



CITY OF NORTON, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ended June 30, 2006

CITY OF NORTON, VIRGINIA

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CITY OF NORTON, VIRGINIA

CITY OFFICIALS

June 30, 2006

CITY COUNCIL:

B. Robert Raines, Mayor, Council Member
William Mays, Vice-Mayor, Council Member
Joe Fawbush
Joseph Hunnicutt
Jack Wallace

Ernest W. Ward, City Manager

CONSTITUTIONAL OFFICERS:

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

SCHOOL BOARD:

Ron McCall, Chair
Willie Mae Price Harris, Vice-Chair
Steve McElroy
Tim Cassell
Jeff Begley

Dr. Lee Brannon, Superintendent

SOCIAL SERVICES ADVISORY BOARD:

Kenny Boyd
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, 2007

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, 2006.

Financial Highlights

- The assets of the City exceeded its liabilities at the end of the fiscal year by \$ 9,430,269 (net assets). Of this amount, \$ 2,568,390 (unrestricted net assets) can be used to meet the City's ongoing obligations.
- At June 30, 2006, the City reported combined ending fund balances of \$ 2,628,179, an increase of \$ 130,591 in comparison with the prior year. Approximately 83 % of this total amount is available for spending at the City Council's discretion. (unreserved fund balance).
- As of June 30, 2006, the General Fund had a total Fund Balance of \$ 2,348,315.
- The total debt outstanding as of June 30, 2006 was \$ 8,984,436, which includes the component units. As of June 30, 2006, the City's Legal Debt Margin was \$ 18,148,649.
- The Water/Sewer Proprietary Fund had an increase in Net Assets for the year of \$ 331,113.

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, 2006

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Current & other assets	\$ 3,184,320	\$ 502,498	\$ 3,686,818
Capital assets	4,232,592	5,478,310	9,710,902
Other noncurrent assets	<u>2,437</u>	<u>7,467</u>	<u>9,904</u>
Total Assets	<u>\$ 7,419,349</u>	<u>\$ 5,988,275</u>	<u>\$ 13,407,624</u>
Current & other liabilities	\$ 767,791	\$ 490,883	\$ 1,258,674
Long-term liabilities	<u>462,597</u>	<u>2,256,084</u>	<u>2,718,681</u>
Total Liabilities	<u>\$ 1,230,388</u>	<u>\$ 2,746,967</u>	<u>\$ 3,977,355</u>
Net Assets:			
Invested in Capital assets			
(Net of related debt)	\$ 3,706,233	\$ 3,155,646	\$ 6,861,879
Restricted	-0-	-0-	-0-
Unrestricted	<u>2,482,728</u>	<u>85,662</u>	<u>2,568,390</u>
Total Net Assets	<u>\$ 6,188,961</u>	<u>\$ 3,241,308</u>	<u>\$ 9,430,269</u>

Net assets serve as a useful indicator of a government's financial position. The City's combined net assets total \$ 9,430,269, 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 \$ 6,861,879. 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. \$2,568,390 of the Net Assets is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental Activities – Governmental activities decreased the City's net assets by \$ 29,381. Key elements of this decrease are as follows:

	Governmental Activities Year Ended June 30, 2006
Revenues:	
Program Revenues:	
Charges for Services	\$ 317,447
Operating Grants and Contributions	2,458,079
General Revenues:	
Property Taxes	1,875,457
Other Local Taxes	4,217,787
Other	<u>53,406</u>
Total Revenues	<u>8,922,176</u>
Expenses:	
General Government	835,440
Public Safety	2,210,803
Public Works	1,776,567
Health and Welfare	1,050,245
Education	1,886,323
Parks, Recreation, Culture	379,457
Community Development	791,142
Interest of Long Term Debt	<u>21,580</u>
Total Expenses	<u>8,951,557</u>
Increase (Decrease) in Net Assets	<u>\$ (29,381)</u>

Included in the Total Expenses are non-cash items including depreciation. Under the full accrual method, net assets decreased by \$ 29,381.

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>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Real Property Tax	\$ 1,875,457	\$ 1,005,915	\$ 942,983	\$ 1,008,824
Local Sales and Use Tax	1,722,453	1,497,058	1,506,248	1,340,438
Restaurant Food Taxes	788,336	721,995	694,465	556,302
Business License Taxes	692,083	658,845	775,319	689,408
Street & Highway Maintenance	641,083	620,145	600,150	574,219
Personal Property Taxes	398,429	366,416	402,464	390,369

The City’s assessed value of real estate for the year was \$ 169,579,975. The real estate tax rate is \$.70 per \$ 100 of assessed value. For the year, the percent of levy collected was 98.96%

The City’s business type activity is the Water/Sewer Proprietary Fund. During the year this fund had net income (change in net assets) of \$ 331,113. In addition, cash and cash equivalents increased by \$ 30,917 to \$ 225,600.

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	\$ 9,559,101	\$ 9,684,689	\$ 130,415
Total Expenses	10,700,206	<u>9,554,098</u>	\$ 1,146,108
Excess of Revenues Over Expenses		<u>\$ 130,591</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.

THROWER, BLANTON & ASSOCIATES, P.C.

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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, 2006, 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.

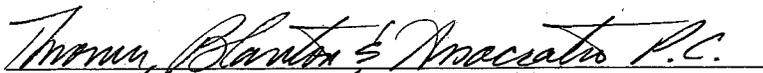
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Specifications for Audit of Counties, Cities and Towns issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2006, 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 December 27, 2006 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 budgetary comparison information on pages 5 through 7 and 62 through 77, 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.
Certified Public Accountants

December 27, 2006

THROWER, BLANTON & ASSOCIATES, P.C.

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2006, and have issued our report thereon dated December 27, 2006. 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.

Compliance

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.

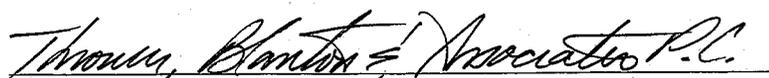
Internal Control Over Financial Reporting

In planning and performing our audit for the year ended June 30, 2006, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the City's financial statements and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information 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

December 27, 2006

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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, 2006. 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, 2006.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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)

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.

THROWER, BLANTON & ASSOCIATES, P.C.

Certified Public Accountants

December 27, 2006

THROWER, BLANTON & ASSOCIATES, P.C.

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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, 2006, and have issued our report thereon dated December 27, 2006.

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
- * Enhanced 911 Service Taxes

State Agency Requirements

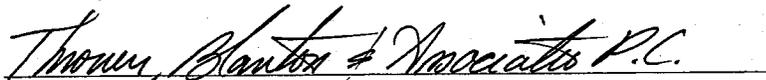
- * Education
- * Highway Maintenance Funds
- * Social Services

The City did not comply with certain Social Services requirements. The local agency in limited situations did not maintain sufficient separation of duties between eligibility workers, insurance clerks, and fiscal staff relating to the Electronic Benefit Transfer process. The agency further did not reconcile the general ledger to the warrant registers and subsequently the warrant registers to the Laser report as required. The local agency also did not prepare CSA reimbursement reports on at least a quarterly basis and it failed to submit the Fiscal year 2006 reimbursement request by the September 30, 2006 deadline.

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

December 27, 2006

CITY OF NORTON
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 386,804	\$ 102,169	\$ 488,973	\$ 288,638
Restricted cash	-	123,431	123,431	-
Investments	1,837,874	-	1,837,874	-
Receivable, net	180,388	276,898	457,286	7,401
Note receivable	223,674	-	223,674	-
Prepaid expense	-	-	-	19,294
Due from other governmental units	359,211	-	359,211	386,163
Due from other funds	196,369	-	196,369	-
Due from primary government	-	-	-	186,731
Deferred bond expense	2,437	7,467	9,904	-
Capital assets, non-depreciable	896,930	588,600	1,485,530	1,936,884
Capital assets, depreciable, net	<u>3,335,662</u>	<u>4,889,710</u>	<u>8,225,372</u>	<u>6,333,636</u>
 Total Assets	 <u>7,419,349</u>	 <u>5,988,275</u>	 <u>13,407,624</u>	 <u>9,158,747</u>
LIABILITIES				
Accounts payable and accrued liabilities	165,956	79,283	245,239	171,199
Accrued payroll and related liabilities	59,694	8,255	67,949	524,743
Accrued interest payable	8,630	5,665	14,295	20,576
Deferred revenue	-	-	-	21,004
Customer security deposits	-	123,062	123,062	32,598
Due to other governmental units	118,730	-	118,730	-
Due to other funds	10,991	185,378	196,369	-
Due to component units	186,731	-	186,731	-
Compensated absences				
Due within one year	114,973	11,395	126,368	37,111
Due in more than one year	38,324	3,798	42,122	10,526
Long-term liabilities				
Due within one year	102,086	74,047	176,133	1,457,753
Due in more than one year	<u>424,273</u>	<u>2,256,084</u>	<u>2,680,357</u>	<u>4,878,843</u>
 Total Liabilities	 <u>1,230,388</u>	 <u>2,746,967</u>	 <u>3,977,355</u>	 <u>7,154,353</u>
NET ASSETS				
Invested in capital assets, net of related debt	3,706,233	3,148,179	6,854,412	1,933,924
Restricted	-	-	-	-
Unrestricted	<u>2,482,728</u>	<u>93,129</u>	<u>2,575,857</u>	<u>70,470</u>
 Total Net Assets	 <u>6,188,961</u>	 <u>3,241,308</u>	 <u>9,430,269</u>	 <u>2,004,394</u>
	<u>\$ 7,419,349</u>	<u>\$ 5,988,275</u>	<u>\$ 13,407,624</u>	<u>\$ 9,158,747</u>

CITY OF NORFOLK
STATEMENT OF ACTIVITIES
Year Ended June 30, 2006

Functions/Programs	Program Revenues							Net (Expense) Revenue and Changes in Net Assets		
	Primary Government				Component Units			Total	School Board	NIDA
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities			
Governmental Activities	\$ 835,440	\$ 225,381	\$ -	\$ (610,059)	\$ -	\$ -	\$ (610,059)			
General government	2,210,803	480,301	-	(1,724,198)	-	-	(1,724,198)			
Public safety	1,776,567	647,651	-	(838,967)	-	-	(838,967)			
Public works	1,050,245	746,270	-	(303,975)	-	-	(303,975)			
Health and welfare	1,886,323	-	-	(1,886,323)	-	-	(1,886,323)			
Education	379,457	5,000	-	(353,263)	-	-	(353,263)			
Parks, recreation and cultural	791,142	353,476	-	(437,666)	-	-	(437,666)			
Community development	21,580	-	-	(21,580)	-	-	(21,580)			
Interest on long-term debt	-	-	-	-	-	-	-			
Contingencies	-	-	-	-	-	-	-			
Total Governmental Activities	8,951,557	317,447	2,458,079	(6,176,031)	-	-	(6,176,031)			
Business-type activities	2,229,328	1,977,402	482,685	-	230,759	-	230,759			
Water and Wastewater	2,229,328	1,977,402	482,685	-	230,759	-	230,759			
Total Business-Type Activities	11,180,885	2,294,849	2,458,079	(6,176,031)	230,759	-	(5,945,272)			
TOTAL PRIMARY GOVERNMENT	6,937,853	98,346	4,767,919	-	-	-	-			(2,071,588)
COMPONENT UNITS	548,035	424,282	6,214	-	-	-	-			(117,539)
School Board	7,485,888	522,628	4,774,133	-	-	-	-			(2,071,588)
NIDA	-	-	-	-	-	-	-			(117,539)
Total Component Units	-	-	-	-	-	-	-			(117,539)
General revenues	1,875,457	-	-	1,875,457	-	-	1,875,457			-
Property taxes	1,722,453	-	-	1,722,453	-	-	1,722,453			-
Local sales & use tax	266,300	-	-	266,300	-	-	266,300			-
Utility taxes	692,083	-	-	692,083	-	-	692,083			-
Business license taxes	51,935	-	-	51,935	-	-	51,935			-
Franchise license taxes	28,996	-	-	28,996	-	-	28,996			-
Motor vehicle licenses	125,958	-	-	125,958	-	-	125,958			-
Bank stock taxes	20,653	-	-	20,653	-	-	20,653			-
Recordation taxes	45	-	-	45	-	-	45			-
Tobacco taxes	117,186	-	-	117,186	-	-	117,186			-
Hotel and motel room taxes	788,336	-	-	788,336	-	-	788,336			-
Restaurant food taxes	208,566	-	-	208,566	-	-	208,566			-
Coal road improvement taxes	35,411	-	-	35,411	-	-	35,411			-
Emergency telephone services tax	49,145	-	-	49,145	-	-	49,145			-
Cigarette tax	110,720	-	-	110,720	-	-	110,720			-
Other local taxes	21,092	-	-	21,092	-	-	21,092			12,038
Unrestricted miscellaneous revenue	103,191	354	-	103,191	354	-	103,545			179
Unrestricted investment earnings	-	-	-	-	-	-	-			4,300
Rental of Town property	29,123	-	-	29,123	-	-	29,123			-
Gain on sale of capital assets	(100,000)	-	-	(100,000)	-	-	(100,000)			-
Recovered cost	-	-	-	-	100,000	-	100,000			-
Transfers-Primary Government	-	-	-	-	-	-	-			-
Transfers-Component Units	-	-	-	-	-	-	-			1,895,429
Total general revenues and transfers	6,146,650	100,354	-	6,146,650	100,354	-	6,247,004			284,636
Change in net assets	(29,381)	331,113	-	(29,381)	331,113	-	301,732			167,097
NET ASSETS - JULY 1	6,218,342	2,910,195	-	6,218,342	2,910,195	-	9,128,537			1,711,181
NET ASSETS - JUNE 30	\$ 6,188,961	\$ 3,241,308	-	\$ 6,188,961	\$ 3,241,308	-	\$ 9,430,269			\$ 1,878,278

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

**CITY OF NORTON
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2006**

	General	Special Revenue	Total
ASSETS			
Cash and cash equivalents	\$ 325,786	\$ 61,018	\$ 386,804
Investments	1,837,874	-	1,837,874
Taxes receivable	20,798	-	20,798
Accounts receivable	159,590	-	159,590
Notes receivable	-	223,674	223,674
Due from other funds	263,763	105	263,868
Due from primary government	-	-	-
Due from other governmental units	266,409	92,802	359,211
Total Assets	\$ 2,874,220	\$ 377,599	\$ 3,251,819
 LIABILITIES			
Accounts payable and accrued liabilities	\$ 142,922	\$ 23,034	\$ 165,956
Accrued payroll and related liabilities	44,378	15,316	59,694
Deferred revenue	14,039	-	14,039
Due to other funds	11,096	59,385	70,481
Due to component units	194,740	-	194,740
Due to other governmental units	118,730	-	118,730
Total Liabilities	525,905	97,735	623,640
 FUND BALANCES			
Reserved For:			
Encumbrances	456,740	-	456,740
Unreserved:			
Undesignated	1,891,575	279,864	2,171,439
Total Fund Balances	2,348,315	279,864	2,628,179
Total Liabilities and Fund Balances	\$ 2,874,220	\$ 377,599	\$ 3,251,819
Total Fund Balances			\$ 2,628,179
 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			4,232,592
Other long-term assets are not available to pay for current-period expenditures and therefore are not reported in the governmental funds			2,437
Other liabilities are not required to be paid out of current financial resources and therefore are not reported in the governmental funds			(147,888)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.			(526,359)
Net Assets of Governmental Activities			\$ 6,188,961

CITY OF NORTON
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	<u>General</u>	<u>Special Revenue</u>	<u>Total Governmental Funds</u>
REVENUES:			
General property taxes	\$ 1,878,863	\$ -	\$ 1,878,863
Other local taxes	4,107,067	-	4,107,067
Permits, privilege fees and regulatory licenses	4,666	-	4,666
Fines and forfeitures	106,054	-	106,054
Revenue from use of money & property	102,394	797	103,191
Charges for services	313,588	3,859	317,447
Miscellaneous	21,072	20	21,092
Recovered costs	29,123	-	29,123
Intergovernmental	1,711,809	746,270	2,458,079
Total Revenues	<u>8,274,636</u>	<u>750,946</u>	<u>9,025,582</u>
EXPENDITURES:			
Current:			
General government administration	850,732	-	850,732
Judicial administration	294,444	-	294,444
Public safety	1,812,015	3,237	1,815,252
Public works	1,642,996	-	1,642,996
Health and welfare	98,725	930,186	1,028,911
Education and transfer to school	2,306,623	-	2,306,623
Parks, recreation and cultural	373,368	-	373,368
Community development	791,267	-	791,267
Miscellaneous	-	-	-
Debt service:			
Principal retirement	106,731	-	106,731
Interest	28,774	-	28,774
Total Expenditures	<u>8,305,675</u>	<u>933,423</u>	<u>9,239,098</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(31,039)</u>	<u>(182,477)</u>	<u>(213,516)</u>
OTHER FINANCING SOURCES (USES):			
Sale of surplus	23,807	-	23,807
Loan proceeds	420,300	-	420,300
Insurance recoveries	-	-	-
Operating transfers in	-	215,000	215,000
Operating transfers out	<u>(315,000)</u>	<u>-</u>	<u>(315,000)</u>
Total Other Financing Sources (Uses)	<u>129,107</u>	<u>215,000</u>	<u>344,107</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	98,068	32,523	130,591
FUND BALANCE AT BEGINNING OF YEAR	<u>2,250,247</u>	<u>247,341</u>	<u>2,497,588</u>
FUND BALANCE AT END OF YEAR	<u>\$ 2,348,315</u>	<u>\$ 279,864</u>	<u>\$ 2,628,179</u>

CITY OF NORTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2006

Net Change in Fund Balance Governmental Fund:	\$ 130,591
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.	(251,935)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(3,094)
 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 principal payments	106,731
 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>(11,674)</u>
 Change in Net Assets of Governmental Activities	<u>\$ (29,381)</u>

CITY OF NORTON
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2006

	Business-Type Activities Proprietary Funds
	Water & Sewer Operation
ASSETS	
Cash and cash equivalents	\$ 102,169
Restricted cash	123,431
Investments	-
Receivable, net	276,898
Prepaid expense	-
Due from other governmental units	-
Deferred bond expense	7,467
Land	588,600
Capital assets, net	4,889,710
Total Assets	5,988,275
 LIABILITIES	
Accounts payable and accrued liabilities	79,283
Accrued payroll and related liabilities	8,255
Accrued interest payable	5,665
Deferred revenue	-
Customer security deposits	123,062
Due to other governmental units	-
Due to other funds	185,378
Compensated absences	15,193
Long-term liabilities	-
Due within one year	74,047
Due in more than one year	2,256,084
Total Liabilities	2,746,967
 NET ASSETS	
Invested in capital assets, net of related debt	3,148,179
Restricted	-
Unrestricted	93,129
Total Net Assets	3,241,308
	\$ 5,988,275

CITY OF NORTON
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2006

	PROPRIETARY FUNDS
	Water & Sewer Operation
OPERATING REVENUES:	
Charges For Services:	
Water:	
Local	\$ 669,388
Non-local	290,208
Total Water	959,596
Sewer:	
Local	707,876
Non-local	208,911
Total Sewer	916,787
Total Charges for Services	1,876,383
Miscellaneous:	
Rent	-
Installations and tap fees	13,361
Penalties	36,691
Other	50,967
Total Miscellaneous	101,019
Total Operating Revenues	1,977,402
OPERATING EXPENSES:	
Personal services	401,637
Fringe benefits	133,189
Contractual services	783,249
Other charges	328,743
Rent	7,602
Depreciation	245,251
Bad debt	6,000
Purchase of water	231,754
Amortization	332
Total Operating Expenses	2,137,757
Operating Income (Loss)	(160,355)
NON-OPERATING REVENUES (EXPENSES):	
Grant income	482,685
Interfund transfers	100,000
Interest income	354
Interest expense	(91,571)
Total Non-Operating Revenues (Expenses)	491,468
CHANGE IN NET ASSETS	331,113
NET ASSETS - JULY 1, 2004	2,910,195
NET ASSETS - JUNE 30, 2005	\$ 3,241,308

CITY OF NORTON
STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUNDS
Year Ended June 30, 2006

	<u>PROPRIETARY</u> <u>FUNDS</u>	<u>COMPONENT</u> <u>UNIT</u>
	<u>Water & Sewer</u> <u>Operation</u>	<u>Norton Industrial</u> <u>Development Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$ 1,999,990	\$ 413,415
Cash payments to suppliers for goods and services	(1,480,938)	(252,713)
Cash payments to employees for services	(423,084)	-
Net Cash provided by (used in)		
Operating activities	<u>95,968</u>	<u>160,702</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Increase (decrease) in customer deposits	3,432	-
(Increase) decrease in due from other funds/governments	69,469	-
Contribution - City of Norton	100,000	280,336
Donation-Commonwealth-Norton Partners, L.P.	-	-
Payment of Rent Deposits	-	(20,501)
Increase (decrease) in due to other funds	(4,349)	-
Net Cash Provided by Non-Capital Financing		
Activities	<u>168,552</u>	<u>259,835</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING		
ACTIVITIES:		
Construction in progress	-	-
Acquisition of capital assets	(444,052)	(450,000)
Proceeds from issuance of debt	-	390,000
Contributed Capital-Grant Revenue	386,585	-
Principal paid	(78,919)	(418,784)
Interest paid	(97,571)	(196,698)
Net Cash provided by (used in) capital and related		
financing activities	<u>(233,957)</u>	<u>(675,482)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest received	354	3,981
(Increase) decrease in due from other funds	-	-
Net cash provided by (used in) investing activities	<u>354</u>	<u>3,981</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,917	(250,964)
Cash and Cash Equivalents at Beginning of Year	<u>194,683</u>	<u>453,477</u>
Cash and Cash Equivalents at June 30, 2006		
Unrestricted	\$ 102,169	202,513
Restricted	123,431	-
Cash and Cash Equivalents at End of Year	<u>\$ 225,600</u>	<u>\$ 202,513</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH		
PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (64,255)	\$ 78,663
Adjustments		
Depreciation and amortization	245,583	162,257
Provision for uncollectibles	6,000	-
Changes in assets and liabilities:		
(Increase) decrease in prepaid expense	-	(546)
(Increase) decrease in accounts receivable	(73,513)	-
Increase (decrease) in accounts payable	3,857	(62,590)
Increase (decrease) in accrued liabilities	(19,618)	-
Increase (decrease) in interest payable	(257)	-
Increase (decrease) in compensating absences	(1,829)	-
Increase (decrease) in deferred rent	-	(17,082)
Total adjustments	<u>160,223</u>	<u>82,039</u>
Net Cash Provided by Non-Capital Financing Activities	<u>\$ 95,968</u>	<u>\$ 160,702</u>

**CITY OF NORTON
SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2006**

	CDBG Revolving Loan Fund	Virginia Public Assistance Fund	Drug and Gambling Fund	Flag Rock Lighting Fund	TOTALS June 30, 2005
<u>ASSETS</u>					
Cash	\$ 62,087	\$ (8,383)	\$ 5,345	\$ 1,969	\$ 61,018
Receivables (Net of Any Allowance For Uncollectibles):					
Accounts	-	-	-	-	-
Note receivable	223,674	-	-	-	223,674
Prepaid items	-	-	-	-	-
Due from other funds	-	105	-	-	105
Due from other governmental units: Commonwealth of Virginia	-	92,802	-	-	92,802
TOTAL ASSETS	<u>\$ 285,761</u>	<u>\$ 84,524</u>	<u>\$ 5,345</u>	<u>\$ 1,969</u>	<u>\$ 377,599</u>
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES:					
Accounts payable	\$ -	\$ 23,034	\$ -	\$ -	\$ 23,034
Accrued liabilities	-	15,316	-	-	15,316
Due to other funds	-	59,385	-	-	59,385
Total Liabilities	-	97,735	-	-	97,735
FUND BALANCES:					
Reserved For:					
Encumbrances	-	-	-	-	-
Unreserved:					
Designated for subsequent year's expenditures	-	-	-	-	-
Undesignated	285,761	(13,211)	5,345	1,969	279,864
Total Fund Balances	285,761	(13,211)	5,345	1,969	279,864
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 285,761</u>	<u>\$ 84,524</u>	<u>\$ 5,345</u>	<u>\$ 1,969</u>	<u>\$ 377,599</u>

CITY OF NORTON
AGENCY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
Year Ended June 30, 2006

	<u>Special Welfare Fund</u>
 <u>ASSETS</u>	
Cash	\$ <u>8,093</u>
 <u>NET ASSETS</u>	
Amounts held for social service clients	\$ <u>8,093</u>

CITY OF NORTON
AGENCY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Year Ended June 30, 2006

	<u>Special Welfare Fund</u>
Additions	
Client receipts	\$ 3,205
Total additions	<u>3,205</u>
Deductions	
Payments for clients	<u>3,110</u>
Total deductions	<u>3,110</u>
Change in net assets	95
Net assets - beginning of year	<u>7,998</u>
Net assets - end of year	<u>\$ 8,093</u>

CITY OF NORTON
STATEMENT OF NET ASSETS - COMPONENT UNITS
JUNE 30, 2006

	Norton City Schools	Norton Industrial Development Authority	Total
ASSETS			
Cash and cash equivalents	\$ 86,125	\$ 202,513	\$ 288,638
Restricted cash	-	-	-
Investments	-	-	-
Receivable, net	6,190	1,211	7,401
Prepaid expense	-	19,294	19,294
Due from primary government	186,731	-	186,731
Due from other governmental units	386,163	-	386,163
Deferred bond expense	-	-	-
Capital assets, non-depreciable	65,901	1,870,983	1,936,884
Capital assets, depreciable, net	<u>1,301,063</u>	<u>5,032,573</u>	<u>6,333,636</u>
 Total Assets	 <u>2,032,173</u>	 <u>7,126,574</u>	 <u>9,158,747</u>
LIABILITIES			
Accounts payable and accrued liabilities	157,667	13,532	171,199
Accrued payroll and related liabilities	524,743	-	524,743
Accrued interest payable	6,998	13,578	20,576
Deferred revenue	-	21,004	21,004
Deferred Bond revenue	32,598	-	32,598
Customer security deposits	-	-	-
Due to other governmental units	-	-	-
Due to other funds	-	-	-
Compensated absences			
Due within one year	37,111	-	37,111
Due in more than one year	10,526	-	10,526
Long-term liabilities			
Due within one year	152,380	1,305,373	1,457,753
Due in more than one year	<u>984,034</u>	<u>3,894,809</u>	<u>4,878,843</u>
 Total Liabilities	 <u>1,906,057</u>	 <u>5,248,296</u>	 <u>7,154,353</u>
NET ASSETS			
Invested in capital assets, net of related debt	230,550	1,703,374	1,933,924
Restricted	-	-	-
Unrestricted	<u>(104,434)</u>	<u>174,904</u>	<u>70,470</u>
 Total Net Assets	 <u>126,116</u>	 <u>1,878,278</u>	 <u>2,004,394</u>
 Total Liabilities and Net Assets	 <u>\$ 2,032,173</u>	 <u>\$ 7,126,574</u>	 <u>\$ 9,158,747</u>

June 30, 2006

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 is the School Operating, School Cafeteria 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 is 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. Fund Accounting

The accounts of the City are organized on the basis of fund classifications, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, fund equity, revenues and expenditures or expenses. The various funds are grouped in the financial statements as follows:

1. Governmental Funds account for the expendable financial resources other than those accounted for in Proprietary and Fiduciary Funds. The Governmental Fund measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination as would apply to a commercial enterprise. The individual Governmental Funds are:

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.

June 30, 2006

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

C. Fund Accounting (Continued)

Special Revenue Funds (Continued)

Special Revenue Funds consist of the Virginia Public Assistance, CDBG Revolving Loan Fund and Drug and Gambling Funds and Flag Rock Fund.

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

Enterprise Funds

Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recovered in the form of charges to users of such services. Enterprise Funds consist of the Water and Sewer Fund.

3. 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.

4. Combined/Combining Format

Combined Financial Statements - These statements are referred to as General Purpose Financial Statements and provide a summary overview of the financial position of all funds and account groups and of the operating results of all funds. All funds and account groups of a specific fund classification are combined and presented as one in the financial statements. For example, all funds classified as Special Revenue Funds are combined and presented under the caption "Special Revenue Funds".

Combining Financial Statements - By Fund Classification - These statements present individual financial statements for each fund of a given fund classification. For example, each Special Revenue Fund is shown individually.

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.

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.

June 30, 2006

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

D. Basis of Accounting (Continued)

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, 2006.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed as an extension of formal budgetary integration in the General and Special Revenue Funds and component units. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

G. Investments

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

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

H. Property, Plant and Equipment

Property, plant and equipment used in governmental fund type operations are accounted for in the General Fixed Assets Group of Accounts, rather than in governmental funds. Public domain ("infrastructure") general fixed assets including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on such assets.

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
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 \$150,397 at June 30, 2006, and is composed of the following:

General Fund:

Allowance for uncollectible property taxes	\$ 36,292	
Allowance for uncollectible garbage fees	<u>11,432</u>	
Total General Fund		\$ 47,724

Water and Sewer Fund:

Allowance for uncollectible water and sewer fee billings	<u>102,673</u>	
Total Water and Sewer Fund		<u>102,673</u>

Total Allowance for Uncollectible Accounts		<u>\$150,397</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.

K. Total Columns on Combined Statements - Overview

The total columns on the Combined Statements - Overview are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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).

Credit Risk:

As of June 30, 72% of the portfolio was invested in the LGIP which is rated as "AAAm" by Standards and Poor's.

Concentration of Credit Risk:

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

LGIP	72%
Bank of America	17%
Powell Valley National	8%

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	\$ 950	\$ -	\$ -
Deposits	611,454	86,125	202,513
Investments	<u>1,837,874</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,450,278</u>	<u>\$ 86,125</u>	<u>\$ 202,513</u>
Statement of net assets:			
Cash and cash equivalents	\$ 488,973	\$ 86,125	\$ 202,513
Investments	1,837,874	-	-
Restricted cash and cash equivalents	<u>123,431</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,450,278</u>	<u>\$ 86,125</u>	<u>\$ 202,513</u>

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

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

3. PROPERTY TAXES RECEIVABLE

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable on December 5th. 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	\$143,239	\$ -0-	\$ 143,239
Grant monies	-0-	-0-	-0-
Personal Property Tax Relief	722	-0-	722
State Board of Elections	36,635	-0-	36,635
Street and highway maintenance	-0-	-0-	-0-
Shared expenses	21,146	-0-	21,146
School funds	-0-	386,163	386,163
Welfare funds	<u>92,802</u>	<u>-0-</u>	<u>92,802</u>
Total Commonwealth of Virginia	<u>294,544</u>	<u>386,163</u>	<u>680,707</u>
Wise County:			
Coal haul road taxes	51,587	-0-	51,587
Court fines/transfer fees	<u>11,309</u>	<u>-0-</u>	<u>11,309</u>
Total Wise County	<u>62,896</u>	<u>-0-</u>	<u>62,896</u>
Norton Industrial Development Authority	<u>1,771</u>	<u>-0-</u>	<u>1,771</u>
Total Due From Other Governmental Units	<u>\$359,211</u>	<u>\$386,163</u>	<u>\$ 745,374</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

6. INTERFUND OBLIGATIONS

	Primary Government		School Board Component Unit	
	Due From	Due To	Due From	Due To
General Fund:				
School Operating Fund	\$ 8,009	\$ 194,740	\$ -0-	\$ -0-
Virginia Public Assistance Fund	59,385	105	-0-	-0-
Water and Sewer Fund	<u>196,369</u>	<u>10,991</u>	<u>-0-</u>	<u>-0-</u>
Total General Fund	<u>263,763</u>	<u>205,836</u>	<u>-0-</u>	<u>-0-</u>
School Operating Fund:				
General Fund	-0-	-0-	194,740	8,009
Cafeteria Fund	-0-	-0-	3,862	-0-
Health Insurance Fund	-0-	-0-	-0-	-0-
Total School Operating Fund	<u>-0-</u>	<u>-0-</u>	<u>198,602</u>	<u>8,009</u>
School Cafeteria Fund:				
School Operating Fund	-0-	-0-	-0-	3,862
Health Insurance Fund	-0-	-0-	-0-	-0-
Total School Cafeteria Fund	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>3,862</u>
School Health Insurance Fund:				
School Operating Fund	-0-	-0-	-0-	-0-
Total Health Insurance Fund	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Virginia Public Assistance Fund:				
General Fund	<u>105</u>	<u>59,385</u>	<u>-0-</u>	<u>-0-</u>
Water and Sewer Fund:				
General Fund	<u>10,991</u>	<u>196,369</u>	<u>-0-</u>	<u>-0-</u>
Totals	<u>\$274,859</u>	<u>\$ 461,590</u>	<u>\$ 198,602</u>	<u>\$ 11,871</u>

7. CHANGES IN CAPITAL ASSETS

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

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
<u>PRIMARY GOVERNMENT</u>				
Buildings	\$ 1,964,951	\$ -0-	\$ -0-	\$ 1,964,951
Improvements other than buildings	9,163,281	87,913	-0-	9,251,194
Equipment	2,826,922	118,119	(511,378)	2,433,663
Equipment special revenue	<u>82,761</u>	<u>-0-</u>	<u>-0-</u>	<u>82,761</u>
Total Capital Assets, Depreciable	<u>14,037,915</u>	<u>206,032</u>	<u>(511,378)</u>	<u>13,732,569</u>
<u>Less Accumulated Depreciation For:</u>				
Buildings	1,148,035	27,393	-0-	1,175,428
Improvements other than buildings	7,432,073	113,994	-0-	7,546,067
Equipment	1,815,757	206,460	(407,514)	1,614,703
Equipment special revenue	<u>54,453</u>	<u>6,256</u>	<u>-0-</u>	<u>60,709</u>
Total accumulated depreciation	<u>10,450,318</u>	<u>354,103</u>	<u>(407,514)</u>	<u>10,396,907</u>
Total Capital Assets, depreciable net	<u>\$ 3,587,597</u>	<u>\$ (148,071)</u>	<u>\$(103,864)</u>	<u>\$ 3,335,662</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

7. CHANGES IN CAPITAL ASSETS (Continued)

<u>PRIMARY GOVERNMENT</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>OTHER COST:</u>				
Bond Issue Cost	\$ 3,125	\$ -0-	\$ -0-	\$ 3,125
Less: Accumulated Amortization	(376)	(312)	-0-	(688)
Net Bond Issue Cost	<u>\$ 2,749</u>	<u>\$(312)</u>	<u>\$ -0-</u>	<u>\$ 2,437</u>
<u>Component Unit – School Board</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Buildings	\$2,715,660	\$ 680,763	\$ -0-	\$ 3,396,423
Improvements other than buildings	226,220	-0-	-0-	226,220
Equipment	<u>2,081,593</u>	<u>39,120</u>	<u>(141,612)</u>	<u>1,979,101</u>
Total Capital Assets, depreciable	<u>5,023,473</u>	<u>719,883</u>	<u>(141,612)</u>	<u>5,601,744</u>
<u>Less Accumulated Depreciation For:</u>				
Buildings	2,191,802	39,660	-0-	2,231,462
Improvements other than buildings	180,840	893	-0-	181,733
Equipment	<u>1,979,542</u>	<u>42,132</u>	<u>(134,188)</u>	<u>1,887,486</u>
Total accumulated depreciation	<u>4,352,184</u>	<u>82,685</u>	<u>(134,188)</u>	<u>4,300,681</u>
Total Capital Assets, depreciable, net	<u>\$ 671,289</u>	<u>\$ 637,198</u>	<u>\$ (7,424)</u>	<u>\$ 1,301,063</u>
<u>Component Unit - NIDA</u>				
Buildings	\$5,816,518	\$ 450,002	\$ -0-	\$ 6,266,520
Equipment	18,750	-0-	-0-	18,750
Less: Accumulated depreciation	<u>(1,095,534)</u>	<u>(157,163)</u>	<u>-0-</u>	<u>(1,252,697)</u>
Total Capital Assets, depreciable, net	<u>\$ 4,739,734</u>	<u>\$ 292,839</u>	<u>\$ -0-</u>	<u>\$ 5,032,573</u>
<u>Business Type Activities</u>	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Buildings	\$ 256,454	\$ -0-	\$ -0-	\$ 256,454
Improvements other than buildings	7,380,768	444,052	-0-	7,824,820
Equipment	<u>797,983</u>	<u>-0-</u>	<u>-0-</u>	<u>797,983</u>
Total Capital Assets, depreciable	<u>8,435,205</u>	<u>444,052</u>	<u>(-0-)</u>	<u>8,879,257</u>
<u>Less Accumulated Depreciation For:</u>				
Buildings	245,512	685	-0-	246,197
Improvements other than buildings	2,948,954	217,209	-0-	3,166,163
Equipment	<u>549,830</u>	<u>27,357</u>	<u>-0-</u>	<u>577,187</u>
Total accumulated depreciation	<u>3,744,296</u>	<u>245,251</u>	<u>(-0-)</u>	<u>3,989,547</u>
Total Capital Assets, depreciable, net	<u>\$4,690,909</u>	<u>\$ 198,801</u>	<u>\$(-0-)</u>	<u>\$ 4,889,710</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land	\$ 896,930	\$ -0-	\$ -0-	\$ 896,930
Total Capital Assets, non-depreciable	\$ 896,930	\$ -0-	\$(- -0-)	\$ 896,930

<u>Component Unit – School Board</u>	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land	\$ 65,901	\$ -0-	\$ -0-	\$ 65,901
Constructions in Progress	426,806	-0-	(426,806)	-0-
Total Capital Assets, non-depreciable	\$ 492,707	\$ -0-	\$ (426,806)	\$ 65,901

<u>Component Unit - NIDA</u>				
Land	\$1,870,983	\$ -0-	\$ -0-	\$ 1,870,983
Total Capital Assets, non-depreciable	\$1,870,983	\$ -0-	\$ -0-	\$ 1,870,983

<u>Business Type Activities</u>	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
Land	\$ 588,600	\$ -0-	\$ -0-	\$ 588,600
Total Capital Assets, non-depreciable	\$ 588,600	\$ -0-	\$(- -0-)	\$ 588,600

8. **LONG-TERM DEBT**

Year(s) Ending June 30.	<u>GOVERNMENTAL ACTIVITIES</u> <u>GENERAL OBLIGATION BONDS</u>		<u>BUSINESS TYPE ACTIVITIES</u> <u>GENERAL OBLIGATION BONDS</u>				<u>REVENUE BONDS</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Water Improvement Bond</u>		<u>Water Facilities Bond</u>		<u>Sewer Improvement Bonds</u>	
			<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 48,862	\$ 17,096	\$ 26,138	\$ 49,351	\$ 10,909	\$ 43,570	\$ 37,000	\$ -0-
2008	51,002	14,958	23,998	49,042	11,350	43,129	37,000	-0-
2009	53,235	12,724	26,764	49,092	11,992	42,487	37,000	-0-
2010	55,567	10,392	29,433	48,409	12,482	41,997	37,000	-0-
Thereafter	181,731	16,144	993,270	518,559	926,108	832,498	36,999	-0-
Totals	\$ 390,397	\$ 71,314	\$1,099,603	\$ 714,453	\$ 972,841	\$1,003,681	\$ 184,999	\$ -0-

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. LONG-TERM DEBT (Continued)

	Balance 07-01-05	Additions/ Proceeds	Payments/ Reductions	Balance 06-30-06
Business-Type Activities:				
General obligation bonds	\$2,111,203	\$ -0-	\$(38,759)	\$2,072,444
Deferred gain of refunding	75,848	-0-	(3,160)	72,688
Revenue bonds	221,999	-0-	(37,000)	184,999
Accrued vacation	<u>15,812</u>	<u>20,252</u>	<u>(21,951)</u>	<u>14,113</u>
	<u>2,424,862</u>	<u>20,252</u>	<u>(100,870)</u>	<u>2,344,244</u>
Governmental Activities:				
General obligation bonds	437,209	-0-	(46,812)	390,397
Capital lease	195,881	-0-	(59,919)	135,962
Accrued vacation	<u>125,166</u>	<u>156,454</u>	<u>(139,216)</u>	<u>142,404</u>
	<u>758,256</u>	<u>156,454</u>	<u>(245,947)</u>	<u>688,763</u>
Totals	<u>\$3,183,118</u>	<u>\$ 176,706</u>	<u>\$(346,817)</u>	<u>\$3,033,007</u>

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, 2006:

	<u>Compensated Absences</u>	
	<u>Governmental</u>	<u>Propriety</u>
	<u>Fund</u>	<u>Fund</u>
	<u>Types</u>	<u>Types</u>
Payable at June 30, 2005	\$125,166	\$15,812
Additions	156,454	20,252
Reductions	<u>(139,216)</u>	<u>(21,951)</u>
Payable at June 30, 2006	<u>\$142,404</u>	<u>\$14,113</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. LONG-TERM DEBT (Continued)

Amount Outstanding	
Government Activities	Propriety Fund Types

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.

\$ 390,397 \$1,099,603

Enterprise Funds:

Revenue Bonds:

\$720,753 Sewer Revenue Bond, Series of 1991, is payable to the Virginia Water Facilities Revolving Fund, with interest at zero percent. The amount of principal advances on the bond totaled \$703,069. Repayment of the principal is scheduled in 36 substantially equal semi-annual installments payable on June 1 and December 1, commencing December 1, 1991.

-0- 184,999

General Obligation Bonds:

\$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.

-0- 972,841

Total Long-Term Debt

\$390,397 \$2,257,443

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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 Obligation Bonds		General Obligation Bonds		Literary Fund Loans		VPSA		Retirement	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 30,000	\$ 7,560	\$ 40,000	\$ 23,325	\$ 32,623	\$ 2,841	\$ 30,667	\$ 16,933	\$ 19,090	\$ -
2008	30,000	5,400	40,000	21,285	28,420	1,937	31,451	15,349	12,654	-
2009	30,000	3,240	45,000	19,118	20,000	1,200	32,276	13,724	11,354	-
2010	30,000	1,080	45,000	16,823	20,000	800	33,144	12,056	6,720	-
Thereafter	-0-	-0-	325,000	51,952	20,000	400	219,815	34,583	3,200	-0-
Totals	\$120,000	\$ 17,280	\$ 495,000	\$ 132,503	\$ 121,043	\$ 7,178	\$347,353	\$ 92,645	\$ 53,018	\$ -

GENERAL LONG-TERM DEBT

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. LONG-TERM DEBT (Continued)

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, 2006:

	GENERAL OBLIGATION				Totals
	General Obligation Bonds	Literary Fund Loans	Retirement Payable	VP SA Payable	
Bonds/loans payable at June 30, 2005	\$273,419	\$163,393	\$ 84,031	\$377,130	\$ 897,973
Issuances	371,581	-0-	-0-	-0-	371,581
Retirements	(30,000)	(42,350)	(31,013)	(29,777)	(133,140)
Bonds/loans payable at June 30, 2006	<u>\$615,000</u>	<u>\$121,043</u>	<u>\$ 53,018</u>	<u>\$347,353</u>	<u>\$1,136,414</u>

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, 2006:

	Compensated Absences Component Unit - School Board
Payable at June 30, 2005	\$ 32,339
Additions	38,621
Reductions	(26,708)
Payable at June 30, 2006	<u>\$ 44,252</u>

Details of Long-Term Indebtedness:

General Long-Term Obligation Account Group:

General Obligation Bonds:

\$650,000 School Bond Series of 1989B issued November 09, 1989, payable to the Virginia Public School Authority; interest payable semi-annually beginning June 15, 1990 through December 15, 2009, only interest payable June 15, 1990; interest at rate of 6.80% on bonds maturing December 15, 1990 through December 15, 1998; interest at rate of 6.85% on bonds maturing December 15, 1998 through December 15, 1999, interest at rate of 7.10% on bonds maturing December 15, 2000 through December 15, 2004, interest at rate of 7.20% on bonds maturing December 15, 2005 through December 15, 2009; \$20,000 maturing on December 15, 1990, \$40,000 maturing annually on December 15, 1991 through December 15, 1992, \$50,000 maturing on December 15, 1998, \$30,000 maturing on December 15, 1995, \$35,000 maturing annually on December 15, 1998 through December 15, 1999, \$40,000 maturing on December 15, 1999, \$25,000 maturing on December 15, 2000, \$30,000 maturing on December 15, 2001, \$25,000 maturing annually on December 15, 2002 and December 15, 2003, \$30,000 maturing annually on December 15, 2004 through December 15, 2009

\$ 120,000

\$495,000 General Obligation School Bond issued May 12, 2005, payable in annual installments beginning July 15th, 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%.

Total General Obligation Bonds

495,000
615,000

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. LONG-TERM DEBT (Continued)

State Literary Fund Loans:

\$118,203 State Literary Fund Loan dated May 15, 1987; (\$7,000 issued August 07, 1986 and \$111,203 issued April 20, 1987); only interest payable on May 15, 1987; 19 annual installments of \$6,000 due May 15, 1988 through May 15, 2006; remaining principal of \$4,203 due May 15, 2007; interest payable annually at 4%

4,203

\$153,400 State Literary Fund Loan dated October 15, 1987 (issued on October 09, 1987); only interest payable on October 15, 1987; first annual installment of \$1,400 due October 15, 1988, remaining 19 annual installments of \$8,000 due October 15, 1989 through October 15, 2007; interest payable annually at 4%

16,000

\$8,400 State Literary Fund Loan dated October 15, 1987 (issued on October 09, 1987); only interest payable on October 15, 1987; 20 annual installments of \$420 due October 15, 1988 through October 15, 2007; interest payable annually at 4%

840

\$400,000 State Literary Fund Loan dated January 15, 1991 (issued on December 21, 1990); first annual installment of \$20,000 due January 15, 1995, remaining 19 annual installments of \$20,000 due January 15, 1995 through January 15, 2011; interest payable annually at 2%

100,000

Total State Literary Fund Loans

121,043

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

53,018

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%

347,353

TOTAL GENERAL LONG-TERM BONDS/LOANS

\$1,136,414

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. LONG-TERM DEBT (Continued)

COMPONENT UNIT - NIDA

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

Years Ending June 30,	Powell Valley National Bank	Goad Property		Virginia Coalfield Economic Development Authority		City of Norton	
	Principal	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 50,000	\$ 74,173	\$ 16,103	\$ 35,634	\$ -0-	\$ 27,301	\$ 2,262
2008	-0-	78,309	11,968	-0-	-0-	27,574	1,989
2009	-0-	82,676	7,601	-0-	-0-	27,850	1,713
2010	-0-	75,920	2,992	-0-	-0-	28,128	1,435
Thereafter	-0-	-0-	-0-	-0-	-0-	115,353	2,898
Totals	<u>\$ 50,000</u>	<u>\$311,078</u>	<u>\$ 38,664</u>	<u>\$ 35,634</u>	<u>\$ -0-</u>	<u>\$226,206</u>	<u>\$ 10,297</u>

Year(s) Ending June 30,	Powell Valley National Bank		Virginia Coalfield Economic Development Authority		TOTALS	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 318,998	\$ 169,019	\$ 799,267	\$ -0-	\$1,305,373	\$ 187,381
2008	333,381	154,636	-0-	-0-	439,264	168,593
2009	349,276	138,741	-0-	-0-	459,802	148,055
2010	365,487	122,530	-0-	-0-	469,535	126,957
Thereafter	2,410,855	350,394	-0-	-0-	2,526,208	353,292
Totals	<u>\$3,777,996</u>	<u>\$1,113,258</u>	<u>\$ 799,267</u>	<u>\$ -0-</u>	<u>\$5,200,182</u>	<u>\$ 984,281</u>

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, 2006:

	VA Coalfield Economic Development Authority	VA Coalfield Economic Development Authority	City of Norton
Mortgage loans payable at June 30, 2005	\$858,511	\$ 26,041	\$253,237
Borrowings	-0-	-0-	-0-
Retirements	(59,244)	(26,041)	(27,031)
Mortgage loans payable at June 30, 2006	<u>\$799,267</u>	<u>\$ -0-</u>	<u>\$226,206</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

8. LONG-TERM DEBT (Continued)

	VA Coalfield Economic Development Authority	Powell Valley National Bank	Powell Valley National Bank	Totals
Mortgage loans payable at June 30, 2005	\$ 66,178	\$3,900,000	\$ 125,000	\$5,228,967
Borrowings	-0-	-0-	-0-	-0-
Retirements	(30,544)	(122,004)	(75,000)	(418,785)
Mortgage loans payable at June 30, 2006	<u>\$ 35,634</u>	<u>\$3,777,996</u>	<u>\$ 50,000</u>	<u>\$5,200,182</u>

Details of Long-Term Indebtedness:

Principal Balance
at June 30, 2006

Mortgage Loans Payable:

Powell Valley National Bank - \$800,000 mortgage loan dated 03/14/04; secured by a deed of trust on real estate (located in the City of Norton, Virginia) known as the Norton Hotel, Park Avenue Hospital, and Flanary parking lot properties. The loan bears interest at a rate of 5.5%. Interest is payable semi-annually on July 1st and January 1st and annual principal payments of \$75,000 beginning January 1, 2005 with balance due on January 1, 2009

\$ 50,000

Virginia Coalfield Economic Development Authority (VCEDA) - \$427,614 mortgage loan dated September 21, 1992 secured by a second deed of trust on real estate (located in the City of Norton, Virginia) known as the AT & T Dual Party Relay Service Center. The terms of the loan agreement, repayment of the loan occurs of a term of fifteen (15) years with interest at zero (0) percent annually. One hundred sixty-eight (168) monthly payments of \$2,545.32 will begin on September 15, 1993, and will continue through August 15, 2007

35,634

Virginia Coalfield Economic Development Authority (VCEDA) - \$1,000,000 mortgage loan dated September 24, 2001 secured by a first deed of trust on real estate (located in the City of Norton, Virginia) known as the Norton Hotel property. The terms of the loan agreement call for the repayment of the loan, in full, on 9/24/06. The annual interest rate is 0%. Note becomes due immediately upon sale of property. Until note is repaid in full, thirty-five percent (35%) of maker's rent and proceeds from the property are to be paid to VCEDA and applied towards the payment of the note. As of June 30, 2005 that amount was \$2,790.45 per month

799,267

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.

3,777,996

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

226,206

Wanda Ruth Goad-\$390,000 loan dated 11/30/2005 with a six year term and annual interest Rate of 5.5%. Semi-annual payments begin 1/1/2006 in the amount of \$45,138.49 with a Maturity date of 7/1/2011.

311,079

Total Mortgage Loans Payable at June 30, 2006

\$ 5,200,182

June 30, 2006

9. **CLAIMS, JUDGEMENTS AND COMPENSATED ABSENCES**

PRIMARY GOVERNMENT

In accordance with GASB Statement 16 "Accounting and Financial Reporting Principals for Claims and Judgements and Compensated Absences", the City has accrued the liability arising from outstanding claims and judgements 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, 2006, the City had outstanding accrued vacation, sick and personal leave of \$142,403 in the General Long-Term Debt Account Group and outstanding accrued vacation leave of \$14,113 in the Water and Sewer Fund. The City had outstanding accrued payroll taxes of \$10,894 in the General Long-Term Debt Account Group and \$1,080 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, 2006, the School Board had outstanding accrued vacation, sick and personal leave of \$44,252 and \$3,385 of accrued payroll taxes related to the accrued leave.

June 30, 2006

10. **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 employees of participating employers must participate in the VRS. Benefits vest after five years of service. Employees are eligible for an unreduced retirement benefit age 65 with 5 years of service (age 60 for participating local law enforcement officers, firefighters, and sheriffs) or at age 50 with at least 30 year of service if elected by the employer (age 50 with at least 25 year of service for participating local law enforcement officers, firefighters, and sheriffs) payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service.

Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for annual cost-of-living increases limited to 5% per year beginning in their second year of retirement. AFC is defined as the highest consecutive 36 months of reported compensation. Participating local law enforcement officers, firefighters, and sheriffs may receive a monthly benefit supplement if they retire prior to age 65. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of that report may be obtained by writing to the System at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended to contribute 5% of their annual salary to the VRS. The employer may assume this 5% member contribution. In addition, the City of Norton, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended 2006 was 0.75% of annual covered payroll. In addition, professional and non-professional employees of the City of Norton School Board are covered by the VRS. Professional employees participate in a VRS statewide teacher cost sharing pool, and non-professional employees participate as a separate group in the Agent multiple-employer retirement system.

The required contribution for the year ended June 30, 2006 for the professional employees of the City of Norton Schools was \$394,322. This amount represented 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>
2006	\$394,322	100%
2005	350,232	100
2004	266,509	100

The required contribution for the year ended June 30, 2006 for the non-professional employees of the City of Norton Schools was \$9,765. 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>
2006	\$ 9,765	100.0%
2005	9,943	100.0
2004	9,256	96.7

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

10. **DEFINED BENEFIT PENSION PLAN (Continued)**

C. Annual Pension Cost

For the fiscal year 2006, the City of Norton's annual pension cost of \$159,167 was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.5% investment rate of return (b) projected salary increases ranging from 3.50% to 5.73% per year, and (c) 2.5% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 2.5%. The actuarial value of the City's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period.

PRIMARY GOVERNMENT

Three Year Trend Information for the City of Norton, Virginia

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2006	\$159,167	100%	\$ -0-
June 30, 2005	146,428	100	-0-
June 30, 2004	135,286	100	-0-

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress for the City of Norton, Virginia

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2005	\$8,912,400	\$9,674,402	\$ 762,002	92.1%	\$2,491,916	30.6%
June 30, 2004	8,731,267	8,314,286	(416,981)	105.0	2,419,222	(17.2)
June 30, 2003	8,598,514	6,706,316	(1,892,198)	128.2	2,492,143	(75.9)

COMPONENT UNIT - SCHOOL BOARD

Schedule of Funding Progress for the Norton City Schools

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded Actuarial Accrued Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
June 30, 2005	\$1,473,804	\$1,252,591	\$(221,213)	117.7%	\$206,289	(107.2)%
June 30, 2004	1,466,307	1,075,947	(390,360)	136.3	197,157	(197.9)
June 30, 2003	1,474,552	1,007,502	(467,050)	146.4	176,321	(264.9)

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

11. **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 \$14,039 is comprised of the following:

Deferred Property Tax Revenue:

Deferred revenue representing uncollected tax billings not available for funding of current expenditures totaled \$14,039 at June 30, 2006.

12. **COMMITMENTS AND CONTINGENCIES**

Litigation

In regard to litigation involving the City of Norton, Virginia, we are not aware of any material contingent liabilities that could affect the financial statement.

13. **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
Shirley Watts, 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, 2006

14. LEASE OBLIGATION

The City of Norton has four capital leases outstanding at June 30, 2006.

The City leases a 2003 Freightliner garbage truck from Smoky Mountain Truck Center, Inc. The lease was entered into on January 28, 2003 and extends to January 2007. The lease calls for annual payments of \$15,747 with the first payment beginning on January 28, 2003. A summary of the present value of future minimum lease payments, net of interest, is as follows:

June 30, 2007	\$15,125
June 30, 2008	-0-
June 30, 2009	-0-
June 30, 2010	-0-
Thereafter	-0-
Total	<u>\$ 15,125</u>

The City leases a 2005 Dump Truck from Municipal Services Group. The lease was entered into on February 1, 2005 and extends to March 15, 2009. The lease calls for annual payments of \$13,864 with the first payment beginning on March 15, 2005. A summary of the present value of future minimum lease payments, net of interest, is as follows:

June 30, 2007	\$ 11,979
June 30, 2008	12,578
June 30, 2009	13,205
June 30, 2010	-0-
Thereafter	-0-
Total	<u>\$ 37,762</u>

The City leases a 2005 Kenworth garbage truck from Municipal Services Group. The lease was entered into on August 3, 2004 and extends to June 30, 2009. The lease calls for annual payments of \$29,952 with the first payment beginning on June 30, 2005. A summary of the present value of future minimum lease payments, net of interest, is as follows:

June 30, 2007	\$ 26,120
June 30, 2008	27,339
June 30, 2009	29,616
June 30, 2010	-0-
Thereafter	-0-
Total	<u>\$ 83,075</u>

CITY OF NORTON, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

15. **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, encumbrances outstanding are recorded in the governmental fund types of the City, in order to reserve that portion of the applicable appropriation. June 30, 2006 outstanding encumbrances of governmental fund types are listed below:

PRIMARY GOVERNMENT

	<u>Amount</u>
General Fund	<u>\$456,740</u>

COMPONENT UNIT - SCHOOL BOARD

	<u>Amount</u>
School Operating Fund	<u>\$ -0-</u>

16. **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.

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
PRIMARY GOVERNMENT				
GENERAL FUND:				
Revenue From Local Sources:				
General Property Taxes:				
Real property taxes	\$1,001,388	\$ 1,001,388	\$1,189,998	\$ 188,610
Real and personal public service corporation property taxes	220,000	220,000	203,403	(16,597)
Personal property taxes	385,200	385,200	398,429	13,229
Machinery and tools taxes	59,000	59,000	61,229	2,229
Penalties and interest	29,500	29,500	25,804	(3,696)
Total General Property Taxes	<u>1,695,088</u>	<u>1,695,088</u>	<u>1,878,863</u>	<u>183,775</u>
Other Local Taxes:				
Local sales and use taxes	1,920,000	1,920,000	1,722,453	(197,547)
Utility taxes	250,000	250,000	266,300	16,300
Business license taxes	728,600	728,600	692,083	(36,517)
Franchise license taxes	35,000	35,000	51,935	16,935
Motor vehicle licenses	30,000	30,000	28,996	(1,004)
Bank stock taxes	65,000	65,000	125,958	60,958
Recordation taxes	11,000	11,000	20,653	9,653
Tobacco taxes	200	200	45	(155)
Hotel and motel room taxes	120,000	120,000	117,186	(2,814)
Restaurant food taxes	750,000	750,000	788,336	38,336
Coal road improvement taxes	125,000	125,000	208,566	83,566
Emergency telephone services tax	45,000	45,000	35,411	(9,589)
Cigarette tax	50,000	50,000	49,145	(855)
Total Other Local Taxes	<u>4,129,800</u>	<u>4,129,800</u>	<u>4,107,067</u>	<u>(22,733)</u>
Permits, Privilege Fees And Regulatory Licenses:				
Animal licenses	450	450	342	(108)
Permits and other licenses	5,510	5,510	4,324	(1,186)
Total Permits, Privilege Fees and Regulatory Licenses	<u>5,960</u>	<u>5,960</u>	<u>4,666</u>	<u>(1,294)</u>
Fines ad Forfeitures	<u>84,500</u>	<u>84,500</u>	<u>106,054</u>	<u>21,554</u>
Revenue From Use Of Money And Property:				
Revenue from use of money	30,000	30,000	80,425	50,425
Revenue from use of property	24,750	24,750	21,969	(2,781)
Total Revenue From Use of Money and Property	<u>54,750</u>	<u>54,750</u>	<u>102,394</u>	<u>47,644</u>
Charges For Services:				
Court cost	5,000	5,000	587	(4,413)
Attorney fees	-	-	5,717	5,717
Charges for sanitation and waste removal	287,500	287,500	286,090	(1,410)
Charges for parks and recreation	28,975	28,975	21,194	(7,781)
Total Charges for Services	<u>321,475</u>	<u>321,475</u>	<u>313,588</u>	<u>(7,887)</u>
Miscellaneous Revenue:				
Miscellaneous	63,735	63,735	21,072	(42,663)
Total Miscellaneous	<u>63,735</u>	<u>63,735</u>	<u>21,072</u>	<u>(42,663)</u>
Recovered Costs:				
Recovered Cost - School Board	20,000	20,000	15,173	(4,827)
Cost allocation plan - Water and Sewer Fund	6,350	6,350	-	(6,350)
Cost allocation plan - Virginia Public Assistance Fund	13,950	13,950	13,950	-
Total Recovered Costs	<u>40,300</u>	<u>40,300</u>	<u>29,123</u>	<u>(6,350)</u>
Total Revenue From Local Sources	<u>6,395,608</u>	<u>6,395,608</u>	<u>6,562,827</u>	<u>172,046</u>

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Revenue From The Commonwealth:				
Non-Categorical Aid:				
ABC profits	\$ 2,289	\$ 2,289	\$ 2,289	\$ -
Wine taxes	2,399	2,399	2,399	-
Motor vehicle carriers' taxes	20,000	20,000	26,783	6,783
Mobile home titling taxes	5,000	5,000	915	(4,085)
Housing Authority - Grant	-	-	-	-
Tax on deeds	6,675	6,675	3	(6,672)
Rolling stock taxes	18,500	18,500	16,046	(2,454)
Total Non-Categorical Aid	<u>54,863</u>	<u>54,863</u>	<u>48,435</u>	<u>(6,428)</u>
Categorical Aid:				
Shared Expenses:				
Sheriff	124,824	124,824	129,619	4,795
Commissioner of the Revenue	49,840	49,840	53,382	3,542
Treasurer	53,820	53,820	62,952	9,132
Medical examiner	200	200	90	(110)
Registrar/electoral board	28,628	28,628	36,679	8,051
Total Shared Expenses	<u>257,312</u>	<u>257,312</u>	<u>282,722</u>	<u>25,410</u>
Other Categorical Aid:				
Law enforcement grant	274,908	274,908	269,908	(5,000)
Emergency medical services	1,100	1,100	2,296	1,196
DMV Grant	1,500	12,500	12,434	(66)
Street and highway maintenance	620,000	620,000	641,083	21,083
Litter control	5,000	5,000	6,568	1,568
Financial assistance to the arts	5,000	5,000	5,000	-
Department of emergency management	-	-	26,072	26,072
Parks and recreations grant	-	1,000	-	(1,000)
Department of health	-	-	-	-
State board of elections	-	-	-	-
Fire programs fund	12,000	33,000	39,882	6,882
Total Other Categorical Aid	<u>919,508</u>	<u>952,508</u>	<u>1,003,243</u>	<u>50,735</u>
Total Revenue From the Commonwealth	<u>1,231,683</u>	<u>1,264,683</u>	<u>1,334,400</u>	<u>69,717</u>
Revenue From The Federal Government:				
Payment in lieu of property taxes	27,000	27,000	23,933	(3,067)
CDBG housing grant	-	151,490	109,216	(42,274)
ARC	-	208,060	179,941	(28,119)
Justice assistance grants	31,319	93,360	64,319	(29,041)
Insurance grant	-	-	-	-
Total Revenue From The Federal Government	<u>58,319</u>	<u>479,910</u>	<u>377,409</u>	<u>(102,501)</u>
Other financing sources				
Insurance recoveries	7,000	7,000	-	(7,000)
Loan proceeds	-	420,300	420,300	-
Sale of Surplus	2,500	2,500	23,807	21,307
Total other financing sources	<u>9,500</u>	<u>429,800</u>	<u>444,107</u>	<u>14,307</u>
TOTAL GENERAL FUND	<u>7,695,110</u>	<u>8,570,001</u>	<u>8,718,743</u>	<u>153,569</u>
SPECIAL REVENUE FUNDS:				
Virginia Public Assistance Fund:				
Revenue From Local Sources:				
Revenue From Use of Money and Property:				
Revenue from use of money	\$ 500	\$ 500	\$ 618	\$ 118
Total Revenue From Local Sources	<u>500</u>	<u>500</u>	<u>618</u>	<u>118</u>
Revenue From The Commonwealth:				
Categorical Aid:				
Welfare:				
Aid to dependent children	2,000	2,000	1,802	(198)
Foster care	24,000	24,000	28,563	4,563

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
General administration for financial assistance	\$ 95,000	\$ 95,000	\$ 87,280	\$ (7,720)
Community services	30,000	30,000	25,725	(4,275)
Supplemental income assistance for the aged, blind and disabled	30,000	30,000	19,822	(10,178)
Employment services	40,000	40,000	57,684	17,684
Day care	15,000	15,000	1,840	(13,160)
Other purchased services	1,500	1,500	1,709	209
Direct social services	3,000	3,000	1,638	(1,362)
General relief	10,000	10,000	-	(10,000)
Emergency services	-	-	373	373
View-Welfare reform	40,000	40,000	12,075	(27,925)
Total Categorical Aid	290,500	290,500	238,511	(51,989)
Total Revenue From the Commonwealth	290,500	290,500	238,511	(51,989)
Revenue From The Federal Government:				
Categorical Aid:				
Welfare:				
Aid to dependent children	1,000	1,000	2,960	1,960
Foster care	35,000	35,000	40,560	5,560
General administration for financial assistance	150,000	150,000	179,458	29,458
Supplemental income assistance for the aged, blind and disabled	-	-	1,613	1,613
Employment services	80,000	80,000	104,219	24,219
Day Care	45,000	45,000	26,155	(18,845)
Other purchased services	12,000	12,000	27,497	15,497
Direct social services	125,000	125,000	107,664	(17,336)
Emergency assistance	2,500	2,500	1,937	(563)
Special revenue	2,600	2,600	603	(1,997)
View -Welfare reform	30,000	30,000	15,093	(14,907)
Total Revenue From the Federal Government	483,100	483,100	507,759	24,659
Other financing sources				
Transfers from general fund	215,000	215,000	215,000	-
Total other financing sources	215,000	215,000	215,000	-
Total Virginia Public Assistance Fund	989,100	989,100	961,888	(27,212)
Drug and Gambling Investigative Funds:				
Revenue From Local Sources:				
Restitution to law enforcement	-	-	3,859	3,859
Total Revenue From Local Sources	-	-	3,859	3,859
Total Revenue Drug and Gambling Investigative Fund	-	-	3,859	3,859
Revolving Loan Fund:				
Revenue From Local Sources:				
Revenue from use of money and property	-	-	179	179
Total Revenue From Local Sources	-	-	179	179
Total Revolving Loan Fund	-	-	179	179
Flag Rock Lighting Fund:				
Revenue From Local Sources:				
Miscellaneous	-	-	20	20
Total Revenue From Local Sources	-	-	20	20
Total Flag Rock Lighting Fund	-	-	20	20
TOTAL SPECIAL REVENUE FUNDS	989,100	989,100	965,946	(23,154)
GRAND TOTAL - REVENUES - GOVERNMENTAL FUNDS	\$ 8,684,210	\$ 9,559,101	\$ 9,684,689	\$ 130,415

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
PRIMARY GOVERNMENT				
GENERAL FUND:				
General Government Administration:				
Legislative:				
City Council	\$ 19,450	\$ 19,450	\$ 18,991	\$ 459
General and Financial Administration:				
City Manager	164,510	170,108	166,547	3,561
Office personnel	87,313	84,413	79,246	5,167
Legal and professional	30,500	30,500	20,854	9,646
Independent Auditor	7,000	7,000	7,000	-
Commissioner of the Revenue	106,399	111,575	106,409	5,166
Assessor	-	-	-	-
Treasurer	122,322	133,072	127,355	5,717
Director of Finance	120,697	130,731	116,557	14,174
Automotive/motor pool	123,932	127,932	144,929	(16,997)
Total General and Financial Administration	<u>762,673</u>	<u>795,331</u>	<u>768,897</u>	<u>26,434</u>
Board of Elections:				
Electoral board and officials	13,000	13,000	11,362	1,638
Registrar	54,515	55,765	51,482	4,283
Total Board of Elections	<u>67,515</u>	<u>68,765</u>	<u>62,844</u>	<u>5,921</u>
Total General Government Administration	<u>849,638</u>	<u>883,546</u>	<u>850,732</u>	<u>32,814</u>
Judicial Administration:				
Courts:				
Circuit court	13,000	13,000	796	12,204
General district court	2,500	2,500	1,573	927
Clerk of circuit court	17,000	17,000	26,491	(9,491)
Sheriff	202,655	202,655	198,227	4,428
County courthouse	21,000	21,000	23,207	(2,207)
Court and attorney fees	18,000	18,000	16,812	1,188
Total Courts	<u>274,155</u>	<u>274,155</u>	<u>267,106</u>	<u>7,049</u>
Commonwealth's Attorney:				
Commonwealth's attorney	25,000	25,000	27,338	(2,338)
Total Judicial Administration	<u>299,155</u>	<u>299,155</u>	<u>294,444</u>	<u>4,711</u>
Public Safety:				
Law Enforcement and Traffic Control:				
Police department	1,291,339	1,347,430	1,292,219	55,211
Traffic control	12,000	12,000	8,887	3,113
Total Law Enforcement and Traffic Control	<u>1,303,339</u>	<u>1,359,430</u>	<u>1,301,106</u>	<u>58,324</u>
Fire and Rescue Services:				
Volunteer fire department	92,765	118,015	109,833	8,182
Ambulance and rescue services	50,000	50,000	50,000	-
Total Fire and Rescue Services	<u>142,765</u>	<u>168,015</u>	<u>159,833</u>	<u>8,182</u>
Correction and Detention:				
Purchase of service from Wise County	142,162	142,162	176,411	(34,249)
Juvenile detention	45,000	69,550	62,810	6,740
Total Correction and Detention	<u>187,162</u>	<u>211,712</u>	<u>239,221</u>	<u>(27,509)</u>
Inspections:				
Building	102,940	110,913	99,868	11,045
Other Protection:				
Animal control	15,823	15,823	11,457	4,366
Emergency medical services	530	530	530	-
Total Other Protection	<u>16,353</u>	<u>16,353</u>	<u>11,987</u>	<u>4,366</u>
Total Public Safety	<u>1,752,559</u>	<u>1,866,423</u>	<u>1,812,015</u>	<u>54,408</u>

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Public Works:				
Maintenance of Highways, Street, Bridges and Sidewalks:				
General engineering/administration	\$ 62,646	\$ 62,646	\$ 50,387	\$ 12,259
Highways, streets, bridges and sidewalks	1,119,627	1,282,287	812,864	469,423
Storm drainage	3,000	3,000	1,506	1,494
Street lights	58,000	58,000	68,103	(10,103)
Snow and ice removal	20,000	20,000	36,998	(16,998)
Curbs and guttering	3,000	3,000	-	3,000
Total Maintenance of Highways, Streets Bridges and Sidewalks	<u>1,266,273</u>	<u>1,428,933</u>	<u>969,858</u>	<u>459,075</u>
Sanitation and Waste Removal:				
Street and road cleaning	11,500	11,500	13,523	(2,023)
Refuse collection	199,745	248,633	175,291	73,342
Refuse disposal	230,000	230,000	227,642	2,358
Total Sanitation and Waste Removal	<u>441,245</u>	<u>490,133</u>	<u>416,456</u>	<u>73,677</u>
Maintenance of General Buildings and Grounds:				
General properties	238,945	279,236	256,682	22,554
Total Public Works	<u>1,946,463</u>	<u>2,198,302</u>	<u>1,642,996</u>	<u>555,306</u>
Health and Welfare:				
Health:				
Local health department	48,148	48,148	48,149	(1)
Mental Health and Mental Retardation:				
Chapter 10 board	20,651	20,651	20,651	-
Welfare/Social Services:				
Disability Board	750	750	-	750
Area agency on aging	15,000	15,000	15,000	-
Property tax relief for elderly	-	-	7,925	(7,925)
Contribution to Office on Youth	5,000	5,000	5,000	-
Contribution - Hope House	2,000	2,000	2,000	-
Total Welfare/Social Services	<u>22,750</u>	<u>22,750</u>	<u>29,925</u>	<u>(7,175)</u>
Total Health and Welfare	<u>91,549</u>	<u>91,549</u>	<u>98,725</u>	<u>(7,176)</u>
Education:				
Community Colleges:				
Contribution to Mountain Empire Community College	7,016	7,016	7,016	-
Payment to school board	1,706,495	2,299,607	2,299,607	-
Contribution to UVA Wise Radio	-	-	-	-
Total Education	<u>1,713,511</u>	<u>2,306,623</u>	<u>2,306,623</u>	<u>-</u>
Parks, Recreation and Cultural:				
Parks and Recreation:				
Maintenance	127,325	127,325	122,827	4,498
Recreation centers and playgrounds	131,338	168,088	144,803	23,285
Swimming pool	67,251	72,251	45,650	26,601
Capital outlay	-	-	-	-
Total Parks and Recreation	<u>325,914</u>	<u>367,664</u>	<u>313,280</u>	<u>54,384</u>
Cultural Enrichment:				
Pro-Art	10,000	10,000	10,000	-
Employee picnic and Christmas party	3,000	3,000	5,088	(2,088)
Total Cultural Enrichment	<u>13,000</u>	<u>13,000</u>	<u>15,088</u>	<u>(2,088)</u>
Library:				
Payments to regional library	45,000	45,000	45,000	-
Total Parks, Recreation and Cultural	<u>383,914</u>	<u>425,664</u>	<u>373,368</u>	<u>52,296</u>

CITY OF NORTON
GOVERNMENTAL FUNDS
BUDGETARY COMPARISON SCHEDULE
Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Community Development:				
Planning and Community Development:				
Planning	\$ 102,546	\$ 102,546	\$ 107,733	\$ (5,187)
Planning - contribution to Lenowisco	8,123	8,123	8,123	-
Community access channel	8,468	8,468	9,652	(1,184)
Contribution to Chamber of Commerce	2,552	2,552	2,652	(100)
Contribution to CEDA	-	-	-	-
Contribution to Black Diamond Development	200	200	200	-
Contribution to component unit - NIDA	502,013	502,013	270,336	231,677
Contribution to Airport Commission	4,500	4,500	4,500	-
Capital outlay	122,500	637,150	388,071	249,079
Total Planning and Community Development	<u>750,902</u>	<u>1,265,552</u>	<u>791,267</u>	<u>474,285</u>
Debt Service				
Principal	46,388	46,388	106,731	(60,343)
Interest	12,904	12,904	28,774	(15,870)
Total debt service	<u>59,292</u>	<u>59,292</u>	<u>135,505</u>	<u>(76,213)</u>
Other financing uses				
Transfers to water/sewer fund	-	100,000	100,000	-
Transfers to welfare fund	215,000	215,000	215,000	-
Total other financing sources	<u>215,000</u>	<u>315,000</u>	<u>315,000</u>	<u>-</u>
TOTAL GENERAL FUND	\$ 8,061,983	\$ 9,711,106	\$ 8,620,675	\$ 1,090,431
SPECIAL REVENUE FUNDS:				
Virginia Public Assistance Fund:				
Health and Welfare:				
Welfare/Social Services:				
Welfare/food stamp administration	\$ 989,100	\$ 989,100	\$ 930,186	\$ 58,914
Total Welfare/Social Services	<u>989,100</u>	<u>989,100</u>	<u>930,186</u>	<u>58,914</u>
Total Health and Welfare	<u>989,100</u>	<u>989,100</u>	<u>930,186</u>	<u>58,914</u>
Total Virginia Public Assistance Fund	<u>989,100</u>	<u>989,100</u>	<u>930,186</u>	<u>58,914</u>
Drug and Gambling Investigative Funds:				
Public safety	-	-	3,237	(3,237)
Total Drug and Gambling Investigative Funds	<u>-</u>	<u>-</u>	<u>3,237</u>	<u>(3,237)</u>
TOTAL SPECIAL REVENUE FUNDS	<u>989,100</u>	<u>989,100</u>	<u>933,423</u>	<u>55,677</u>
GRAND TOTAL - EXPENDITURES - PRIMARY GOVERNMENT FUNDS	\$ 9,051,083	\$ 10,700,206	\$ 9,554,098	\$ 1,146,108
Excess of revenue and other financing sources over expenditures and other financing uses - budget basis	\$ (366,873)	\$ (1,141,105)	\$ 130,591	
Net appropriations from fund balance				
Prior year surplus	366,873	705,235		
Prior year encumbrances	<u>-</u>	<u>435,870</u>		
Budget- excess of revenue, other financing sources and appropriations from fund balance over expenditures and other financing uses	<u>-</u>	<u>-</u>		

**CITY OF NORTON
COMPONENT UNIT SCHOOL BOARD
COMBINING BALANCE SHEET
June 30, 2006**

	<u>GOVERNMENTAL ACTIVITIES</u>		<u>TOTALS</u>
	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>June 30, 2006</u>
ASSETS			
Cash and cash equivalents	\$ 68,755	\$ 17,370	\$ 86,125
Investments	-	-	-
Accounts receivable	6,190	-	6,190
Due from other funds	3,862	-	3,862
Due from primary government	186,731	-	186,731
Due from other governmental units	386,163	-	386,163
TOTAL ASSETS	\$ 651,701	\$ 17,370	\$ 669,071
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES:			
Accounts payable	\$ 157,667	\$ -	\$ 157,667
Accrued liabilities	524,743	-	524,743
Due to other funds	-	3,862	3,862
Deferred Revenue	-	-	-
Total Liabilities	682,410	3,862	686,272
FUND BALANCE:			
Reserved For:			
Encumbrances	-	-	-
Unreserved:			
Undesignated	(30,709)	13,508	(17,201)
Total Fund Balance	(30,709)	13,508	(17,201)
TOTAL LIABILITIES AND FUND BALANCE	\$ 651,701	\$ 17,370	\$ 669,071

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

\$ (17,201)

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	(6,998)
Accrued compensated absences	(47,637)
Accounts payable	-
Deferred revenue	(32,598)

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

1,366,964

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

\$ (1,136,414)

Total net assets - component unit-School Board

\$ 126,116

CITY OF NORTON
COMPONENT UNIT - SCHOOL BOARD
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
Year Ended June 30, 2006

	School Operating Fund	School Cafeteria Fund	Total School Board
REVENUES:			
Revenue from use of money and property	\$ -	\$ 179	\$ 179
Charges for services	-	98,346	98,346
Miscellaneous	12,038	-	12,038
Intergovernmental			-
Primary government	2,299,607	-	2,299,607
Commonwealth of Virginia	4,090,255	-	4,090,255
Federal Government	<u>742,473</u>	<u>-</u>	<u>742,473</u>
Total Revenues	<u>7,144,373</u>	<u>98,525</u>	<u>7,242,898</u>
EXPENDITURES:			
Current:			
Education	6,850,033	248,808	7,098,841
Debt Service:			
Principal	133,140	-	133,140
Interest	<u>48,912</u>	<u>-</u>	<u>48,912</u>
Total Expenditures	<u>7,032,085</u>	<u>248,808</u>	<u>7,280,893</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>112,288</u>	<u>(150,283)</u>	<u>(37,995)</u>
OTHER FINANCING SOURCES (USES):			
Loan Proceeds	-	-	-
Operating transfers in	-	160,101	160,101
Operating transfers out	<u>(160,101)</u>	<u>-</u>	<u>(160,101)</u>
Total Other Financing Sources (Uses)	<u>(160,101)</u>	<u>160,101</u>	<u>-</u>
Net change in fund balance	(47,813)	9,818	(37,995)
Fund Balance at June 30, 2005	<u>17,104</u>	<u>3,690</u>	<u>20,794</u>
Fund Balance at June 30, 2006	<u>\$ (30,709)</u>	<u>\$ 13,508</u>	<u>\$ (17,201)</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 (37,995)

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.	202,968
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in governmental funds	(97,407)
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	(238,440)
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>6,932</u>

Change in net assets of governmental activities (163,942)

CITY OF NORTON
COMPONENT UNIT - SCHOOL BOARD
BUDGETARY COMPARISON SCHEDULE - OPERATING FUND
Year Ended June 30, 2006

	GENERAL FUND			
	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:				
Revenue from use of money and property	\$ -	\$ -	\$ -	\$ -
Charges for services	-	-	-	-
Miscellaneous	200	200	12,038	11,838
Intergovernmental				
Primary government	2,299,473	2,299,473	2,299,607	134
Commonwealth of Virginia	4,156,831	4,156,831	4,090,255	(66,576)
Federal Government	790,559	790,559	742,473	(48,086)
	<u>7,247,063</u>	<u>7,247,063</u>	<u>7,144,373</u>	<u>(102,690)</u>
Total Revenues				
EXPENDITURES:				
Current:				
Community Development	-	-	-	-
Public safety	-	-	-	-
Miscellaneous	-	-	-	-
Public works	-	-	-	-
Health and welfare	-	-	-	-
Education	6,918,314	6,918,314	6,850,033	68,281
	<u>7,099,167</u>	<u>7,099,167</u>	<u>7,032,085</u>	<u>67,082</u>
Debt Service:				
Principal	131,941	131,941	133,140	(1,199)
Interest	48,912	48,912	48,912	-
	<u>7,099,167</u>	<u>7,099,167</u>	<u>7,032,085</u>	<u>67,082</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over Expenditures	147,896	147,896	112,288	(35,608)
OTHER FINANCING SOURCES (USES):				
Loan Proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(165,000)	(160,000)	(160,101)	4,899
	<u>(165,000)</u>	<u>(160,000)</u>	<u>(160,101)</u>	<u>4,899</u>
Total Other Financing Sources (Uses)				
Excess of revenue and other financing sources over expenditures and other financing uses - budget basis	(17,104)	(17,104)	(47,813)	(30,709)
Net appropriations from fund balance				
Prior year encumbrances	17,104	17,104		
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, 2005			<u>17,104</u>	
Fund Balance - June 30, 2006			<u>(30,709)</u>	

CITY OF NORTON
STATEMENT OF TREASURER'S ACCOUNTABILITY
June 30, 2006

ASSETS HELD BY THE TREASURER:

Cash on hand	\$	950
Cash in banks:		
Checking:		
Bank of America (Does not include overnight repurchase agreement)		(187,198)
First Bank and Trust		<u>17,370</u>
Total Checking		(169,828)
Certificates of Deposit:		
Powell Valley National Bank		218,757
First Bank and Trus		<u>20,000</u>
Total Certificates of Deposit		238,757
Repurchase Agreement:		
Bank of America		<u>636,743</u>
Total Cash in Banks		705,672
Investments:		
Investment in State Treasurer's Local Government		
Investment Pool		<u>1,837,874</u>
TOTAL ASSETS	\$	<u>2,544,496</u>

LIABILITIES OF THE TREASURER:

BALANCE OF CITY FUNDS **\$ 2,544,496**

NOTE: The variance between this statement and the balance sheet for all funds is \$202,513. 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, 2006

A) SUMMARY OF AUDIT RESULTS

- 1) The auditor's report expresses a unqualified opinion on the general purpose financial statements of the City of Norton, Virginia.
- 2) No reportable conditions were disclosed during the audit of the general purpose financial statements of the City of Norton, Virginia, or the major federal award programs.
- 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) The Auditor's report on Compliance for the Major Federal Award Programs for the City of Norton, Virginia, expresses an unqualified opinion.
- 5) The programs tested as major programs are designated with an "*" on the accompanying Schedule of Expenditures of Federal Awards.
- 6) The threshold for distinguishing types A & B programs was \$300,000.
- 7) The City of Norton, Virginia, was determined 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, 2006

	<u>Federal Catalogue #</u>	<u>Expenditures</u>
DEPARTMENT OF AGRICULTURE:		
Pass-Through Payments:		
State Department of Agriculture:		
Food Distribution	10.555	\$ 4,221
School Lunch Program	10.555	118,491
School Breakfast Program	10.553	31,749
DEPARTMENT OF HEALTH AND HUMAN SERVICES:		
Pass-Through Payments:		
State Department of Social Services:		
Food stamp administration	10.561	161,540
Foster Care - Title IV-E	93.658	187,450
TANF	93.558	97,481
Social Services Block Grant	93.667	21,760
Adoption Assistance	93.659	14,063
Child Care Assistance	93.575	48,949
Medical assistance program	93.778	116,246
DEPARTMENT OF EDUCATION:		
Pass-Through Payments:		
State Department of Education:		
Improving teacher quality state grants	84.367	47,810
Title I Grants	84.010	222,514
Innovative Education Program	84.298	13,521
Reading first grant	84.357	146,992
Title VI-B:		
Special Education:		
Idea -611	84.027	47,810
Preschool Grants	84.173	5,134
Special Projects:		
State Grants for Strengthening the Skills of Teachers and Instruction in Mathematics, Foreign Languages and Computer		
Drug Free Schools and Communities (0-E002235)	84.186	3,690
Literacy Challenge Grant	84.318	3,468
Vocational Education - Basic Grants to States	84.048	48,985
DEPARTMENT OF HOUSING & COMMUNITY DEVELOPMENT:		
Community development block grant	14.228	109,216
Appalachian Regional Commission	14.228	*** 566,566
DEPARTMENT OF MOTOR VEHICLES:		
Safety incentive grants for use of seatbelts	20.604	5,227
Alcohol impairment safety	20.000	2,606
DEPARTMENT OF EMERGENCY SERVICES:		
Department of Homeland Security	97.004	26,000
TOTAL		<u>\$ 2,063,433</u>

* Denotes Major Program or Major Program Cluster

1) This Schedule has been prepared using the Modified Accrual Basis of Accounting.

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.	62
REVENUE CAPACITY These schedules contain trend information to help the reader assess the City's most significant local revenue source, the property tax.	67
DEBT CAPACITY These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the County's ability to issue additional debt in the future.	70
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.	73
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.	75

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

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

TABLE 1

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental activities			
Invested in capital assets, net of related debt	\$ 3,818,395	\$ 3,851,437	\$ 3,706,233
Restricted	-	-	-
Unrestricted	2,965,127	2,366,905	2,482,728
Total governmental activities net assets	<u>6,783,522</u>	<u>6,218,342</u>	<u>6,188,961</u>
Business-type activities			
Invested in capital assets, net of related debt	2,976,090	2,878,258	3,155,646
Restricted	-	-	-
Unrestricted	(284,875)	31,937	85,662
Total business-type activities	<u>2,691,215</u>	<u>2,910,195</u>	<u>3,241,308</u>
Primary government			
Invested in capital assets, net of related debt	6,794,485	6,729,695	6,861,879
Restricted	-	-	-
Unrestricted	2,680,252	2,398,842	2,568,390
Total primary government net assets	<u>\$ 9,474,737</u>	<u>\$ 9,128,537</u>	<u>\$ 9,430,269</u>

- 1) Trend data is only available for the last three fiscal years due to implementation of GASB 34
- 2) Fiscal year 2004-05 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 10 externally imposed by creditors, grantors, contributors or laws or regulations of other governments or) imposed by law through constitutional provisions or enabling legislation.

**CITY OF NORTON, VIRGINIA
CHANGES IN NET ASSETS (UNAUDITED)
LAST THREE FISCAL YEARS**

TABLE 2

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Expenses			
Governmental Activities:			
General government	\$ 813,926	\$ 768,157	\$ 835,440
Public safety	1,965,885	2,057,783	2,210,803
Public works	1,786,214	1,799,382	1,776,567
Health and welfare	1,029,967	966,126	1,050,245
Education	1,659,671	1,512,024	1,886,323
Parks, recreation and cultural	381,141	374,018	379,457
Community development	705,781	1,578,560	791,142
Interest on long-term debt	43,744	26,695	21,580
Non-departmental	-	-	-
Total government activities expense	<u>8,386,329</u>	<u>9,082,745</u>	<u>8,951,557</u>
Business-Type Activities:			
Water and Wastewater	1,901,676	2,003,887	2,229,328
Total business-type activities expenses	<u>1,901,676</u>	<u>2,003,887</u>	<u>2,229,328</u>
Total primary government expenses	<u>\$ 10,288,005</u>	<u>\$ 11,086,632</u>	<u>\$ 11,180,885</u>
Program Revenues			
Governmental Activities:			
Charges for services			
Public safety	\$ 6,284	\$ 3,606	\$ 6,304
Public works	287,212	287,924	289,949
Health and welfare	674	-	-
Education	-	-	-
Parks, recreation and culture	18,141	21,952	21,194
Community development	-	-	-
Operating grants and contributions	2,104,325	2,580,207	2,458,079
Capital grants and contributions	-	-	-
Total governmental activities program revenues	<u>2,416,636</u>	<u>2,893,689</u>	<u>2,775,526</u>
Business-Type Activities:			
Charges for services			
Water and Wastewater	1,933,079	1,917,899	1,977,402
Operating grants and contributions	-	-	-
Capital grants and contributions	-	304,863	482,685
Total business-type activities program revenues	<u>1,933,079</u>	<u>2,222,762</u>	<u>2,460,087</u>
Total primary government program revenues	<u>\$ 4,349,715</u>	<u>\$ 5,116,451</u>	<u>\$ 5,235,613</u>
Net (Expense)/Revenue			
Governmental Activities	\$ (5,969,693)	\$ (6,189,056)	\$ (6,176,031)
Business-Type Activities:	31,403	218,875	230,759
Total primary government net (expense)/revenue	<u>\$ (5,938,290)</u>	<u>\$ (5,970,181)</u>	<u>\$ (5,945,272)</u>

TABLE 2 cont.

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

	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Revenues and other Changes in Net Assets			
Governmental Activities:			
Taxes			
Property taxes	\$ 1,681,198	\$ 1,696,066	\$ 1,875,457
Local sales & use tax	1,506,248	1,497,058	1,722,453
Utility tax	263,954	263,918	266,300
Business license tax	775,319	658,845	692,083
Franchise license tax	41,925	51,323	51,935
Motor vehicle license	29,148	29,486	28,996
Bank stock tax	58,806	65,962	125,958
Recordation tax	25,997	5,219	20,653
Tobacco tax	48	48	45
Hotel and motel room tax	102,050	127,921	117,186
Restaurant food tax	694,465	721,995	788,336
Coal road improvement tax	148,765	178,532	208,566
Emergency telephone services tax	40,709	38,602	35,411
Cigarette tax	44,504	46,405	49,145
Other local taxes	73,610	92,422	110,720
Unrestricted intergovernmental revenue	50,001	48,618	21,092
Unrestricted investment earnings	27,655	79,961	103,191
Rental of Town property	23,443	-	-
Gain on sale of capital assets	616	7,545	-
Recoverd cost	-	13,950	29,123
Transfers-Primary Government	-	-	(100,000)
Total governmental activities	<u>5,588,461</u>	<u>5,623,876</u>	<u>6,146,650</u>
Business-Type Activities:			
Unrestricted investment earnings	67	105	354
Other	-	-	100,000
Total business-type activities	<u>67</u>	<u>105</u>	<u>100,354</u>
Total primary government	<u>\$ 5,588,528</u>	<u>\$ 5,623,981</u>	<u>\$ 6,247,004</u>
Change in Net Assets			
Governmental Activities	\$ (381,232)	\$ (565,180)	\$ (29,381)
Business-Type Activities	31,470	218,980	331,113
Total primary government	<u>\$ (349,762)</u>	<u>\$ (346,200)</u>	<u>\$ 301,732</u>

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

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

TABLE 3

	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund			
Reserved	\$ 523,722	\$ 435,870	\$ 456,740
Unreserved	2,358,936	1,814,377	1,891,575
Total general fund	<u>\$ 2,882,658</u>	<u>\$ 2,250,247</u>	<u>\$ 2,348,315</u>
All Other Governmental Funds			
Reserved	\$ -	\$ -	\$ -
Unreserved, reported in:			
Special Revenue fund	226,947	247,341	279,864
Total all other governmental funds	<u>\$ 3,109,605</u>	<u>\$ 2,497,588</u>	<u>\$ 2,628,179</u>

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

CITY OF NORTON, VIRGINIA
 CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS (UNAUDITED)
 LAST TEN FISCAL YEARS

	Fiscal Years Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Revenues										
General property taxes	\$ 1,492,370	\$ 1,475,024	\$ 1,518,358	\$ 1,472,420	\$ 1,582,699	\$ 1,694,019	\$ 1,703,108	\$ 1,670,250	\$ 1,689,883	\$ 1,878,863
Other local taxes	2,780,215	2,762,217	2,893,330	2,985,860	3,082,307	3,291,677	3,232,978	3,731,938	3,685,314	4,107,067
Permits and licenses	3,114	2,192	3,022	4,759	2,253	6,877	3,899	2,265	14,270	4,666
Fines and forfeitures	86,311	88,739	67,141	83,309	90,001	79,250	71,573	71,345	78,152	106,054
Investment earnings	135,049	130,724	137,165	141,348	133,449	69,210	58,197	51,098	79,961	103,191
Charges for services	236,854	243,402	299,427	313,274	319,251	360,619	313,579	312,311	313,482	317,447
Other revenues	39,486	3,860	3,786	19,738	9,359	21,591	16,740	50,001	48,618	21,092
recovered cost	67,546	58,709	13,996	63,065	68,128	73,407	59,733	-	13,950	29,123
Intergovernmental	1,598,337	1,853,597	1,852,171	1,842,123	2,080,719	3,000,574	2,064,070	2,104,325	2,580,207	2,458,079
Total revenues	6,439,282	6,618,464	6,788,396	6,925,896	7,368,166	8,603,224	7,523,877	7,993,533	8,503,837	9,025,582
Expenditures										
General government	596,803	590,377	596,527	695,552	679,929	715,989	756,677	781,596	788,786	850,732
Judicial administration	174,162	170,621	223,462	266,644	265,236	289,573	282,184	253,801	290,126	294,444
Public safety	1,146,698	1,197,751	1,247,673	1,401,343	1,490,052	1,480,799	1,535,834	1,578,494	1,871,632	1,815,252
Public works	1,146,014	1,121,947	1,115,390	1,357,888	1,358,678	1,539,603	1,427,472	1,427,374	1,591,831	1,642,996
Health and welfare	736,021	822,948	825,821	946,953	986,815	1,058,326	1,010,429	1,029,967	996,885	1,028,911
Education and transfer to school	5,214	5,404	12,905	16,413	15,603	8,418	8,418	1,659,671	1,512,024	2,306,623
Parks, recreation and culture	263,671	268,218	261,036	460,994	346,205	311,440	373,870	356,407	362,547	373,368
Community development	363,730	1,015,087	305,577	103,865	196,742	737,471	178,896	705,781	1,578,158	791,267
Non-Departmental	-	-	-	-	-	-	-	-	-	-
Debt service	43,053	53,765	50,256	41,399	34,002	33,855	36,766	27,724	106,155	106,731
Principal	37,826	38,756	36,777	33,657	29,411	29,558	26,647	29,362	25,253	28,774
Interest	-	-	-	-	-	-	-	-	-	-
Total expenditures	4,513,192	5,284,874	4,675,424	5,324,708	5,402,673	6,205,032	5,637,193	7,850,177	9,123,397	9,239,098
Excess of revenues over (under) expenditures	1,926,090	1,333,590	2,112,972	1,601,188	1,965,493	2,398,192	1,886,684	143,356	(619,560)	(213,516)
Other Financing Sources (Uses)										
Proceeds from borrowing	2,072	1,112	58,411	-	-	11,498	-	-	7,422	420,300
Insurance Recoveries	-	-	-	21,086	-	-	2,901	616	123	23,807
Proceeds from sale of assets	(1,928,153)	(1,734,201)	(1,835,087)	(1,821,938)	(1,893,304)	(1,687,236)	(1,537,701)	-	-	(100,000)
Transfers	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	(1,926,081)	(1,733,089)	(1,776,676)	(1,821,938)	(1,872,218)	(1,675,738)	(1,534,800)	616	7,545	344,107
Net change in fund balance	9	\$ (399,499)	\$ 336,296	\$ (220,750)	\$ 93,275	\$ 722,454	\$ 351,884	\$ 143,972	\$ (612,015)	\$ 130,591
Debt service as a percentage of noncapital expenditures	1.72%	1.69%	1.79%	1.31%	1.12%	0.98%	1.07%	0.70%	1.40%	1.43%

TABLE 5

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

Fiscal Years Ended June 30	Public Utilities					Mobile Homes	Total Assessed Value	Total Direct Tax rate per \$100
	Real Estate	Personal Property	Machinery and Tools	Real Estate	Personal Property			
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
2001	134,810,300	19,397,980	2,971,000	29,889,905	216,256	2,332,100	189,617,541	0.835
2000	128,882,600	19,192,349	2,806,669	27,876,503	245,952	2,646,600	181,650,673	0.811
1999	126,674,600	19,353,300	2,836,300	27,192,130	316,533	2,427,200	178,800,063	0.849
1998	125,636,300	19,172,700	2,851,130	27,736,073	301,164	2,301,800	177,999,167	0.098
1997	123,720,861	17,447,092	2,782,130	29,924,524	258,645	2,128,100	176,261,352	0.847

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	Public Utilities				
	Real Estate	Personal Property	Machinery and Tools	Mobile Homes	Personal Property
2006	\$ 0.70	1.85	0.70	0.70	1.85
2005	0.70	1.85	0.70	0.70	1.85
2004	0.70	1.85	1.85	0.70	1.85
2003	0.70	1.85	1.85	0.70	1.85
2002	0.70	1.85	1.85	0.70	1.85
2001	0.70	1.85	1.85	0.70	1.85
2000	0.70	1.85	1.85	0.70	1.85
1999	0.70	1.85	1.85	0.70	1.85
1998	0.70	1.85	1.85	0.70	1.85
1997	0.70	1.85	1.85	0.70	1.85

1) Rates are presented per \$100 assessed value

TABLE 7

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

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.

TABLE 8

**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
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%
2001	1,587,099	1,504,545	94.80%	35,722	1,540,267	97.05%	186,554	11.75%
2000	1,486,165	1,353,396	91.07%	16,362	1,369,758	92.17%	181,351	12.20%
1999	1,482,434	1,420,731	95.84%	55,805	1,476,536	99.60%	147,154	9.93%
1998	1,477,815	1,416,536	95.85%	30,106	1,446,642	97.89%	149,548	10.12%
1997	1,468,656	1,418,580	96.59%	42,021	1,460,601	99.45%	116,713	7.95%

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

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

CITY OF NORTON, VIRGINIA
 RATIO OF OUTSTANDING DEBT BY TYPE (UNAUDITED)
 LAST THREE 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 Bonds	Water and Wastewater				
2006	\$ 390,397	135,962	\$ 2,330,131		\$ 6,336,596	\$ 9,193,086	5.88%	\$ 2,355
2005	437,209	195,881	2,409,050		6,126,941	9,169,081	5.87%	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

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

Fiscal Years Ended June 30	General Bonded Debt	Percentage of Actual Taxable Value of Property	Per Capita
2006	\$ 390,397	0.17%	\$100.00
2005	437,209	0.22%	\$111.99
2004	480,505	0.25%	\$123.08

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

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

	Fiscal Years Ended June 30									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Assessed valuations										
Assessed value of taxed real property	\$ 153,645,385	\$ 153,372,373	\$ 153,866,730	\$ 156,759,103	\$ 164,700,205	\$ 167,751,100	\$ 164,279,952	\$ 167,868,915	\$ 172,888,719	\$ 198,114,221
Legal debt margin										
Debt limit - 10 percent of total assessed value	15,364,539	15,337,237	15,386,673	15,675,910	16,470,021	16,775,110	16,427,995	16,786,892	17,288,872	19,811,422
Debt applicable to limitation:										
Total bonded debt	5,827,489	5,418,280	4,996,721	4,564,120	4,143,382	5,068,385	5,968,171	9,413,378	9,169,081	9,193,086
Less - Enterprise Debt	(3,616,260)	(3,359,249)	(3,092,657)	(2,820,829)	(2,550,305)	(3,566,947)	(3,299,055)	(7,956,394)	(7,638,017)	(7,530,313)
Total amount of debt applicable to debt limitation	2,211,229	2,059,031	1,904,064	1,743,291	1,593,077	1,501,438	2,669,116	1,456,984	1,531,064	1,662,773
Legal debt margin	\$ 13,153,310	\$ 13,278,206	\$ 13,482,609	\$ 13,932,619	\$ 14,876,944	\$ 15,273,672	\$ 13,758,879	\$ 15,329,908	\$ 15,757,808	\$ 18,148,649
Total net debt applicable to the limit as a percentage of debt limit	14.39%	13.43%	12.37%	11.12%	9.67%	8.95%	16.25%	8.68%	8.86%	8.39%

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

Fiscal Years Ended June 30	Water and Wastewater Revenue Bonds							Coverage
	Utility Service Charges	Less: Operating Expenses	Net Available Revenue	Debt Service		Total		
				Principal	Interest			
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	
2001	1,636,477	1,618,444	18,033	60,556	65,114	125,670	0.14	
2000	1,622,976	1,694,787	(71,811)	59,791	66,272	126,063	(0.57)	
1999	1,551,378	1,560,430	(9,052)	57,637	67,337	124,974	(0.07)	
1998	1,505,652	1,460,984	44,668	56,048	69,434	125,482	0.36	
1997	1,438,190	1,350,194	87,996	56,534	68,700	125,234	0.70	

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

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

Fiscal Years Ended June 30	Population	Personal Income	Per Capita Median Income	Median Age	School Enrollment	Unemployment Rate
2006	3,904	\$ 156,269,312	\$ 40,028	37.0	713	6.00%
2005	3,904	156,269,312	40,028	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%
2001	3,904	138,084,480	35,370	22.5	709	4.10%
2000	3,904	127,676,416	32,704	33.5	739	7.30%

- 1) Source: Census Bureau, Weldon Cooper Center of Public Information, Virginia Employment Commission, and Norton City School Board
- 2) Data only available for last Seven years

TABLE 14

**CITY OF NORTON, VIRGINIA
PRINCIPAL EMPLOYERS (UNAUDITED)
CURRENT YEAR**

June 30, 2006

<u>Employer</u>	<u>Product or Service</u>	<u>Total Estimated 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)
June 30, 2006

Function	
General government	
Management services	3.5
Finance	5
Planning	2
Building	1
Other	6.5
Public safety	
Officers	16.5
Dispatchers/Clerks	5
Sheriff's Office	4
Animal Control	1
Fire	1
Public works	
Engineering	1
Streets	16
Refuse Collections	3.5
General Properties	5
Parks and recreation	
Maintenance	10.5
Other	7
Water operations	
Administration	2
Plant Operations	7
Maintenance	4

1) Source: Town's finance department

CITY OF NORTON, VIRGINIA
OPERATING INDICATORS BY FUNCTION (UNAUDITED)
June 30, 2006

Function

Public safety	
Cititations issued	2,086
Parking Tickets issued	418
Crime/Arrest/Incident reports filed	747
911 Calls dispatched	4,006
Public Works	
Number of citizen requests for services	1,054
Water operations	
Number of service connections	2,241
Number of citizen requests for services	2,387
Average daily plant output in gallons	1,000,000
Maximum daily capacity of plant in gallons	1,440,000
Wastewater operations	
Number of service connections	2022

CITY OF NORTON, VIRGINIA
CAPITAL ASSET STATISTICS BY FUNCTION (UNAUDITED)
June 30, 2006

<u>Function</u>	
Public safety	
Police stations	1
Fire stations	2
Number of patrol units	11
Public works	
Streets (lane miles)	83
Streetlights	440
Traffic signals	8
Water operations	
Miles of water main	55
Number of fire hydrants	250
Wastewater operations	
Miles of sanitary sewers	41
Miles of storm sewers	9