

**Town of
Amherst, Virginia**

**Comprehensive Audited
Financial Report**

For the year ended June 30, 2006

Davidson, Doyle & Hilton, LLP
916 Main Street
Lynchburg, VA 24504

Town of Amherst, Virginia
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TOWN OF AMHERST

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October 10, 2006

Town Council and the Residents and Business Operators of the Town of Amherst

Re: FY06 Audit - Management's Discussion and Analysis

Gentlemen:

Governmental Accounting Standards Board Statement No. 34, as amended by GASB 37, requires governments to prepare a general summary of operating results and changes in financial condition through management discussion and analysis similar to those prepared by publicly traded companies as supplementary information to a comprehensive annual financial report (CAFR). Goals of this MD&A letter are to:

- introduce the Town's basic financial statements
- provide an analytical overview of the Town's financial activities for the year based on currently known facts and management's knowledge of the transactions, events, and conditions reflected in the financial report and the fiscal policies that control the Town's operations; and
- advise whether the Town is better or worse off than it was in the prior year.

Accordingly, this narrative overview and analysis of the financial activities of the Town of Amherst is offered for the fiscal year ended June 30, 2006. We encourage the Town's residents and business operators and any other interested individual to read the information presented here in conjunction with additional information furnished in the Town of Amherst's audited financial statements which follow this narrative.

Service Programs

All in all, FY06 was a good year with respect to the successful delivery of the following Town-sponsored services:

- *Public Safety* – Amherst fully funds a police department and streetlights throughout the Town and provides partial funding for volunteer fire and rescue operations. Amherst is a safe community and crime does not seem to be a problem within the Town's corporate limits.
- *Utilities* – Amherst operates municipal water treatment and distribution, sewer collection and treatment, and refuse collection services. No Town customer suffered from a lack of potable water in FY06. The environment was protected by the safe and efficient operation of Amherst's sewer plant. Sanitation was maintained by the collection and proper disposal of municipal solid wastes.
- *Economic Development* – Amherst continues its efforts to increase the local tax base, to provide more and better jobs for residents, and to diversify the local economy with its sponsorship of the L. Barnes Brockman, Sr. Business and Industrial Park. It is significant that Mutual Telecom Services, a telephone switchgear provider, commenced operations during FY06 in its new office and fabrication facility at Brockman Park.

- *Community Development* – Amherst sponsors land use planning and regulation programs and continues to make capital investments in its utility infrastructure to guide, direct and support new development. These activities will help steer the community through the growth that is expected due to the October 2005 opening of the Madison Heights Bypass, an interstate-quality, limited access highway between Amherst and the City of Lynchburg.
- *Community Center* – The Town Hall acts as an information center as well as a clearinghouse for an array of programs not directly managed by the federal, state, or county governments or local organizations if for no other reason than there is simply no other entity that provides such services.

A variety of other service programs are available from numerous federal, state, regional or county-level operations. Note that Amherst does not sponsor programs such as hospitals, zoos, airports, or municipal transit and probably never will.

Strengths

A major reason for Amherst's ongoing success is the selection and appointment of qualified individuals through a variety of processes to numerous positions. This includes the election of public service-oriented Town Councilors, appointment of qualified and interested citizens to boards and committees, hiring of able employees, careful selection of consultants, working with experienced contractors, and cultivation of relationships with price, service and quality-conscience vendors. Most have been willing to help the Town of Amherst "change with the times."

Another local strength is the diversity of the local economy. Sources of employment for Amherst's residents include Sweet Briar College, various manufacturing concerns, the local government/courthouse industry, health care, and a variety of retail and service establishments. Amherst is fortunate to not be totally dependent on one industry or employer.

Amherst had \$2,265,071 in the bank as of June 30, 2006. This amount is approaching the total of the Town's annual operating expenses and is quite a healthy reserve. A cash management program which was intended to maximize and stabilize the benefit of this situation was implemented during FY06.

During FY06 the Town's tax ordinances and personnel policies were thoroughly updated. These efforts have established clearer procedures for Town employees and improved the Town's legal positions.

Problem Areas

The Town's revenue sources remain relatively static. This is due to the sluggish economy and the fact that most utility rates are on a per-month-per-customer or per-gallon rate basis, and moderate growth in that Amherst did not see a significant change in numbers of new users or higher volumes consumed during FY06. Since there are few areas to "cut", utility rates will need to be raised to fund needed system improvements if not just to keep pace with inflation.

During FY06 the Town realized good results from improved collections practices in the restaurant,

lodging, bank capital stock and business tax sections of the Town's revenue stream.

Amherst continues to pursue large projects that are significant when compared to its relatively small size. The Brockman Park project, which in this context includes the closely associated sewer plant upgrade/expansion and Union Hill water tank projects, encompasses infrastructure worth over \$8,000,000. This equates to over \$3,500 for every one of Amherst's 2,251 residents. These endeavors and other ongoing work have strained Amherst's coffers as well as its personnel resources but once completed should provide an excellent base to work from for the foreseeable future.

Continuing to prepare for the impact of VDOT's Madison Heights Bypass project is the single most important issue of this decade. Virtually all of Amherst's major initiatives over the past few years have been spurred along in anticipation of the growth in and near the Town that it is expected to cause.

Opportunities

Along with the above-noted series of problems and issues facing Amherst comes opportunities.

Amherst enjoys a relatively stable local economy and solid utility infrastructure. The Town has an excellent water source and a virtually new sewer plant that is one of the best in the region. Amherst has adequate cash reserves and over \$2,500,000 in real estate "for sale" in Brockman Park.

The community is working to influence growth so that the good things growth and development bring can be enjoyed while the bad things are limited or contained.

It should be noted that several extraterritorial property owners have formally requested to be included within the Town's corporate limits since the 1994 annexation but the Town has not been able to justify such a process due to other workload commitments. However, discussions with large property owners as to how the Town might be able to supply water and sewer service, as well as the potential application of Town planning programs, to their developments may lead to a boundary adjustment effort in the near future.

Projects

Major projects recently completed, underway or anticipated over the next few years include:

- *Brockman Park* – Many lots are vacant but are ready for commercial and industrial development since all necessary basic infrastructure for each lot has been completed.
- *Rutledge Creek Wastewater Treatment Plant* – The sewer plant upgrade/expansion project was completed at the end of FY05; this has eliminated sewer plant capacity as a major limiting factor for the growth of the community.
- *Union Hill Water Tank* – The Town has procured a site, extended water mains to it, and completed the engineering for a new 1,000,000 gallon water tank on Union Hill east of the Town's corporate limits in response to a lack of sufficient tankage which is the Town water system's limiting factor. This facility is expected to be needed to support the future occupants of Brockman Park and the growth of the community. This project can be constructed after a funding program has been decided upon.

- *Growth Management* – The Town continues its work in planning the growth of the community. This involves not only working through updates and improvements to the Comprehensive Plan and Zoning and Subdivision Ordinance but with capital investments to guide development. A major concern is the direct impact that the Madison Heights Bypass will have on the three Amherst interchanges. A new initiative is to study ways to revitalize the Town’s central business district which may result in altered zoning regulations, general marketing or other promotion, physical improvements to private and public structures and lands, and/or promotion of downtown events.
- *S. Main Street Development Area* – The Town’s comprehensive plan indicates the redevelopment and development of the S. Main Street area, from the library to Ambriar Shopping Center, as a local business zone. The Town has recently rezoned much of the area and planned new sidewalks in support of this initiative. “Enhancement Grant” funding for a sidewalk along S. Main Street was approved in FY05.

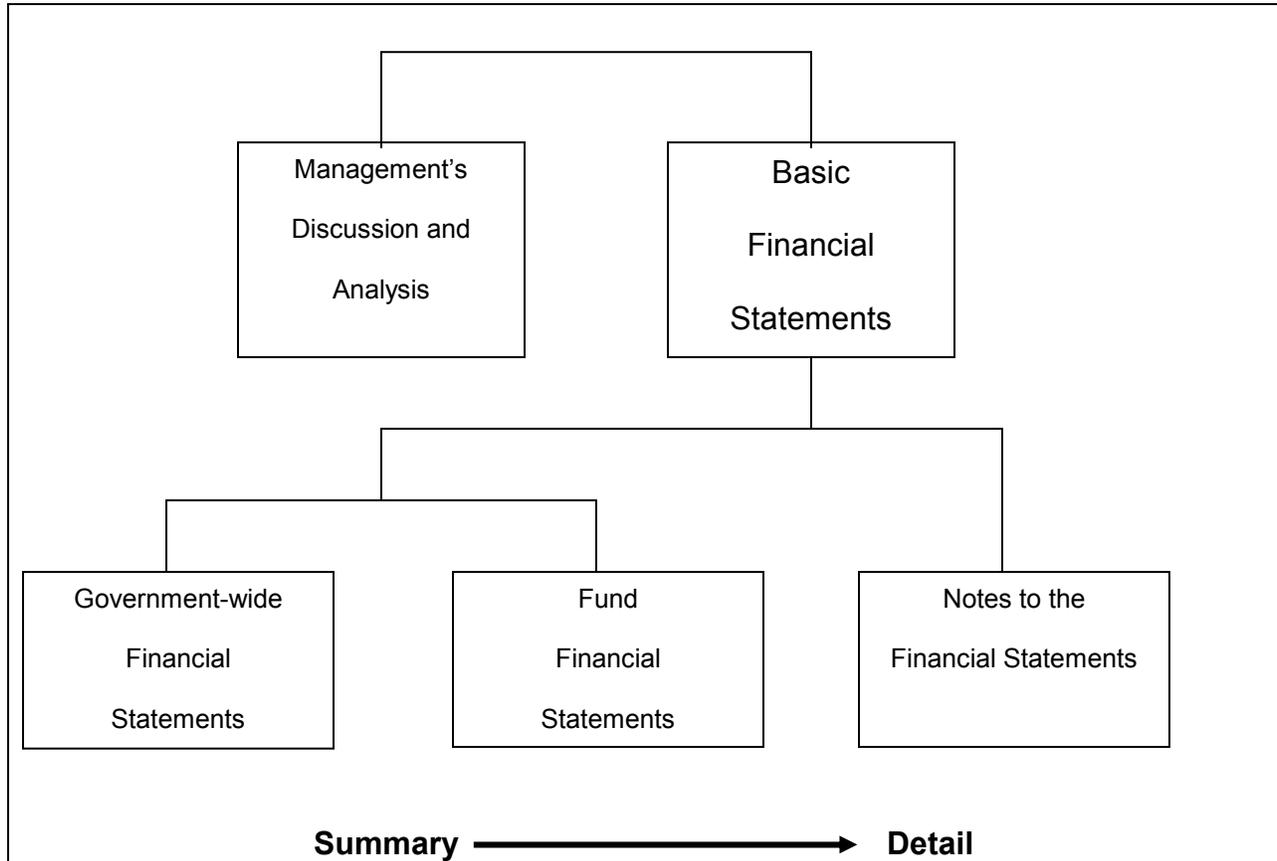
Financial Statements and Their Relationship to One Another

The Town has organized its accounting program in three operating funds. The first is the General Fund within which the accounting for governmental services and all personnel expenses by department is maintained. The Town has two proprietary, sometimes called enterprise or business-type, funds in its Water Fund and Sewer Fund. The purpose of these funds is to isolate the sources and uses of funds that are directly related to the respective water and sewer utility services. The enterprise funds can be viewed as Town subsidiaries operating under the “holding company” of the Town government. In addition to these, the Town maintains a Capital Fund for the purpose of segregating cash being built up and earmarked for future major outlays.

The CAFR contains a series of standard financial statements for each fund and also for several groupings of funds that explain the Town’s fiscal condition and operation in a standardized, accounting-language way. These statements include:

- *Balance Sheets* – The balance sheet for each fund or group of funds shows assets (things that the Town has in its possession), liabilities (what the Town owes other parties) and net worth (also called “fund equity” or “retained earnings”). This statement is a snapshot of the Town’s fiscal position taken as of the close of business on June 30, 2006.
- *Cash Flow Statements* – Cash flow statements explain sources of cash (where operating monies came from) against uses of cash (expenses or outlays). This is an accounting for monies that passed through the Town’s coffers from July 1, 2005 to June 30, 2006.
- *Income Statements* – An income statement is also known as a “Statement of Revenues, Expenditures, and Changes in Fund Balance”. The income statements are largely based on cash flow statements but are adjusted to reflect depreciation charges, amounts due to or due from when the actual cash receipts or disbursements will occur in other fiscal years, and other adjustments to make the income statement an “accrual” document. The difference between revenue (sources of funds) and expenses (uses of funds), all adjusted per accrual accounting rules, is net income (“Change in Net Assets”).
- *Notes to the Financial Statements* – The notes provide additional and detailed information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Figure 1: Components of Comprehensive Annual Financial Report



Fiscal Highlights

The Town adopts an annual budget via a process involving input from the citizens of the Town, general preparation by the staff and management of the Town, and the decisions of the Town Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance current activities. The budgetary statement provided demonstrates how well the Town has complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same general format, language, and classifications as the formal budget document. The statement shows the final budget with all amendments; the actual resources, charges to appropriations, and ending balances; and the difference or variance between the final budget and the actual resources and charges. The reader will note that the budget is prepared on a cash flow basis; the audited “actual” figures are presented on an accrual basis.

During FY06, actual revenues and expenses were by in large as budgeted with no significant unexplained deviations noted. Quite a bit of detail on the Town’s finances is contained in the FY06 audit report in the language of attorneys, bankers and accountants. Highlights include:

- The assets of the Town of Amherst exceeded its liabilities (net assets) at the close of the fiscal year by \$6,359,904.

- The Town’s total net assets increased by \$821,567, primarily due to revenues being higher than anticipated, expenses being lower than anticipated, and the recognition of a significant portion of the USDA sewer plant grant during FY06.
- As of the close of the current fiscal year, the amount of Town cash in the bank was \$2,265,071. Cash above immediate needs is invested in a rolling certificate of deposit purchase program, but no Town monies have been invested for a term to exceed one year.
- The Town’s total debt decreased from \$5,893,719 to \$5,181,144 for a net decrease of \$712,575 during FY06. This was due to no new financing in FY06 and the retirement and partial conversion of a VDOT industrial access loan to a grant.

Capital Asset and Debt Administration

The completion of the Town’s sewer treatment plant and the Kenmore Road water line projects were the major capital asset booked during FY06. No major deletions due to demolitions, write-downs or other reasons were recorded this year.

As of June 30, 2006, the Town of Amherst had total bonded debt outstanding of \$5,181,144. All of this is backed by the full faith and credit of the Town of Amherst in the form of general obligation bonds.

On October 2, 2001 the Town Council of the Town of Amherst and the Amherst County Board of Supervisors adopted resolutions which effected an arrangement whereby all revenues associated with Brockman Park - including county taxes, town taxes, land sales, and grants - would be routed to the Town until the Town’s original \$3,000,000 investment in the project, which will primarily benefit the county, is “paid down.” As of June 30, 2006, the remaining value in this “Brockman Park Recoupment Fund” was \$2,468,063.

Large fractions of Amherst’s financial activity are due to amounts spent on pay and benefits for personnel as well as monies required for debt repayment. A refinancing of the sewer plant construction loan and payoff of the VDOT industrial access loan occurred in early FY06 significantly altered the Town’s debt and repayment situation. Figure 2 is presented as a June 30, 2006 summary report on the status of the Town’s indebtedness:

Figure 2: Outstanding Indebtedness

Purpose for Loan	Bond Date	Original Amount	Balance 6/30/06	Annualized Payment	Estimated Payoff Date
Water Plant/System	8/8/1995	\$2,000,000	\$1,517,149	\$110,160	January 2028
Brockman Park	2/24/2003	927,000	3,094,864	100,345	October 2012
Sewer Plant	9/12/2005	3,120,973	<u>569,131</u>	<u>52,432</u>	August 2045
Total			\$5,181,144	\$370,057	

The Town’s legal debt limit is \$13,163,604. Subtracting current long-term debt totaling \$5,022,527, the Town has an unused loan capacity of \$8,141,077. New debt in the first half of FY06 will be restricted due to the loss of the Town’s \$10,000,000 federal tax-exempt small issuer limit resulting from a recent Sweet Briar College/IDA refinancing. However, borrowing to support the Union Hill

Water Tank Project (\$1,000,000) and/or a branch of Central Virginia Community College at Brockman Park (\$1,900,000) is quite possible in the second half of FY07.

The Town of Amherst does not participate in any bond rating programs.

In summary, the Town of Amherst was in a better fiscal position as of June 30, 2006 than it was on June 30, 2005. The general state of the Town of Amherst's finances is between good and great and the prospects for our community are excellent.

Requests for Information

This Management Discussion and Analysis letter is intended to provide an overview of the Town of Amherst's finances for those with an interest in this area. Please let me know if you have any questions or concerns about any item contained in this letter or in the audit report.

Sincerely,

A handwritten signature in black ink that reads "Jack Hobbs". The signature is written in a cursive style with a large initial "J" and a long, sweeping underline.

Jack Hobbs
Town Manager

Independent Auditor's Report

To the Honorable Members of the Town Council
Town of Amherst, Virginia

We have audited the accompanying Comprehensive Audited Financial Report of the Town of Amherst as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Town of Amherst's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States, and Specifications for Audit 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.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Amherst at June 30, 2006, and the results of its operations and cash flows of its proprietary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the combining account financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the Town of Amherst at June 30, 2006, and the results of operations of such funds and cash flows of individual proprietary funds for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole and on the combining account financial statements. The accompanying financial information listed as schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Town of Amherst. Such information has been subjected to the auditing procedures applied in the audit of the general purpose and combining financial statements, and in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated August 25, 2006, on our consideration of the Town of Amherst, Virginia's internal controls over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Lynchburg, Virginia
September 26, 2006

Town of Amherst, Virginia
 Combined Balance Sheet
 Statement of Net Assets
 As of June 30, 2006

	Governmental Activities	Business Type Activities	Total
<u>Assets</u>			
Cash and Cash Equivalents	\$ 2,146,017	\$ 119,054	\$ 2,265,071
Net Taxes Receivable	9,891	-	9,891
Net Other Accounts Receivable	42,317	-	42,317
Net Enterprise Accounts Receivable	-	192,183	192,183
Due From Other Funds	-	25,913	25,913
Prepaid Expenses	67,929	-	67,929
Inventory	-	92,801	92,801
<i>Total Current Assets</i>	2,266,154	429,951	2,696,105
Net Fixed Assets	1,208,511	7,802,392	9,010,903
<i>Total Long-Term Assets</i>	1,208,511	7,802,392	9,010,903
Total Assets	\$ 3,474,665	\$ 8,232,343	\$ 11,707,008
<u>Liabilities</u>			
Accounts Payable	\$ -	\$ 23,899	\$ 23,899
Accrued Liabilities	116,148	-	116,148
Due To Other Funds	25,913	-	25,913
Current Portion of Notes Payable	83,078	75,539	158,617
<i>Total Current Liabilities</i>	225,139	99,438	324,577
Long-Term Portion of Notes Payable	486,053	4,536,474	5,022,527
<i>Total Long-Term Liabilities</i>	486,053	4,536,474	5,022,527
Total Liabilities	711,192	4,635,912	5,347,104
<u>Fund Equity</u>			
Fund Balance - Unappropriated	2,763,473	3,131,851	5,895,324
Net Assets - Unappropriated	-	-	-
Contributed Capital	-	464,580	464,580
<i>Total Fund Equity</i>	2,763,473	3,596,431	6,359,904
Total Liabilities and Fund Equity	\$ 3,474,665	\$ 8,232,343	\$ 11,707,008

Town of Amherst, Virginia
Statement of Activities
As of June 30, 2006

**Net (Expense) Revenue
and Changes in Net Assets**

	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Primary Government:							
Governmental activities:							
General government administration	\$ 454,781	\$ 1,537,759	\$ -	\$ -	\$ 1,082,978	\$ -	\$ 1,082,978
Public Safety	319,090	-	68,925	-	(250,165)	-	(250,165)
Public Works	366,042	-	-	-	(366,042)	-	(366,042)
Total government activities	\$ 1,139,913	\$ 1,537,759	\$ 68,925	\$ -	\$ 466,771	\$ -	\$ 466,771
Business type activities							
Water & Sewer	1,387,283	1,742,079	-	-	-	354,796	354,796
Total Primary government	\$ 1,387,283	\$ 1,742,079	\$ -	\$ -	\$ 466,771	\$ 354,796	\$ 821,567
General revenues:							
General property taxes					133,924	-	133,924
Other local taxes					615,471	-	615,471
Unrestricted revenues from use of money and property					47,960	-	47,960
Permits and Privilege Fees					46,453	-	46,453
Fines and Forfeitures					17,563	-	17,563
Intergovernmental revenues					93,491		
Miscellaneous					651,822	-	651,822
Change in net assets					\$ 466,771	\$ 354,796	\$ 821,567
Net assets-beginning					2,296,702	3,241,635	5,538,337
Net assets-ending					\$ 2,763,473	\$ 3,596,431	\$ 6,359,904

Town of Amherst, Virginia
Statement of Net Assets
As of June 30, 2006

	Governmental Activities
<u>Assets</u>	
Cash and Cash Equivalents	\$ 2,146,017
Net Taxes Receivable	9,891
Net Other Accounts Receivable	42,317
Prepaid Expenses	67,929
<i>Total Current Assets</i>	2,266,154
 Net Fixed Assets	 1,208,511
<i>Total Long-Term Assets</i>	1,208,511
 <i>Total Assets</i>	 \$ 3,474,665
 <u>Liabilities</u>	
Accrued Liabilities	116,148
Due To Other Funds	25,913
Current Portion of Notes Payable	83,078
<i>Total Current Liabilities</i>	225,139
 Long-Term Portion of Notes Payable	 486,053
<i>Total Long-Term Liabilities</i>	486,053
 <i>Total Liabilities</i>	 711,192
 <u>Fund Equity</u>	
Fund Balance - Unappropriated	2,763,473
<i>Total Fund Equity</i>	2,763,473
<i>Total Liabilities and Fund Equity</i>	\$ 3,474,665

Town of Amherst
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

Revenues

General Property Taxes

Real Property Taxes	\$ 82,309
Personal Property Taxes	22,201
Personal Property Tax Relief	21,478
Penalties	7,936
<i>Total General Property Taxes</i>	<u>133,924</u>

Other Local Taxes

Meals	173,352
Lodging	4,488
Consumer Utility Taxes	125,872
Local Sales and Use Taxes	121,461
Business License Taxes	118,686
Motor Vehicle Licenses	44,628
Bank Stock Taxes	47,987
<i>Total Other Local Taxes</i>	<u>636,474</u>

Permits and Privilege Fees

Parking Meter Revenue	1,656
Communications Lease	6,000
Cable Television Privilege Fee	17,794
<i>Total Permits and Privilege Fees</i>	<u>25,450</u>

Fines and Forfeitures

Fines	17,563
<i>Total Fines and Forfeitures</i>	<u>17,563</u>

Revenue from Use of Money and Property

Interest Earned	47,960
<i>Total Revenue from Use of Money and Property</i>	<u>47,960</u>

Miscellaneous Revenue

Trash Curbside	77,666
Miscellaneous	4,156
Sale of Land	-
Administrative Fees from Enterprise Funds	570,000
<i>Total Miscellaneous Revenues</i>	<u>651,822</u>

Intergovernmental Revenues

Non-Categorical Aid From the Commonwealth

ABC Profits	2,703
Economic Development Recoupment Fee	13,759
Economic Development Grant	-
Rolling Stock	2,104

Categorical Aid From the Commonwealth

Law Enforcement	5,913
Streetscape	-
USDA Grant	-
Virginia State Police Grant	63,012
Fire Grant	6,000
<i>Total Intergovernmental Revenues</i>	<u>93,491</u>

Total Revenues	\$ 1,606,684
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Town of Amherst, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

Expenditures

General Government Administration

Legislative

Total Mayor and Town Council	\$ 1,300
<i>Total Legislative</i>	1,300

Non-Legislative General Government

General Government Salaries	110,827
Employment Expenses	31,274
Employee Assistance Program	785
Town Attorney	6,566
Office Supplies	29,072
Office Equipment	5,887
Miscellaneous	8,007
Depreciation	26,804
Property & Landscape Maintenance	13,965
Electric - Streetlights	17,122
Heat and Electricity	4,433
Telephone	14,208
Grants	25,000
Utility Service Allowance	916
Building Maintenance	649
Decorations	1,821
Insurance	49,826
Interest	14,259
Marketing	60
Publications and Membership	1,962
Planning and Development	1,000
Trash Contract Collection	61,562
Travel and Training	1,565
Audit & Accounting Services	8,000
Fire Department	6,000
<i>Total Non-Legislative General Government</i>	441,570

Total General Government Administration **\$ 442,870**

Public Safety Expenditures

Law Enforcement and Traffic Control

Public Safety Salaries	215,802
Employment Expenses	68,180
Equipment and Uniforms	7,385
Travel and Training	3,142
Vehicles - Fuel	9,207
Vehicles - Maintenance	2,982
Miscellaneous	182
Rent	3,228
Depreciation	11,911
Supplies	1,062
Prosecuting Attorney	2,453
Grant Expenditures	5,467
<i>Total Public Safety Expenditures</i>	\$ 331,001

Town of Amherst, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2006

Expenditures (continued)

<u>Public Works Expenditures</u>	
<i>General</i>	
Town Engineer	\$ -
Landscape Maintenance	-
<i>Total General</i>	-
<i>Line Construction and Maintenance</i>	
Salaries	160,528
Employment Expenses	55,917
Benefits-Contra Capital Projects	(128,218)
Heat and Electricity	2,291
Vehicles - Repair	1,535
Uniforms	1,682
Building Maintenance	837
Equipment Maintenance	10,281
Training and Education	2,353
Miscellaneous	350
Vehicles - Fuel	9,760
<i>Total Line Construction Maintenance</i>	117,316
<i>Plants and Pumps</i>	
Salaries	184,213
Employment Expenses	57,059
Vehicles - Fuel	2,780
Vehicles - Maintenance	1,809
Training and Education	1,636
Uniforms	544
Safety Programs	685
Miscellaneous	-
<i>Total Plants and Pumps</i>	248,726
<i>Total Public Works Expenditures</i>	366,042
<i>Total Expenditures</i>	1,139,913
Change in Net Assets	\$ 466,771
Net Assets-Beginning	2,296,702
Net Assets-Ending	\$ 2,763,473

Town of Amherst, Virginia
Combining Balance Sheet
Proprietary Funds
As of June 30, 2006

	Enterprise	Funds	Memorandum Total
	Water Fund	Sewer Fund	
<u>Assets</u>			
Cash and Cash Equivalents	\$ (289,015)	\$ 408,069	\$ 119,054
Net Enterprise Accounts Receivable	99,845	92,338	192,183
Due From Other Funds	-	271,566	271,566
Inventory	84,965	7,836	92,801
<i>Total Current Assets</i>	<u>(104,205)</u>	<u>779,809</u>	<u>675,604</u>
Net Fixed Assets	3,534,887	4,267,505	7,802,392
<i>Total Long Term Assets</i>	<u>3,534,887</u>	<u>4,267,505</u>	<u>7,802,392</u>
Total Assets	<u><u>\$ 3,430,682</u></u>	<u><u>\$ 5,047,314</u></u>	<u><u>\$ 8,477,996</u></u>
<u>Liabilities</u>			
Accounts Payable	\$ 23,899	\$ -	\$ 23,899
Due to Other Funds	245,653	-	245,653
Current Portion of Notes Payable	43,043	32,496	75,539
<i>Total Current Liabilities</i>	<u>312,595</u>	<u>32,496</u>	<u>345,091</u>
Notes Payable	1,474,106	3,062,368	4,536,474
<i>Total Long Term Liabilities</i>	<u>1,474,106</u>	<u>3,062,368</u>	<u>4,536,474</u>
Total Liabilities	<u><u>1,786,701</u></u>	<u><u>3,094,864</u></u>	<u><u>4,881,565</u></u>
<u>Retained Earnings</u>			
Retained Earnings - Unappropriated	1,180,181	1,951,670	3,131,851
Contributed Capital	463,800	780	464,580
Total Retained Earnings	<u>1,643,981</u>	<u>1,952,450</u>	<u>3,596,431</u>
Total Liabilities and Retained Earnings	<u><u>\$ 3,430,682</u></u>	<u><u>\$ 5,047,314</u></u>	<u><u>\$ 8,477,996</u></u>

Town of Amherst, Virginia
Combining Statement of Revenues, Expenses, and Changes In Retained Earnings
Proprietary Funds
For the Year Ending June 30, 2006

	Proprietary		
	Water Fund	Sewer Fund	Total
<u>Operating Revenues</u>			
Monthly Billing	\$ 522,233	\$ 549,683	\$ 1,071,916
Grant-USDA	-	\$ 271,566	
Sprinkler Revenue	4,968	-	4,968
Hauled Waste Revenue	-	16,062	16,062
Penalties	2,692	2,377	5,069
Water Service Revenue	28,963	-	28,963
Debt Service Revenue	126,449	-	126,449
Miscellaneous Revenue	250	-	250
Availability Fees	42,600	37,500	80,100
Maintenance and Construction Revenue	15,955	6,409	22,364
Rutledge Creek Operations	-	36,088	36,088
Grant Revenue	40,240	31,619	71,859
Pretreatment Revenue	-	6,425	6,425
Total Operating Revenues	\$ 784,350	\$ 957,729	\$ 1,742,079
<u>Operating Expenses</u>			
Administrative Fees	\$ 240,000	\$ 330,000	\$ 570,000
Line Materials	(23,401)	10,960	(12,441)
Pump Stations Operations	1,178	13,750	14,928
Electricity	22,452	24,129	46,581
Water & Sewer Service	65,114	42,495	107,609
Maintenance	9,146	22,639	31,785
Chemicals	28,945	13,096	42,041
Water Sampling	4,834	-	4,834
Laboratory	5,448	21,954	27,402
Miscellaneous	4,176	3,124	7,300
Watershed management	16,525	-	16,525
Nutrient Report Expense	-	37,921	37,921
Bad debt expense	-	1,034	1,034
Interest Expense	64,982	104,666	169,648
Depreciation Expense	138,179	183,937	322,116
Total Operating Expenses	\$ 577,578	\$ 809,705	\$ 1,387,283
<i>Operating income</i>	\$ 206,772	\$ 148,024	\$ 354,796
<u>Non-operating revenues (expenses)</u>			
Interest Income	-	-	-
Interest Expense	-	-	-
Total non-operating Revenues/Expenses	-	-	-
Change in Net Assets	206,772	148,024	354,796
Beginning Retained Earnings	973,409	1,803,646	2,777,055
Ending Retained Earnings	\$ 1,180,181	\$ 1,951,670	\$ 3,131,851

Town of Amherst, Virginia
Statement of Cash Flows-Proprietary Funds
For the year ended June 30, 2006

	Enterprise	Funds	
	Water	Sewer	Memorandum
	Fund	Fund	Total Only
Cash flows from operating activities			
Change in unrestricted net assets	\$ 206,772	\$ 148,025	\$ 354,797
Adjustments to reconcile change in unrestricted net assets			
Depreciation and Amortization	138,179	183,937	322,116
Decrease/(Increase) in accounts receivable	(13,305)	(6,094)	(19,399)
Decrease/(Increase) in due from other fund	(3,579)	(271,566)	(275,145)
Decrease/(Increase) in inventory	(5,862)	-	(5,862)
(Decrease)/Increase in accounts payable	23,899	-	23,899
(Decrease)/Increase in cash overdraft	2	-	2
(Decrease)/Increase in due to other fund	140,718	-	140,718
Net Cash provided (used) by operating activities	<u>486,824</u>	<u>54,302</u>	<u>541,126</u>
Cash flows from Investing Activities			
Acquisition of Fixed Assets	(321,202)	(245,172)	(566,374)
Net Cash provided (used) by operating activities	<u>(321,202)</u>	<u>(245,172)</u>	<u>(566,374)</u>
Cash flows from Financing Activities			
Principal Payments of Long-term debt	(35,999)	(28,293)	(64,292)
Net Cash provided (used) by operating activities	<u>(35,999)</u>	<u>(28,293)</u>	<u>(64,292)</u>
Net Increase in Cash & Cash Equivalents	129,623	(219,163)	(89,540)
Cash & Cash Equivalents, beginning of year	<u>(418,638)</u>	<u>627,232</u>	<u>208,594</u>
Cash & Cash Equivalents, beginning of year	<u>\$ (289,015)</u>	<u>\$ 408,069</u>	<u>\$ 119,054</u>

Town of Amherst, Virginia
Summary of Compliance Matters

As more fully described in the “Independent Auditor’s Report on Compliance and on Internal Control over Financial Reporting based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards,” we performed tests of the Town of Amherst’s compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

State Compliance Matters

Code of Virginia

Budget and Appropriation Laws

Cash and Investments Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Town of Amherst, Virginia

Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Members of Town Council
Town of Amherst, Virginia

We have audited the accompanying Comprehensive Audited Financial Report of the Town of Amherst as of and for the year ended June 30, 2006, and have issued my report thereon dated August 25, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Specifications for Audit of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Compliance

As part of obtaining reasonable assurance about whether the Town of Amherst's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Town's general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatement in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matter involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended for the information of management and federal awarding agencies. However, this report is a matter of public record and its distribution is not limited.

Lynchburg, Virginia
September 26, 2006

Town of Amherst
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Versus Actual
Governmental Funds
For the Year Ended June 30, 2006

	General	Fund	Variances
	Budget	Actual	Favorable (Unfavorable)
Revenues			
<u>General Property Taxes</u>			
Real Property Taxes	\$ 61,500	\$ 82,309	\$ 20,809
Personal Property Taxes	21,000	22,201	1,201
Personal Property Tax Relief	16,000	21,478	5,478
Penalties	1,000	7,936	6,936
<i>Total General Property Taxes</i>	<u>99,500</u>	<u>133,924</u>	<u>34,424</u>
<u>Other Local Taxes</u>			
Meals	130,000	173,352	43,352
Lodging	5,000	4,488	(512)
Consumer Utility Taxes	102,500	125,872	23,372
Local Sales and Use Taxes	86,000	121,461	35,461
Business License Taxes	115,000	118,686	3,686
Motor Vehicle Licenses	42,000	44,628	2,628
Bank Stock Taxes	45,000	47,987	2,987
<i>Total Other Local Taxes</i>	<u>525,500</u>	<u>636,474</u>	<u>110,974</u>
<u>Permits and Privilege Fees</u>			
Parking Meter Revenue	1,350	1,656	306
Communications Lease	6,000	6,000	-
Cable Television Privilege Fee	8,736	17,794	9,058
<i>Total Permits and Privilege Fees</i>	<u>16,086</u>	<u>25,450</u>	<u>9,364</u>
<u>Fines and Forfeitures</u>			
Fines	13,000	17,563	4,563
<i>Total Fines and Forfeitures</i>	<u>13,000</u>	<u>17,563</u>	<u>4,563</u>
<u>Revenue from Use of Money and Property</u>			
Interest Earned	15,375	47,960	32,585
<i>Total Revenue from Use of Money and Property</i>	<u>15,375</u>	<u>47,960</u>	<u>32,585</u>
<u>Miscellaneous Revenue</u>			
Trash Curbside	78,992	77,666	(1,326)
Miscellaneous	5,800	4,156	(1,644)
Administrative Fees from Enterprise Funds	570,000	570,000	-
<i>Total Miscellaneous Revenues</i>	<u>654,792</u>	<u>651,822</u>	<u>(2,970)</u>
<u>Intergovernmental Revenues</u>			
<i>Non-Categorical Aid From the Commonwealth</i>			
ABC Profits	2,703	2,703	-
Economic Development Recoupment Fee	15,759	13,759	(2,000)
Rolling Stock	2,152	2,104	(48)
<i>Categorical Aid From the Commonwealth</i>			
Law Enforcement	7,000	5,913	(1,087)
USDA Grant		-	-
Virginia State Police Grant	63,010	63,012	2
Fire Grant	6,000	6,000	-
<i>Total Intergovernmental Revenues</i>	<u>96,624</u>	<u>93,491</u>	<u>(3,133)</u>
Total Revenues	<u>\$ 1,420,877</u>	<u>\$ 1,606,684</u>	<u>\$ 185,807</u>

Town of Amherst, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Versus Actual
Governmental Funds
For the Year Ended June 30, 2006

	<u>General</u>	<u>Fund</u>	<u>Variances</u>
	Budget	Actual	Favorable (Unfavorable)
<u>Expenditures</u>			
<u>General Government Administration</u>			
<i>Legislative</i>			
Total Mayor and Town Council	\$ 1,300	\$ 1,300	\$ -
Total Legislative	<u>1,300</u>	<u>1,300</u>	<u>-</u>
<i>Non-Legislative General Government</i>			
General Government Salaries	133,842	110,827	23,015
Employment Expenses	37,648	31,274	6,374
Employee Assistance Program	1,000	785	215
Contingency Reserve	10,747	-	-
Town Attorney	15,000	6,566	8,434
Town Engineer	6,000	-	6,000
Office Supplies	15,000	29,072	(14,072)
Office Equipment	16,000	5,887	10,113
Miscellaneous	8,500	8,007	493
Depreciation	11,886	26,804	(14,918)
Property & Landscape Maintenance	17,000	13,965	3,035
Electric - Streetlights	23,000	17,122	5,878
Heat and Electricity	4,500	4,433	67
Telephone	14,000	14,208	(208)
Grants	25,000	25,000	-
Utility Service Allowance	1,000	916	84
Building Maintenance	1,500	649	851
Decorations	2,000	1,821	179
Insurance	46,000	49,826	(3,826)
Interest	100,345	14,259	86,086
Marketing	5,000	60	4,940
Publications and Membership	3,500	1,962	1,538
Planning and Development	1,000	1,000	-
Trash Contract Collection	62,236	61,562	674
Travel and Training	3,500	1,565	1,935
Audit & Accounting Services	7,000	8,000	(1,000)
Fire Department	7,000	6,000	1,000
Total Non-Legislative General Government	<u>579,204</u>	<u>441,570</u>	<u>126,887</u>
Total General Government Administration	<u>\$ 580,504</u>	<u>\$ 442,870</u>	<u>\$ 126,887</u>
<u>Public Safety Expenditures</u>			
<i>Law Enforcement and Traffic Control</i>			
Public Safety Salaries	227,265	215,802	11,463
Employment Expenses	75,882	68,180	7,702
Equipment and Uniforms	12,506	7,385	5,121
Travel and Training	3,000	3,142	(142)
Vehicles - Fuel	5,950	9,207	(3,257)
Vehicles - Maintenance	4,424	2,982	1,442
Miscellaneous	500	182	318
Rent	3,180	3,228	(48)
Depreciation	-	11,911	(11,911)
Supplies	1,900	1,062	838
Prosecuting Attorney	1,522	2,453	(931)
Grant Expenditures	82	5,467	(5,385)
Total Public Safety Expenditures	<u>\$ 336,211</u>	<u>\$ 331,001</u>	<u>\$ 5,210</u>

Town of Amherst, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget Versus Actual
Governmental Funds
For the Year Ended June 30, 2006

	General Budget	Fund Actual	Variances Favorable (Unfavorable)
<u>Expenditures (continued)</u>			
<u>Public Works Expenditures</u>			
<i>General</i>			
Major Equipment	\$ 2,350	\$ -	\$ 2,350
Landscape Maintenance		-	-
<i>Total General</i>	2,350	-	2,350
 <i>Line Construction and Maintenance</i>			
Salaries	174,277	160,528	13,749
Employment Expenses	64,171	55,917	8,254
Benefits-Contra Capital Projects	(50,000)	(128,218)	78,218
Heat and Electricity	2,500	2,291	209
Vehicles - Repair	3,500	1,535	1,965
Uniforms	1,500	1,682	(182)
Building Maintenance	1,150	837	313
Equipment Maintenance	12,000	10,281	1,719
Training and Education	1,000	2,353	(1,353)
Miscellaneous	500	350	150
Vehicles - Fuel	9,000	9,760	(760)
<i>Total Line Construction Maintenance</i>	219,598	117,316	102,282
 <i>Plants and Pumps</i>			
Salaries	210,955	184,213	26,742
Employment Expenses	60,459	57,059	3,400
Vehicles - Fuel	2,600	2,780	(180)
Vehicles - Maintenance	1,000	1,809	(809)
Training and Education	4,000	1,636	2,364
Uniforms	1,200	544	656
Safety Programs	1,500	685	815
Miscellaneous	500	-	500
<i>Total Plants and Pumps</i>	282,214	248,726	33,488
<i>Total Public Works Expenditures</i>	504,162	366,042	138,120
<i>Total Expenditures</i>	1,420,877	1,139,913	270,217
Change in Net Assets		\$ 466,771	
Net Assets-Beginning		2,296,702	
Net Assets-Ending		\$ 2,763,473	

Town of Amherst, Virginia
Supplemental Information
As of June 30, 2006

Statement of Treasurer's Accountability

Assets Held By Treasurer

	All Funds
<u>Cash</u>	
Cash on Hand	\$ 400
Wachovia Bank	85,067
BB & T	40,164
Central National Bank	616,584
Suntrust - Money Fund	22,856
<i>Total Cash</i>	765,071
<u>Certificates of Deposit</u>	
BB & T	1,500,000
<i>Total Certificates of Deposit</i>	1,500,000
<i>Total Assets Held By Treasurer</i>	\$ 2,265,071

Liabilities Held By Treasurer

<u>Cash Allocated to Funds</u>	
General Fund	\$ (1,170,457)
Capital Projects Fund	(975,560)
Sewer Fund	(408,069)
Water Fund	289,015
<i>Total Cash Allocated to Funds</i>	(2,265,071)
<i>Total Liabilities Held by Treasurer</i>	\$ (2,265,071)

Computation of Legal Debt Margin

Net Assessed Debt Value	\$ 131,636,036
Debt Limit Percentage	10%
Debt Limit Calculated	13,163,604
Total Long-Term Debt	5,022,527
<i>Legal Margin for Creation of Additional Debt</i>	8,141,077

Schedule of Funding Progress for Defined Pension Benefit Plan

	June 30, 2005	June 30, 2004
Actuarial Valuation Date		
Actuarial Value of Assets	\$ 1,960,771	\$ 1,840,351
Actuarial Accrued Liability	2,253,217	1,862,960
Unfunded Actuarial Accrued Liability (UAAL)	(292,446)	(22,609)
<i>Funded Ratio</i>	87%	99%
Annual Covered Payroll	586,056	509,617
<i>UAAL as a Percent of Payroll</i>	49.9%	4.4%

Town of Amherst, Virginia
Supplemental Information
For the Year Ended June 30, 2006

	FYE June 30, 2006	FYE June 30, 2005	FYE June 30, 2004	FYE June 30, 2003	FYE June 30, 2002	FYE June 30, 2001	FYE June 30, 2000	FYE June 30, 1999	FYE June 30, 1998
Property Tax Levies and Collections									
Total Tax Levy	\$ 103,239	\$ 97,126	\$ 97,574	\$ 108,090	\$ 99,841	\$ 99,841	\$ 93,912	\$ 100,190	\$ 93,264
Total Tax Collection	\$ 114,826	98,300	98,208	110,963	110,963	110,963	97,130	98,102	92,166
Percent of Tax Collection to Tax Levy	111.22%	101.21%	100.65%	102.66%	111.14%	111.14%	103.43%	97.92%	98.82%
Outstanding Delinquent Taxes	9,891	-	17,517	17,517	17,518	17,518	18,270	19,623	2,155
Percent of Delinquent Taxes to Tax Levy	9.58%	0.00%	17.95%	16.21%	17.55%	17.55%	19.45%	19.59%	2.31%
Assessed Value of Taxable Property									
Real Estate	114,767,600	\$ 114,030,200	\$ 118,011,200	\$ 117,051,600	\$ 86,255,600	\$ 86,255,600	\$ 82,245,600	\$ 82,263,100	\$ 80,681,700
Personal Property	12,131,747	10,425,000	11,372,572	11,652,740	11,372,572	10,537,053	10,623,905	9,906,541	8,904,029
Public Utility	4,736,689	4,755,969	5,608,023	6,049,773	6,607,947	6,607,947	6,093,135	6,429,218	6,142,568
Total	\$ 131,636,036	\$ 129,211,169	\$ 134,991,795	\$ 134,754,113	\$ 104,236,119	\$ 103,400,600	\$ 98,962,640	\$ 98,598,859	\$ 95,728,297
Property Tax Rates (per \$100 of Assessed Value)									
Real Estate	5.4%	5.4%	5.4%	5.4%	7%	7%	7%	7%	7%
Personal Property	35%	35%	35%	35%	35%	35%	35%	35%	35%

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1: Summary of Significant Accounting Policies:

The Town of Amherst, Virginia is governed by an elected Town Council. The Town Council is responsible for appointing the Town Manager and Treasurer.

The financial statements of The Town of Amherst, Virginia have been prepared in conformity with the specification promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (hereafter referred to as the GASB). The more significant of the government's accounting policies are described below.

Financial Statement Presentation

In June 1999, GASB issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis- for State and Local Governments. This statement, known as the "Reporting Model" affects the way the Town prepares and presents financial information.

GASB Statement No. 34 establishes new requirements and a new reporting model for the annual financial reports of state and local governments. The model was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions.

Management's Discussion and Analysis – GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities.

Government-wide and Fund Financial Statements

Government-wide and Fund Financial Statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities.

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its components units. For the most part, effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1 (continued)

Statement of Net Assets-The Statement of Net Assets is designed to display financial position of the primary government (government and business-type activities). Governments will report all capital assets, in the government-wide Statement of Net Assets and will report depreciation expense-the cost of per period use of capital assets-in the Statement of Activities. The net assets of a government will be broken into three categories-1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Statement of Activities-The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Budgetary comparison schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year.

A. Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for basic financial statements is financial accountability.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The Town applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1 (continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the fiscal year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the granting organization are met.

The government-wide statement of activities reflects both the gross and net cost per functional category which are otherwise being supported by general government revenues, intergovernmental revenues, fines, permits and charges, etc. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function or a business type entity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

In the fund financial statements, financial transactions and accounts of the Town are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitation.

1. Governmental Funds

Governmental Funds are those through which most governmental function typically are financed. The government reports the following major governmental funds.

a. General Fund

The General Fund is the primary operating fund of the Town. This fund is used to account for all financial transactions and resources except those required to be accounted for in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1 (continued)

2. Proprietary Funds

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The Proprietary Fund measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Fund consist of Enterprise funds.

3. Enterprise Funds

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

C. Cash and Cash Equivalents

State statutes authorize the Town government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the Local Government Investment Pool.

Investments for the government, as well as for its component units, are reported at fair value. The Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

D. Investments

Investments are stated at fair value which approximates market; no investments are valued at cost. Certificates of deposit and short-term repurchase agreements are reported in the accompanying financial statements as cash and cash equivalents. Investments consist of assets held by a trustee.

E. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds"

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1 (continued)

(i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. The Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$495 at June 30, 2006 and is composed of real estate and personal property accounts.

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable on December 5th. The Town bills and collects its own property taxes.

F. Inventory

Inventory is reported at cost.

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond insurance costs, during the current period. The face amount of debt issued is reported as other financial sources while discounts on debt insurance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

H. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 1 (continued)

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2 – Cash and Investments

Deposits: All cash of the primary government and its discretely presented component unit 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 (a multiple financial institution collateral pool) or covered by federal depository insurance. Under the act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amounts of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and Loans institutions are required to collateralize 100% of deposits in excess of FDIC limits. Deposits covered by the Act are considered insured since the Treasury Board is authorized to make additional assessments.

Investments: Statutes authorize the Town to invest in obligation 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) and Asian Development Bank, commercial Paper Record, banker's acceptances, repurchase agreements and state Treasurers Local Government Investment Pool (LGIP).

The Town's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the Town or its safekeeping agent in the Town name. Category 2 includes uninsured or unregistered investments for which the securities are held by the broker's or dealer's trust department or safekeeping agent in the Town name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or safekeeping agent but not in the Town's name.

Note 3 – Property Taxes Receivable:

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable on December 5. The Town bills and collects its own property taxes.

Note 4 – Claims, Judgments and Compensated Absences:

In accordance with GASB 16, the Town has accrued liabilities arising from outstanding claims, judgments and compensated absences. Town employees are paid all unused vacation, holiday due and comp. time upon termination. The Town has \$29,540 of accrued compensated absences at June 30, 2006, in the General Long-term Debt Account Group.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 5 – Long-Term Debt:

Water Fund

On November 27, 1992, the Town signed a note with the United States Department of Agriculture for \$2,000,000 at 4.5% interest to finance a water system improvement program. The note is secured by a general obligation bond issued by the Town. Payments of principal and interest of \$9,180 are due monthly and began in November 1992. At June 30, 2006 the outstanding balance was \$1,517,149. A schedule of maturities is as follows:

<u>For the year ending</u>		<u>Maturities</u>
June 30, 2007	\$	43,043
June 30, 2008		45,021
June 30, 2009		47,089
June 30, 2010		49,252
June 30, 2011		51,515
Thereafter		<u>1,218,229</u>
	\$	<u><u>1,517,149</u></u>

General Fund

On April 1, 2003, the Town issued \$927,000 General Obligation Refunding Bond Series 2003 for the purpose of refunding its \$1,000,000 Town of Amherst Economic Development General Obligation Bond Series 1998 issued for the purpose of financing the acquisition and improvement of real property in the Town for the use as an industrial park. The 2003 series bonds bear an effective interest rate of 3.25%, with monthly installments of \$8,362 starting May 1, 2003. As of June 30, 2006, the outstanding balance was \$569,131. A schedule of maturities is as follows:

<u>For the year ending</u>		<u>Maturities</u>
June 30, 2007	\$	83,078
June 30, 2008		85,819
June 30, 2009		88,650
June 30, 2010		91,575
June 30, 2011		94,595
Thereafter		<u>125,414</u>
	\$	<u><u>569,131</u></u>

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 5 – Long-Term Debt (continued):

Sewer Fund

On August 4, 2003 the Town obtained interim financing to finance the construction of a new sewer plant. The amount of financing was \$3,121,000. During to the year ending June 30, 2006, the town issued a note, with the United States Department of Agriculture, secured by a general obligation bond issued by the Town. The obligation has a rate of interest of 4.125% and is amortized over a 40 year period. Payments of principal and interest of \$13,296 are due monthly and began on September 12, 2005. As of June 30, 2006, the outstanding balance was \$3,094,864. A schedule of maturities is as follows:

<u>For the year ending</u>		<u>Maturities</u>
June 30, 2007	\$	32,496
June 30, 2008		33,862
June 30, 2009		35,286
June 30, 2010		36,769
June 30, 2011		38,315
Thereafter		2,918,136
	\$	<u>3,094,864</u>

Note 6 – Retirement Plan:

Plan Description

The Town contributes to the Virginia Retirement System (VRS), which is an agent and cost sharing multiple employer defined benefit pension administered by the Virginia Retirement System. All full-time, salaried permanent employees of participating employers must participate in the VRS. Benefits vest after 5 years of service.

Employees are eligible for unreduced retirement benefits if retiring at age 65 with 5 years of service or age 55 with 30 years of service for participating employees who are not law enforcement officers. In addition, retirees qualify for annual cost-of-living increases beginning in their second year of retirement.

Participating law enforcement officers may receive a monthly benefit supplement if they retire prior to age 65. 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 of the State Legislature. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the VRS. A copy of that report may obtained by writing the VRS, P.O. Box 2500, Richmond, VA 23218.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 6 – Retirement Plan (continued):

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of the member contribution. This 5% member contribution may be assumed by the employer. In addition, the Town 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 Town's contribution rate for the fiscal year ended June 30, 2006 was 10.25% of annual covered payroll.

Annual Pension Cost

The required contribution was determined as part of the June 30, 2003 actuarial valuation using entry age normal actuarial cost method. The actuarial assumptions include (a) 7.5% investment rate of return, (b) projected salary increases of 3.5 – 5.73% depending upon the member's service and classification, retirement, mortality, disability and termination rates that were based upon the 2000 Experience Study prepared for VRS. The actuarial value of the Town's assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfounded actuarial liability is being amortized as a level of assets over a five-year period. The Town's unfounded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis within a period of 21 years or less.

Note 7 – Surety Bonds:

The Town maintains a surety bond on the Town Manager and Treasurer in the amount of \$100,000 each with the Virginia Municipal League Insurance Program.

Note 8 – Litigation:

No litigation, claims or assessments that would materially affect the financial statements as a whole were pending or threatened as of June 30, 2006.

Note 9 – Risk Management:

The Town of Amherst has contracted with insurance carriers to provide coverage for property damage, employee dishonesty, general liability and workers compensation. There has been no significant reduction in insurance coverage for the past three years.

The Town contracts with a private carrier for health insurance coverage for its employees. All risk of health related claims has been fully transferred to the Health Insurance Provider.

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 10 – Capital Assets:

Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as land, buildings, road registered vehicles, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two 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 assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property and Equipment is stated at cost or estimated cost. Donated property is recorded at market value prevailing at the date of donation. Depreciation on property and equipment commences on the first of the fiscal year following the date initially placed into service. Depreciation has been provided over the following estimated useful lives using the straight-line method:

Water/Sewer system	15-50 years
Buildings	50 years
Equipment	5-15 years

Details of changes in property and equipment in the Government Fund for the fiscal year ending June 30, 2006 are as follows:

	Balance at July 1, 2005		Additions		Deletions		Balance at June 30, 2006
Land	\$ 1,055,360	\$	-	\$	-	\$	1,055,360
Equipment	201,244		25,034		-		226,278
Subtotal	\$ 1,256,604	\$	25,034	\$	-	\$	1,281,638
Less Accumulated Depreciation	34,411		38,716		-		73,127
Net Total Capital Assets	\$ 1,222,193	\$	(13,682)	\$	-	\$	1,208,511

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 10 – Capital Assets (continued):

Details of changes in property and equipment in the Enterprise Funds for the fiscal year ending June 30, 2006 are as follows:

Proprietary Water Fund

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Land	\$ 5,600	\$ -	\$ -	\$ 5,600
Equipment	63,061	-	-	63,061
Plant and Lines	4,580,275	321,202	-	4,901,477
Subtotal	\$ 4,648,936	\$ 321,202	\$ -	\$ 4,970,138
Less Accumulated Depreciation	1,297,072	138,179	-	1,435,251
Net Total Capital Assets	<u>\$ 3,351,864</u>	<u>\$ 183,023</u>	<u>\$ -</u>	<u>\$ 3,534,887</u>

Proprietary Sewer Fund

	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Land	\$ 6,984	\$ -	\$ -	\$ 6,984
Equipment	41,692	-	-	41,692
Plant and Lines	5,187,955	245,172	-	5,433,127
Subtotal	\$ 5,236,631	\$ 245,172	\$ -	\$ 5,481,803
Less Accumulated Depreciation	1,030,361	183,937	-	1,214,298
Net Total Capital Assets	<u>\$ 4,206,270</u>	<u>\$ 61,235</u>	<u>\$ -</u>	<u>\$ 4,267,505</u>

Note 11 – Reconciliation of Fund Balances to Governmental Net Assets:

Detailed explanation of adjustments from fund statements to government-wide statement of net assets:

Fund Balance-Unappropriated	\$ 2,763,473
When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets.	1,281,638
Liabilities-both current and long-term are reported in net assets	<u>(711,192)</u>
Net assets of General Government Activities	<u>\$ 3,333,919</u>

Town of Amherst, Virginia
Notes to the Financial Statements
For the Year Ended June 30, 2006

Note 12 – Law Enforcement Grants:

The Town received a grant from the Department of Criminal Justice in the amount of \$5,913 to use for the Town of Amherst Police Department. The grant expenses are included in the Statement of Revenue, Expenditures and Changes in Fund Balance. If the use of grant is for capital equipment, the expenditure is reclassified as a Capital Asset and depreciated.