowance for Uncollectible Accounts

BVU provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. The estimate is based on historical collection experience and a review of the current status of specific accounts receivable. It is reasonably possible that the estimate of the allowance for doubtful accounts will change. Accounts receivable are presented net of an allowance for doubtful accounts of \$409,263 at June 30, 2008.

H. Inventories

Inventories, consisting of materials and supplies, are valued at the lower of average unit acquisition price or market.

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets

Capital assets are defined by BVU as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of 3 years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

Utility systems	25 – 50 years
Buildings	8 – 50 years
Equipment, machinery and vehicles	3 – 20 years
Fiber	25 years

J. Capitalization of Interest

BVU capitalizes interest cost incurred on funds used to construct property, plant, and equipment. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. Interest cost capitalized was \$170,527 in 2008.

K. Bond Issuance Costs and Premiums

Bond issuance costs and premiums are being amortized on the straight-line method over the life of the bonds.

L. Deferred Revenue

BVU recognizes revenue on leases ratably over the term of the lease. Amounts billed and collected before the applicable lease periods are deferred.

M. Potential Development Credits

The electric fund has a program through which real estate developers may be reimbursed for a portion of the cost of materials and installation of utility services. As developers pay for the services, a portion of their payments is set aside rather than being applied against the fund's cost. If developed properties are sold within a stipulated period of time, a pro-rata portion of the amounts set aside are returned to the developer. If developed properties are not sold within the stipulated time, the set aside payments remaining are retained and recorded as revenue.

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 1. Summary of Significant Accounting Policies (Continued)

N. Compensated Absences

BVU has policies which allow for the accumulation and vesting of limited amounts of vacation and sick leave until termination or retirement. Amounts of such absences are accrued when incurred.

O. Advertising Cost

Advertising and marketing costs are expensed as incurred. Advertising expense totaled approximately \$423,000 for 2008.

P. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates that affect certain reported amounts and disclosures. Actual results could vary from the estimates.

Note 2. Deposits and Investments

Deposits

All cash of BVU is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. Seq. of the Code of Virginia or covered by federal depository insurance.

Investments

Statutes authorize BVU 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 for Reconstruction and Development (World Bank), the Asian Development 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).

There was no investment activity during the year other than certificates of deposits and a United States Treasury Securities Investment Trust Pool.

Restricted assets consist primarily of customer deposits, reserve accounts related to revenue and refunding bonds, and amounts for the costs of improvements to the Electric, Water and Wastewater and OptiNet Systems.

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 3. Receivables

Receivables, net, are as follows:

	<u>Electric</u>	<u>Water</u>	<u>Wastewater</u>	<u>OptiNet</u>
Accounts	\$ 6,778,692	\$ 178,436	\$ 219,423	\$ 1,256,975
Energy conservation loans	<u>790,825</u>	<u>-</u>	<u>-</u>	<u>-</u>
Gross receivables	7,569,517	178,436	219,423	1,256,975
Less allowance for uncollectibles	<u>(301,551)</u>	<u>-</u>	<u>-</u>	<u>(107,712)</u>
Net receivables	<u>\$ 7,267,966</u>	<u>\$ 178,436</u>	<u>\$ 219,423</u>	<u>\$ 1,149,263</u>

Energy Conservation Loans

BVU has a program whereby qualifying homeowners may obtain interest-bearing loans to pay for energy conservation measures in their homes. The customer repays the loan over a period of up to ten years at a stated interest rate between 8% and 10%. Payments are made with the customers' regular monthly bills. Loans are secured by the related real property.

Note 4. Interfund Receivables, Payables, and Transfers

The composition of the interfund balances is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Electric	Optinet	\$ 927,210
OptiNet	Electric	157,376
OptiNet	Water	4,168
OptiNet	Wastewater	4,567
City of Bristol, Virginia – General Fund	Electric	564,217
City of Bristol, Virginia – General Fund	Water	11,548

The purpose of each interfund balance is as follows:

Interfund balances generally resulted from a time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers are as follows:

BVU submits tax equivalent payments to the City. An agreement between the City and BVU determines the amount to be transferred. The amount of tax equivalent payments in the current year totaled \$350,000.

BRISTOL VIRGINIA UTILITIES

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

Note 5. Capital Assets

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Non-OptiNet</u>				
Capital assets, not depreciated				
Land	\$ 1,196,310	\$ -	\$ -	\$ 1,196,310
Construction in progress	<u>2,132,919</u>	<u>6,865,451</u>	<u>8,121,085</u>	<u>877,285</u>
Total capital assets, not depreciated	<u>3,329,229</u>	<u>6,865,451</u>	<u>8,121,085</u>	<u>2,073,595</u>
Capital assets, depreciated				
Plant in service	90,743,662	5,522,884	458,474	95,808,072
Machinery and equipment	<u>3,629,152</u>	<u>189,245</u>	<u>106,940</u>	<u>3,711,457</u>
Total capital assets, depreciated	<u>94,372,814</u>	<u>5,712,129</u>	<u>565,414</u>	<u>99,519,529</u>
Less accumulated depreciation for				
Plant in service	(40,892,204)	(2,605,658)	(458,474)	(43,039,388)
Machinery and equipment	<u>(2,479,930)</u>	<u>(230,681)</u>	<u>(96,948)</u>	<u>(2,613,663)</u>
Total accumulated depreciation	<u>(43,372,134)</u>	<u>(2,836,339)</u>	<u>(555,422)</u>	<u>(45,653,051)</u>
Total capital assets, depreciated, net	<u>51,000,680</u>	<u>2,875,790</u>	<u>9,992</u>	<u>53,866,478</u>
Non-OptiNet, net	<u>\$ 54,329,909</u>	<u>\$ 9,741,241</u>	<u>\$ 8,131,077</u>	<u>\$ 55,940,073</u>
<u>OptiNet</u>				
Capital assets, not depreciated				
Land	\$ 3,990	\$ -	\$ -	\$ 3,990
Construction in progress	<u>418,490</u>	<u>7,908,555</u>	<u>7,542,246</u>	<u>784,799</u>
Total capital assets, not depreciated	<u>422,480</u>	<u>7,908,555</u>	<u>7,542,246</u>	<u>788,789</u>
Capital assets, depreciated				
Buildings	1,146,305	82,686	-	1,228,991
Fiber	27,910,394	4,336,066	49,609	32,196,851
Equipment	24,653,235	3,672,316	75,214	28,250,337
Furniture and fixtures	41,610	56	-	41,666
Transportation equipment	335,099	-	-	335,099
Focus assets	-	<u>1,006,928</u>	-	<u>1,006,928</u>
Total capital assets, depreciated	<u>54,086,643</u>	<u>9,098,052</u>	<u>124,823</u>	<u>63,059,872</u>
Less accumulated depreciation for				
Buildings	(151,672)	(46,659)	-	(198,331)
Fiber	(3,582,331)	(1,211,962)	-	(4,794,293)
Equipment	(6,373,462)	(2,067,438)	(3,172)	(8,437,728)
Furniture and fixtures	(24,866)	(5,786)	-	(30,652)
Transportation equipment	(239,134)	(20,888)	-	(260,022)
Focus assets	-	<u>(49,355)</u>	-	<u>(49,355)</u>
Total accumulated depreciation	<u>(10,371,465)</u>	<u>(3,402,088)</u>	<u>(3,172)</u>	<u>(13,770,381)</u>
OptiNet, net	<u>\$ 44,137,658</u>	<u>\$ 13,604,519</u>	<u>\$ 7,663,897</u>	<u>\$ 50,078,280</u>

Idle property in the amount of \$79,675 was held at June 30, 2008.

BVU received contributions in aid of construction of approximately \$852,800 for 2008. This amount is reported as a reduction in costs of the related assets.

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6. Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Non-OptiNet:					
Series 2003 Revenue and refunding bonds	\$ 22,190,000	\$ -	\$ 645,000	\$ 21,545,000	\$ 655,000
Compensated absences	<u>735,273</u>	<u>417,173</u>	<u>364,141</u>	<u>788,305</u>	<u>257,880</u>
	<u>\$ 22,925,273</u>	<u>\$ 417,173</u>	<u>\$ 1,009,141</u>	<u>\$ 22,333,305</u>	<u>\$ 912,880</u>
OptiNet:					
Series 2003 Revenue and refunding bonds	\$ 26,760,000	\$ -	\$ 745,000	\$ 26,015,000	\$ 755,000
Series 2007 Revenue bonds	-	535,500	-	535,500	-
MI Connection Note Payable	-	1,000,000	17,292	982,708	30,753
Compensated absences	<u>248,764</u>	<u>223,631</u>	<u>189,342</u>	<u>283,053</u>	<u>117,092</u>
	<u>\$ 27,008,764</u>	<u>\$ 1,759,131</u>	<u>\$ 951,634</u>	<u>\$ 27,816,261</u>	<u>\$ 902,845</u>

Series 2003 Revenue and Refunding Bonds

Revenue and Refunding Bonds of \$50,820,000 were issued by the City in 2003 to refund prior utility system bonds of the City and pay costs of improvement to the city's utility system. The bonds were issued in the form of fixed rate revenue bonds to mature on July 15, 2030. The 2003 Bond is a limited obligation of the City payable from certain net revenues to be derived from the ownership or operation of the City's Utility Systems. The fixed interest rate on the bonds ranges from 2% to 5.25% depending on the bond maturity date.

Series 2007 Revenue Bonds

Revenue Bonds of \$4,500,000 were issued by the City during the current year to provide for the construction of, and capital improvements to, the City's fiber optic cable and internet, telephone, and cable television infrastructure. The bonds were issued in the form of variable rate revenue bonds to mature on December 1, 2030 and are subject to redemption as a whole or in part, at any time, at the principal amount thereof, plus accrued interest at the City's discretion. The 2007 Bond is a limited obligation of the City payable from certain net revenues to be derived from the ownership or operation of the City's Utility Systems. As of June 30, 2008, \$535,500 had been advanced and was outstanding under these revenue bonds.

The interest rate on the bonds is equal to the sum of the LIBOR Market Index Rate minus 1.20% per annum which may change daily in accordance with changes in the LIBOR Market Index Rate.

Interest only on all amounts advanced and outstanding under this 2007 Bond shall be due and payable on the first day of each month until maturity. Principal payments on amounts advanced and outstanding will begin on January 1, 2011 and continue until December 1, 2030 when all amounts under this Bond will be due and payable in full.

(Continued)

BRISTOL VIRGINIA UTILITIES

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

Note 6. Long-Term Liabilities (Continued)

MI Connection Note

In December 2007 BVU agreed to purchase CATV headend equipment from MI Connection Communications System for \$1 Million. The note associated with this purchase is payable in 240 monthly payments of \$6,600 through December 2027 to, at a fixed interest rate of 5.00%. This note is secured by the headend equipment.

Annual requirements to amortize the Revenue and refunding bonds and MI Connection and related interest are as follows:

Year Ended June 30	Non-Optinet		Optinet			
	Revenue and Refunding Bonds		Revenue and Refunding Bonds		MI Connection	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 655,000	\$ 993,885	\$ 755,000	\$ 1,211,647	\$ 30,753	\$ 48,447
2010	675,000	977,510	775,000	1,192,772	32,326	46,874
2011	700,000	950,510	815,945	1,160,709	33,981	45,219
2012	720,000	929,510	852,220	1,135,166	35,719	43,481
2013	740,000	907,190	882,668	1,108,988	37,547	41,652
2014-2018	4,200,000	4,052,680	4,955,393	4,979,992	218,598	177,402
2019-2023	5,300,000	2,948,295	6,248,044	3,694,526	280,551	115,449
2024-2028	6,800,000	1,446,450	7,992,023	1,949,843	313,233	65,476
2029-2032	<u>1,755,000</u>	<u>91,575</u>	<u>3,274,207</u>	<u>239,664</u>	-	-
	<u>\$ 21,545,000</u>	<u>\$ 13,297,605</u>	<u>\$ 26,550,500</u>	<u>\$ 16,670,307</u>	<u>\$ 982,708</u>	<u>\$ 584,000</u>

Current portion is as follows:

Series 2003 Revenue and Refunding Bonds:	Principal	Premiums	Deferred Gains	Deferred Costs	Total
Electric	\$ 555,000	\$ 24,983	\$ 38,695	\$ (129,471)	\$ 489,207
Water	100,000	4,857	9,553	(32,388)	82,022
OptiNet	755,000	35,520	13,448	(42,239)	761,729
					<u>\$ 1,332,958</u>

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 6. Long-Term Liabilities (Continued)

Details of Long-Term Indebtedness:

	<u>Interest Rates</u>	<u>Issue Date</u>	<u>Final Maturity Date</u>	<u>Original Issue</u>	<u>Amount Outstanding</u>
Series 2003 Revenue and Refunding Bonds:					
Electric	2.00 – 5.25%	07-03	07-30	\$ 19,335,000	\$ 18,270,000
Water	2.00 – 5.25	07-03	07-30	3,480,000	3,275,000
OptiNet	2.00 – 5.25	07-03	07-30	27,490,000	26,015,000
Series 2007 Revenue Bonds	Variable	12-07	12-30	535,500	535,500
MI Connection Note Payable	5.00	12-07	12-27	1,000,000	<u>982,708</u>
					49,078,208
				Bond premiums	1,431,327
				Deferred restructuring gain	840,620
				Deferred restructuring costs	<u>(2,801,757)</u>
					<u>\$ 48,548,398</u>

Note 7. Pledged Revenues

The City of Bristol, Virginia has pledged future customer revenues of the System, net of specified operating expenses, to repay \$50.8 million in revenue bonds issued July 2003 and \$535,500 in Revenue bonds issued in December 2007. Proceeds from the bonds provided financing for the construction of a new Electric System sub-station and the continued development of the System's Telecommunication network. The bonds are payable solely from BVU's net revenues and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 2% of net revenues. The total principal and interest remaining to be paid on the bonds is approximately \$78,063,412. Principal and interest paid for the current year and total customer net revenues were \$3,444,776 and \$67,681,369, respectively.

Note 8. Termination Benefits Payable

At June 30, 2008, BVU has a liability for voluntary termination benefits payable, resulting from early retirement incentives to three individuals until they reach retirement age under the Virginia Retirement System. The liability is measured at the discounted present value of expected future benefit payments, computed with an effective annual discount rate of 6%.

Note 9. Defined Benefit Pension Plan

A. Plan Description

BVU contributes to the Virginia Retirement System ("VRS"), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS as part of the City participant pool. All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 9. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

eligible for an unreduced retirement benefit at age 65 with five years of service or at age 50 with at least 30 years of service if elected by the employer, payable monthly for life in an amount equal to 1.7% of their average final compensation (AFC) for each year of credited service. Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation.

The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The VRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing the System at P.O. Box 2500, Richmond, VA 23218-2500 or downloaded from their website at <http://www.varetire.org/Pdf/Publications/2007/AnnuRept.pdf>.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5% of their annual salary to the VRS. The employer has assumed this 5% member contribution. In addition, the City is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2008 was 16.29% of annual covered payroll (including the employee share of 5% paid by the employer).

C. Annual Pension Cost

For fiscal year 2008, the City's annual pension cost of \$3,221,694 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2007, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions at June 30, 2007 included (a) 7.50% investment rate of return, (b) projected salary increases of 3.75% to 5.73% per year, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of the short-term volatility in the market value of assets over a five-year period. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years.

(Continued)

BRISTOL VIRGINIA UTILITIES

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

Note 9. Defined Benefit Pension Plan (Continued)

C. Annual Pension Cost (Continued)

Three-Year Trend Information for the City

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$ 3,221,694	100%	\$ -
June 30, 2007	\$ 3,019,311	100%	\$ -
June 30, 2006	\$ 2,827,345	100%	\$ -

D. Funded Status and Funding Progress

As of June 30, 2007, the most recent actuarial valuation date, the plan was 84.12% funded. The actuarial accrued liability for benefits was \$83,147,259, and the actuarial value of assets was \$69,942,221, resulting in an unfunded actuarial accrued liability (UAAL) of \$13,205,038. The covered payroll (annual payroll of active employees covered by the plan) was \$18,511,695, and ratio of the UAAL to the covered payroll was 71.33%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 10. Service Contracts

In September 2006 BVU entered into an agreement with the Tennessee Valley Authority for the purchase of wholesale power for distribution. This contract began on January 1, 2008 and will end December 31, 2027. At June 30, 2008, \$19,040,721 had been paid under this contract.

Note 11. Risk Management

The risk management programs of BVU are as follows:

Workmen's Compensation

BVU maintains commercial insurance with USF&G to cover workmen's compensation claims. Benefits are those afforded through the Commonwealth of Virginia as outlined in the Code of Virginia Section 65.2-100; premiums are based upon covered payroll, job rates and claims experience. This insurance is a retrospectively rated policy. Management believes that any adjustment resulting from retrospective rating based on actual experience would not be material.

BRISTOL VIRGINIA UTILITIES

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

Note 11. Risk Management (Continued)

General Liability and Other

BVU maintains general liability and other insurance coverage through commercial insurance policies.

Healthcare

Healthcare insurance coverage is provided to employees through policies with Heritage National Health, a subsidiary of John Deere Health Care, Inc. Retired employees and dependents of employees are also covered by the program, provided they pay a premium.

Other

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

Note 12. Due from Other Governments

Jointly-Owned Wastewater Facility

In 1979, the City of Bristol, Virginia and the City of Bristol, Tennessee entered into a contract for operation of a jointly-owned wastewater facility. The two cities are joint equitable owners in the facility, with ownership percentages determined by usage. Usage is determined by a cost-sharing formula included in the contract. Each City's share of future principal payments is determined yearly to reflect usage of the facility by each of the two cities during the fiscal year. The City's share of debt applicable to the facility at June 30 was approximately 45%. The plant's operating expenses are allocated between the two cities based on usage.

Audits of the facility are performed each year. At that time, amounts due to or from each locality are determined based on the yearly expenses allocated to each City and the contributions made by each. Separate financial statements of the Joint Sewerage System are available and may be obtained by writing to Bristol Virginia Utilities at 15550 Lee Highway, Bristol, Virginia 24202.

BVU's portion of the Joint Sewerage System is included on the wastewater fund's statement of net assets as follows:

Due from other governmental units:

Contributions in excess of allocated capital outlays.	\$ 442,122
Due from Joint Sewerage System	<u>388,348</u>
	<u>\$ 830,470</u>

(Continued)

BRISTOL VIRGINIA UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 12. Due from Other Governments (Continued)

Due from Joint Sewerage System consisted of the following:

Contributions to joint wastewater	\$ 1,869,477
Other income	<u>56,793</u>
Total contributions and other income	1,926,270
Expenditures – Bristol, Virginia’s portion	<u>1,537,922</u>
	<u>\$ 388,348</u>
Land	\$ 181,015
Equipment, treatment and composting plant	18,169,509
Accumulated depreciation	<u>(11,599,898)</u>
Net capital assets	<u>\$ 6,750,626</u>

Telecommunication System

In August of 2007, BVU entered into a five year contract with a telecommunications system in North Carolina to manage and maintain the telecommunications system. The management agreement resulted in receivables to the Electric and OptiNet fund, at June 30, 2008, of \$4,805 and \$582,989 respectively.

Note 13. Leases

External leases

OptiNet leases network fiber optic cable to others. The leases are non-cancelable operating leases with terms of ten to twenty years. The lease terms required the entire lease amount to be paid on acceptance of the fiber. Receipts under these agreements have totaled approximately \$1,330,000 as of June 30, 2008.

Internal leases

Additionally, in November 2002, OptiNet entered into a lease agreement with the Electric fund for the use of certain fiber to allow the Electric fund to more efficiently operate and monitor the electric distribution system. The lease is a non-cancelable operating lease with an initial term of ten years. The lease terms required the entire lease amount of \$446,400 to be paid on acceptance of the fiber.

The amounts received are recorded as deferred revenue in the OptiNet fund with earned revenue recognized ratably over the initial term of the lease. The Electric fund recorded a prepaid for the initial payment with lease expense recognized ratably over the initial term of the lease.

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 14. Capital Contributions

Capital Contributions consist of grants from the Virginia Tobacco Community Revitalization Commission and the U.S. Department of Commerce for fiber optic infrastructure expansion in Southwest Virginia.

Note 15. Contingencies

BVU is subject to various claims and legal proceedings covering a wide range of matters that arise in the ordinary course of its business activities. Management believes that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of BVU.

Note 16. Subsequent Events

Lease Agreement

In July 2008, BVU agreed to lease the use of certain fiber optic facilities to ZAYO Bandwidth Central, LLC (ZAYO). The entire lease amount of approximately \$133,000 will be due upon acceptance and continue through the initial lease term of twenty years. Zayo has options to renew the lease for two five-year periods.

Virginia Resources Authority Loans

On September 19, 2008, BVU entered into Loan Agreements with the Virginia Resources Authority for 2 loans totaling approximately \$2.5 million. The loans will be repaid over a period of 20 years, through April 1, 2029 (the Maturity Date). Borrowings will bear interest at a fixed rate of 3.2%. The borrowings will be used to facilitate improvements to the water system infrastructure.

Note 17. New Accounting Standards

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

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, establishes standards for the measurement, recognition and display of OPEB expense and related liabilities in the financial statements. Management has not completed the process of evaluating the effects of adopting this standard, and is therefore unable to disclose the impact of adoption. This statement will be effective for the year ended June 30, 2009

(Continued)

BRISTOL VIRGINIA UTILITIES

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

Note 17. New Accounting Standards (Continued)

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

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

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

(Continued)

**REQUIRED SUPPLEMENTARY
INFORMATION**

BRISTOL VIRGINIA UTILITIES
REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS FOR DEFINED BENEFIT PENSION PLAN
June 30, 2008

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded Actuarial Accrued Liability (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	((b-a)/c) UAAL as of Percentage of Covered Payroll
June 30, 2007	\$ 69,942,221	\$ 83,147,259	\$ 13,205,038	84.1%	\$ 18,511,695	71.33%
June 30, 2006	\$ 62,611,996	\$ 74,634,326	\$ 12,022,330	83.9%	\$ 18,327,331	65.60%
June 30, 2005	\$ 58,809,665	\$ 72,309,237	\$ 13,499,572	81.3%	\$ 17,875,185	75.52%
June 30, 2004	\$ 56,923,305	\$ 67,790,628	\$ 10,867,323	84.0%	\$ 16,881,551	64.37%
June 30, 2003	\$ 56,270,165	\$ 62,366,360	\$ 6,096,195	90.2%	\$ 14,913,235	40.88%
June 30, 2002	\$ 56,058,366	\$ 57,943,147	\$ 1,884,781	96.7%	\$ 14,350,239	13.13%

The above schedule represents the City of Bristol, Virginia's funding progress for the defined benefit pension plan. Bristol Virginia Utilities is a fund of the City and is included in the above amounts.

OTHER INFORMATION

**BRISTOL VIRGINIA UTILITIES
WATER SYSTEM**

**REVENUE STATISTICS (UNAUDITED)
June 30, 2008 and 2007**

2008				
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,871	\$ <u>203.65</u>	328,387	\$ <u>4.261</u>
Commercial and Industrial	1,136	\$ <u>1,029.93</u>	396,866	\$ <u>2.948</u>
Other Water Authorities	<u>11</u>	\$ <u>49,872.81</u>	<u>310,109</u>	\$ <u>1.769</u>
Totals	<u>8,018</u>	\$ <u>388.86</u>	<u>1,035,362</u>	\$ <u>3.011</u>
2007				
	Average Number of Customers Per Month	Revenue Per Customer	Gallons (000's) Sold	Revenue Per 1,000 Gallons
Residential	6,839	\$ <u>211.66</u>	319,604	\$ <u>4.529</u>
Commercial and Industrial	1,131	\$ <u>1,030.46</u>	378,272	\$ <u>3.081</u>
Other Water Authorities	<u>12</u>	\$ <u>37,600.75</u>	<u>253,554</u>	\$ <u>1.780</u>
Totals	<u>7,982</u>	\$ <u>383.89</u>	<u>951,430</u>	\$ <u>3.221</u>
			2008 (000's)	2007 (000's)
Total gallons pumped			1,438,723	1,384,846
Gallons used in operations			<u>18,596</u>	<u>24,581</u>
Gallons available for sale			1,420,127	1,360,265
Total gallons sold			<u>1,035,362</u>	<u>951,430</u>
Gallons lost			<u>384,765</u>	<u>408,835</u>
Loss as a percentage of gallons pumped			<u>26.74%</u>	<u>29.52%</u>

**BRISTOL VIRGINIA UTILITIES
ELECTRIC SYSTEM**

**REVENUE AND PURCHASED POWER STATISTICS (UNAUDITED)
June 30, 2008 and 2007**

REVENUES

	<u>\$</u>	<u>%</u>	<u>Average Number of Customers Per Month</u>	<u>%</u>	<u>Revenue Per Customer</u>	<u>Kilowatt Hours Sold</u>	<u>Revenue Per Kilowatt Hour</u>
<u>Residential</u>							
2008	<u>\$ 17,937,945</u>	39.51%	13,683	78.72%	<u>\$ 1,310.97</u>	213,827,240	<u>\$ 0.0839</u>
2007	<u>\$ 15,646,547</u>	40.50%	13,649	78.99%	<u>\$ 1,146.37</u>	213,752,867	<u>\$ 0.0732</u>
<u>Small Commercial</u>							
2008	<u>\$ 3,877,126</u>	8.54%	2,217	12.76%	<u>\$ 1,748.82</u>	41,502,174	<u>\$ 0.0934</u>
2007	<u>\$ 3,313,937</u>	8.58%	2,183	12.63%	<u>\$ 1,518.36</u>	41,236,905	<u>\$ 0.0804</u>
<u>Large Commercial and Industrial</u>							
2008	<u>\$ 22,518,815</u>	49.60%	333	1.92%	<u>\$ 67,624.07</u>	330,365,147	<u>\$ 0.0682</u>
2007	<u>\$ 18,698,588</u>	48.40%	321	1.86%	<u>\$ 58,235.93</u>	322,596,886	<u>\$ 0.0580</u>
<u>Street and Outdoor Lighting</u>							
2008	<u>\$ 1,066,997</u>	2.35%	1,148	6.60%	<u>\$ 929.44</u>	7,444,290	<u>\$ 0.1433</u>
2007	<u>\$ 971,860</u>	2.52%	1,126	6.52%	<u>\$ 863.30</u>	7,600,763	<u>\$ 0.1279</u>
<u>Totals</u>							
2008	<u>\$ 45,400,883</u>	100.00%	17,381	100.00%	<u>\$ 2,612.10</u>	593,138,851	<u>\$ 0.0765</u>
2006	<u>\$ 38,630,932</u>	100.00%	17,278	100.00%	<u>\$ 2,235.81</u>	585,187,421	<u>\$ 0.0660</u>

PURCHASED POWER

	<u>Cost</u>	<u>Kilowatt Hours Purchased</u>	<u>Cost Per Kilowatt Hour</u>
2008	<u>\$ 34,295,778</u>	615,162,926	<u>\$ 0.0558</u>
2007	<u>\$ 29,258,232</u>	606,585,000	<u>\$ 0.0482</u>

**INTERNAL CONTROL AND
COMPLIANCE**

**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 Board of Directors
Bristol Virginia Utilities
Bristol, Virginia

We have audited the financial statements of Bristol Virginia Utilities ("BVU"), enterprise funds of the City of Bristol, Virginia as of and for the year ended June 30, 2008, and have issued our report thereon dated October 22, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts to the Commonwealth of Virginia.

Internal Control Over Financial Reporting

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

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

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

Inadequate Separation of Duties

Upon review of the Company's control procedures, we noted incompatible duties being performed. Items noted include:

- Individual that receives bank statements also prepares reconciliations and posts adjusting journal entries
- Customer service personnel that can post adjustments to accounts are not independent of cash handling and accounts receivable maintenance

In organizations with limited staffing, it is common for a small number of employees to perform a wide variety of duties, however, we recommend Management evaluate, review and consider further segregating incompatible duties.

Failure in the Operation of Effectively Designed Controls Over Significant Accounts

Controls in place failed to identify incorrect entries posted to certain accounts. These incorrect entries resulted in a misstatement in the financial statements for the period under audit. Management subsequently corrected the incorrect and omitted entries; however these entries were not initially identified by BVU's internal controls.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of BVU, in a separate letter dated October 22, 2008.

This report is intended solely for the information and use of BVU's management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Virginia
October 22, 2008