

ANNUAL REPORT
FOR THE YEAR ENDED
30 June 2008

BLUE RIDGE POWER AGENCY

TABLE OF CONTENTS

SECTION ONE	Page
A MESSAGE FROM THE PRESIDENT AND THE GENERAL MANAGER	1 - 7
OFFICERS, MEMBERS AND BOARD OF DIRECTORS, STAFF, PRIMARY CONSULTANTS/SERVICE PROVIDERS, PRIMARY AFFILIATIONS, AND STATISTICS	8 - 11
SECTION TWO	
FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008	1 - 18



SECTION ONE

A Message from the President and the General Manager

November 2009

Blue Ridge Power Agency is a united group of municipal and cooperative utilities dedicated to joint action that provides its members and their customers with reliable service at the lowest possible costs.

POWER SUPPLY

FY2008 was an active year for Blue Ridge staff as they worked with members on their power supply and transmission arrangements as well as addressing federal and state legislative and regulatory issues related to energy and transmission.

FY2008 saw all members with their power supply strategies in place for the mid to long term as follows:

CURRENT--

- Bristol Virginia Utilities (BVU) has a 20-year, full requirements contract with Tennessee Valley Authority (TVA) that began on January 1, 2008.
- The Cities of Bedford and Martinsville as well as the Town of Richlands have full requirements, market-based portfolio contracts with American Municipal Power, Inc. (AMP) that began July 1, 2006 and runs through December 2008 with some components having term beyond that date to diversify future portfolio development under a strategic planning/purchasing process.
- Central Virginia Electric Cooperative (Central Virginia) remains in its full requirements contract with Constellation Energy Commodities Group (CECG) that began May 21, 2002 in its American Electric Power (AEP)/Appalachian Power Company (APCo)-served service territory and January 1, 2005 in its Dominion/Virginia Electric Power Company (VEPCo)-served service territory and runs, in both areas, through May 31, 2012.
- The Town of Front Royal has a full requirements contract with AEP that began on July 1, 2006 and runs through May 31, 2010. Beginning June 1, 2010, Front Royal will be served under a full requirements contract with AMP.
- The Cities of Radford and Salem as well as Virginia Tech are receiving full requirements service under 20-year, formula-based contracts with APCo that began for the Cities July 1, 2006 and for Virginia Tech Electric Service on July 1, 2007 running through May 31, 2026 and May 31, 2027, respectively.
- Seven Blue Ridge members continue to receive capacity allocations from the Kerr-Philpott System of the Corps of Engineers hydroelectric projects as marketed by the Southeastern Power Administration (SEPA) totaling 21 megawatts. In addition, several members have behind-the-meter diesel, hydroelectric and/or steam generation capacity available as well. These are detailed in the "Statistics" page following this report.

FUTURE--

- The Cities of Bedford and Martinsville, the Towns of Front Royal and Richlands and, potentially, Central Virginia are working to develop asset-based portfolios of resources through the joint effort of Blue Ridge and AMP wherein these members, as members or customers of AMP, can remove themselves from the volatile power prices in the organized electric markets. This is expected to give them more certainty of cost and control of the mix of generation technologies in which they wish to invest. Since AMP, like Blue Ridge, is a non-profit, member-owned entity, the members pay only for the debt, fuel, operations/maintenance and repairs/replacements with no profit margin involved. There are currently under development three generation initiatives as follows [Blue Ridge participants (megawatt share)]:
 - American Municipal Power Generating Station (AMPGS) [Bedford (9.402), Danville (100.000), Front Royal (8.059), Martinsville (8.059) and Richlands (2.686) Central Virginia (24.176) is in the process of negotiating power supply contracts with AMP.]—a 2-unit, 1,000 MW, super-critical, coal-fired steam electric plant located near Letart Falls, Meigs County in southeastern Ohio on the Ohio River. As of the end of June 2008, AMP had secured the plant site and air permits and was well along in securing that balance of permits necessary to construct the plant as well as completing negotiations with the selected engineering/procurement/construction (EPC) contractor, Bechtel Power Corporation (Bechtel). There are a total of 81 AMP members participating in this project. This plant is scheduled to be completed by the end of 2013. The capital cost of the AMPGS plant is projected to be in the range of \$2.9-3.3 billion.
 - Prairie State Energy Campus [Bedford (7.862), Danville (49.760), Front Royal (5.971), Martinsville (5.772) and Richlands (2.588)]—a 2-unit, 1,600 MW, super-critical, mine-mouth coal-fired, steam electric plant located near Marissa in Washington County on the Kaskaskia River in southwestern Illinois. By June 2008 the plant was under construction with Bechtel as the EPC contractor. The plant will be jointly owned by six joint action agencies with participating municipalities in 9 states and an Illinois cooperative, together serving 2.5 million customers. AMP has a 368 MW share of the plant or 23% with 81 of its members participating. The plant is expected to be fully operational during the first half of 2012. This project has a capital cost of \$4.1 billion with AMP's share and internal costs being approximately \$1.02 billion.
 - AMP Hydroelectric Project [Danville (22.084), Martinsville (4.297) and Richlands (1.499), plus, requests had been submitted by Front Royal (3.900) and Central Virginia (14.600) and were being considered]—this project consists of the installation of hydroelectric facilities at three existing lock and dam structures on the Ohio River, Cannelton, Smithland and Willow Island with generation capacities of 84, 72 and 35 MW, respectively 191 MW total. AMP was in the process of subscribing participants to this project as of June 2008 with anticipation of 86 members signing on. The capital cost of this project is projected to be in the range of \$0.8-1 billion.
 - The next category of power supply resources to be pursued through Blue Ridge and its members' partnership with AMP will be additional hydro projects and intermediate generation resources, usually consisting of combined-cycle natural gas-fired plants. These resources could take the form of AMP-owned generation facilities and/or long term power purchase agreements. Currently all members to

which AMP supplies power are purchasing 100% of their intermediate needs from the organized power markets, which remain volatile.

TRANSMISSION/ORGANIZED MARKETS

The transmission systems that serve the Blue Ridge members are owned by AEP, Allegheny Power System (APS) and Dominion-Virginia Power (DOM) and are all operated by the PJM Interconnection (PJM), a Regional Transmission Organization (RTO). Transmission-related costs have continued to rise. Particularly with the implementation on June 1, 2007 of the Reliability Pricing Model (RPM), which was developed with the goal of assuring adequate generating capacity in the future. The RPM or "Locational Reliability" initial rate, effective June 1, 2007, was approximately \$41/MW-day or \$1.24/kW-month and increases to \$174/MW-day or \$5.29/kW-month effective for the PJM planning year beginning June 1, 2010. Thus, for every 10 MW of load, the cost to a member for this component of its transmission cost will go from \$149,000 to \$635,000 per year, a 324% increase over the initial annual cost, with that initial cost being twice what PJM had originally predicted. Transmission costs will continue to rise until members have generation capacity of their own in the form of base load, intermediate and peaking units to offset those charges. Those new generation facilities, as mentioned above, will begin coming on line in 2012.

The unreasonable cost burden on utilities and their retail customers associated with the RPM charges and the cost of power from the PJM energy market have launched major efforts to implore the Federal Energy Regulatory Commission (FERC) to investigate the justness and reasonableness of the RPM capacity and energy markets. The American Public Power Association (APPA) is doing so through its Electric Market Reform Initiative (EMRI) which has completed several studies which confirm that the RPM as well as the single-clearing price energy markets in PJM are suspect. APPA has an active grass-roots effort, the Campaign for Fair Electric Rates (CFER), to influence the FERC directly and through Congressional action in oversight or, as necessary, with legislation. Those also mounting efforts to address these issues are the consumer groups, industrial customers and state consumer advocates. It is very obvious from the power cost data from across the nation that power costs in areas of the country without organized power markets are significantly lower.

MILESTONES

December 2008 marked 20 years since Blue Ridge was chartered in December 1988 as a non-profit corporation in the Commonwealth of Virginia. As of January 2009 it will be 12 years since Blue Ridge began operating with a full-time staff. Before January 1996, it was operated by the officers of the Board of Directors who were at the same time employees of their communities' utilities. They had to fit in the ever more complex Blue Ridge member power supply issues with their normal busy day-to-day activities, which by 1995 had become unsustainable. Blue Ridge members can look back with pride and satisfaction on many accomplishments that are testimony to the effectiveness of their own joint action and local self-representation. Through what began as the "Virginia Cities" and became Blue Ridge, the member communities have worked together to negotiate contracts and protect their common power supply and transmission interests in a mutually beneficial relationship that spans at least 36 years.

STAFF ACTIVITIES

Blue Ridge's administrative and general budget for the 2008 fiscal year was reduced 4.4% from the 2007 fiscal year, at \$315,000, 3% of that being the removal of Southeastern Federal Power Customers dues from the budget and making them direct member charges.

The Blue Ridge staff carried out its normal operation and special projects in FY2008 as follows:

- Continued to provide our members developing power supply portfolios with advice on new resources with the assistance of our consultants and counsel by reviewing, analyzing and making recommendations in regard to AMP supply offerings.
- Assisted with and coordinated consultants activities in administration of the AEP, APCo and AMP contracts; managed the PJM transmission agreements for six members including monthly power and transmission supplier invoice verification; prepared consolidated bills to six members and processed related collections and payments; dealt with various contract and billing questions that arose during the year from members, suppliers and/or PJM; participated as agent for seven members in PJM Members Committee meetings and protected all Blue Ridge members' transmission interests by coordinating, monitoring and voting via the Public Power Coalition (PPC) with assistance as needed from our consultant in the many PJM active committees and work groups.
- Coordinated the legal and regulatory work of the Blue Ridge consultants along with invoice verification and consolidated billing to members: counsel - Brickfield, Burchette, Ritts & Stone and power supply/rates consultant - GDS Associates, Inc.
- The General Manager made trips to Washington, D.C., to visit with the Blue Ridge members' delegation and/or their staffs (Congressmen Boucher, Goode, and the offices of Goodlatte, Wolfe and Senators Jim Webb and John Warner) and to participate in TAPS and APPA group visits with FERC Commissioners and staff, as well as corresponding with those offices throughout the year on energy-related issues;
- The General Manager worked with MEPAV legislative committee and its lobbyist to represent Blue Ridge members' interest in both electric and telecommunications legislation;
- Planned, organized and facilitated the FY2008 Annual Conference in February 2008.
- The General Manager carried out his responsibilities as a member of the Executive Committee of TAPS;
- Monitored electric industry activities, and telecommunications as time permitted, in the legal, regulatory, and legislative arenas and disseminated significant information to the members; and
- As a volunteer member and Chairman of the Mid-Atlantic Broadband Cooperative's ("MBC") Board of Directors, the General Manager participated in the continued facilities expansion and marketing of the organization's 750+ miles of open-access, fiber backbone system that spans the Southside counties that comprise the eastern part of the two Virginia regions that are beneficiaries of the Tobacco Indemnification and Community Revitalization Commission ("TICRC") grants. Several Blue Ridge members' municipalities benefit from MBC's network.

PROJECTS

Blue Ridge staff time and resources were also directed toward the administration of specific “projects.” The General Manager directed and coordinated legal counsel and power supply/rates consultant for these efforts related to power supply procurement efforts as well as interventions, analysis and development of briefs to be filed at the FERC and included significant efforts as highlighted below:

- AMP/AMPGS Member Support Services—This work involves, by the General Manager and Blue Ridge consultant GDS Associates, review of AMP’s due-diligence efforts, in preparation for construction, continued pursuit of all of the required permits, i.e. air quality, siting, landfill, cultural, water quality and transmission line permits as well as others necessary for the construction of this generation facility. It also included participation as part of the Project Team in review of the PowerSpan process for removal of emissions from plant exhaust gases as well as review, evaluation and selection of the EPC.
- AMP Hydro-electric Developmental Study—Services were provided to members Martinsville and Richlands through review of the Cannelton, Smithland, Willow Island feasibility study as well as by the General Manager serving as their representative on the Hydroelectric Project Participants Committee
- Long Term Power Supply Portfolio Development—This project covers Blue Ridge’s continuing to explore and make initial recommendations regarding additional potential long-term resources, asset-based resources or long term purchase power agreements for its members. These include AMP projects as well as other suppliers. If a proposed resource looks promising a new, separate project is created for the balance of work to analyze, evaluate and recommend that resource for the members.
- PJM RTO—Blue Ridge participates in coalitions, formal or ad hoc, to protect its members’ interests as FERC regulations are developed, rules are interpreted through regulatory/court litigation and PJM continues to develop or revise its tariffs, services and markets. Of particular interest to Blue Ridge and its members is insuring that the reliability, governance, rates, terms/conditions of service, access, operation, and planning that are within the RTO’s responsibilities are in the members’ best interest. To further Blue Ridge’s effectiveness, it continues to be a member of the PPC, a group of transmission dependent municipal and cooperative utilities as well as joint action agencies with load in PJM. PPC monitors each of the significant PJM committees and work groups within the PJM organization and reports to, advises and makes committee voting recommendations to members.
- CVEC--AMP Generating Station Financing Arrangements—Blue Ridge, its consultant, GDS Associates, and its counsel, Brickfield, Burchette, Ritts and Stone, continue to assist Central Virginia in negotiation of power sales and joint ownership agreements while working as well toward securing financing for its share, 24.2 MW, of the AMP AMPGS project. This involves working with the Rural Utilities Services (RUS) of the U.S. Department of Agriculture and with the Virginia State Corporation Commission (VSCC), which regulates CVEC’s retail rates and services.
- Power Supply Planning for Mid-Term—this project effort involved the development of the market-based power supply portfolios for members Bedford, Front Royal, Martinsville and Richlands during the “mid-term” period prior to the AMP generation assets coming on line. Working with AMP power supply planning staff, Blue Ridge, its members and consultants analyzed load forecasts and market projections to come up with the optimum purchases from the market in order to obtain the lowest cost while working to mitigate risk by implementing a discipline based annual date and price triggers.

CONCLUDING REMARKS

The electric industry remains in a state of change and uncertainty driven by ongoing, unresolved issues such as wholesale market structures, transmission services markets and evolving regulations, legislation and initiatives. A significant aspect of the uncertainty involves concerns over global warming mainly related to demand-response and energy efficiency efforts to reduce consumption as well as accelerated efforts to reduce carbon dioxide (CO₂) emissions through some type of “cap and trade” regime and development of renewable resources.

FERC continues to be oblivious to the shortcomings and inequities of the RTO wholesale energy and capacity markets such as in PJM where the Blue Ridge members are located and from which they must purchase their wholesale power supply requirements. Although Blue Ridge will continue to be proactive itself and in cooperation and partnership with AMP and other joint actions agencies as well as with APPA and TAPS, FERC has demonstrated its unwillingness to take up these issues and it will take Congressional pressure in the form of oversight hearings and/or legislation to get them engaged.

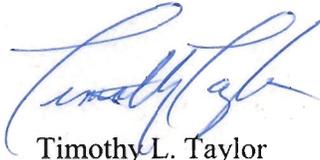
Due to the increased costs of fuel and being in an RTO market, Blue Ridge members’ rates are continuing to increase and are currently only 13% under that national average. The average residential rate for our municipal members is 8.0¢ per kilowatt-hour (up from 6.8¢, or 17%, the prior year), when the Virginia/national average for publicly-owned, investor-owned, and cooperative utilities was as follows: 8.3¢/9.2¢, 8.0¢/10.5¢, and 11.4¢/9.5¢ (up from, 7.2¢/8.6¢, 7.8¢/9.5¢, and 10.6¢/8.8¢ the prior year), respectively. The average residential rate for our two cooperative members was 9.8¢ per kilowatt-hour. It is of interest to note that Appalachian Power Company’s (“APCo”) residential rate was 6.1¢, up 19% and Dominion-Virginia Power’s (“DVP”) was 8.5¢, up 2%. These figures were obtained from 2006 Energy Information Administration data—the latest available as of June 2008. One can observe the effect from the prior years of cumulative rate increases for municipals in Virginia in that the municipal rate is now slightly more than the average in-state, investor-owned utilities’ rates, where DVP was capped and rose only 2% while APCo was capped but went up 19% (both were allowed certain increased costs to be passed to customers with APCo having more such items allowed).

The focus for Blue Ridge and its members is to keep their retail electric rates as competitive as possible relative to those available in other communities in the region with whom they compete for expansion of and/or new businesses and industries. This is particularly challenging during the period for which retail rates for investor-owned utilities are capped or simply lower cost. On January 1, 2009, the rate caps will be removed for retail rates in investor-owned and cooperative areas barring any action by the General Assembly or the VSCC to change the new timetable. Most other states that had not begun customer choice programs have halted or delayed implementation. It is likely that the cooperative and IOU rates will increase significantly over the next three to five years with all of the increasing costs of fuel and installation of new equipment to meet emissions regulations. Thus, our members’ rates should be more competitive over time.

Blue Ridge continues its strong commitment to securing reliable power supplies at the lowest cost possible for its members while representing and protecting their interest and doing so in the most effective, cost efficient manner possible. Under the leadership of its experienced, knowledgeable Board of Directors and the assistance of its able consulting and legal team, Blue Ridge will continue

to be successful through utilization of its experience and insight from a local/Virginia perspective. To build on its joint action initiative, Blue Ridge will seek alliances and coalitions that can provide maximum effect and save members expense in promoting and protecting its members' interests in all forums—FERC, Congress, PJM RTO, Virginia Legislature and VSCC, etc. In addition, it will seek to fulfill the initiatives of the Strategic Plan, work toward refinement of the related action items and identify the necessary resources to carry them out.

In the service of the Blue Ridge members and their citizens-owners-customers:



Timothy L. Taylor
President
Board of Directors



Duane S. Dahlquist
General Manager

Board Information - Fiscal Year 2008

OFFICERS:

President: Timothy L. Taylor
Vice-President: A.K. Briele
Secretary/Treasurer: Robert L Harris

MEMBERS AND BOARD OF DIRECTORS (as of 6/30/08)

City of Bedford

Director: Eugene L. Ratzlaff, Director, Electric Department
Alternate #1: Charles P. Kolakowski, City Manager
Alternate #2: Robert L. Harris, Assistant Director, Electric Department
Official Term Expires: April 2009

Bristol Virginia Utilities

Director: Wesley R. Rosenbalm, President and CEO
Alternate: Buddy Snodgrass, Vice President, Operations
Official Term Expires: April 2008

Central Virginia Electric Cooperative

Director: Gary Wood, President and CEO
Alternate: C. Bruce Maurhoff, Vice President, Engineering & Operations
Official Term Expires: April 2009

City of Danville

Director: Jerry L. Gwaltney, City Manager
Alternate #1: Joseph C. King, Assistant City Manager for Utilities
Official Term Expires: April 2009

Town of Front Royal

Director: Joseph E. Waltz, Director, Electrical Services
Alternate #1: J. Michael Graham, Town Manager
Alternate #2: Denny N. Pennington, Crew Supervisor, Electrical Services
Official Term Expires: April 2009

City of Martinsville

Director: Lynn Short, Manager, Business & Technical Services
Alternate #1: Dennis D. Bowles, Superintendent of Electric Operations
Alternate #2: Leon E. Towarnicki, Asst. City Mgr/Director of Public Works
Official Term Expires: April 2009

City of Radford

Director: William E. Willis, Director, Electric Utilities
Alternate: Tim Logwood, Assistant Director, Electric Utilities
Official Term Expires: April 2008

Town of Richlands

Director: Timothy L. Taylor, Town Manager
Alternate: Kevin Blankenship, Electrical Engineer
Official Term Expires: April 2008

City of Salem

Director: A. K. Briele, III, Director, Electric Department
Alternate: Jeff Farmer, Assistant Director, Electric Department
Official Term Expires: April 2008

Virginia Tech

Director: William M. Elvey, Interim Ass't Vice-President-Facilities
Alternate #1: Alvin B. Myers, Director of Utilities
Alternate #2: Fran DeBellis, Director, Virginia Tech Electric Service
Official Term Expires: April 2008

STAFF

Duane S. Dahlquist, General Manager
Debbie Mobley, Administrative Assistant/Secretary

PRIMARY CONSULTANTS/SERVICE PROVIDERS

Legal Counsel: Brickfield, Burchette, Ritts & Stone, Washington, D.C.
Primary contact: Frederick H. Ritts

Engineering: GDS Associates, Inc., Marietta, GA
Primary contact: Jack D. Madden

Auditors: Snead and Williams, P.L.L.C., Danville, VA
Primary contact: Charles W. Snead

Accounting: LBS Consultants, Danville, VA
Primary contact: Linda Stegall

PRIMARY AFFILIATIONS

American Public Power Association (APPA—national trade association)
Municipal Electric Power Association of Virginia (MEPAV—state trade association)
Transmission Access Policy Study Group (TAPS—transmission-dependent utilities across U.S.)
Public Power Coalition (PPC—transmission-dependent utilities within PJM)
Southeast Federal Power Customers (SeFPC—customers of SEPA for Federal hydropower)

STATISTICS

(July 1, 2007 - June 30, 2008)

<u>BRPA Member</u>	<u>Year Established</u>	<u>Total Customers (meters)</u> (1)	<u>Population Served Within:</u>	
			<u>City/Town</u>	<u>Overall Territory</u> (2), (3)
City of Bedford	1899	6,652	6,300	13,304
Bristol Virginia Utilities	1945	16,102	17,367	32,204
Central Virginia EC	1937	32,792	n/a	65,584
Craig-Botetourt EC	1936	6,857	n/a	13,714
City of Danville	1886	42,090	48,500	84,100
Town of Front Royal	1894	7,110	13,800	13,800
City of Martinsville	1900	7,845	15,416	15,416
City of Radford	1922	7,203	15,859	15,859
Town of Richlands	1920	3,070	5,639	4,144
City of Salem	1892	13,192	24,747	24,747
Virginia Tech	1893	5,681	11,362	11,362
Totals		148,594	158,990	294,234

	<u>Peak System Loads (Megawatts)</u> (4)		<u>Energy Purchased (4)</u>	<u>Owned Generation (5)</u>		<u>Power Supplier *</u>
	<u>FY2008</u>	<u>All-Time</u>	<u>FY2008 (Megawatt-Hours)</u>	<u>Capacity (Megawatts)</u>	<u>Fuel</u>	
City of Bedford	50	56	224,781	9	hyd, dsl	AMP-Ohio
Bristol Virginia Utilities	130	135	615,163			AEP '07 & TVA '08
Central Virginia EC	194	206	714,405			CCG
Town of Front Royal	42	43	187,955			AEP
City of Martinsville	43	44	200,598	1	hydro	AMP-Ohio
City of Radford	52	72	274,516	1	hydro	APCo
Town of Richlands	20	21	68,098	1	diesel	AMP-Ohio
City of Salem	89	92	417,013	4	diesel	APCo
Virginia Tech	62	62	330,905	8	coal/gas	APCo
Totals(non-coincident)	682	731	3,033,434	24		

* AEP = American Electric Power, CPS = Constellation Commodities Group;
APCo = Appalachian Power Company (AEP subsidiary); AMP-Ohio = American Municipal Power - Ohio; and
TVA = Tennessee Valley Authority

Notes: (1) Customer data per 2006 data from American Public Power Association and Virginia, Maryland, Delaware Association of Electric Cooperatives 2008-09 and 2008 annual directories, respectively.

(2) Counties in which some portion is served by a BRPA member are as follows:

Bedford--Bedford County

Bristol--Lee, Scott and Washington Counties

Central Virginia EC--Albermarle, Amherst, Appomattox, Augusta, Buckingham, Campbell, Cumberland, Fluvanna, Goochland, Greene, Louisa, Nelson, Orange and Prince Edward

Craig-Botetourt EC--Allegheny, Botetourt, Craig, Giles, Montgomery, Roanoke and Monroe, WV

Danville--Henry, Halifax and Pittsylvania Counties

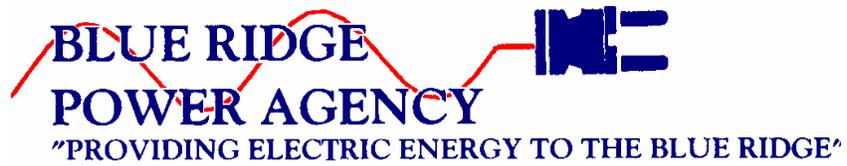
(3) Populations estimated based on 2 people per meter, actual where all service is within city/town based on the 2007-2008 Directory of State & Local Government Officials--Twentieth Annual Edition.

(4) These figures reflect only purchased capacity and energy, i.e. do include SEPA but not owned generation.

(5) Bedford, Central Virginia, Martinsville, Radford, Richlands and Salem have an allocation totaling 13.9 MW of capacity from Southeastern Power Administration via the Kerr-Philpott System of Army Corps of Engineers hydroelectric projects.



SECTION TWO



FINANCIAL STATEMENTS

30 June 2008

INDEPENDENT AUDITORS' REPORT
ON THE FINANCIAL STATEMENTS

To the Board of Directors
Blue Ridge Power Agency
Danville, Virginia

We have audited the accompanying statement of financial position of **Blue Ridge Power Agency** (the **Agency**) as of 30 June 2008 and 2007, and the related statements of changes in net assets, and activities, and cash flows for the years then ended. These financial statements and the schedules are the responsibility of the **Agency's** management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the **Agency** as of 30 June 2008 and 2007, and the results of its operations and its changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements of the **Agency** taken as a whole. The accompanying financial information, listed as "supplementary information" in the table of contents, is presented for purposes of additional analysis and is not a

To the Board of Directors
Blue Ridge Power Agency

Page Two

required part of the basic financial statements of the **Agency**. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Snead & Williams PLLC

14 September 2009
Danville, Virginia

BLUE RIDGE POWER AGENCY

STATEMENT OF FINANCIAL POSITION

30 June 2008 and 2007

ASSETS

	<u>2008</u>	<u>2007</u>
Current Assets		
Cash and cash equivalents - Notes B and G	\$ 4 590 482	\$ 340 928
Accounts and members' receivables - Note C	6 672 347	12 945 181
Accounts receivable - SECA credit overpayment	-	44 253
Prepaid expenses	<u>612</u>	<u>314</u>
Total Current Assets	11 263 441	13 330 676
Capital Assets, Net of Accumulated Depreciation - Note D	<u>26 457</u>	<u>18 262</u>
Total Assets	<u>\$ 11 289 898</u>	<u>\$ 13 348 938</u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts payable - power related - Note E	\$ 10 436 199	\$ 12 358 994
Accounts payable - projects	78 970	82 015
Accounts payable - goods and services	7 329	2 010
Members' reimbursement payable - Note J	-	193 043
Accounts payable - Duke Energy (SECA refund) - Note J	236 314	236 308
Accounts payable - APPA dues	85 512	77 738
Payroll taxes and other accruals	<u>8 884</u>	<u>5 616</u>
Total Liabilities	<u>10 853 208</u>	<u>12 955 724</u>
Net Assets		
Unrestricted		
General	259 760	279 279
Board designated - capital assets replacement /expenditures	60 882	68 761
Board designated - future members' support	<u>116 048</u>	<u>45 174</u>
Total Net Assets	<u>436 690</u>	<u>393 214</u>
Total Liabilities and Net Assets	<u>\$ 11 289 898</u>	<u>\$ 13 348 938</u>

The accompanying notes are an integral part of these financial statements.

BLUE RIDGE POWER AGENCY

STATEMENT OF CHANGES IN NET ASSETS

For the Years Ended 30 June 2008 and 2007

	Unrestricted				Total
	General	Board Designated			
		Capital Asset s Replacement/ Expenditures	Future Projects	Members' Support	
Beginning Balance - 1 July 2006	\$ 256 950	\$ 62 645	\$ 77 418	\$ -	\$ 397 013
Increase in Unrestricted Net Assets	91 312	-	566	-	91 878
Release of Net Assets for Board Designated Future Projects	-	-	(77 984)	-	(77 984)
Release of Net Assets for Legacy Projects	(17 693)	-	-	-	(17 693)
Administrative Assets Replacement/ Expenditures Board Designation	(6 116)	6 116	-	-	-
Designation for Future Members' Support	<u>(45 174)</u>	<u>-</u>	<u>-</u>	<u>45 174</u>	<u>-</u>
Ending Balance - 30 June 2007	279 279	68 761	-	45 174	393 214
Increase in Unrestricted Net Assets	43 476	-	-	-	43 476
Release of Designated Funds	59 224	(14 050)	-	(45 174)	-
Administrative Asset Replacement/ Expenditures Board Designation	(6 171)	6 171	-	-	-
Designation for Future Members' Support	<u>(116 048)</u>	<u>-</u>	<u>-</u>	<u>116 048</u>	<u>-</u>
Ending Balance - 30 June 2008	<u>\$ 259 760</u>	<u>\$ 60 882</u>	<u>\$ -</u>	<u>\$ 116 048</u>	<u>\$ 436 690</u>

The accompanying notes are an integral part of these financial statements.

BLUE RIDGE POWER AGENCY

STATEMENT OF ACTIVITIES

For the Years Ended 30 June 2008 and 2007

	<u>2008</u>	<u>2007</u>
Changes in Unrestricted Net Assets:		
Utility revenues	\$ 76 505 545	\$ 152 967 327
Cost of utility revenues	<u>(76 505 545)</u>	<u>(152 967 327)</u>
Net Utility Revenues/(Cost of Utility Revenues)	<u>-</u>	<u>-</u>
Projects revenues	887 071	1 064 542
Cost of projects revenues	<u>(887 071)</u>	<u>(1 064 542)</u>
Net Projects Revenues/(Cost of Projects Revenues)	<u>-</u>	<u>-</u>
Other revenues, support, income, and (expenses)		
Dues and support	216 016	293 340
VA equivalent consumption tax - collected	689 020	690 957
VA equivalent consumption tax - remitted	<u>(689 020)</u>	<u>(690 957)</u>
MEPAV - income	-	165
Miscellaneous income	8 236	378
Interest income	<u>50 553</u>	<u>85 684</u>
Total Other Revenues, Support, Income, and (Expenses)	<u>274 805</u>	<u>379 567</u>
Total Unrestricted Revenues and Other Support	274 805	379 567
Administrative and general expenses	<u>213 913</u>	<u>288 255</u>
	60 892	91 312
Danville settlement expense	<u>(17 416)</u>	<u>-</u>
Increase in Unrestricted Net Assets	<u>43 476</u>	<u>91 312</u>
Changes in Board Designated Net Assets:		
Release of unrestricted net assets	-	(77 984)
Investment income - interest	<u>-</u>	<u>566</u>
(Decrease) in Board Designated Net Assets	<u>-</u>	<u>(77 418)</u>
Increase in Net Assets	<u>\$ 43 476</u>	<u>\$ 13 894</u>

The accompanying notes are an integral part of these financial statements.

BLUE RIDGE POWER AGENCY

STATEMENT OF CASH FLOWS

For the Years Ended 30 June 2008 and 2007

	<u>2008</u>	<u>2007</u>
Cash Flows (Uses) from Operating Activities:		
Changes in Net Assets	\$ 43 476	\$ 13 894
Adjustment and Reconcile of Increase in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation - capital assets	6 171	6 641
Net decrease (increase) in accounts and members' receivables	6 317 086	(1 413 546)
Net (increase) decrease in prepaid expenses	(298)	3 209
Net (decrease) increase in accounts payable and accruals	<u>(2 102 516)</u>	<u>211 606</u>
Net Cash Provided (Used) by Operating Activities	<u>4 263 919</u>	<u>(1 178 196)</u>
Cash Flows (Uses) from Investing Activities:		
Acquisition of capital assets	<u>(14 365)</u>	<u>(525)</u>
Net Cash (Used) by Investing Activities	<u>(14 365)</u>	<u>(525)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	4 249 554	(1 178 721)
Cash and Cash Equivalents - Beginning of Year	<u>340 928</u>	<u>1 519 649</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4 590 482</u>	<u>\$ 340 928</u>

The accompanying notes are an integral part of these financial statements.

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies

The summary of significant accounting policies of **Blue Ridge Power Agency** (the **Agency**) is presented to assist in understanding the **Agency's** financial statements .

Nature of the Organization - **Blue Ridge Power Agency** is a cooperative effort of eight (8) municipalities (the Cities of Bedford, Bristol, Danville, Martinsville, Radford, Salem, and the Towns of Richlands and Front Royal); a state institution (Virginia Polytechnic Institute and State University); and one (1) electric cooperative (Central Virginia Electric Co-op) engaged in purchasing wholesale electric power and the participation in projects relating to that effort within the utility industry. The **Agency** is a nonprofit organization exempt from federal income taxes under Section 501(c)(12) of the *Internal Revenue Code* and has been classified as an organization that is not a private foundation under Section 509(a)(2) of the *Internal Revenue Code*. However, contributions are not deductible by donors under Section 170(c)(2) of the *Code*.

The financial statements of **Blue Ridge Power Agency** have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and substantially in conformity with the Federal Energy Regulatory Commission's Uniform System of Accounts.

The financial statements are presented in accordance with the provisions of Financial Accounting Standards Board's (FASB) Statement 117, *Financial Statements of Not-For-Profit Organizations* , and the American Institute of Certified Public Accountants' (AICPA) *Audit and Accounting Guide for Not-For-Profit Organizations* (the Guide).

Under the provisions of FASB Statement 117 and the Guide, net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of the **Agency's** Board of Directors' restrictions. Accordingly, the net assets of the **Agency** and changes therein are classified and reported as follows:

Net Assets - Unrestricted Net Assets - represent resources over which the **Agency's** Board of Directors has discretionary control and are used to carry out operations of the **Agency** in accordance with its bylaws. An increase in unrestricted net assets represents the excess of total unrestricted revenue, gains, and other support over administrative expenses; whereas a decrease in unrestricted net assets represents the excess of administrative expenses over unrestricted revenue, gains, and other support. The **Agency's** Board of Directors has designated amounts for future fiscal operations of the **Agency** and for the replacement of capital assets.

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note A - Summary of Significant Accounting Policies (Continued)

Capital Assets - Acquisitions of capital assets in excess of \$500 are capitalized. Capital assets are recorded at cost. Depreciation, for financial reporting purposes, is computed principally using the straight-line method over the estimated useful lives of the assets as determined by management.

Estimates - The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Cash and Cash Equivalents - In general, for purposes of the statement of financial position, the **Agency** considers all highly liquid investments with maturities of three months or less to be cash equivalents.

Reclassifications - Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note B - Deposits Held in Financial Institutions

As of 30 June 2008 and 2007, the **Agency** had cash deposits on hand in various financial institutions of \$4,590,482 and \$340,928, respectively. The bank balances as of 30 June 2008 and 2007 included repurchase agreement balances of \$4,599,580 and \$355,045, respectively, which are not covered by Federal Depository Insurance coverage but was secured by the financial institution through United States Treasury obligations.

Note C - Accounts and Members' Receivables

The majority of all significant accounts receivable are due from medium to large-sized municipalities and cooperatives. Due to the low credit risk associated with these entities, management believes all accounts receivable are fully collectable. Accounts receivable at 30 June 2008 and 2007 consisted of the following:

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note C - Accounts and Members' Receivables (Continued)

	<u>2008</u>	<u>2007</u>
Accounts receivable - members power	\$ 6 316 701	\$ 12 305 101
Accounts receivable - members - projects	212 908	105 198
Accounts receivable - members - VA equivalent consumption tax	51 415	53 894
Accounts receivable - members - APPA dues	85 512	77 738
Accounts receivable - vendor reimbursement	471	18 142
Accounts receivable - SeFPC dues	4 840	-
Members' receivable - PJM (SECA) Refund	<u>500</u>	<u>385 108</u>
	<u>\$ 6 672 347</u>	<u>\$ 12 945 181</u>

Note D - Capital Assets

Capital assets as of 30 June 2008 and 2007, on the balance sheet at cost less accumulated depreciation, included the following major classifications:

	<u>2008</u>	<u>2007</u>
Leasehold improvements	\$ 14 167	\$ 14 167
Office furniture and fixtures	14 134	14 380
Office equipment	11 979	6 821
Computer equipment	21 190	16 452
Vehicle	18 865	18 865
Safety demo equipment	<u>4 496</u>	<u>4 496</u>
	84 831	75 181
Less accumulated depreciation	<u>(58 374)</u>	<u>(56 919)</u>
Net Capital Assets	<u>\$ 26 457</u>	<u>\$ 18 262</u>

Depreciation expense for the years ended 30 June 2008 and 2007 was \$6,171 and \$6,641, respectively.

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note E - Accounts Payable - Power Related

Accounts payable at 30 June 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Accounts payable - power	\$ 9 771 022	\$ 11 956 190
Accounts payable - transmission, net	<u>564 801</u>	<u>348 910</u>
	10 335 823	12 305 100
Accounts payable - VA equivalent consumption tax	<u>100 376</u>	<u>53 894</u>
	<u>\$ 10 436 199</u>	<u>\$ 12 358 994</u>

Note F - Board Designated - Future Support

The Board of Directors of the **Agency** adopted a financial policy effective February 2007 in which a consultancy billing rate would be applied to the **Agency's** General Manager's time spent on various projects for members of the **Agency**. The General Manager's consultancy rate multiplied by the time units spent on these projects as well as actual related travel expenses resulted in additional billings to the members for the year. The Board of Directors further directed that such funds should be designated as support for members' dues that may be incurred in the following fiscal year. For the years ended 30 June 2008 and 2007, the amount of time charges and actual expenses billed to the members and designated for future support was \$116,021 and \$45,174, respectively.

Note G - Fair Value of Financial Instruments

The **Agency** invests excess funds in short-term repurchase agreements of U.S. government securities and certificates of deposit (cash equivalents). The carrying value of these financial instruments approximates fair market value because of the short maturity of the investments and the **Agency** believes that it is not exposed to any significant risk on its investments. As of 30 June 2008 and 2007, the **Agency** had funds invested in repurchase agreements, which are included in cash equivalents, of \$4,599,580 and \$355,045, respectively, of the net cash deposits on hand in financial institutions.

Note H - Retirement Savings Plan

The **Agency** has a defined contribution and a salary reduction retirement plan under Section 403(b) of the *Internal Revenue Code* that is offered to all employees. The Board of Directors, at its discretion, may contribute a percentage of a participating employee's salary to the Plan. The contribution by the Board of Directors for the years ended 30 June 2008 and 2007 was approximately \$12,960 and \$12,614, respectively.

BLUE RIDGE POWER AGENCY

NOTES TO FINANCIAL STATEMENTS

Note I - Operating Lease

The **Agency** entered into a noncancelable operating lease in May 2008 for real estate that expires in June 2010. Rental expense under the previous lease amounted to \$14,550 and \$14,400 for the years ended 30 June 2008 and 2007, respectively .

Future minimum lease payments for this lease are as follows:

2009	<u>\$ 15 300.00</u>
2010	<u>\$ 14 025.00</u>

Note J - Members' Reimbursement

This reimbursement to certain members (Bedford, Danville, Martinsville, Richlands, and Salem) from Duke Energy (the "new" Duke Energy, a merger of Duke Energy and Cinergy) resulted from a settlement agreement in a regulatory proceeding at the Federal Energy Regulatory Commission (FERC). The related proceedings involved several cases beginning in 2002 with a FERC investigation that resulted in a decision to eliminate "pancaked" rates between the Midwest Independent System Operator (MISO) and Pennsylvania Jersey Maryland Interconnection, L.L.C. (PJM) transmission systems through implementation of a Seams Elimination Cost Adjustment (SECA). The **Agency**, among many other transmission customers, protested these SECA charges.

In 2006, a settlement was reached between the **Agency** and Duke Energy, one of the several MISO and PJM transmission -owning companies to which the **Agency's** SECA payments were allocated. These amounts reported represent the majority of the anticipated refunds from the companies.