



CITY OF NORTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2011

CITY OF NORTON, VIRGINIA

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CITY OF NORTON, VIRGINIA

CITY OFFICIALS

June 30, 2011

CITY COUNCIL:

William J. Mays, Mayor, Council Member
Joseph Fawbush, Vice-Mayor, Council Member
Joseph Hunnicutt
Mark Caruso
Terry Roop

Ernest W. Ward, City Manager

CONSTITUTIONAL OFFICERS:

Barbara Muir, Treasurer
Judy Miller, Commissioner of the Revenue
Carlos Noaks, Sheriff

SCHOOL BOARD:

Ron McCall, Chair
Tim Cassell, Vice-Chair
Steve McElroy
Valerie Brown
Steve Childers

Dr. Jeff Comer, Superintendent

SOCIAL SERVICES ADVISORY BOARD:

Ethel Daniels
Brenda Johnson
Marty Adkins
Jack Mooney
Roger Sloce

Roger Ramey, Director

CITY LEGAL COUNSEL:

William E. Bradshaw, Attorney at Law



Management Discussion and Analysis

January 31, 2012

To the Honorable Mayor and City Council
To the Citizens of the City of Norton

On behalf of the City Administration for the City of Norton, we offer the readers of the City's financial statements this narrative overview and analysis of the City for the fiscal year ended June 30, 2011.

Financial Highlights

- The assets of the City exceeded its liabilities at the end of the fiscal year by \$ 12,366,273 (net assets).
- At June 30, 2011, the City reported combined ending fund balances of \$ 2,471,012, a decrease of \$ 473,570 in comparison with the prior year. This decrease is mainly the result of a budgeted drawdown of prior year reserves to balance the FY2011 budget and funds used to cover FY2010 encumbrances.
- As of June 30, 2011, the General Fund had a total Fund Balance of \$ 2,216,182.
- The total debt outstanding as of June 30, 2011 was \$ 16,119,674, which includes the component units. As of June 30, 2011, the City's Legal Debt Margin was \$ 11,660,375.
- The Water/Sewer Proprietary Fund had an increase in Net Assets for the year of \$ 2,827,423. The completion of a number of major sewer improvement projects over the next several years, including FY2011, will continue to increase the Net Assets of the Fund.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's financial statements are comprised of three components:

- Government – wide financial statements
- Fund financial statements
- Notes to the financial statements

This report also includes other supplementary information in addition to the basic financial statements.

Government-wide financial statements – The Government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases to net assets may serve as a useful indicator as to whether the City's financial position is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future periods, such as uncollected taxes.

The Government-wide financial statements include not only the City of Norton (primary government), but also its component units: the Norton City Schools and the Norton Industrial Development Authority (NIDA).

Fund financial statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. All of the funds of the City of Norton can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

Government-Wide Financial Analysis – Primary Government

Summary of Statement of Net Assets – June 30, 2011

	Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
Current & other assets	\$ 4,396,744	\$ 1,170,347	\$ 5,567,091
Capital assets	12,881,798	10,786,645	23,668,443
Other noncurrent assets	40,591	5,807	46,398
Total Assets	<u>\$ 17,319,133</u>	<u>\$ 11,962,799</u>	<u>\$ 29,281,932</u>
Current & other liabilities	\$ 2,149,213	\$ 1,691,901	\$ 3,841,114
Long-term liabilities	9,397,873	3,486,859	12,884,732
Total Liabilities	<u>\$ 11,547,086</u>	<u>\$ 5,178,760</u>	<u>\$ 16,725,846</u>
Net Assets:			
Invested in Capital assets (Net of related debt)	\$ 3,325,755	\$ 6,989,991	\$ 10,315,746
Restricted	-0-	-0-	-0-
Unrestricted	2,446,292	(205,952)	2,240,340
Total Net Assets	<u>\$ 5,772,047</u>	<u>\$ 6,784,039</u>	<u>\$ 12,556,086</u>

Net assets serve as a useful indicator of a government’s financial position. The City’s combined net assets total \$ 12,556,086 excluding discretely presented component units. By far, the largest portion of this represents investments in capital assets, such as land, buildings, machinery, and equipment. Capital assets net of related debt total \$ 10,315,746. The City of Norton uses these capital assets to provide services to citizens; and thus these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate liabilities.

Governmental Activities – Governmental activities decreased the City’s net assets by \$ 792,144. Key elements of this decrease are as follows:

	Governmental Activities Year Ended June 30, 2011
Revenues:	
Program Revenues:	
Charges for Services	\$ 494,628
Operating Grants and Contributions	2,320,558
Capital Grants and Contributions	20,441
General Revenues:	
Property Taxes	2,393,798
Other Local Taxes	4,822,364
Other	145,793
Total Revenues	<u>\$10,197,582</u>
Expenses:	
General Government	1,512,956
Public Safety	2,355,373
Public Works	2,355,511
Health and Welfare	1,265,568
Education	1,957,075
Parks, Recreation, Culture	507,768
Community Development	771,312
Interest of Long Term Debt	324,163
Total Expenses	<u>\$10,989,726</u>
Increase (Decrease) in Net Assets	<u>\$ (792,144)</u>

Included in the Total Expenses are non-cash items including depreciation. This means that under the full accrual method, net assets decreased by \$ 792,144.

Fund Financial Statements

Governmental Funds – The focus of the City’s governmental funds is to provide information on near term inflows, outflows, and balances of spendable resources. This information is useful in assessing the City’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City’s net resources available for spending at the end of the fiscal year. The City’s governmental funds include the General Fund and the Special Revenue Funds.

Governmental Fund Highlights:

The largest sources of revenue in the General Fund for the year are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Local Sales and Use Tax	\$ 1,882,301	\$1,887,804	\$ 2,023,409	\$ 1,901,018	\$ 1,889,055
Real Property Tax	\$ 1,605,349	2,273,409	1,601,572	1,443,286	1,261,403
Restaurant Food Taxes	\$ 1,126,150	1,061,575	1,025,155	930,578	848,702
Business License Taxes	\$ 773,353	795,833	901,209	826,412	813,906
Street & Highway Maintenance	\$ 723,930	698,460	703,053	730,086	666,209
VDOT	\$ -0-	-0-	-0-	-0-	662,349
Personal Property Taxes	\$ 443,631	429,833	439,822	412,756	452,505

The City’s assessed value of real estate for the year was \$ 228,064,866. The real estate tax rate is \$.80 per \$ 100 of assessed value. For the year, the percent of levy collected was 93.21%.

The City’s business type activity is the Water/Sewer Proprietary Fund. During the year this fund had an increase in net assets of \$ 2,827,423. In addition, cash and cash equivalents decreased by \$ 142,561 to \$ 122,902.

The City’s General Fund Final Budget to Actual comparison for the year was as follows:

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u> <i>Favorable</i> <i>(Unfavorable.)</i>
Total Revenues	\$ 10,469,227	\$ 18,047,656	\$ 7,578,429
Total Expenses	10,713,441	<u>18,521,226</u>	\$ (7,807,785)
Excess of Revenues Over Expenses		<u>\$ (473,570)</u>	

Additional information may be obtained by contacting the City Manager, Mr. E. W. Ward or the Director of Finance, Mr. Jeff Shupe at the City of Norton offices 276-679-1160.

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REPORT OF INDEPENDENT AUDITORS

The Honorable Members of the City Council
City of Norton
Norton, Virginia 24273

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton, Virginia, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Specifications for Audits of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Norton, Virginia as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2012 on our consideration of the City of Norton's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of the report is to describe the scope of our testing on internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. 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.

The management's discussion and analysis and other statistical information on pages 5 through 7 and 67 through 82, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The information listed as other supplementary information and compliance section information in the accompanying table of contents, including the schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Thrower, Blanton & Associates, P.C.
THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

January 31, 2012

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

The Honorable Members of the City Council
City of Norton
Norton, Virginia 24273

We have audited the financial statements of the City of Norton, Virginia, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the Specifications for Audits of Counties, Cities, and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

In planning and performing our audit for the year ended June 30, 2011, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the City's financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the City of Norton, Virginia in a separate letter dated January 31, 2012.

This report is solely intended for the information and use of management, others within the Organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Thrower, Blanton & Associates, P.C.
THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants
January 31, 2012

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Members of the City Council
City of Norton
Norton, Virginia 24273

Compliance

We have audited the compliance of the City of Norton, Virginia, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of Federal Awards section of the accompanying supplemental schedules. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Norton is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

The Honorable Members of the City Council
City of Norton
Norton, Virginia 24273

Page 2

(Independent Auditor's report on Compliance with
Requirements Applicable to Each Major Program and
Internal Control Over Compliance in Accordance with
OMB Circular A-133)

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

This report is intended solely for the information and use of management, others within the Organization, City Council and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

January 31, 2012

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REPORT ON COMPLIANCE WITH COMMONWEALTH OF VIRGINIA LAWS, REGULATIONS, CONTRACTS AND GRANTS

The Honorable Members of the City Council
City of Norton
Norton, Virginia 24273

We have audited the general purpose financial statements of the City of Norton, Virginia (the "City") as of and for the year ended June 30, 2011, and have issued our report thereon dated January 31, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Specifications for Audits of Counties, Cities and Towns, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the City is the responsibility of management of the City. As part of obtaining reasonable assurance about whether the general purpose financial statements are free of material misstatement, we performed tests of the City's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants (as specified in Specifications for Audits of Counties, Cities and Towns, Chapter Three) for which we performed tests of compliance.

Code of Virginia

- * Budget and Appropriation Laws
- * Cash and Investment Laws
- * Conflicts Retirement Systems
- * Local Retirement Systems
- * Personal Property Tax Relief Act
- * Debt Provisions
- * Procurement Laws
- * Uniform Disposition of Unclaimed Property Act

State Agency Requirements

- * Education
- * Highway Maintenance Funds
- * Social Services

The Honorable Members of the City Council
City of Norton
Norton, Virginia 24273
(Report on Compliance with Commonwealth of
Virginia Laws, Regulations, Contracts and Grants)
Page 2

The results of our tests disclosed no instances of non-compliance with the provisions referred to in the preceding paragraph, other than the exception noted above. With respect to items not tested, nothing came to our attention that caused us to believe that the City had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the City Council, management, the Auditor of Public Accounts and applicable state agencies, and is not intended to be, and should not be used by anyone other than these specified parties.


THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

January 31, 2012

CITY OF NORTON
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 1,452,894	\$ 12,512	\$ 1,465,406	\$ 2,045,983
Restricted cash	346,022	110,390	456,412	-
Investments	20,427	-	20,427	-
Receivable, net	1,199,964	342,422	1,542,386	11,194
Prepaid expense	-	-	-	17,933
Note receivable	86,945	-	86,945	-
Due from other governmental units	387,731	693,382	1,081,113	285,654
Due from other funds	902,761	11,641	914,402	60,692
Due from primary government	-	-	-	328,417
Deferred bond cost	40,591	5,807	46,398	-
Capital assets, non-depreciable	897,280	2,325,344	3,222,624	2,049,406
Capital assets, depreciable, net	11,984,518	8,461,301	20,445,819	6,228,122
Total Assets	\$ 17,319,133	\$ 11,962,799	\$ 29,281,932	\$ 11,027,401
LIABILITIES				
Accounts payable and accrued liabilities	279,202	313,395	592,597	226,316
Accrued payroll and related liabilities	110,205	17,237	127,442	646,387
Accrued interest payable	172,515	15,481	187,996	19,426
Deferred revenue	781,608	-	781,608	33,160
Deferred bond revenue	55,176	-	55,176	14,488
Customer security deposits	-	110,390	110,390	-
Due to other governmental units	226,000	-	226,000	-
Due to other funds	11,640	902,761	914,401	60,692
Due to component units	328,417	-	328,417	-
Compensated absences				
Due within one year	129,115	15,989	145,104	25,422
Due in more than one year	55,335	6,853	62,188	43,955
Long-term liabilities				
Due within one year	166,689	332,637	499,326	583,322
Due in more than one year	9,231,184	3,464,017	12,695,201	2,341,825
Total Liabilities	11,547,086	5,178,760	16,725,846	3,994,993
NET ASSETS				
Invested in capital assets, net of related debt	3,325,755	6,989,991	10,315,746	5,053,823
Restricted	-	-	-	635,072
Unrestricted	2,446,292	(205,952)	2,240,340	1,343,513
Total Net Assets	5,772,047	6,784,039	12,556,086	7,032,408
Total Liabilities and Net Assets	\$ 17,319,133	\$ 11,962,799	\$ 29,281,932	\$ 11,027,401

The notes to financial statements are an integral part of this statement.

CITY OF NORTON
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets						
	Program Revenues			Primary Government		Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities							
General government	\$ 1,512,956	\$ -	\$ 237,728	\$ -	\$ (1,275,228)	\$ -	\$ (1,275,228)
Public safety	2,355,373	110,524	504,947	-	(1,739,902)	-	(1,739,902)
Public works	2,355,511	366,667	728,053	20,441	(1,240,350)	-	(1,240,350)
Health and welfare	1,265,568	-	844,580	-	(420,988)	-	(420,988)
Education	1,957,075	-	-	-	(1,957,075)	-	(1,957,075)
Parks, recreation and cultural	507,768	17,437	5,250	-	(485,081)	-	(485,081)
Community development	711,312	-	-	-	(711,312)	-	(711,312)
Interest on long-term debt	324,163	-	-	-	(324,163)	-	(324,163)
Contingencies	-	-	-	-	-	-	-
Total Governmental Activities	10,989,726	494,628	2,120,558	20,441	(8,154,099)	-	(8,154,099)
Business-type activities							
Water and Wastewater	2,509,969	2,135,900	550,000	2,451,492	-	2,827,423	2,827,423
Total Business-Type Activities	2,509,969	2,135,900	550,000	2,451,492	-	2,827,423	2,827,423
TOTAL PRIMARY GOVERNMENT	13,499,695	2,830,528	2,870,558	2,471,933	(8,154,099)	2,827,423	(5,326,676)
COMPONENT UNITS							
School Board	8,378,209	110,040	6,214,829	-	-	-	\$ (2,053,340)
NIDA	508,151	413,398	172,642	-	-	-	-
Total Component Units	8,886,360	523,438	6,387,471	-	-	-	(2,053,340)
General revenues							
Property taxes			2,393,798				2,393,798
Local sales & use tax			1,882,301				1,882,301
Utility taxes			126,570				126,570
Business license taxes			773,353				773,353
Communication taxes			223,287				223,287
Bank stock taxes			126,034				126,034
Reconciliation taxes			39,256				39,256
Tobacco taxes			165				165
Hotel and motel room taxes			195,071				195,071
Restaurant food taxes			1,126,150				1,126,150
Coal road improvement taxes			222,047				222,047
Cigarette tax			108,100				108,100
Other local taxes			30				30
Unrestricted miscellaneous revenue			76,669			42,179	76,669
Unrestricted investment earnings			39,085			3,332	39,085
Rental of Town property			-			-	-
Gain (loss) on sale of capital assets			30,039			-	30,039
Recovered cost			-			-	-
Transfers-Primary Government			-			-	-
Transfers-Component Units			-			3,798,115	3,798,115
Total general revenues and transfers			7,361,955			1,843,626	7,361,955
Change in net assets			(792,144)		2,827,423	(209,714)	674,642
PRIOR PERIOD ADJUSTMENT			(155,947)		-	80,251	-
NET ASSETS - JULY 1			6,720,138		3,956,616	1,502,491	4,984,737
NET ASSETS - JUNE 30			\$ 5,772,047		\$ 6,784,019	\$ 1,373,028	\$ 5,659,379

The notes to financial statements are an integral part of this statement.

**CITY OF NORTON
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011**

	<u>General</u>	<u>Special Revenue</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,452,894	\$ -	\$ 1,452,894
Restricted Cash	44,609	301,413	346,022
Investments	20,427	-	20,427
Taxes receivable	1,011,348	-	1,011,348
Accounts receivable	188,616	-	188,616
Notes receivable	-	86,945	86,945
Due from other funds	1,054,601	-	1,054,601
Due from primary government	-	-	-
Due from other governmental units	327,171	60,560	387,731
Total Assets	<u>\$ 4,099,666</u>	<u>\$ 448,918</u>	<u>\$ 4,548,584</u>
 LIABILITIES			
Accounts payable and accrued liabilities	\$ 236,833	\$ 42,369	\$ 279,202
Accrued payroll and related liabilities	91,925	18,280	110,205
Deferred revenue	970,268	-	970,268
Due to other funds	11,641	133,439	145,080
Due to component units	346,817	-	346,817
Due to other governmental units	226,000	-	226,000
Total Liabilities	<u>1,883,484</u>	<u>194,088</u>	<u>2,077,572</u>
 FUND BALANCES			
Nonspendable	-	-	-
Restricted	-	-	-
Committed	-	314,685	314,685
Assigned	505,569	-	505,569
Unassigned	1,710,613	(59,855)	1,650,758
Total Fund Balances	<u>2,216,182</u>	<u>254,830</u>	<u>2,471,012</u>
Total Liabilities and Fund Balances	<u>\$ 4,099,666</u>	<u>\$ 448,918</u>	<u>\$ 4,548,584</u>
Total Fund Balances			\$ 2,471,012
 Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds, net of accumulated depreciation			12,881,798
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds			40,591
Other liabilities are not required to be paid out of current financial resources and therefore are not reported in the governmental funds			(223,481)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			<u>(9,397,873)</u>
Net Assets of Governmental Activities			<u>\$ 5,772,047</u>

The notes to financial statements are an integral part of this statement.

CITY OF NORTON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2011

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES:			
General property taxes	\$ 2,383,552	\$ -	\$ 2,383,552
Other local taxes	4,822,364	-	4,822,364
Permits, privilege fees and regulatory licenses	5,007	-	5,007
Fines and forfeitures	94,147	-	94,147
Revenue from use of money & property	36,622	2,463	39,085
Charges for services	389,903	20,617	410,520
Miscellaneous	60,176	-	60,176
Recovered costs	16,754	-	16,754
Intergovernmental	1,496,419	844,580	2,340,999
Total Revenues	<u>9,304,944</u>	<u>867,660</u>	<u>10,172,604</u>
EXPENDITURES:			
Current:			
General government administration	1,116,081	-	1,116,081
Judicial administration	349,229	-	349,229
Public safety	2,261,460	36,578	2,298,038
Public works	2,191,672	-	2,191,672
Health and welfare	110,023	1,151,957	1,261,980
Education and transfer to school	1,804,736	-	1,804,736
Parks, recreation and cultural	483,551	-	483,551
Community development	725,216	-	725,216
Debt service:			
Principal retirement	7,684,450	-	7,684,450
Interest	376,273	-	376,273
Total Expenditures	<u>17,102,691</u>	<u>1,188,535</u>	<u>18,291,226</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(7,797,747)</u>	<u>(320,875)</u>	<u>(8,118,622)</u>
OTHER FINANCING SOURCES (USES):			
Sale of surplus	15,928	-	15,928
Sale of real property	-	-	-
Loan proceeds	7,615,839	-	7,615,839
Insurance recoveries	13,285	-	13,285
Operating transfers in	-	230,000	230,000
Operating transfers out	(230,000)	-	(230,000)
Total Other Financing Sources (Uses)	<u>7,415,052</u>	<u>230,000</u>	<u>7,645,052</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	(382,695)	(90,875)	(473,570)
FUND BALANCE AT BEGINNING OF YEAR	<u>2,598,877</u>	<u>345,705</u>	<u>2,944,582</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,216,182</u>	<u>\$ 254,830</u>	<u>\$ 2,471,012</u>

CITY OF NORTON
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 Year Ended June 30, 2011

Net Change in Fund Balance Governmental Fund:	\$ (473,570)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(366,717)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(93,742)
Repayment of bond principal is an expenditure in governmental funds but the payment reduces long-term liabilities in the statement of net assets. This is the amount of net principal payments	184,450
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and therefore are not required as expenditures in governmental funds.	<u>(42,565)</u>
Change in Net Assets of Governmental Activities	<u>\$ (792,144)</u>

CITY OF NORTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-Type Activities Proprietary Funds
	Water & Sewer Operation
ASSETS	
Cash and cash equivalents	\$ 12,512
Restricted cash	110,390
Receivable, net	342,422
Due from other funds	11,641
Due from other government units	693,382
Deferred bond expense	5,807
Land	588,600
Construction in progress	1,736,744
Capital assets, net	8,461,301
 Total Assets	 \$ 11,962,799
 LIABILITIES	
Accounts payable	313,395
Accrued payroll and related liabilities	17,237
Accrued interest payable	15,481
Deferred revenue	-
Customer security deposits	110,390
Due to other governmental units	-
Due to other funds	902,761
Compensated absences	22,842
Long-term liabilities	-
Due within one year	332,637
Due in more than one year	3,464,017
 Total Liabilities	 5,178,760
 NET ASSETS	
Invested in capital assets, net of related debt	6,989,991
Restricted	-
Unrestricted	(205,952)
 Total Net Assets	 6,784,039
 Total Liabilities and Net Assets	 \$ 11,962,799

The notes to financial statements are an integral part of this statement.

CITY OF NORTON
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2011

	PROPRIETARY FUNDS
	Water & Sewer Operation
OPERATING REVENUES:	
Charges For Services:	
Water:	
Local	\$ 811,674
Non-local	271,961
Total Water	1,083,635
Sewer:	
Local	896,104
Non-local	246,203
Total Sewer	1,142,307
Total Charges for Services	2,225,942
Miscellaneous:	
Installations and tap fees	12,485
Penalties	49,213
Other	48,549
Total Miscellaneous	110,247
Total Operating Revenues	2,336,189
OPERATING EXPENSES:	
Personal services	508,126
Fringe benefits	183,444
Contractual services	963,866
Other charges	373,532
Rent	6,000
Depreciation	247,446
Purchase of water	112,622
Amortization	332
Total Operating Expenses	2,395,368
Operating Income (Loss)	(59,179)
NON-OPERATING REVENUES (EXPENSES):	
Grant income	2,451,203
Waste water flow income	550,000
Interconnect expense	(21,055)
Interest expense	(93,546)
Total Non-Operating Revenues (Expenses)	2,886,602
CHANGE IN NET ASSETS	2,827,423
NET ASSETS - JULY 1, 2010	3,956,616
NET ASSETS - JUNE 30, 2011	\$ 6,784,039

CITY OF NORTON
STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUNDS
Year Ended June 30, 2011

	PROPRIETARY FUNDS	COMPONENT UNIT
	Water & Sewer Operation	Norton Industrial Development Authority
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 2,302,036	\$ 566,203
Cash payments to suppliers for goods and services	(1,560,156)	(189,742)
Cash payments to employees for services	(671,630)	-
Net Cash provided by (used in) Operating activities	<u>70,250</u>	<u>376,461</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Increase (decrease) in customer deposits	4,075	-
Contribution - City of Norton	-	540,518
Increase (decrease) in due to other funds	348,245	-
Net Cash Provided by Non-Capital Financing Activities	<u>352,320</u>	<u>540,518</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Construction in progress	(3,875,102)	-
Acquisition of capital assets	(140,049)	(139,094)
Proceeds from issuance of debt	1,053,246	-
Contributed Capital-Grant Revenue	2,668,710	-
Interconnect expense	(21,055)	-
Principal paid	(155,096)	(408,524)
Interest paid	(95,836)	(109,056)
Net Cash provided by (used in) capital and related financing activities	<u>(565,182)</u>	<u>(656,674)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	-	9,513
Net cash provided by (used in) investing activities	<u>-</u>	<u>9,513</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(142,612)	269,818
Cash and Cash Equivalents at Beginning of Year	<u>265,514</u>	<u>1,137,887</u>
Cash and Cash Equivalents at June 30, 2011		
Unrestricted	\$ 12,512	1,407,705
Restricted	110,390	-
Cash and Cash Equivalents at End of Year	<u>\$ 122,902</u>	<u>\$ 1,407,705</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (59,179)	\$ 228,143
Adjustments		
Depreciation and amortization	247,778	217,297
OPEB	17,360	-
Changes in assets and liabilities:		
(Increase) decrease in prepaid expense	-	(3,907)
(Increase) decrease in accounts receivable	(34,153)	1,245
Increase (decrease) in accounts payable	(104,136)	(157)
Increase (decrease) in accrued liabilities	996	-
Increase (decrease) in compensating absences	1,584	-
Increase (decrease) in deferred rent	-	(66,160)
Total adjustments	<u>129,429</u>	<u>148,318</u>
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 70,250</u>	<u>\$ 376,461</u>

The notes to financial statements are an integral part of this statement.

**CITY OF NORTON
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	CDBG Revolving Loan Fund	Virginia Public Assistance Fund	Drug and Gambling Fund	Flag Rock Lighting Fund	TOTALS June 30, 2011
<u>ASSETS</u>					
Cash	\$ 215,357	\$ 73,673	\$ 10,314	\$ 2,069	\$ 301,413
Receivables (Net of Any Allowance For Uncollectibles):					
Accounts	-	-	-	-	-
Note receivable	86,945	-	-	-	86,945
Prepaid items	-	-	-	-	-
Due from other funds	-	-	-	-	-
Due from other governmental units:					
Commonwealth of Virginia	-	60,560	-	-	60,560
TOTAL ASSETS	\$ 302,302	\$ 134,233	\$ 10,314	\$ 2,069	\$ 448,918
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES:					
Accounts payable	\$ -	\$ 42,369	\$ -	\$ -	\$ 42,369
Accrued liabilities	-	18,280	-	-	18,280
Due to other funds	-	133,439	-	-	133,439
Total Liabilities	-	194,088	-	-	194,088
FUND BALANCES:					
Nonspendable	-	-	-	-	-
Restricted	-	-	-	-	-
Committed					
Economic development	302,302	-	-	-	302,302
Law enforcement	-	-	10,314	-	10,314
Parks and recreation	-	-	-	2,069	2,069
Assigned	-	-	-	-	-
Unassigned	-	(59,855)	-	-	(59,855)
Total Fund Balances	302,302	(59,855)	10,314	2,069	254,830
TOTAL LIABILITIES AND FUND BALANCES	\$ 302,302	\$ 134,233	\$ 10,314	\$ 2,069	\$ 448,918

CITY OF NORTON
AGENCY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
Year Ended June 30, 2011

	<u>Special Welfare Fund</u>
<u>ASSETS</u>	
Cash	<u>\$ 12,344</u>
<u>NET ASSETS</u>	
Amounts held for social service clients	<u>\$ 12,344</u>

CITY OF NORTON
 AGENCY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 Year Ended June 30, 2011

	<u>Special Welfare Fund</u>
Additions	
Client receipts	\$ 7,877
Total additions	<u>7,877</u>
Deductions	
Payments for clients	<u>3,909</u>
Total deductions	<u>3,909</u>
Change in net assets	3,968
Net assets - beginning of year	<u>8,376</u>
Net assets - end of year	<u>\$ 12,344</u>

The notes to financial statements are an integral part of this statement.

CITY OF NORTON
STATEMENT OF NET ASSETS - COMPONENT UNITS
JUNE 30, 2011

	Norton City Schools	Norton Industrial Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 638,278	\$ 1,407,705	\$ 2,045,983
Restricted cash	-	-	-
Investments	-	-	-
Receivable, net	729	10,465	11,194
Prepaid expense	-	17,933	17,933
Due from primary government	328,417	-	328,417
Due from other governmental units	285,654	-	285,654
Due from other funds	60,692	-	60,692
Deferred bond expense	-	-	-
Capital assets, non-depreciable	65,900	1,983,506	2,049,406
Capital assets, depreciable, net	<u>1,736,927</u>	<u>4,491,195</u>	<u>6,228,122</u>
 Total Assets	 <u>\$ 3,116,597</u>	 <u>\$ 7,910,804</u>	 <u>\$ 11,027,401</u>
LIABILITIES			
Accounts payable and accrued liabilities	174,435	51,881	226,316
Accrued payroll and related liabilities	646,387	-	646,387
Accrued interest payable	11,877	7,549	19,426
Deferred revenue	-	33,160	33,160
Deferred Bond revenue	14,488	-	14,488
Customer security deposits	-	-	-
Due to other governmental units	-	-	-
Due to other funds	60,692	-	60,692
Compensated absences			
Due within one year	25,422	-	25,422
Due in more than one year	43,955	-	43,955
Long-term liabilities:			
Due within one year	86,219	497,103	583,322
Due in more than one year	<u>680,094</u>	<u>1,661,731</u>	<u>2,341,825</u>
 Total Liabilities	 <u>1,743,569</u>	 <u>2,251,424</u>	 <u>3,994,993</u>
NET ASSETS			
Invested in capital assets, net of related debt	737,956	4,315,867	5,053,823
Restricted	635,072	-	635,072
Unrestricted	<u>-</u>	<u>1,343,513</u>	<u>1,343,513</u>
 Total Net Assets	 <u>1,373,028</u>	 <u>5,659,380</u>	 <u>7,032,408</u>
 Total Liabilities and Net Assets	 <u>\$ 3,116,597</u>	 <u>\$ 7,910,804</u>	 <u>\$ 11,027,401</u>

The notes to financial statements are an integral part of this statement.

CITY OF NORTON
STATEMENT OF ACTIVITIES - COMPONENT UNITS
Year Ended June 30, 2011

Functions/Programs Governmental Activities	Program Revenues		Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Contributions	Capital Grants and Contributions	Total Norton		
					City Schools	Industrial Development Authority	GRAND TOTAL
Norton City Schools	\$ 8,378,209	\$ 110,040	\$ 6,214,829	\$ -	\$ (2,053,340)	\$ -	\$ (2,053,340)
Education							
Business-type activities							
Norton Industrial Development Authority	508,151	413,398	172,642	-	-	77,889	77,889
Economic Development	8,886,360	523,438	6,387,471	-	(2,053,340)	77,889	(1,975,451)
Total component units							
General revenues							
City of Norton			1,798,115			540,518	2,338,633
Unrestricted investment earnings			3,332			11,157	14,489
Miscellaneous revenues			42,179			-	42,179
Unrestricted investment earnings			-			-	-
Rental of Town property			-			-	-
Gain (loss) on sale of capital assets			-			-	-
Recovered cost			-			45,078	45,078
Transfers			-			-	-
Total general revenues and transfers			1,843,626			596,753	2,440,379
Change in net assets			(209,714)			674,642	464,928
PRIOR PERIOD ADJUSTMENT			80,251			-	80,251
NET ASSETS - JULY 1, 2010			1,502,491			4,984,738	6,487,229
NET ASSETS - JUNE 30, 2011			\$ 1,373,028			\$ 5,659,380	\$ 7,032,408

The notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America these financial statements present the City of Norton and its Component Units. The Component Units discussed in Note B are included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

B. Individual Component Unit Disclosures

Discretely Presented Component Unit

Component Units are legally separate organizations for which the elected or appointed officials of the primary government are financially accountable. The primary government is financially accountable if it appoints a voting majority of the organization's governing board and is able to impose its will on that organization.

Based on the foregoing criteria, the financial activities of the Norton Industrial Development Authority and the Norton City School Board are included in these financial statements as discretely presented Component Units. Included in the Norton City School Board Component Unit are the School Operating, School Cafeteria, Textbook, and Health Insurance Premium Funds. The Norton Industrial Development Authority's financial statements may be obtained by contacting the Authority at P.O. Box 303, Norton, Virginia 24273.

The financial activities of the following organization are excluded from the accompanying financial statements for the reasons indicated:

Norton Redevelopment and Housing Authority - The City Council appoints the Board of Commissioners; however, the City does not have responsibility for the fiscal matters of the Authority, including authorizations of budgetary appropriations, funding of operating deficiencies, control over or use of surplus funds, responsibility for debts and control over the collection and disbursement of funds.

C. Financial Reporting Model

GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (Statement) which established requirements and a new reporting model for the annual financial reports of state and local governments. The Statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions. Because of the significant changes in financial reporting under the Statement, implementation was phased in (based on the size of the government) beginning with fiscal year ended 2002 (for larger governments). As part of the Statement, there is a new reporting requirement regarding the local government's infrastructure (roads, bridges, traffic signals, etc.) This requirement permits an optional delay for implementation to the fiscal year ending in 2008. The City implemented the basic model in fiscal year 2005 and completed the implementation of the infrastructure-related portion of the Statement by fiscal year 2008.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the 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 component units. For the most part, the 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.

June 30, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements

The City reports the following major governmental funds:

General Fund

The *General Fund* accounts for all revenues and expenditures applicable to the general operations of the City which are not accounted for in other funds.

Special Revenue Funds

Special Revenue Funds account for the proceeds of specific revenue sources (other than those derived from special assessments, expendable trusts or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action. Special Revenue Funds consist of the Virginia Public Assistance, CDBG Revolving Loan Fund and Drug and Gambling Funds and Flag Rock Fund.

The City reports the following major proprietary funds:

The *water and sewer operation fund* provides drinking water, maintains the facilities necessary to provide this service, and provides maintenance to the sewer lines and pump stations. Its primary revenue source is user charges and fees.

Fiduciary Funds account for assets held by a governmental unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds.

D. Basis of Accounting

1. Governmental Funds

Governmental Funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year end are reflected as deferred revenues. Sales and utility taxes, which are collected by the State or utilities and subsequently remitted to the City, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the City. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of Federal, State and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general purpose grants are recognized in the period to which the grant applies.

June 30, 2011

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

D. Basis of Accounting (Continued)

Expenditures, other than interest on long-term debt, are recorded as the related fund liabilities are incurred. Interest on long-term debt is recognized when due except for interest due on July 1, which is accrued.

2. Proprietary Funds

The accrual basis of accounting is used for the Water and Sewer Enterprise Fund and the discretely presented component unit, Norton Industrial Development Authority. Under the accrual method, revenues are recognized in the accounting period in which they are earned, while expenses are recognized in the accounting period in which the related liability is incurred.

3. Fiduciary Funds

Agency Funds utilize the modified accrual basis of accounting.

E. Budgets and Budgetary Accounting

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

1. Prior to March 30, the City Manager submits to the City Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the category level. The appropriations for each category can be revised only by the City Council. The City Manager is authorized to transfer budgeted amounts within governmental departments, however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds (except for the School Fund). The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. For all City units, appropriations lapse on June 30.
8. All budget data presented in the accompanying financial statements is the revised budget as of June 30, 2011.

F. Encumbrances

The City utilizes encumbrance accounting in its governmental funds. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued. Generally, all unencumbered appropriations lapse at year end, except those for capital projects. Appropriations for capital projects are continued until completion of applicable projects, even when projects extend more than one fiscal year. Open encumbrances at fiscal yearend are included in restricted, committed, or assigned fund balance, as appropriate.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*

G. Investments

Investments, consisting of repurchase agreements and deposits in the State Treasurer's Local Government Pool are stated at cost which approximates market.

H. Property, Plant and Equipment

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their estimated fair value on the date donated. Repairs and maintenance are recorded as expenditures; renewals and betterments are capitalized.

Depreciation for Proprietary Fund fixed assets has been provided over the following estimated useful lives using the Straight-Line Method:

	<u>Enterprise</u> <u>Water and Sewer Fund</u>
Water/Sewer System	35
Buildings	35
Improvements other than buildings	20-35
Infrastructure	30-50
Equipment	3-18

I. Allowance for Uncollectible Accounts

The City calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$298,805 at June 30, 2011, and is composed of the following:

General Fund:		
Allowance for uncollectible property taxes	\$181,135	
Allowance for uncollectible garbage fees	<u>11,432</u>	
Total General Fund		\$ 192,567
Water and Sewer Fund:		
Allowance for uncollectible water and sewer fee billings	\$106,238	
Total Water and Sewer Fund		<u>106,238</u>
Total Allowance for Uncollectible Accounts		<u>\$ 298,805</u>

J. Cash Equivalents

For purposes of the statement of cash flows, the Water and Sewer Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

June 30, 2011

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

K. **Fund Equity**

Fund balances, presented in the governmental fund financial statements, represent the difference between assets and liabilities reported in a governmental fund. GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental funds. The new standard has not affected the total amount reported as fund balance but has substantially changed the categories and terminology used to describe their components. GASB Statement No. 54 requires that fund balances be classified into categories based upon the type of restrictions imposed on the use of funds.

Beginning with the fiscal year ended June 30, 2011, the City implemented GASB Statement No. 54. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The City has classified Prepaid Items as being Nonspendable as these items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

- **Assigned:** This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the City Council delegating this responsibility to the City Manager through the budgetary process.

- **Unassigned:** This classification includes the residual fund balance for the General Fund. The Unassigned classification amounts are available for any purpose. Positive Unassigned amounts are reported in the General Fund only. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

Beginning fund balances for the City's governmental funds have been restated to reflect the above classifications.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

2. **DEPOSITS AND INVESTMENTS**

Deposits

All cash of the City and its component units is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 *et. seq.* of the *Code of Virginia*, or covered by federal depository insurance.

Investments

Investment Policy:

In accordance with the Code of Virginia and other applicable law, including regulations, the City permits investments in U. S. Treasury Securities, U. S. agency securities, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker's acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

Concentration of Credit Risk:

Deposits and investments held by any single issuer that exceeded 5% are as follows:

First Bank & Trust 97%

Custodial Credit Risk:

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the City's investments are held in the Treasurer's office in the City's name.

The above items are reflected in the financial statements as follows:

		<u>Component Units</u>	
	<u>Primary Government</u>	<u>School</u>	<u>NIDA</u>
Deposits and investments:			
Cash on hand	\$ 1,150	\$ -	\$ -
Deposits	1,920,668	638,278	1,407,705
Investments	<u>20,427</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,942,245</u>	<u>\$ 638,278</u>	<u>\$ 1,407,705</u>
Statement of net assets:			
Cash and cash equivalents	\$ 1,465,333	\$ 638,278	\$ 1,407,705
Investments	20,427	-	-
Restricted cash and cash equivalents	<u>456,485</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,942,245</u>	<u>\$ 638,278</u>	<u>\$ 1,407,705</u>

Restricted cash and cash equivalents consist primarily of certificates of deposit.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

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 twice a year on May 15 and on October 15. The City of Norton bills and collects its own property taxes.

4. **NOTE RECEIVABLE**

Note receivable from Norton Industrial Development Authority (NIDA) in the amount of \$280,000 - loan dated February 25, 2002 with a ten year term and annual interest rate of 0% for the first two years and 1% per year, thereafter. Annual payments of \$29,563, including interest, begin February 25, 2002 with the remaining balance to be paid February 25, 2012.

5. **DUE FROM OTHER GOVERNMENTAL UNITS**

	<u>Primary Government</u>	<u>Component Unit- School Board</u>	<u>Total</u>
Commonwealth of Virginia:			
Local sales tax	\$ 155,705	\$ -	\$ 155,705
Shared expenses	23,798	-	23,798
Communication tax	18,379	-	18,379
E-911 tax	6,667	-	6,667
Other	4,467	-	4,467
School funds	-	285,654	285,654
Welfare funds	<u>60,560</u>	<u>-</u>	<u>60,560</u>
Total Commonwealth of Virginia	<u>269,576</u>	<u>285,654</u>	<u>555,230</u>
Wise County:			
Coal haul road taxes	63,564	-	63,564
Court fines/transfer fees	<u>9,158</u>	<u>-</u>	<u>9,158</u>
Total Wise County	<u>72,722</u>	<u>-</u>	<u>72,722</u>
Norton Industrial Development Authority	<u>45,433</u>	<u>-</u>	<u>45,433</u>
Total Due From Other Governmental Units	<u>\$ 387,731</u>	<u>\$ 285,654</u>	<u>\$ 673,385</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

6. INTERFUND OBLIGATIONS

	Primary Government		School Board Component Unit	
	Due From	Due To	Due From	Due To
General Fund:				
School Operating Fund	\$ 18,401	\$ 346,817	\$ -	\$ -
Virginia Public Assistance Fund	133,439	-	-	-
Water and Sewer Fund	902,761	11,641	-	-
Total General Fund	<u>1,054,601</u>	<u>358,458</u>	<u>-</u>	<u>-</u>
School Operating Fund:				
General Fund	-	-	346,817	18,401
Cafeteria Fund	-	-	18,686	42,006
Health Insurance Fund	-	-	-	-
Total School Operating Fund	<u>-</u>	<u>-</u>	<u>365,503</u>	<u>60,407</u>
School Cafeteria Fund:				
School Operating Fund	-	-	42,006	18,686
Health Insurance Fund	-	-	-	-
Total School Cafeteria Fund	<u>-</u>	<u>-</u>	<u>42,006</u>	<u>18,686</u>
School Health Insurance Fund				
School Operating Fund	-	-	-	-
Total Health Insurance Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Virginia Public Assistance Fund:				
General Fund	-	133,439	-	-
Water and Sewer Fund:				
General Fund	11,641	902,761	-	-
Totals	<u>\$1,066,242</u>	<u>\$1,394,658</u>	<u>\$ 407,509</u>	<u>\$ 79,093</u>

7. CHANGES IN CAPITAL ASSETS

The following is a summary of changes in depreciable capital assets:

PRIMARY GOVERNMENT	Balance	Additions	Deletions	Balance
	7/1/2010			6/30/2011
Buildings	\$ 1,964,951	\$ -	\$ -	\$ 1,964,951
Improvements other than buildings	1,494,432	28,900	-	1,523,332
Infrastructure	9,969,691	23,550	-	9,993,241
Equipment	3,195,979	194,614	169,552	3,221,041
Equipment special revenue	141,378	-	-	141,378
Tenancy in Common-School Board	7,616,961	-	-	7,616,961
Total Capital Assets, Depreciable	<u>24,383,392</u>	<u>247,064</u>	<u>169,552</u>	<u>24,460,904</u>
Less Accumulated Depreciation For:				
Buildings	1,285,000	27,393	-	1,312,393
Improvements other than buildings	1,016,215	24,864	-	1,041,079
Infrastructure	7,270,856	167,164	-	7,438,020
Equipment	2,207,186	242,601	164,500	2,285,287
Equipment special revenue	91,901	3,028	-	94,929
Tenancy in Common-School Board	152,339	152,339	-	304,678
Total accumulated depreciation	<u>12,023,497</u>	<u>617,389</u>	<u>164,500</u>	<u>12,476,386</u>
Total Capital Assets, depreciable net	<u>\$ 12,359,895</u>	<u>\$ (370,325)</u>	<u>\$ 5,052</u>	<u>\$ 11,984,518</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

7. CHANGES IN CAPITAL ASSETS (Continued)

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
PRIMARY GOVERNMENT				
Other Costs				
Bond Issue Cost	\$ 56,079	\$ -	\$ -	\$ 56,079
Less: Accumulated Amortization	(12,528)	(2,960)	-	(15,488)
Net Bond Issue Cost	<u>\$ 43,551</u>	<u>\$ (2,960)</u>	<u>\$ -</u>	<u>\$ 40,591</u>
Component Unit-School Board				
Building	\$ 3,500,844	\$ -	\$ -	\$ 3,500,844
Improvements other than building	716,776	-	-	716,776
Equipment	632,023	8,140	-	640,163
Total Capital Assets, depreciable	<u>4,849,643</u>	<u>8,140</u>	<u>-</u>	<u>4,857,783</u>
Less Accumulated Depreciation For:				
Building	2,366,429	50,646	-	2,417,075
Improvements other than building	245,638	27,714	-	273,352
Equipment	374,324	56,105	-	430,429
Total Accumulated Depreciation	<u>2,986,391</u>	<u>134,465</u>	<u>-</u>	<u>3,120,856</u>
Total Capital Assets, Depreciable, Net	<u>\$ 1,863,252</u>	<u>\$ (126,325)</u>	<u>\$ -</u>	<u>\$ 1,736,927</u>
Component Unit - NIDA				
Building	\$ 6,369,039	\$ 26,571	\$ -	\$ 6,395,610
Equipment	384,133	-	-	384,133
Less Accumulated Depreciation	(2,076,470)	(212,078)	-	(2,288,548)
Total Capital Assets, Depreciable, Net	<u>\$ 4,676,702</u>	<u>\$ (185,507)</u>	<u>\$ -</u>	<u>\$ 4,491,195</u>
Business Type Activities				
Building	\$ 256,454	\$ -	\$ -	\$ 256,454
Improvements other than building	8,653,337	3,854,900	-	12,508,237
Equipment	840,971	84,279	-	925,250
Total Capital Assets, depreciable	<u>9,750,762</u>	<u>3,939,179</u>	<u>-</u>	<u>13,689,941</u>
Less Accumulated Depreciation For:				
Building	248,226	434	-	248,660
Improvements other than building	4,058,857	237,767	-	4,296,624
Equipment	674,112	9,244	-	683,356
Total Accumulated Depreciation	<u>4,981,195</u>	<u>247,445</u>	<u>-</u>	<u>5,228,640</u>
Total Capital Assets, Depreciable, Net	<u>\$ 4,769,567</u>	<u>\$ 3,691,734</u>	<u>\$ -</u>	<u>\$ 8,461,301</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

7. **CHANGES IN CAPITAL ASSETS (Continued)**

The following is a summary of changes in non-depreciable capital assets:

<u>PRIMARY GOVERNMENT</u>	<u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2011</u>
Land	\$ 897,280	\$ -	\$ -	\$ 897,280
Total Capital Assets, non-depreciable	\$ 897,280	\$ -	\$ -	\$ 897,280
 <u>Component Unit – School Board</u>	 <u>July 1, 2010</u>	 <u>Additions</u>	 <u>Deletions</u>	 <u>June 30, 2011</u>
Land	\$ 65,900	\$ -	\$ -	\$ 65,900
Constructions in Progress	-	-	-	-
Total Capital Assets, non-depreciable	\$ 65,900	\$ -	\$ -	\$ 65,900
 <u>Component Unit - NIDA</u>				
Land	\$ 1,870,983	\$ 112,523	\$ -	\$ 1,983,506
Total Capital Assets, non-depreciable	\$ 1,870,983	\$ 112,523	\$ -	\$ 1,983,506
 <u>Business Type Activities</u>	 <u>July 1, 2010</u>	 <u>Additions</u>	 <u>Deletions</u>	 <u>June 30, 2011</u>
Land	\$ 588,600	\$ -	\$ -	\$ 588,600
Construction in Progress	2,363,684	3,172,190	(3,799,130)	1,736,744
Total Capital Assets, non-depreciable	\$ 2,952,284	\$ 3,172,190	\$ (3,799,130)	\$ 2,325,344

8. **LONG-TERM DEBT**

GOVERNMENTAL ACTIVITIES
GENERAL OBLIGATION BONDS

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 65,000	\$ 70,826	\$ 60,540	\$ 5,418	\$ -	\$ 225,000
2013	70,000	68,226	63,191	2,768	-	225,000
2014	70,000	65,250	-	-	-	225,000
2015	75,000	62,626	-	-	7,500,000	225,000
2016	75,000	59,626	-	-	-	-
2017-2021	445,000	242,502	-	-	-	-
2022-2026	560,000	119,750	-	-	-	-
2027-2031	130,000	6,500	-	-	-	-
2032-2036	-	-	-	-	-	-
2037-2041	-	-	-	-	-	-
2042-2046	-	-	-	-	-	-
2047-2051	-	-	-	-	-	-
Totals	\$ 1,490,000	\$ 695,306	\$ 123,731	\$ 8,186	\$ 7,500,000	\$ 900,000

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. LONG-TERM DEBT (Continued)

Year Ending June 30,	BUSINESS TYPE ACTIVITIES GENERAL OBLIGATION BONDS							
	Water Improvement Bond		Water Facilities Bond		Sewer Facilities Bond		Water Facilities Bond	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 29,460	\$ 45,619	\$ 13,901	\$ 40,579	\$ 2,181	\$ 7,549	\$ 208,216	\$ -
2013	36,810	44,103	14,536	39,944	2,272	7,448	-	-
2014	45,000	43,727	15,204	39,276	2,369	7,352	-	-
2015	45,000	41,648	15,903	35,577	2,467	7,253	-	-
2016	45,000	39,550	16,633	37,847	2,571	7,149	-	-
2017-2021	260,000	160,621	95,355	177,045	14,571	34,029	-	-
2022-2026	330,000	86,331	119,364	153,036	17,902	30,698	-	-
2027-2031	175,000	9,900	149,421	122,979	21,995	26,604	-	-
2032-2036	-	-	187,044	85,356	27,025	21,575	-	-
2037-2041	-	-	234,141	38,259	33,202	15,398	-	-
2042-2046	-	-	46,644	1,005	40,793	7,807	-	-
2047-2051	-	-	-	-	16,414	629	-	-
Total	\$ 966,270	\$ 471,499	\$ 908,146	\$ 770,903	\$ 183,762	\$ 173,491	\$ 208,216	\$ -

Year Ending June 30,	GENERAL OBLIGATION Sewer Facilities Bond	
	Principal	Interest
2012	\$ 75,719	\$ -
2013	75,719	-
2014	75,719	-
2015	75,719	-
2016	75,719	-
2017-2021	378,595	-
2022-2026	378,595	-
2027-2031	302,867	-
2032-2036	-	-
2037-2041	-	-
2042-2046	-	-
2047-2051	-	-
Total	\$ 1,438,652	\$ -

	Balance 07-01-10	Additions/ Proceeds	Payments/ Reductions	Balance 06-30-11
Business-Type Activities:				
General obligation bonds	\$ 2,769,896	\$ 1,053,246	\$ (118,096)	\$ 3,705,046
Deferred gain of refunding	60,048	-	(3,160)	56,888
Revenue bonds	37,000	-	(37,000)	-
OPEB	17,360	17,360	-	34,720
Accrued vacation	19,748	28,619	(25,525)	22,842
	<u>2,904,052</u>	<u>1,099,225</u>	<u>(183,781)</u>	<u>3,819,496</u>
Governmental Activities:				
General obligation bonds	9,236,731	7,500,000	(7,623,000)	9,113,731
Capital lease	71,582	115,839	(61,449)	125,972
OPEB	79,085	79,085	-	158,170
Accrued vacation	157,932	181,378	(154,860)	184,450
	<u>9,545,330</u>	<u>7,876,302</u>	<u>(7,839,309)</u>	<u>9,582,323</u>
Totals	\$12,449,382	\$ 8,975,527	\$(8,023,090)	\$13,401,819

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. LONG-TERM DEBT (Continued)

Changes in Other Long-Term Debt:

The following is a summary of other long-term debt transactions of the City of Norton for the year ended June 30, 2011:

	<u>Compensated Absences</u>	
	<u>Governmental Fund Types</u>	<u>Propriety Fund Types</u>
Payable at June 30, 2010	\$ 157,932	\$ 19,748
Additions	181,378	28,619
Reductions	<u>(154,860)</u>	<u>(25,525)</u>
Payable at June 30, 2011	<u>\$ 184,450</u>	<u>\$ 22,842</u>

Details of Long-Term Indebtedness:

General Obligation Bonds:

The City refinanced an existing Water Improvement Bond Debt which was originally issued for \$1,500,000 and a Community Facility Loan on a fire truck which was originally issued for \$750,000. The total refinanced bond issue was for a total of \$1,714,008 which included bond issue cost and finance charges totaling \$79,008. The City started making payments of principal and interest October 1, 2004 and continues making payments annually October 1 of each year thereafter until the bond is paid. The actual interest rate on the total bond issue is 4.2938%. Final installment of all unpaid principal and interest shall be due and payable in 24 years on October 1, 2028.

<u>Amount Outstanding</u>	
<u>Government Activities</u>	<u>Propriety Fund Types</u>

\$ 123,731 \$ 966,270

\$1,730,000 Public Improvement Bond, Series 2007, is payable to VML/VACo, with weighted average interest of 4.2155% over the life of the bond. The total bond issue was for \$1,803,566 which included a premium of \$73,566 and bond issue cost of \$52,954. Repayment of the principal is scheduled to begin on August 1, 2007 and continue annually until paid in full. Interest is scheduled to be paid semi-annually on August 1 and February 1 beginning with the first principal payment. The final installment of unpaid principal and interest shall be due and payable in 20 years on August 1, 2027.

1,490,000 -

\$7,500,000 General Obligation Refunding Bond issued November 17, 2010 payable to the United States of America with an interest rate of 3.00%. Interest is paid semi-annually beginning in July 1, 2011. Principal is due at maturity on January 1, 2015.

7,500,000 -

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. *LONG-TERM DEBT (Continued)*

Enterprise Funds:

General Obligation Bonds:

\$1,514,370 General Obligation Sewer Bond, is payable to the Virginia Resource Authority, with interest at zero percent. The amount of principle advances on the bond total \$1,514,370 at June 30, 2011. Repayment of the principle is schedule in 40 equal semi-annual installments of \$37,859 payable on June 1 and December 1, beginning December 1, 2010. Final payment is due June 1, 2030. - 1,438,652

\$1,000,000 Water Facilities Bonds issued October 9, 2002, payable to United States of America, USDA Rural Development, with interest at the rate of 4.5% per annum. Accrued interest only is payable on October 9, 2003. Monthly installments of combined principal and interest of \$4,540 are payable beginning on November 9, 2003 and continuing on the 9th of each month thereafter until paid in full. Monthly payments are to be applied first to interest accrued to such payment date and then to principal. The final installment of all unpaid principal and interest shall be due and payable in 40 years on October 9, 2042. - 908,146

\$190,000 Sewer Facilities Bond issued June 6, 2008 payable to Unites States of America, USDA Rural Development, with interest at the rate of 4.10%. Monthly installments of Combined principal and interest of \$810 are payable beginning July 7, 2008 and continuing on the 7th of each month thereafter until paid in full. Monthly payments are applied first to interest accrued to such payment date and then to principal. The final installment of all unpaid principal and interest shall be due and payable in 40 years on June 7, 2048. - 183,762

\$2,160,000 Water Facilities Bond Series 2011 issued March 30, 2011 payable to Unites States of America, USDA Rural Development, with interest at the rate of 2.75%. Interest only is payable on March 28, 2012 and March 28, 2013. Monthly installments of Combined principal and interest of \$7,344 are payable beginning April 28, 2013 and continuing on the 28th of each month thereafter until paid in full. The amount of principle advances on the bond total \$208,216 at June 30, 2011. The final installment of all unpaid principal and interest shall be due and payable in 40 years from commencement. - 208,216

Total Long-Term Debt \$ 9,113,731 \$ 3,705,046

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. LONG-TERM DEBT (Continued)

Component Unit - School Board

Annual requirements to amortize long-term loans/bonds and related interest are as follows:

Years Ending June 30,	GENERAL LONG-TERM DEBT					
	Bonds		General Obligation VPSA		Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 50,000	\$ 13,005	\$ 35,019	\$ 8,581	\$ 1,200	\$ -
2013	55,000	10,328	36,031	6,769	800	-
2014	55,000	7,522	37,096	4,904	-	-
2015	60,000	4,590	38,216	2,984	-	-
2016-2020	60,000	1,530	39,393	1,005	-	-
Totals	\$ 280,000	\$ 36,975	\$ 185,755	\$ 24,243	\$ 2,000	\$ -

Changes in Long-Term Bonds/Loans:

The following is a summary of long-term bonds/loans transactions of the City of Norton Component Unit - School Board for the year ended June 30, 2011:

	GENERAL OBLIGATION				
	General Obligation Bonds	Literary Fund Loans	Retirement Payable	VPSA Payable	Totals
Bonds/loans payable at June 30, 2010	\$ 325,000	\$ 20,000	\$ 3,200	\$ 219,813	\$ 568,013
Issuances	-0-	-0-	-0-	-0-	-0-
Retirements	(45,000)	(20,000)	(1,200)	(34,058)	(100,258)
Bonds/loans payable at June 30, 2011	\$ 280,000	\$ -0-	\$ 2,000	\$ 185,755	\$ 467,755

The following is a summary of other long-term debt transactions of the Component Unit - School Board of the City of Norton for the year ended June 30, 2011:

	Compensated Absences Component Unit- School Board	OPEB Component Unit- School Board
Payable at June 30, 2010	\$ 57,811	\$ 149,279
Additions	45,049	149,279
Reductions	(38,315)	-
Payable at June 30, 2011	\$ 63,173	\$ 298,558

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. **LONG-TERM DEBT (Continued)**
 Component Unit - School Board (Continued)

Details of Long-Term Indebtedness:

	<u>Amount Outstanding</u>
General Obligation Bonds:	
\$495,000 General Obligation School Bond issued May 12, 2005, payable in annual installments beginning July 15 th , 2006 and continuing until July 15, 2015. See accompanying amortization schedule for payment details. The bond has variable interest rates ranging from 3.1% to 4.60%.	<u>280,000</u>
Total General Obligation Bonds	<u>280,000</u>
Retirement Costs:	
\$359,622 Early Retirement Costs, payable over 11 year period with monthly installments of \$5,095; first installment due in the year ending June 30, 2000	<u>2,000</u>
Virginia Public School Authority:	
\$613,165 interest subsidy loan dated December 01, 1995 payable to the Virginia Public School in semi-annual payments. Principal and interest payments are due on July 15th and interest only payments are due on January 15th. The Loan carries an interest rate of 5.1% through January 15, 2003. For payments from July 15, 2003 to January 15, 2006 the applicable rate is 6.1%. The payments from July 15, 2006 to maturity at July 15, 2016 is 5.1%	<u>185,755</u>
TOTAL GENERAL LONG-TERM BONDS/LOANS	<u>\$ 467,755</u>

Component Unit-NIDA

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

Years Ending June 30,	City of Norton		Powell Valley National Bank		TOTALS	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 86,944	\$ 870	\$ 410,159	\$ 77,857	\$ 497,103	\$ 78,727
2013	-0-	-0-	429,277	58,739	429,277	58,739
2014	-0-	-0-	449,035	38,981	449,035	38,981
2015	-0-	-0-	469,701	18,315	469,701	18,315
Thereafter	-0-	-0-	313,718	1,241	313,718	1,241
Totals	<u>\$ 86,944</u>	<u>\$ 870</u>	<u>\$2,071,890</u>	<u>\$ 195,133</u>	<u>\$2,158,834</u>	<u>\$ 196,003</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

8. LONG-TERM DEBT (Continued)

Changes in Long-Term Debt:

The following is a summary of long-term debt transactions of the Industrial Development Authority of the City of Norton for the year ended June 30, 2011:

	City of <u>Norton</u>	Powell Valley National <u>Bank</u>	<u>Totals</u>
Mortgage loans payable at June 30, 2010	\$ 115,353	\$2,452,005	\$ 2,567,358
Borrowings	-	-	-
Retirements	<u>(28,409)</u>	<u>(380,115)</u>	<u>(408,524)</u>
Mortgage loans payable at June 30, 2011	<u>\$ 86,944</u>	<u>\$2,071,890</u>	<u>\$ 2,158,834</u>

Details of Long-Term Indebtedness:

Principal Balance

at June 30, 2011

Mortgage Loans Payable:

Powell Valley National Bank - \$3,900,000 mortgage loan dated 3/3/04; secured by substantially all real property and revenues of the Authority. The loan bears interest at a rate of 4.5% payable quarterly beginning 6/3/04. Principal payments are due quarterly beginning 6/3/06 with the balance due on 3/3/16.

2,071,890

City of Norton - \$280,000 loan dated 2/25/02 with a ten year term and annual interest rate of 0% for the first two years and 1% per year, thereafter. Annual payments of \$29,562.98 including interest, begin 2/25/05 with remaining balance to be paid 2/25/12

86,944

Total Mortgage Loans Payable at June 30, 2011

\$ 2,158,834

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

9. CLAIMS, JUDGEMENTS AND COMPENSATED ABSENCES

PRIMARY GOVERNMENT

In accordance with GASB Statement 16 "Accounting and Financial Reporting Principals for Claims and Judgments and Compensated Absences", the City has accrued the liability arising from outstanding claims and judgments and compensated absences.

City employees earn vacation and sick leave at various rates depending upon the number of years of service. No benefits or pay is received for unused sick leave upon termination. Only 15 days of unused vacation leave can be carried over to the next fiscal year. Employees earn vacation leave according to the following schedule:

- A. .4167 days per month or 5 days each year if the employee has been with the City less than 1 year.
- B. .833 days per month or 10 days each year if the employee has been with the City for as long as 1 year but less than 10 years.
- C. 1.25 days per month or 15 days each year if the employee has been with the City for 10 years or longer.

Employees of the Department of Social Services accumulate vacation and sick leave in accordance with the Virginia Department of Social Services Personnel Manual.

At June 30, 2011, the City had outstanding accrued vacation, sick and personal leave of \$171,343 in the Governmental Activities and outstanding accrued vacation leave of \$21,219 in the Water and Sewer Fund. The City had outstanding accrued payroll taxes of \$13,107 in the Governmental Activities and \$1,623 in the Water and Sewer Fund related to the accrued leave.

COMPONENT UNIT - SCHOOL BOARD

All twelve-month classified, certified, administrative, and supervisory employees of the School Board earn twelve (12) vacation leave days per year. Such vacation leave may be accumulated to a maximum of twenty-five (25) days.

All certified and administrative employees (professional staff) of the School Board earn three (3) days of personal leave per year. Unused personal leave days may be transferred to sick leave days.

All certified and administrative employees of the School Board may earn one sick leave day per month worked each year based on the number of contracted days. (180-200 day contract = 10 days, September – June; 220 day contract = 11 days, August – June; 240-260 day contract = 12 days, July-June). Such personnel shall be able to accumulate an unlimited number of such days. Upon retirement from the Norton City Schools under the VRS, all professional, administrative and support staff (full-time employees) are eligible to receive sick leave funds as follows:

For accumulated days on June 30, 1998:

0-90	\$12.00/day
91-200	\$24.00/day

For additional days accumulated after June 30, 1998, the rate will be \$45.00/day. Most recent sick days accumulated must be used first.

At June 30, 2011, the School Board had outstanding accrued vacation, sick and personal leave of \$64,447 and \$4,930 of accrued payroll taxes related to the accrued leave.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

10. FUND BALANCES—GOVERNMENTAL FUNDS

As of June 30, 2011, fund balances are composed of the following:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable:			
Prepaid items	\$ —	\$ —	\$ —
Restricted:			
Law Enforcement	—	—	—
Community Development	—	—	—
Committed:			
Law Enforcement	—	10,314	10,314
Parks and Recreation	—	2,069	2,069
Planning & Development	—	302,302	302,302
Assigned:			
Law Enforcement	194,187	—	194,187
Fire Department	6,372	—	6,372
Public Works-Streets	120,054	—	120,054
Parks & Recreation	1,400	—	1,400
General Properties	160,765	—	160,765
Planning & Development	22,791	—	22,791
Unassigned	1,710,613	(59,855)	1,650,758
Total fund balances	<u>\$2,216,182</u>	<u>\$ 254,830</u>	<u>\$ 2,471,012</u>

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

June 30, 2011

11. **DEFINED BENEFIT PENSION PLAN**

A. Plan Description

Name of Plan: City of Norton, Virginia, Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit at age 65 with 5 years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2 average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for member election the Survivor Option, PLOP or Advanced Pension Option or those retiring with a reduce benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publication/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTES TO FINANCIAL STATEMENTS

 June 30, 2011

11. *DEFINED BENEFIT PENSION PLAN(Continued)*B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. In addition, the City and School Board are required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City contribution rate for the fiscal year ended 2011 was 13.71% of annual covered payroll for the City's government employees and 5.00% for City of Norton School Board non-professional employees.

The public school divisions professional employees contribution rate for fiscal 2011 was 8.93% of covered payroll for year ended 2011. This amount represents 100% of the current year contribution. The amounts related to the previous three years are as follows:

<u>Professional</u>	<u>Required Contribution</u>	<u>Percentage Made</u>
2011	\$ 352,060	100%
2010	433,201	100
2009	514,373	100

The required contribution for the year ended June 30, 2011 for the non-professional employees of the City of Norton Schools was \$12,864. This amount represented 100% of the current year contribution. The amounts related to the previous three years are as follows:

<u>Non-Professional</u>	<u>Required Contribution</u>	<u>Percentage Made</u>
2011	\$ 12,864	100.0%
2010	12,979	100.0
2009	12,398	100.0

C. Annual Pension Cost

For fiscal year 2011, the City's annual pension cost of \$428,372 was equal to the City's required and actual contributions. The FY 2011 required contributions were determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. In fiscal year 2011, the City School Board's annual pension cost for the Board's non-professional employees was \$12,865 which was equal to Board's required and actuarial contributions. The required contributions were determined as part of the June 30, 2009 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions as of June 30, 2009 included (a) 7.50% investment rate of return,(net of administrative expenses) (b) projected salary increases of ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters and sheriffs and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.50%. The actuarial value of the City of Norton's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. City of Norton's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

11. DEFINED BENEFIT PENSION PLAN (Continued)

C. Annual Pension Cost(Continued)

City:	Trend Information for City of Norton			Net Pension Obligation
	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	
	6/30/11	\$ 428,371	100%	\$ -
	6/30/10	365,000	100	-
	6/30/09	361,137	100	-

D. Funding Status and Funding Progress

As of June 30, 2010, the most recent actuarial valuation date the plan was 72.7% funded for the City and was 110.3% funded for the School Board non-professional employees. The City's actuarial accrued liability for benefits was \$14,958,851 and the actuarial value of assets was \$11,475,914, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,482,937. The covered payroll (annual payroll of active employees covered by the plan) was \$3,176,357 and the ratio of the UAAL to the covered payroll was 109.6%. The School Board's Non-Professional Employee's actuarial accrued liability for benefits was \$1,600,634 and the actuarial value of assets was \$1,765,589, resulting in an unfunded actuarial accrued liability (UAAL) of \$(164,955). The covered payroll (annual payroll of active employees covered by the plan) was \$260,117 and the ratio of the UAAL to the covered payroll was (63.4)%.

Schedule of Funding for the City and School Board:

	Fiscal Year Ending	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)
City:	6/30/10	\$11,475,914	\$14,958,851	\$3,482,937	72.7%	\$3,176,357	109.6 %
	6/30/09	11,526,774	13,086,643	1,559,870	88.0%	3,083,436	50.6%
	6/30/08	11,444,087	12,133,371	698,284	94.3%	2,776,096	24.8%
School Board:							
Non-Professional Employees	6/30/10	\$ 1,765,589	\$ 1,600,634	\$ (164,955)	110.3%	\$ 260,117	(63.4)%
	6/30/09	1,805,641	1,483,622	(322,019)	121.7%	233,957	(137.6)%
	6/30/08	1,841,349	1,397,580	(443,769)	131.8%	233,925	(189.7)%

NOTES TO FINANCIAL STATEMENTS

 June 30, 2011

12. **OTHER POST-EMPLOYMENT BENEFITS**

The Governmental Accounting Standards Board (GASB) has issued its Statement No. 45, *Accounting and Financial Reporting by Employers for Postretirement Benefit Plans Other Than Pensions*. The Statement establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the period in which the cost occurs, rather than in the future years when it will be paid. The City adopted the requirements of GASB Statement No. 45 during the year ended June 30, 2010. Recognition of the liability accumulated from prior years will be phased in over 30 years commencing with the 2010 liability.

The City meets the requirements to use the alternative measurement method and elects to use the alternative measurement method.

Annual Other Post-Employment Benefit Cost and Net OPEB Obligation

For the fiscal year ended June 30, 2011, the City's annual OPEB costs of \$456,728 for governmental activities and \$34,720 for business-type activities, respectively, were equal to the Annual Required Contribution (ARC).

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>School Board</u>
Annual required contribution	\$ 79,085	\$ 17,360	\$ 174,311
Interest on net OPEB obligation	-	-	-
Adjustment to annual required contribution	-	-	-
Annual OPEB cost	79,085	17,360	174,311
Contributions made	-	-	(25,032)
Increase in net OPEB obligation	79,085	17,360	149,279
Net OPEB obligation-beginning of year	79,085	17,360	149,279
Net OPEB obligation-end of year	<u>\$ 158,170</u>	<u>\$ 34,720</u>	<u>\$ 298,558</u>

The City's annual OPEB cost for governmental activities, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The City's first year for implementing GASB No. 45 was June 30, 2010.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

12. OTHER POST-EMPLOYMENT BENEFITS (Continued)

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 79,085	0%	\$ 158,170
June 30, 2010	79,085	0%	79,085

The City's annual OPEB cost for business-type activities, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The City's first year for implementing GASB No. 45 was June 30, 2010.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 17,360	0%	\$ 34,720
June 30, 2010	17,360	0%	17,360

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows. The City's first year for implementing GASB No. 45 was June 30, 2010.

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2011	\$ 149,279	0%	\$ 298,558
June 30, 2010	149,279	0%	149,279

Funding Status and Funding Progress

The funding status of the plan as of June 30, 2011 was as follows:

	Governmental Activities	Business-type Activities	School Board
Actuarial Accrued Liability (AAL)	\$ 577,884	\$ 126,852	\$ 1,825,884
Actuarial Value of Plan Assets	-	-	188,072
Unfunded Actuarial Accrued Liability (UAAL)	577,884	126,852	1,637,812
Funded Ratio (Actuarial Value of Plan Assets/AAL)	0%	0%	10.30%
Covered Payroll (Active Plan Members)	2,677,645	587,776	2,915,517
UAAL as a Percentage of Covered Payroll	21.58%	21.58%	56.18%

June 30, 2011

12. ***OTHER POST-EMPLOYMENT BENEFITS (Continued)***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine liabilities under the alternative measurement method. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. Active employees are assumed to retire at age 62 which is the historical average age of retirement for employees of the City. Active employees age 62 or older who have qualified postemployment benefits under the plan are assumed to retire in the first projected year. A healthcare plan that includes both retirees and active employees contains a blended rate. The rate used in the calculation is the age-adjusted premium less the contribution from the retiree or blended premium. The actuarial assumptions for the City included: inflation at 2.5% and an investment rate of return of 2.5%. The expected rate of increase in healthcare insurance premiums is based on the Getzen model promulgated by Society of Actuaries. Using the level percent of payroll method, the payroll growth rate has been set to the inflation rate. Life expectancies at the calculation date are based on the most recent mortality tables published by the National Center for Health Statistics. The 2004 United States Life Tables for Males and the United States Life Tables for Females were used. Life expectancies that include partial years were rounded to the nearest whole year. The calculation of postemployment health insurance coverage for each year is based on the assumption that all participants will live until their expected age as displayed in the mortality tables. The probability that an employee will remain employed until the assumed retirement age was determined using non-group specific age-based turnover data provided in Table 1 in paragraph 35b of GASB Statement 45. The unfunded accrued liability is being amortized over 30 years. The remaining amortization period at June 30, 2011 is 28 years.

Plan Description

The City provides post-employment medical coverage for retired employees through a single-employer defined benefit plan. The City may change, add or delete coverage as they deem appropriate and with the approval of the City Council. The plan does not grant retirees vested health benefits.

A retiree, eligible for post-retirement medical coverage, is defined as a full-time employee who retires directly from the City and is eligible to receive an early or regular retirement benefit from the VRS. Employees applying for early or regular retirement are eligible to continue participation in the Retiree Health Plans sponsored by the City. Employees at the City are allowed to stay on the plan until death of the employee or eligibility for Medicare coverage. The employee pays 100% for spouse or dependent health care insurance premiums.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

12. **OTHER POST-EMPLOYMENT BENEFITS (Continued)**
Funding Policy

The City currently funds post-employment health care benefits on a pay-as-you-go basis. During fiscal year 2011, the City had not designated any funding for the OPEB liability.

13. **DEFERRED REVENUE**

Deferred revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Deferred revenue totaling \$970,268 is comprised of the following:

Deferred Property Tax Revenue:

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$970,268 at June 30, 2011.

14. **COMMITMENTS AND CONTINGENCIES**
Litigation

In regard to litigation involving the City of Norton, Virginia, there are two pending lawsuits in which the potential for loss payment exists. At this time no specific valuation has been determined in regard to either lawsuit.

15. **SURETY BONDS**
Amount

Fidelity and Deposit Company of Maryland - Surety	
Faithful Performance of Duty Schedule Position Bond:	
*Barbara Muir, Treasurer	\$ 200,000
Judy Miller, Commissioner of the Revenue	3,000
Carlos Noaks, Sheriff	30,000
Faithful Performance Blanket Bond:	
The above Constitutional Officers' employees - \$50,000 for each loss	50,000
Hartford Accident and Indemnity Company - Surety:	
Barbara A. Muir, Treasurer	100,000
Selective Insurance Company of America:	
Ernest W. Ward, City Manager	200,000
Fred Ramey, Assistant City Manager	100,000
Mayor and City Council	10,000
All City employees - blanket bond	10,000
Fidelity and Deposit Company of Maryland - Surety:	
All Norton City School Employees - blanket bond	10,000
Selective Insurance Company of America:	
Roger Ramey, Director (Social Services)	100,000
Elizabeth Fleming, Office Manager	100,000
All social workers	100,000
All employees other than Director, Office Manager, and social workers	90,000

* The coverage in respect to the Treasurer of the City does not apply to pecuniary loss sustained by the City by reason or in consequence of the failure of the Treasurer to faithfully and fully discharge according to law the duties pertaining to said position.

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

16. **LEASE OBLIGATION**

The City of Norton has two capital leases outstanding at June 30, 2011.

The City leases a 2007 Volvo backhoe from Koch Financial Corporation. The lease was entered into on February 8, 2008 and extends to February 8, 2013. The lease calls for monthly payments of \$1,724 with the first payment beginning on March 8, 2008.

A summary of the present value of future minimum lease payments, net of interest, is as follows:

June 30, 2012	\$ 19,439
June 30, 2013	<u>13,528</u>
Total	<u>\$ 32,967</u>

The City leases a 2011 International truck from Zions First National Bank. The lease was entered into on November 29, 2010 and extends to June 20, 2015. The lease calls for yearly payments of \$25,979 with the first payment beginning on June 20, 2011.

A summary of the present value of future minimum lease payments, net of interest, is as follows:

June 30, 2012	\$ 21,710
June 30, 2013	22,707
June 30, 2014	23,750
June 30, 2015	<u>24,839</u>
Total	<u>\$ 93,005</u>

17. **ENCUMBRANCES OUTSTANDING**

Outstanding encumbrances of the proprietary fund types are not reflected in the accompanying financial statements as a reservation of retained earnings, in keeping with the fund type's measurement focus. However, Encumbrance accounting is employed as an extension of formal budgetary integration for the City's governmental type funds. At June 30, 2011, certain amounts which were restricted, committed, or assigned for specific purposes have been encumbered in the governmental funds. Encumbrances included in governmental fund balances are as follows:

PRIMARY GOVERNMENT

	<u>Encumbrances Included in:</u>		
	<u>Restricted Fund Balance</u>	<u>Committed Fund Balance</u>	<u>Assigned Fund Balance</u>
General Fund for Capital Assets	\$ -	\$ -	\$ 475,006
General Fund for Other Purposes	<u>-</u>	<u>-</u>	<u>30,563</u>
Total Encumbrances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 505,569</u>

NOTES TO FINANCIAL STATEMENTS

 June 30, 2011

17. *ENCUMBRANCES OUTSTANDING(Continued)***COMPONENT UNIT - SCHOOL BOARD**

	Encumbrances Included in:		
	Restricted Fund Balance	Committed Fund Balance	Assigned Fund Balance
School Fund for Capital Assets	\$ -	\$ -	\$ -
School Fund for Other Purposes	<u>13,163</u>	-	-
Total Encumbrances	<u>\$13,163</u>	<u>\$ -</u>	<u>\$ -</u>

18. *RISK MANAGEMENT*

The City maintains general liability, auto and workers' compensation insurance coverage through the Virginia Municipal Liability Pool. Other insurance coverage (including fire, equipment, police liability, public officials liability and workers' compensation and accidental death on volunteer fireman) is maintained through commercial insurance companies.

19. *PRIOR PERIOD ADJUSTMENT*

A prior period adjustment, in the amount of \$80,251 was made to the School Fund to adjust beginning fixed assets. During the year ended June 30, 2011 the School revised their fixed asset reporting to accurately reflect the established capitalization threshold of \$5,000 and provide a more accurate record of assets in service.

A prior period adjustment in the amount of \$155,947 was made to the General Fund to adjust beginning accumulated depreciation as it relates to the "Tenancy in Common" asset with the School Board.

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
PRIMARY GOVERNMENT				
GENERAL FUND:				
Revenue From Local Sources:				
General Property Taxes:				
Real property taxes	\$ 1,620,661	\$ 1,620,661	\$ 1,605,349	\$ (15,312)
Real and personal public service corporation property taxes	215,000	215,000	184,044	(30,956)
Personal property taxes	415,700	415,700	443,631	27,931
Machinery and tools taxes	86,000	86,000	100,483	14,483
Penalties and interest	29,500	29,500	50,045	20,545
Total General Property Taxes	<u>2,366,861</u>	<u>2,366,861</u>	<u>2,383,552</u>	<u>16,691</u>
Other Local Taxes:				
Local sales and use taxes	2,000,000	2,000,000	1,882,301	(117,699)
Utility taxes	-	-	126,570	126,570
Business license taxes	863,600	863,600	773,353	(90,247)
Communication taxes	350,000	350,000	223,287	(126,713)
Motor vehicle licenses	-	-	-	-
Bank stock taxes	85,000	85,000	126,034	41,034
Recodation taxes	30,000	30,000	39,256	9,256
Tobacco taxes	200	200	165	(35)
Hotel and motel room taxes	170,000	170,000	195,071	25,071
Restaurant food taxes	1,125,000	1,125,000	1,126,150	1,150
Coal road improvement taxes	160,000	160,000	222,047	62,047
Franchise licenses tax	-	-	30	30
Cigarette tax	140,000	140,000	108,100	(31,900)
Total Other Local Taxes	<u>4,923,800</u>	<u>4,923,800</u>	<u>4,822,364</u>	<u>(101,436)</u>
Permits, Privilege Fees And Regulatory Licenses:				
Animal licenses	1,000	1,000	1,313	313
Permits and other licenses	6,760	6,760	3,694	(3,066)
Total Permits, Privilege Fees and Regulatory Licenses	<u>7,760</u>	<u>7,760</u>	<u>5,007</u>	<u>(2,753)</u>
Fines and Forfeitures	105,000	105,000	94,147	(10,853)
Revenue From Use Of Money And Property:				
Revenue from use of money	40,000	40,000	11,084	(28,916)
Revenue from use of property	31,250	31,250	25,538	(5,712)
Total Revenue From Use of Money and Property	<u>71,250</u>	<u>71,250</u>	<u>36,622</u>	<u>(34,628)</u>
Charges For Services:				
Court cost	5,000	5,000	610	(4,390)
Attorney fees	5,000	5,000	5,189	189
Charges for sanitation and waste removal	370,500	370,500	366,667	(3,833)
Charges for parks and recreation	28,000	28,000	17,437	(10,563)
NFD revenue recovery	30,000	30,000	-	(30,000)
Total Charges for Services	<u>438,500</u>	<u>438,500</u>	<u>389,903</u>	<u>(48,597)</u>
Miscellaneous Revenue:				
Miscellaneous	46,150	46,150	60,176	14,026
Total Miscellaneous	<u>46,150</u>	<u>46,150</u>	<u>60,176</u>	<u>14,026</u>
Recovered Costs:				
Recovered Cost - School Board	20,000	20,000	2,804	(17,196)
Cost allocation plan - Water and Sewer Fund	13,950	13,950	13,950	-
Cost allocation plan	6,350	6,350	-	(6,350)
Total Recovered Costs	<u>40,300</u>	<u>40,300</u>	<u>16,754</u>	<u>(23,546)</u>
Total Revenue From Local Sources	<u>7,999,621</u>	<u>7,999,621</u>	<u>7,808,525</u>	<u>(191,096)</u>

The notes to financial statements are an integral part of this statement.

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue From The Commonwealth:				
Non-Categorical Aid:				
Motor vehicle carriers' taxes	\$ 35,000	\$ 35,000	\$ 36,740	\$ 1,740
Litter grant	-	-	5,910	5,910
Mobile home titling taxes	5,000	5,000	19,201	14,201
Reduction of state aid	(20,168)	(20,168)	(24,056)	(3,888)
Rolling stock taxes	15,000	15,000	19,248	4,248
Total Non-Categorical Aid	34,832	34,832	57,043	22,211
Categorical Aid:				
Shared Expenses:				
Sheriff	137,675	137,675	141,299	3,624
Commissioner of the Revenue	56,277	56,277	61,687	5,410
Treasurer	56,819	56,819	61,310	4,491
Medical examiner	300	300	-	(300)
Registrar/electoral board	32,000	32,000	29,244	(2,756)
Total Shared Expenses	283,071	283,071	293,540	10,469
Other Categorical Aid:				
Law enforcement grant	228,497	228,497	223,516	(4,981)
Emergency medical services	1,100	1,100	3,145	2,045
DMV Grant	1,500	1,500	17,168	15,668
Street and highway maintenance	695,000	695,000	723,930	28,930
Financial assistance to the arts	5,000	5,000	5,000	-
DMME highwall project	-	-	20,441	20,441
Parks & recreation	-	-	250	250
E-911 funding	40,000	40,000	39,139	(861)
Safe route to school	-	-	8,609	8,609
Fire programs fund	20,000	20,000	61,363	41,363
Total Other Categorical Aid	991,097	991,097	1,102,561	111,464
Total Revenue From the Commonwealth	1,309,000	1,309,000	1,453,144	144,144
Revenue From The Federal Government:				
Payment in lieu of property taxes	34,000	34,000	28,444	(5,556)
Department of Emergency Management	-	-	4,123	4,123
Justice assistance grants	30,000	30,000	10,708	(19,292)
Total Revenue From The Federal Government	64,000	64,000	43,275	(20,725)
Other financing sources				
Insurance recoveries	7,000	7,000	13,285	6,285
Loan proceeds	-	-	7,615,839	7,615,839
Sale of Real Property	-	-	-	-
Sale of Surplus	2,500	2,500	15,928	13,428
Total other financing sources	9,500	9,500	7,645,052	7,635,552
TOTAL GENERAL FUND	9,382,121	9,382,121	16,949,996	7,567,875
SPECIAL REVENUE FUNDS:				
Virginia Public Assistance Fund:				
Revenue From Local Sources:				
Revenue From Use of Money and Property:				
Revenue from use of money	\$ -	\$ -	\$ -	\$ -
Total Revenue From Local Sources	-	-	-	-
Revenue From The Commonwealth:				
Categorical Aid:				
Welfare:				
Aid to dependent children	28,927	28,927	34,494	5,567
Foster care	12,409	12,409	11,630	(779)

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
General administration for financial assistance	\$ 111,486	\$ 111,486	\$ 107,255	\$ (4,231)
Community services	90,044	90,044	86,544	(3,500)
Supplemental income assistance for the aged, blind and disabled	17,708	17,708	27,383	9,675
Employment services	2,457	2,457	5,656	3,199
Day care	16,057	16,057	9,606	(6,451)
Other purchased services	4,743	4,743	66,885	62,142
Direct social services	99,245	99,245	-	(99,245)
General relief	1,048	1,048	525	(523)
Emergency services	-	-	-	-
View-Welfare reform	-	-	-	-
Total Categorical Aid	<u>384,124</u>	<u>384,124</u>	<u>349,978</u>	<u>(34,146)</u>
Total Revenue From the Commonwealth	<u>384,124</u>	<u>384,124</u>	<u>349,978</u>	<u>(34,146)</u>
Revenue From The Federal Government:				
Categorical Aid:				
Welfare:				
Aid to dependent children	26,048	26,048	30,524	4,476
Foster care	15,922	15,922	22,838	6,916
General administration for financial assistance	199,306	199,306	229,984	30,678
Supplemental income assistance for the aged, blind and disabled	-	-	-	-
Employment services	3,562	3,562	8,197	4,635
Day Care	52,077	52,077	26,671	(25,406)
Other purchased services	27,247	27,247	171,017	143,770
Direct social services	148,055	148,055	-	(148,055)
Emergency assistance	765	765	-	(765)
Special revenue	-	-	-	-
View -Welfare reform	-	-	-	-
ARRA	-	-	5,371	5,371
Total Revenue From the Federal Government	<u>472,982</u>	<u>472,982</u>	<u>494,602</u>	<u>21,620</u>
Other financing sources				
Transfers from general fund	230,000	230,000	230,000	-
Total other financing sources	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>	<u>-</u>
Total Virginia Public Assistance Fund	<u>1,087,106</u>	<u>1,087,106</u>	<u>1,074,580</u>	<u>(12,526)</u>
Drug and Gambling Investigative Funds:				
Revenue From Local Sources:				
Restitution to law enforcement	-	-	20,617	20,617
Total Revenue From Local Sources	<u>-</u>	<u>-</u>	<u>20,617</u>	<u>20,617</u>
Total Revenue Drug and Gambling Investigative Fund	<u>-</u>	<u>-</u>	<u>20,617</u>	<u>20,617</u>
Revolving Loan Fund:				
Revenue From Local Sources:				
Revenue from use of money and property	-	-	2,463	2,463
Total Revenue From Local Sources	<u>-</u>	<u>-</u>	<u>2,463</u>	<u>2,463</u>
Total Revolving Loan Fund	<u>-</u>	<u>-</u>	<u>2,463</u>	<u>2,463</u>
Farmers Market Fund				
Revenue From Local Sources:				
Miscellaneous	-	-	-	-
Total Revenue From Local Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Flag Rock Lighting Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SPECIAL REVENUE FUNDS	<u>1,087,106</u>	<u>1,087,106</u>	<u>1,097,660</u>	<u>10,554</u>
GRAND TOTAL - REVENUES - GOVERNMENTAL FUNDS	<u>\$ 10,469,227</u>	<u>\$ 10,469,227</u>	<u>\$ 18,047,656</u>	<u>\$ 7,578,429</u>

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
PRIMARY GOVERNMENT GENERAL FUND:				
General Government Administration:				
Legislative:				
City Council	\$ 30,012	\$ 30,012	\$ 37,281	\$ (7,269)
General and Financial Administrations:				
City Manager	213,300	213,300	200,312	12,988
Office personnel	97,050	97,050	95,705	1,345
Legal and professional	47,500	47,500	57,054	(9,554)
Independent Auditor	25,000	25,000	24,450	550
Commissioner of the Revenue	170,550	170,550	134,794	(4,244)
Assessor	35,000	35,000	-	35,000
Treasurer	131,450	131,450	125,277	6,173
Director of Finance	144,750	144,750	148,671	(3,921)
Data Processing	62,500	62,500	59,159	3,341
Automotive/motor pool	146,600	146,600	166,582	(19,982)
Total General and Financial Administration	1,033,700	1,033,700	1,011,984	21,716
Board of Elections:				
Electional board and officials	13,000	13,000	9,123	3,877
Registrar	65,000	65,000	57,693	7,307
Total Board of Elections	78,000	78,000	66,816	11,184
Total General Government Administration	1,141,712	1,141,712	1,116,081	25,631
Judicial Administrations:				
Courts:				
Circuit court	40,000	40,000	21,295	18,705
General district court	1,500	1,500	1,166	334
Clerk of circuit court	35,000	35,000	40,251	(5,251)
Sheriff	210,130	210,130	201,544	8,586
County courthouse	25,000	25,000	30,415	(5,415)
Court and attorney fees	20,000	20,000	16,214	3,786
Total Courts	331,630	331,630	304,985	26,645
Commonwealth's Attorney:				
Commonwealth's attorney	25,000	25,000	41,244	(19,244)
Total Judicial Administration	356,630	356,630	349,229	7,401
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	1,628,200	1,728,200	1,612,218	115,982
Traffic control	13,000	13,000	13,788	(788)
Emergency management funds	-	-	11,677	(11,677)
Total Law Enforcement and Traffic Control	1,641,200	1,741,200	1,637,683	103,517
Fire and Rescue Services:				
Volunteer fire department	198,957	198,957	211,498	(12,541)
Ambulance and rescue services	-	-	-	-
Total Fire and Rescue Services	198,957	198,957	211,498	(12,541)
Corrections and Detention:				
Purchase of service from Wise County	45,000	45,000	98,687	(53,687)
Juvenile detention	57,800	57,800	72,445	(14,645)
Contribution to regional jail	105,000	105,000	100,765	4,235
Total Correction and Detention	207,800	207,800	271,897	(64,097)
Inspections:				
Building	97,943	97,943	89,975	7,968
Other Protection:				
Animal control	46,100	46,100	49,387	(3,287)
Emergency medical services	1,000	1,000	1,020	(20)
Total Other Protection	47,100	47,100	50,407	(3,307)
Total Public Safety	2,193,000	2,293,000	2,261,460	31,540

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Public Works:				
Maintenance of Highways, Street, Bridges and Sidewalks:				
General engineering/administration	\$ 72,425	\$ 72,425	\$ 65,776	\$ 6,649
Highways, streets, bridges and sidewalks	964,800	1,104,184	1,226,224	(122,040)
Storm drainage	5,000	5,000	9,213	(4,213)
Street lights	87,500	87,500	98,423	(10,923)
Snow and ice removal	25,000	25,000	75,685	(50,685)
Curbs and gutters	3,000	3,000	-	3,000
Total Maintenance of Highways, Streets and Bridges and Sidewalks	1,157,725	1,297,109	1,475,321	(178,212)
Sanitation and Waste Removal:				
Street and road cleaning	13,500	13,500	9,547	3,958
Refuse collection	248,000	248,000	271,768	(23,768)
Refuse disposal	245,000	245,000	195,151	49,849
Total Sanitation and Waste Removal	506,500	506,500	476,461	30,039
Maintenance of General Buildings and Grounds:				
General properties	257,700	481,697	239,890	241,807
Total Public Works	1,921,925	2,285,306	2,191,672	93,634
Health and Welfare:				
Health:				
Local health department	44,753	44,753	44,408	345
Mental Health and Mental Retardation:				
Chapter 10 board	21,953	21,953	23,065	(1,112)
Welfare/Social Services:				
Disability Board	750	750	-	750
Area agency on aging	20,000	20,000	20,000	-
Property tax relief for elderly	-	-	15,750	(15,750)
Contribution to Office on Youth	5,000	5,000	5,000	-
Contribution to Advocate Center	700	700	-	700
Contribution to Brain Injury Service	300	300	300	-
Contribution to Food Bank	500	500	500	-
Contribution-RAH Project	1,000	1,000	1,000	-
Contribution - Hope House	2,000	2,000	-	2,000
Total Welfare/Social Services	30,250	30,250	42,550	(12,300)
Total Health and Welfare	96,956	96,956	110,623	(13,667)
Education:				
Contribution to Mountain Empire Community College	6,621	6,621	6,621	-
Payment to school board	1,904,546	1,904,546	1,798,115	106,431
Total Education	1,911,167	1,911,167	1,804,736	106,431
Parks, Recreation and Cultural:				
Parks and Recreation:				
Maintenance	193,600	193,600	204,196	(10,596)
Recreation centers and playgrounds	148,750	161,907	177,845	(15,938)
Swimming pool	50,500	50,500	25,347	25,153
Total Parks and Recreation	392,850	406,007	407,388	(1,381)
Cultural Enrichment:				
Pro-Art	10,000	10,000	10,000	-
Other events	500	4,000	7,663	(3,663)
School functions	-	8,000	8,000	-
Employee picnic and Christmas party	3,000	3,000	2,800	1,000
Total Cultural Enrichment	13,500	25,000	27,663	(2,663)
Library:				
Payments to regional library	48,500	48,500	48,500	-
Total Parks, Recreation and Cultural	454,850	479,507	483,551	(4,044)

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Community Development:				
Planning and Community Development:				
Planning	\$ 129,708	\$ 157,470	\$ 164,274	\$ (6,804)
Planning - contribution to Lewisisco	8,123	8,123	8,123	-
Community access channel	11,950	11,950	8,150	3,800
Contribution to Chamber of Commerce	2,652	2,652	1,952	700
Contribution to Black Diamond Development	200	200	200	-
Contribution to components unit - NIDA	538,016	538,016	538,017	(1)
Contribution to Airport Commission	4,500	4,500	4,500	-
Capital outlay				
Total Planning and Community Development	<u>695,141</u>	<u>722,911</u>	<u>725,216</u>	<u>(2,305)</u>
Debt Service				
Principal	624,954	624,954	7,684,450	(7,059,496)
Interest	-	-	376,273	(376,273)
Total debt service	<u>624,954</u>	<u>624,954</u>	<u>8,060,723</u>	<u>(7,435,769)</u>
Other financing uses				
Transfers to water/sewer fund	-	-	-	-
Transfers to welfare fund	230,000	230,000	230,000	-
Total other financing sources	<u>230,000</u>	<u>230,000</u>	<u>230,000</u>	<u>-</u>
TOTAL GENERAL FUND	<u>\$ 9,626,335</u>	<u>\$ 10,142,143</u>	<u>\$ 17,332,691</u>	<u>\$ (7,190,548)</u>
SPECIAL REVENUE FUNDS:				
Virginia Public Assistance Fund:				
Health and Welfare:				
Welfare/Social Services:				
Welfare/food stamp administration	1,087,106	1,087,106	1,151,957	(64,851)
Total Welfare/Social Services	<u>1,087,106</u>	<u>1,087,106</u>	<u>1,151,957</u>	<u>(64,851)</u>
Total Health and Welfare	<u>1,087,106</u>	<u>1,087,106</u>	<u>1,151,957</u>	<u>(64,851)</u>
Total Virginia Public Assistance Fund	<u>1,087,106</u>	<u>1,087,106</u>	<u>1,151,957</u>	<u>(64,851)</u>
Drug and Gambling Investigative Funds:				
Public safety	-	-	36,578	(36,578)
Total Drug and Gambling Investigative Funds	<u>-</u>	<u>-</u>	<u>36,578</u>	<u>(36,578)</u>
Farmers Market Fund:				
Cultural	-	-	-	-
Total Drug and Gambling Investigative Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL SPECIAL REVENUE FUNDS	<u>1,087,106</u>	<u>1,087,106</u>	<u>1,188,535</u>	<u>(101,429)</u>
GRAND TOTAL - EXPENDITURES - PRIMARY GOVERNMENT FUNDS	<u>\$ 10,713,441</u>	<u>\$ 11,229,249</u>	<u>\$ 18,521,226</u>	<u>\$ (7,291,977)</u>
Excess of revenue and other financing sources over expenditures and other financing uses - budget basis	\$ (244,214)	\$ (760,022)	\$ (473,570)	
Net appropriations from fund balance				
Prior year surplus	244,214	291,214		
Prior year encumbrances	-	468,808		
Budget- excess of revenue, other financing sources and appropriations from fund balance over expenditures and other financing uses				

**CITY OF NORTON
COMPONENT UNIT SCHOOL BOARD
COMBINING BALANCE SHEET
June 30, 2011**

	GOVERNMENTAL ACTIVITIES				TOTALS
	School Operating Fund	School Textbook Fund	School Health Retirement Fund	School Cafeteria Fund	June 30, 2011
ASSETS					
Cash and cash equivalents	\$ 242,505	\$ 158,134	\$ 161,460	\$ 76,179	\$ 638,278
Accounts receivable	729				729
Due from other funds	18,686	-	-	42,006	60,692
Due from primary government	328,417	-	-	-	328,417
Due from other governmental units	285,654	-	-	-	285,654
TOTAL ASSETS	\$ 875,991	\$ 158,134	\$ 161,460	\$ 118,185	\$ 1,313,770
LIABILITIES AND FUND BALANCE					
LIABILITIES:					
Accounts payable	\$ 174,435	\$ -	\$ -	\$ -	\$ 174,435
Accrued liabilities	646,387	-	-	-	646,387
Due to other funds	42,006	-	-	18,686	60,692
Deferred Revenue	-	-	-	-	-
Total Liabilities	862,828	-	-	18,686	881,514
FUND BALANCE:					
Restricted	13,163	-	-	-	13,163
Committed	-	158,134	161,460	99,499	419,093
Total Fund Balance	13,163	158,134	161,460	99,499	432,256
TOTAL LIABILITIES AND FUND BALANCE	\$ 875,991	\$ 158,134	\$ 161,460	\$ 118,185	\$ 1,313,770

Reconciliation of Component Units Combining Balance Sheet to
Statement of Net Assets - Component Unit-School Board

\$ 432,256

Total fund balances- component unit

Amount reported for component unit activities in the Statement of Net Assets
are different because:

Other liabilities not paid from current-period revenues are not reported in funds for:

Accrued interest	(11,877)
Accrued compensated absences	(69,377)
Deferred revenue	(14,488)

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds, net of accumulated depreciation

1,802,827

Noncurrent liabilities are not due and payable in the current period and therefore
are not reported in the funds

\$ (766,313)

Total net assets - component unit-School Board

\$ 1,373,028

CITY OF NORTON
COMPONENT UNIT - SCHOOL BOARD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2011

	School Operating Fund	School Textbook Fund	School Health Retirement Fund	School Cafeteria Fund	Total School Board
REVENUES:					
Revenue from use of money and property	\$ 723	\$ 1,398	\$ 1,062	\$ 149	\$ 3,332
Charges for services	-	-	-	110,040	110,040
Miscellaneous	39,750	-	-	2,429	42,179
Intergovernmental					
Primary government	1,798,115	-	-	-	1,798,115
Commonwealth of Virginia	4,292,949	-	-	-	4,292,949
Federal Government	1,921,880	-	-	-	1,921,880
Total Revenues	<u>8,053,417</u>	<u>1,398</u>	<u>1,062</u>	<u>112,618</u>	<u>8,168,495</u>
EXPENDITURES:					
Current:					
Education	7,624,291	107,714	35,205	308,120	8,075,330
Debt Service:					
Principal	100,258	-	-	-	100,258
Interest	25,720	-	-	-	25,720
Total Expenditures	<u>7,750,269</u>	<u>107,714</u>	<u>35,205</u>	<u>308,120</u>	<u>8,201,308</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>303,148</u>	<u>(106,316)</u>	<u>(34,143)</u>	<u>(195,502)</u>	<u>(32,813)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	-	51,163	10,000	245,559	306,722
Operating transfers out	<u>(306,722)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(306,722)</u>
Total Other Financing Sources (Uses)	<u>(306,722)</u>	<u>51,163</u>	<u>10,000</u>	<u>245,559</u>	<u>-</u>
Net change in fund balance	(3,574)	(55,153)	(24,143)	50,057	(32,813)
Fund Balance at June 30, 2010	16,737	213,287	185,603	49,442	465,069
Fund Balance at June 30, 2011	<u>\$ 13,163</u>	<u>\$ 158,134</u>	<u>\$ 161,460</u>	<u>\$ 99,499</u>	<u>\$ 432,256</u>

Reconciliation of Revenues, Expenditures, and Changes in
Fund Balances - School Board Funds to the Statement of Activities

Net Change in fund balances - total school board funds	(32,813)
Amounts reported for governmental activities in the statement of net assets are different because:	
Governmental fund report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation.	(126,325)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds	-
Repayment of Bond principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. Proceeds of debt is an income item in governmental funds but the receipt of proceeds increases long-term liabilities. This is the amount principal payments exceeded new debt proceeds	(49,021)
Some expenses reported in the statement of activities, such as compensated absences and accrued interest, do not require the use of current financial resources and therefore are not required as expenditures in governmental funds	(1,555)
Change in net assets of governmental activities	<u>\$ (209,714)</u>

CITY OF NORTON
COMPONENT UNIT - SCHOOL BOARD
BUDGETARY COMPARISON SCHEDULE - OPERATING FUND
Year Ended June 30, 2011

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Revenue from use of money and property	\$ -	\$ -	\$ 723	\$ (723)
Charges for services	-	-	-	-
Miscellaneous	2,800	2,800	39,750	36,950
Intergovernmental				
Primary government	1,904,546	1,904,546	1,798,115	(106,431)
Commonwealth of Virginia	4,260,112	4,385,171	4,292,949	(92,222)
Federal Government	<u>1,822,580</u>	<u>1,822,580</u>	<u>1,921,880</u>	<u>99,300</u>
Total Revenues	<u>7,990,038</u>	<u>8,115,097</u>	<u>8,053,417</u>	<u>(61,680)</u>
EXPENDITURES:				
Current:				
Community Development	-	-	-	-
Public safety	-	-	-	-
Miscellaneous	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Education	7,679,060	7,820,856	7,624,291	196,565
Debt Service:				
Principal	100,258	100,258	100,258	-
Interest	<u>25,720</u>	<u>25,720</u>	<u>25,720</u>	<u>-</u>
Total Expenditures	<u>7,805,038</u>	<u>7,946,834</u>	<u>7,750,269</u>	<u>196,565</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>185,000</u>	<u>168,263</u>	<u>303,148</u>	<u>134,885</u>
OTHER FINANCING SOURCES (USES):				
Loan Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	<u>(185,000)</u>	<u>(185,000)</u>	<u>(306,722)</u>	<u>(121,722)</u>
Total Other Financing Sources (Uses)	<u>(185,000)</u>	<u>(185,000)</u>	<u>(306,722)</u>	<u>(121,722)</u>
Excess of revenue and other financing sources over expenditures and other financing uses - budget basis	-	(16,737)	(3,574)	13,163
Net appropriations from fund balance				
Prior year encumbrances	<u>-</u>	<u>16,737</u>		
Budget- excess of revenue, other financing sources and appropriations from fund balance over expenditures and other financing uses	<u>-</u>	<u>-</u>		
Fund Balance - July 1, 2010			<u>16,737</u>	
Fund Balance - June 30, 2011			<u>\$ 13,163</u>	

CITY OF NORTON
STATEMENT OF TREASURER'S ACCOUNTABILITY
June 30, 2011

ASSETS HELD BY THE TREASURER:

Cash on hand	\$	1,150
Cash in banks:		
Checking:		
First Bank and Trust	2,526,681	
Total Checking		2,526,681
Certificates of Deposit:		
Powell Valley National Bank	44,609	
Total Certificates of Deposit		44,609
Total Cash in Banks		2,571,290
Investments:		
Investment in State Treasurer's Local Government Investment Pool		20,427
TOTAL ASSETS	\$	<u>2,592,867</u>

LIABILITIES OF THE TREASURER:

BALANCE OF CITY FUNDS	\$	<u>2,592,867</u>
------------------------------	-----------	-------------------------

NOTE: The variance between this statement and the balance sheet for all funds is \$1,407,705. This amount represents cash for the Norton Industrial Development Authority. The funds for the authority are not under the Treasurer's accountability and are included as a result of Norton Industrial Development Authority being a component unit.

CITY OF NORTON
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

A) SUMMARY OF AUDIT RESULTS

- 1) The auditor's report expresses an unqualified opinion on the general purpose financial statements of the City of Norton, Virginia.
- 2) No significant deficiencies relating to the audit of the general purpose financial statements of the City of Norton, Virginia, are reported in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards
- 3) No instances of non-compliance material to the general purpose financial statements of the City of Norton, Virginia, were disclosed during the audit.
- 4) No significant deficiencies relating to the audit of the major federal award programs are reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.
- 5) The Auditor's report on Compliance for the Major Federal Award Programs for the City of Norton, Virginia, expresses an unqualified opinion.
- 6) Audit findings that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133 are reported in this Schedule.
- 7) The programs tested as major programs are designated with an "*" on the accompanying Schedule of Expenditures of Federal Awards.
- 8) The threshold for distinguishing types A & B programs was \$300,000.
- 9) The City of Norton, Virginia, was not eligible to be a low risk auditee.

B) FINDINGS - GENERAL PURPOSE FINANCIAL STATEMENTS AUDIT

NONE

C) FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

CITY OF NORTON
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended June 30, 2011

	Federal Catalog #	Expenditures
DEPARTMENT OF AGRICULTURE:		
Direct Payments:		
Water & Wastewater Disposal System-ARRA	10 781	208,216 *
Pass-Through Payments:		
State Department of Agriculture:		
Summer Food Service	10 559	2,150
School Lunch Program	10 555	159,334
School Breakfast Program	10 553	42,384
DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Pass-Through Payments:		
State Department of Social Services:		
Food Stamp administration	10 561	122,061
Child Care and Development Block Grant-ARRA	93 713	2,036
Foster Care - Title IV-E	93 658	45,127
Foster Care - Title IV-E ARRA	93 658	776
TANF	93 558	91,560
Social Services Block Grant	93 667	59,019
Adoption Assistance	93 659	33,032
Adoption Assistance- ARRA	93 659	2,558
Child Care Assistance	93 575	14,625
Medical assistance program	93 578	72,814
Child Care Mandatory Match	93 596	26,026
Low Income Home Energy Assort	93 568	7,498
Safe and Stable Families	93 556	11,715
Refugee and Emergent Assr	93 566	180
State Children's Insurance Program	93 767	3,508
Child Welfare Services State Grant	93 645	398
Child Foster Care Independence Program	93 674	770
DEPARTMENT OF EDUCATION:		
Pass-Through Payments:		
State Department of Education:		
Improving teacher quality state grants	84 367	52,927
Title I Grants	84 010	246,021 *
Title I Grants ARRA	84 389	58,533 *
Title VI-B:		
Special Education:		
Title VIII Idea 411	84 027	209,796 *
Title VII ARRA	84 391	43,815 *
Special Education Pre-School Grants	84 173	12,787
Special Projects:		
State Grants for Strengthening the Skills of Teachers and Instruction in Mathematics, Foreign Languages and Computer	84 048	16,458
Vocational Education - Basic Grants to States	84 358	23,347
Rural and low income	84 186	7,280
Safe and Drug Free Schools	84 215	356,587 *
Immersion in Traditional American History	84 215	248,122
Improvement of Education-History Grant	84 394	475,803 *
Education State Fiscal Stabilization-ARRA	84 334	18,446
Grow Up	84 318	5,810
Title II, Part D Education Technology Grant	84 386	-
Education Technology Grant ARRA	84 386	-
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT:		
Community Development Grants	14 228	764,621 *
APPALACHIAN REGIONAL COMMISSION DIRECT PROGRAMS:		
Appalachian Regional Development	23 001	446,309 *
DEPARTMENT OF HOMELAND SECURITY		
DEPARTMENT OF EMERGENCY SERVICES		
Assistance to Firefighters	97 044	4,123
DEPARTMENT OF TRANSPORTATION		
Occupant Protection DUI Enforcement	20 607	17,168
ENVIRONMENTAL PROTECTION AGENCY		
ARRA-Capitalization Grants for Drinking Water	06 438	466,379 *
TOTAL	\$	4,350,969

- * Denotes Major Program or Major Program Cluster
- †) This Schedule has been prepared using the Modified Accrual Basis of Accounting.

The notes to financial statements are an integral part of this statement.

STATISTICAL SECTION

The information in this section is not covered by the Independent Auditor's Report, but is presented as supplemental data for the benefit of the readers of the comprehensive annual financial report. The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

CONTENTS	PAGE
FINANCIAL TRENDS These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	67
REVENUE CAPACITY These schedules contain trend information to help the reader assess the City's most significant local revenue source, the property tax.	72
DEBT CAPACITY These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	75
ECONOMIC AND DEMOGRAPHIC INFORMATION These schedules offer economic and demographic indicators to help the reader understand the Environment within which the city's financial activities take place.	78
OPERATING INFORMATION These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	80

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

TABLE 1

CITY OF NORTON, VIRGINIA
NET ASSETS BY COMPONENT (UNAUDITED)
LAST EIGHT FISCAL YEARS

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Governmental activities								
Invested in capital assets, net of related debt	\$ 3,818,395	\$ 3,851,437	\$ 3,706,233	\$ 1,867,263	\$ 3,824,570	\$ 3,998,176	\$ 3,943,031	\$ 3,325,755
Restricted	-	-	-	-	-	-	-	-
Unrestricted	2,965,127	2,366,905	2,482,728	3,009,412	2,022,552	(3,212,039)	2,777,107	2,446,292
Total governmental activities net assets	6,783,522	6,218,342	6,188,961	4,876,675	5,847,122	786,137	6,720,138	5,772,047
Business-type activities								
Invested in capital assets, net of related debt	2,976,090	2,878,258	3,155,646	3,337,888	3,368,555	3,329,251	4,837,547	6,989,991
Restricted	-	-	-	-	-	-	-	-
Unrestricted	(284,875)	31,937	85,662	(123,892)	(210,607)	(299,252)	(880,931)	(205,952)
Total business-type activities	2,691,215	2,910,195	3,241,308	3,213,996	3,157,948	3,029,999	3,956,616	6,784,039
Primary government								
Invested in capital assets, net of related debt	6,794,485	6,729,695	6,861,879	5,205,151	7,193,125	7,327,427	8,780,578	10,315,746
Restricted	-	-	-	-	-	-	-	-
Unrestricted	2,680,252	2,398,842	2,568,390	2,885,520	1,811,945	(3,511,291)	1,896,176	2,240,340
Total primary government net assets	\$ 9,474,737	\$ 9,128,537	\$ 9,430,269	\$ 8,090,671	\$ 9,005,070	\$ 3,816,136	\$ 10,676,754	\$ 12,556,086

- 1) Trend data is only available for the last eight fiscal years due to implementation of GASB 34
- 2) Fiscal year 2003-04 restricted net assets were restated to properly reflect GASB 34 guidelines
- 3) Accounting standards require net assets be reported in three categories in the financial statements:
 - invested in capital assets, net of related debt; restricted; and unrestricted. Net assets are considered restricted when 1) externally imposed by creditors, grantors, contributors or laws or regulations of other governments or) imposed by law through constitutional provisions or enabling legislation.

TABLE 2 cont.

CITY OF NORTON, VIRGINIA
CHANGES IN NET ASSETS-CONTINUED (UNAUDITED)
LAST EIGHT FISCAL YEARS

	2004	2005	2006	2007	2008	2009	2010	2011
General Revenues and other Changes in Net Assets								
Governmental Activities:								
Taxes								
Property taxes	\$ 1,681,198	\$ 1,696,066	\$ 1,875,457	\$ 1,963,597	\$ 2,197,629	\$ 2,378,851	\$ 3,282,537	\$ 2,393,798
Local sales & use tax	1,506,248	1,497,958	1,722,453	1,889,655	1,901,018	2,023,409	1,887,804	1,882,301
Utility tax	263,954	261,918	266,300	213,873	184,079	164,698	128,412	126,570
Business license tax	775,319	658,845	692,083	813,906	826,412	901,209	795,833	773,353
Franchise license tax	41,925	51,323	51,935	38,342	9	-	-	-
Communication tax	-	-	-	67,190	179,988	185,889	217,788	223,287
Motor vehicle license	29,148	29,486	28,996	28,995	29,580	28,882	1,659	-
Bank stock tax	58,806	65,962	125,958	81,000	6,082	74,068	106,974	126,034
Recordation tax	25,997	5,219	20,653	40,602	26,036	34,284	27,055	39,256
Tobacco tax	48	48	45	45	38	60	185	165
Hotel and motel room tax	102,050	127,921	117,186	104,176	125,638	161,753	169,049	195,071
Restaurant food tax	694,465	721,995	788,336	848,702	930,578	1,025,155	1,061,575	1,126,150
Coal road improvement tax	148,765	178,532	208,566	188,529	186,512	234,263	166,571	222,047
Emergency telephone services tax	40,709	38,602	35,411	17,009	-	-	-	-
Cigarette tax	44,504	46,405	49,145	41,160	41,574	81,900	118,930	108,100
Other local taxes	73,610	92,422	110,720	118,607	141,741	128,743	101,504	30
Unrestricted miscellaneous revenue	50,001	48,618	21,092	58,630	70,321	97,951	53,609	76,669
Unrestricted investment earnings	27,655	79,961	103,191	137,690	256,139	192,410	82,250	39,088
Rental of Town property	23,443	-	-	-	-	-	-	-
Gain on sale of capital assets	616	7,545	-	-	34,300	8,903	-	-
Recoverd coin	-	13,950	29,123	22,333	39,274	47,266	31,314	30,039
Transfers-Primary Government	-	-	(100,000)	-	(50,000)	-	-	-
Total governmental activities	\$ 5,588,461	\$ 5,623,876	\$ 6,146,650	\$ 6,673,441	\$ 7,126,948	\$ 7,769,724	\$ 8,233,049	\$ 7,361,955
Business-Type Activities:								
Unrestricted investment earnings	67	105	354	1,526	-	-	-	-
Other	-	-	100,000	-	50,000	-	-	-
Total business-type activities	67	105	100,354	1,526	50,000	-	-	-
Total primary government	\$ 5,588,528	\$ 5,623,981	\$ 6,247,004	\$ 6,674,967	\$ 7,176,948	\$ 7,769,724	\$ 8,233,049	\$ 7,361,955
Change in Net Assets								
Governmental Activities	\$ (381,232)	\$ (565,180)	\$ (29,381)	\$ (1,312,286)	\$ (939,982)	\$ (5,060,985)	\$ 159,425	\$ (792,144)
Business-Type Activities	31,470	218,980	331,113	(27,312)	(56,048)	(127,949)	926,617	2,827,423
Total primary government	\$ (349,762)	\$ (346,200)	\$ 301,732	\$ (1,339,598)	\$ (996,030)	\$ (5,188,934)	\$ 1,086,042	\$ 2,035,279

1) Trend data is only available for the last eight fiscal years due to implementation of GASB 34

TABLE 3

CITY OF NORTON, VIRGINIA
 FUND BALANCES, GOVERNMENTAL FUNDS (UNAUDITED)
 LAST EIGHT FISCAL YEARS

	2004	2005	2006	2007	2008	2009	2010	2011
General Fund								
Reserved	\$ 523,722	\$ 435,870	\$ 456,740	\$ 442,895	\$ 614,801	\$ 463,743	\$ 468,808	\$ -
Unreserved	2,358,936	1,814,377	1,891,575	2,467,772	8,843,124	3,761,182	2,130,069	-
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	505,569
Unassigned	-	-	-	-	-	-	-	1,710,613
Total general fund	\$ 2,882,658	\$ 2,250,247	\$ 2,348,315	\$ 2,910,667	\$ 9,457,925	\$ 4,224,925	\$ 2,598,877	\$ 2,216,182
All Other Governmental Funds								
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved, reported in:								
Special Revenue fund	276,947	247,341	279,864	290,215	257,346	241,291	345,705	-
Nonspendable	-	-	-	-	-	-	-	-
Restricted	-	-	-	-	-	-	-	-
Committed	-	-	-	-	-	-	-	314,685
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-	(59,855)
Total all other governmental funds	\$ 276,947	\$ 247,341	\$ 279,864	\$ 290,215	\$ 257,346	\$ 241,291	\$ 345,705	\$ (59,855)

- 1) Trend data is only available for the last eight fiscal years due to implementation of GASB 34.
- 2) GASB 54 was enacted for the year ended June 30, 2011 which changed the method of reporting fund balance.
- 3) Prior year amounts have not been restated for the implementation of Statement 54.

TABLE 5

**CITY OF NORTON, VIRGINIA
ASSESSED VALUE AND ACTUAL VALUE OF ALL PROPERTY (UNAUDITED)
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Real Estate	Personal Property	Machinery and Tools	Public Utilities		Mobile Homes	Total Assessed Value	Total Direct Tax rate per \$100
				Real Estate	Personal Property			
2011	\$ 202,774,175	\$ 24,275,249	\$ 5,534,737	\$ 25,290,691	\$ 128,859	\$ 1,829,482	\$ 259,833,193	\$ 0.917
2010	200,402,000	22,747,754	5,181,036	24,358,835	128,859	1,877,582	254,696,066	1.237
2009	203,528,195	22,228,011	4,471,807	26,302,792	140,301	1,948,259	258,619,365	0.917
2008	181,461,721	21,629,450	4,571,874	24,413,178	157,861	2,103,400	234,337,484	0.929
2007	180,101,130	16,733,091	7,006,663	26,523,134	184,423	2,086,500	232,634,941	0.849
2006	169,579,975	20,019,215	3,384,221	28,534,246	198,053	2,036,300	223,752,010	0.840
2005	141,741,519	18,742,980	3,397,275	31,147,200	217,235	2,183,700	197,429,909	0.856
2004	137,192,000	20,340,630	3,293,184	30,676,915	295,160	2,468,300	194,266,189	0.860
2003	136,867,000	20,741,289	3,143,600	27,412,952	254,802	2,483,300	190,902,943	0.892
2002	135,561,300	20,777,099	3,065,000	32,189,800	282,818	2,459,300	194,335,317	0.872

1) Property is assessed at actual value therefore the assessed values are equal to actual value.

TABLE 6

**CITY OF NORTON, VIRGINIA
DIRECT PROPERTY TAX RATES (UNAUDITED)
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Public Utilities	
					Real Estate	Personal Property
2011	\$ 0.80	\$ 1.85	\$ 1.85	\$ 0.80	\$ 0.80	\$ 1.85
2010	0.80	1.85	1.85	0.80	0.80	1.85
2009	0.80	1.85	1.85	0.80	0.80	1.85
2008	0.80	1.85	1.85	0.80	0.80	1.85
2007	0.70	1.85	1.85	0.70	0.70	1.85
2006	0.70	1.85	1.85	0.70	0.70	1.85
2005	0.70	1.85	1.85	0.70	0.70	1.85
2004	0.70	1.85	1.85	0.70	0.70	1.85
2003	0.70	1.85	1.85	0.70	0.70	1.85
2002	0.70	1.85	1.85	0.70	0.70	1.85

1) Rates are presented per \$100 assessed value

**CITY OF NORTON, VIRGINIA
PRINCIPAL PROPERTY TAXPAYERS (UNAUDITED)
June 30, 2011 and June 30, 2006**

TABLE 7

June 30, 2011

<u>Name</u>	<u>Nature of Business</u>	<u>Assessed Value</u>	<u>Percent of Real Estate Levy</u>
Wal-Mart Real Estate Business Trust	Commercial Retailer/Grocer	\$ 14,293,300	7.05%
Super Intermediate Co., LLC	Shopping Center	9,266,500	4.57%
Commonwealth Norton Partners	Shopping Center	6,623,500	3.27%
G.E. Credit Equities	Shopping Center	5,946,300	2.93%
Wellmont Heath System	Health Care	5,872,200	2.90%
Nordan, Inc	Hotel	3,826,300	1.89%
Norton Community Hospital	Health Care	3,574,600	1.76%
Norton Host, LLC	Hotel/Restaurant	3,546,000	1.75%
W.P. Armistead	Commercial and Residential Rental Property	2,435,900	1.20%
AARMP Hospitality (Days Inn)	Hotel	1,819,800	0.90%

June 30, 2006:

<u>Name</u>	<u>Nature of Business</u>	<u>Assessed Value</u>	<u>Percent of Real Estate Levy</u>
Norton HMA, Inc	Health Care	\$ 16,511,500	9.74%
New Plan Excel Realty	Shopping Center	11,306,700	6.67%
Commonwealth-NTN Partners	Shopping Center	8,630,000	5.09%
Wal-Mart	Commercial Retailer/Grocer	5,835,340	3.44%
Nordan, Inc	Hotel	3,699,500	2.18%
George Hunnicutt Mar. Tr.	Commercial and Residential Rental Property	3,316,400	1.96%
Consolidated Investments	Shopping center	2,863,200	1.69%
W.P. Armistead	Commercial and Residential Rental Property	2,302,700	1.36%
J.J.S. Properties	Commercial Property	2,023,000	1.19%
Five Forty Park Corp	Commercial and Residential Rental Property	1,170,100	0.69%

1) Data not available for periods prior to June 30, 2006.

**CITY OF NORTON, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS (UNAUDITED)
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Total Tax Levy (1)(2)	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections(3)	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Levy
2011	\$ 2,470,143	\$ 2,240,426	90.70%	\$ 61,974	2,302,400	93.21%	\$ 310,935	12.59%
2010	3,319,804	3,061,824	92.23%	33,651	3,095,475	93.24%	230,997	6.96%
2009	2,372,555	2,317,343	97.67%	22,769	2,340,112	98.63%	91,330	3.85%
2008	2,142,563	2,117,885	98.85%	37,259	2,155,144	100.59%	67,622	3.16%
2007	1,936,503	1,910,346	98.65%	35,736	1,946,082	100.49%	63,713	3.29%
2006	1,846,506	1,827,354	98.96%	25,705	1,853,059	100.35%	57,091	3.09%
2005	1,646,156	1,621,764	98.52%	33,689	1,655,453	100.56%	64,268	3.90%
2004	1,599,875	1,577,589	98.61%	30,246	1,607,835	100.50%	79,526	4.97%
2003	1,590,001	1,454,053	91.45%	201,756	1,655,809	104.14%	89,646	5.64%
2002	1,623,046	1,567,698	96.59%	76,444	1,644,142	101.30%	153,498	9.46%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

(3) Commonwealth reimbursement for auto tax included in total collections.

TABLE 9

**CITY OF NORTON, VIRGINIA
RATIO OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
LAST EIGHT FISCAL YEARS**

Fiscal Years Ended June 30	Governmental Activities		Business-Type Activities		Component Unit Bonds	Total Debt	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Leases	General Obligation Water and Wastewater Bonds					
2011	\$ 9,113,731	\$ 125,972	\$ 3,761,934		\$ 2,626,591	\$15,628,228	9.40%	3,813
2010	9,236,731	71,582	2,866,944		3,135,372	15,310,629	8.98%	4,090
2009	9,352,298	108,330	2,281,907		3,742,384	15,484,919	8.70%	3,966
2008	9,465,533	185,121	2,366,835		4,341,228	16,358,717	9.39%	4,190
2007	2,071,535	156,892	2,252,664		4,927,391	9,408,482	5.26%	2,410
2006	390,397	135,962	2,330,131		6,336,596	9,193,086	5.28%	2,355
2005	437,209	195,881	2,409,050		6,126,941	9,169,081	6.02%	2,349
2004	480,505	64,405	2,485,183		6,383,285	9,413,378	6.02%	2,411

Notes:

- (1) Center for Public Service at the University of Virginia.
(2) Includes all general long-term debt obligations

TABLE 10

**CITY OF NORTON, VIRGINIA
RATIO OF GENERAL BONDED DEBT OUTSTANDING (UNAUDITED)
LAST SEVEN FISCAL YEARS**

Fiscal Years Ended June 30	General Bonded Debt		Percentage of Actual Taxable Value of Property		Per Capita
	Outstanding General Obligation Bonds		Value of Property		
2011	\$ 9,113,731		3.51%	\$ 2,223	
2010	9,236,731		3.63%	\$ 2,468	
2009	9,352,298		3.62%	\$ 2,396	
2008	9,465,533		4.04%	\$ 2,425	
2007	2,071,535		0.89%	\$ 531	
2006	390,397		0.17%	\$ 100	
2005	437,209		0.22%	\$ 112	
2004	480,505		0.25%	\$ 123	

1) Details regarding the city's outstanding debt can be found in the notes to the financial statements

TABLE 11

CITY OF NORTON, VIRGINIA
 LEGAL DEBT MARGIN INFORMATION (UNAUDITED)
 LAST TEN FISCAL YEARS

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Assessed valuations										
Assessed value of taxed real property	\$ 167,751,100	\$ 164,279,952	\$ 167,868,915	\$ 172,888,719	\$ 198,114,221	\$ 206,624,264	\$ 205,874,809	\$ 229,830,987	\$ 224,760,835	\$ 228,064,866
Legal debt margin										
Debt limit - 10 percent of total assessed value	16,775,110	16,427,995	16,786,892	17,388,872	19,811,422	20,662,426	20,587,490	22,983,099	22,476,084	22,806,487
Debt applicable in limitation:										
Total bonded debt	5,068,385	5,968,171	9,413,378	9,169,081	9,193,086	9,408,482	16,358,717	15,484,919	15,310,629	15,628,228
Less - Enterprise Debt	(3,556,947)	(3,299,055)	(7,956,394)	(7,638,017)	(7,530,313)	(6,196,021)	(5,866,554)	(5,321,414)	(4,764,963)	(4,482,116)
Total amount of debt applicable to debt limitation	1,501,438	2,669,116	1,456,984	1,531,064	1,662,773	3,212,461	10,492,163	10,163,505	10,545,666	11,146,112
Legal debt margin	\$ 15,273,672	\$ 13,758,879	\$ 15,329,908	\$ 15,757,808	\$ 18,148,649	\$ 17,449,965	\$ 10,095,327	\$ 12,819,594	\$ 11,930,418	\$ 11,660,375
Total net debt applicable to the limit as a percentage of debt limit	8.95%	16.25%	8.68%	8.86%	8.39%	15.55%	50.96%	44.22%	45.92%	48.87%

**CITY OF NORTON, VIRGINIA
PLEGDED-REVENUE COVERAGE (UNAUDITED)
LAST TEN FISCAL YEARS**

Fiscal Years Ended June 30	Water and Wastewater Revenue Bonds						
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
2011	\$ 2,336,189	\$ 2,147,590	\$ 188,599	\$ 155,096	\$ 93,546	\$ 248,642	0.76
2010	2,249,376	2,065,484	183,892	81,143	93,895	175,038	1.05
2009	2,346,475	2,213,375	133,100	81,768	96,443	178,211	0.75
2008	1,991,660	2,150,133	(158,473)	72,670	89,362	162,032	(0.98)
2007	2,073,492	1,882,789	190,703	74,306	99,757	174,063	1.10
2006	1,977,402	1,892,174	85,228	75,759	91,571	167,330	0.51
2005	1,917,899	1,702,307	215,592	72,973	64,701	137,674	1.57
2004	1,933,079	1,613,487	319,592	1,284,214	77,043	1,361,257	0.23
2003	1,892,813	1,716,270	176,543	63,745	77,858	141,603	1.25
2002	1,875,521	1,623,370	252,151	61,263	63,884	125,147	2.01

1) Details regarding the city's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest, depreciation, or amortization expense.

TABLE 13

**CITY OF NORTON, VIRGINIA
DEMOGRAPHIC AND ECONOMIC STATISTICS (UNAUDITED)
LAST TEN YEARS**

Fiscal Years Ended June 30	Population	Personal Income	Per Capita Median Income	Median Age	School Enrollment	Unemployment Rate
2011	4,099	\$166,255,440	40,560	40.0	852	6.40%
2010	3,743	170,590,968	45,576	40.2	856	6.60%
2009	3,904	177,928,704	45,576	39.0	784	5.20%
2008	3,904	174,157,440	44,610	39.0	780	4.10%
2007	3,904	178,971,072	45,843	39.0	731	5.10%
2006	3,904	174,157,440	44,610	37.0	713	6.00%
2005	3,904	152,306,752	39,013	34.9	718	5.50%
2004	3,904	156,269,312	40,028	34.9	700	5.30%
2003	3,904	148,281,728	37,982	34.9	704	4.90%
2002	3,904	142,456,960	36,490	34.9	729	4.50%

1) Source: Weldon Cooper Center for Public Information, Bureau of Economic Analysis Virginia Employment Commission, and Norton City School Board

TABLE 14

**CITY OF NORTON, VIRGINIA
PRINCIPAL EMPLOYERS (UNAUDITED)
CURRENT YEAR AND FIVE YEARS AGO**

June 30, 2011		Total Estimated Employment*
<u>Employer</u>	<u>Product or Service</u>	<u>Employment*</u>
Norton Community Hospital	Health Care	375
Wal Mart	Commercial Retailer/Grocer	250
Bristol Regional Health System	Health Care	200
Norton City School Board	Public Agency	150
City of Norton	Public Agency	100
 June 30, 2006		 Total Estimated Employment*
<u>Employer</u>	<u>Product or Service</u>	<u>Employment*</u>
Norton Community Hospital	Health Care	500
Wal Mart	Commercial Retailer/Grocer	250
Mountain View Regional Medical	Health Care	200
Norton City School Board	Public Agency	151
City of Norton	Public Agency	114

1) Fiscal year 2005-06 is first year of data available

2) Source: Virginia Employment Commission - Community Profile

CITY OF NORTON, VIRGINIA
FULL-TIME EQUIVALENT TOWN GOVERNMENT EMPLOYEES BY FUNCTION (UNADITED)
LAST SIX FISCAL YEARS

Function	2006	2007	2008	2009	2010	2011
General government						
Management services	3.5	3.5	4	4	4	4
Finance	5	5	5	4	4	4
Planning	2	1	2	2	1.5	2
Other	6.5	6.5	6	6	5.5	6
Public safety						
Officers	16.5	15.5	17.5	17.5	18	17.5
Dispatchers/Clerks	5	6	7	7	7	7
Sheriff's Office	4	4	4	4	4	3
Animal Control	1	1	1	1	1	1
Building	1	1	2	2	1	1
Emergency Management	0	0	0.5	0.5	0.5	0.5
Fire	1	1	1	1	1	1
Public works						
Engineering	1	1	1	1	1	1
Streets	16	18	11	12	13	13
Refuse Collections	3.5	4.5	4	4.5	4	5
General Properties	5	5	4	5	4	4.5
Parks and recreation						
Maintenance	10.5	9	5	5	6	5.5
Other	7	7	6	6	6	1
Water operations						
Administration	2	2	2	3	3	3
Plant Operations	7	6	6.5	6.5	7	7
Maintenance	4	5	7	7	7	7
Social Services						
Administrative	5	5	5	5	5	4.5
Eligibility	7	7	7	7	7	7
Social Worker	3	3	3	3	3	3

1) Source: City of Norton's Finance department

CITY OF NORTON, VIRGINIA
OPERATING INDICATORS BY FUNCTION (UNAUDITED)
LAST SIX FISCAL YEARS

Function	2006	2007	2008	2009	2010	2011
Public safety						
Citations issued	2,086	1,973	2,521	2,762	2,374	2,433
Parking Tickets issued	418	523	387	215	139	390
Crime/Arrest/incident reports filed	747	874	868	866	787	842
911 Calls dispatched	4,006	3,848	4,176	5,260	5,059	5,469
Public Works						
Number of citizen requests for services	1,054	1,026	858	852	2,331	972
Water operations						
Number of service connections	2,241	2,286	2,271	2,279	2,292	2,305
Number of citizen requests for services	2,387	2,483	2,483	2,349	1,866	2,022
Average daily plant output in gallons	1.0 Million	1.10 Million	1.084 Million	.870 Million	.870 Million	.870 Million
Maximum daily capacity of plant in gallons	1.44 Million	1.44 Million	1.44 Million	1.44 Million	1.44 Million	1.44 Million
Wastewater operations						
Number of service connections	2,022	2,040	2,029	2,033	2,035	2,115

**CITY OF NORTON, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION (UNAUDITED)
LAST SIX FISCAL YEARS**

<u>Function</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Public safety						
Police stations	1	1	1	1	1	1
Fire stations	2	2	2	2	2	2
Number of patrol units	11	11	11	13	15	15
Public works						
Streets (lane miles)	82.73	82.73	82.73	82.73	82.73	82.73
Streetlights	440	440	440	440	440	440
Traffic signals	8	8	8	8	8	8
Water operations						
Miles of water main	55.31	55.31	55.31	55.31	55.31	55.31
Number of fire hydrants	250	250	250	250	250	250
Wastewater operations						
Miles of sanitary sewers	41.16	41.16	41.16	41.16	41.16	41.16
Miles of storm sewers	9.2	9.2	9.2	9.2	9.2	9.2