TOWN of Wise

the place to be

IN SOUTHWEST VIRGINIA

AUDIT REPORT

JUNE 30, 2012

TOWN OF WISE, VIRGINIA
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JUNE 30, 2012

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INTRODUCTORY SECTION

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Letter of Transmittal

November 14, 2012

The Honorable Members of the Town Council
Citizens of the Town of Wise
Wise, Virginia

Honorable Member of the Town Council and Residents of the Town of Wise:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the Town of Wise, (the Town) for the fiscal year ended June 30, 2012. The *Code of Virginia* requires that local governments, with a population over 3,500, publish, within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with accounting principles generally accepted in the United States of America (GAAP) and audited in accordance with auditing standards generally accepted in the United States of America by a firm of licensed certified public accountants. The Town having a population of less than 3,500 reports as required under the Code of Virginia, to satisfy reporting obligations, as a recipient of certain Highway Maintenance Funds. This report has been prepared by the Town Manager in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) where applicable, and the Virginia Auditor of Public Accounts (APA).
This report consists of management's representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and fairness of presentation of all the information presented in this report. To provide reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed to ensure compliance with applicable laws, regulations and Town policies, safeguard the Town's assets, and compile sufficient reliable information for the preparation of the Town financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and accurate in all material respects, and presents fairly the financial position and results of operation of the various funds of the Town.

This report is intended to provide information and relevant financial information for the citizens of the Town, the Board of Supervisors (the Board), creditors and other concerned readers. All are encouraged to contact the Town Manager with any comments or questions concerning this report.

The Town's financial statements have been audited by Larry D. Sturgill, P.C. a licensed certified public accountant. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town for the fiscal year ended June 30, 2012, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management if any; and evaluating the overall financial statement presentation.

The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town's financial statements for the fiscal year ended June 30, 2012 are fairly presented in all material respects, in conformity with GAAP. The auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the Town's compliance with the financial and administrative requirements applicable to each of the Town's major federal programs. These reports are available in the Compliance Section of this report.

GAAP requires that management provide a narrative, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A) and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent auditor.

The Town is responsible for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Town. I believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the Town as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the Town's financial affairs have been included.

The management of the Town is responsible for establishing and maintaining an internal control structure to ensure the protection of the Town's assets. In developing and evaluating the Town's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be diverted; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. I believe that the Town's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Profile of the Town

PROFILE OF THE TOWN

The Town of Wise is located in the heart of Wise County in the Cumberland Mountain section of the Appalachian Plateau. The Town lies 2,450 feet above sea level and is the highest point of population in Wise County. Indian Mountain rises to the north and Guest Mountain immediately to the south of town.

The mountains provide a quiet escape and the opportunity to enjoy amazing scenery and outdoor adventures.

First incorporated as the Town of Gladeville in 1874, the locality was officially chartered as the Town of Wise in 1924. Today, the Town serves as a center of government, commerce, and education for Wise County. The Town provides a full range of services including police and fire protection, water and sewer services, refuse collection and disposal, construction and maintenance of streets, sidewalks and other transportation infrastructure, parks and recreation facilities, cultural events, cemeteries, planning and zoning, and general administration.

The Town currently operates under the council-manager form of government. The Town Council is the governing body of the Town and consists of five members elected for four year terms. Council is charged with the responsibility of establishing policies for the administration of the Town and enacting ordinances and resolutions. The Council appoints a Town Manager to act as the chief executive officer of the Town. He/she serves at the will and pleasure of Council, carries out their policies, and has the power of hiring and removal of all non-appointed employees. Duties and responsibilities of the Town Manager include preparation, submission, and administration of the annual budget, advising Council on the affairs of the Town, enforcement of local ordinances, and direction and supervision of all departments.

LOCAL ECONOMY

The Town of Wise is proud to be the home of the University of Virginia's College at Wise. This public, four-year residential college attracts students from throughout the Southeast as well as from foreign countries. *U.S. News and World Report* has named this college as one of the top ten public liberal arts colleges in the nation. The University of Virginia's College at Wise was founded in 1954 and is the only branch campus of the University of Virginia. The College offers Virginia's only undergraduate degree program in software engineering as well as 30 majors, 32 minors, seven pre-professional programs and 24 teaching licensures. UVA-Wise has been selected for inclusion in "*Colleges of Distinction*," which recognizes institutions for engaged students, great teaching, vibrant communities and successful outcomes.

Three miles northeast of the Town, Lonesome Pine Airport serves the public with a one mile of lighted runway. Adjacent to the airport, the The Lonesome Pine Regional Business & Technology Park consists of approximately 195 acres of land and buildings. The Business and Technology Park has been developed with all the amenities necessary to accommodate a variety of technology-based businesses.

Town residents are largely employed in education services associated with UVA-Wise and the Wise County School System. The function of the Town as the county seat also brings significant employment in governmental and professional services. The retail trade industry associated with a number of regional shopping centers as well as chain and independent restaurants account for another important source of employment. Call centers also provide work for a number of residents. For example, Crutchfield Corporation, the nation's leading catalog and internet retailer of audio and video components employs over one hundred highly skilled people to respond to sales, technical support, and service calls. In addition, Sykes Enterprises, Inc., a global in-bound customer technical support center provides support for hardware and software products from various companies and also employs hundreds of area residents. The Town has benefitted from the diversity of these sectors for contributions to total employment. The June 2012 unemployment rate for the local area was 7.5%, which is higher than the prior year's rate of 5.5% and higher than the Commonwealth of Virginia's rate of 6%. However, the local unemployment rate compares favorably to the national rate of 8.4%.

Wise is enjoying an unprecedented renaissance with completion of a new 3,000 seat convocation center on the campus of the University of Virginia's College at Wise, the planned opening of the renovated and expanded historic Inn at Wise in early 2014, expansion of the Lonesome Pine Regional Airport, build out of three major residential subdivisions, and completion of a new retail development. In addition, Wise is an affiliate venue on The Crooked Road, Virginia's Heritage Music Trail.

The Town's identity as a college town is reinforced by the close proximity of downtown Wise to the University of Virginia's College at Wise. Downtown Wise is a vibrant gateway to the larger community and the UVA-Wise campus, offering shopping, dining, and entertainment. In the central business district, the Big Glades amphitheatre attracts visitors from throughout the region to participate in special events sponsored by the College, Pro-Art, the Town, and the local business association. Downtown Wise also features structures listed in the National Register of Historic Places. Also notable is the emergence of UVA-Wise as a primary destination for activities other than higher education. The local winery at Mountain Rose Vineyard has captured national attention for its unique adaptive reuse of a reclaimed coal mine site as well as accolades for its award-winning wines. Orchards and a farmers market also figure prominently in the local scene.

The Town of Wise is located in Southwest Virginia within the territorial boundaries of Wise County, approximately 50 miles northwest of Bristol, Virginia.

BUDGETARY CONTROLS

The annual budget serves as the foundation of the Town's financial planning and control. In addition to internal accounting controls, the Town also maintains budgetary controls to ensure compliance with provisions embodied in the annual appropriated budget approved by Town Council. The governing body adopts an annual budget for the General Fund by July 1 of each year, after advertising and public hearing and as required by §15.2—2503 of the Code of Virginia, as amended. A budget for the proprietary fund is not required under the Code of Virginia, but a budget for this fund is prepared and tracked by the Town Manager. The budget appropriation resolution adopted by Town Council places legal restrictions on expenditures at the fund level. Budget transfers between departments and all requests for supplemental appropriations require action by the governing body. Budget-to-actual comparisons are provided in this report for the General Fund in Schedules 1 and 2.

MAJOR INITIATIVES FOR FISCAL YEAR 2012

Following the goals and objectives established by Town Council, and with the assistance and guidance of the Town Manager's office, municipal staff implemented a number of specific programs designed to provide residents with cost efficient government while enhancing their quality of life. Highlights of major initiatives, begun, continued, or completed this fiscal year include the following:

Government Administration

On June 28, 2011, the Wise Town Council adopted a General Fund budget for FY 2012 totaling just over $7.5 million. Said budget set forth a financial plan for the Town as well as a general work program for the year while maintaining taxes, at their pre-existing levels. In addition, no new General Fund taxes or fees were levied.

During fiscal year 2012, the Town secured financial assistance from USDA Rural Development to construct improvements to the water treatment plant and the impoundment at Bear Creek Reservoir. Rural Development determined that the Town's water rates were not sufficient to provide adequate income to meet the minimum requirements for operation, maintenance, debt service, and reserves and required that the rates be increased as a condition for grant and loan closing. Required rate increases take

effect in two steps, with the first increase of 20% having taken place on July 1, 2011 and the second water rate increase of 17% to be effective July 1, 2013. Sewer rates were decreased by 17% in an effort to ease the overall burden for utility customers.

The governing body and its chief financial officers have long recognized the importance of maintaining a prudent level of fund balance to ensure that adequate reserves are available to respond to emergencies, provide cash flow, and provide overall financial stability. Unassigned Fund Balance in the general fund measured 67.58% of General Fund expenditures for FY 11-12 and falls with the policy guidelines set by Council.

The Town of Wise is a participant in the CNW Regional Wastewater Treatment Authority. A new service agreement with the Authority was approved by Town Council in June of 2012. This agreement paves the way for a project to increase the wastewater treatment plant capacity from 4MGD to 6.5MGD and establishes how costs for enlarging, equipping, operating and maintaining the facility will be allocated among the participants. In order to reserve adequate capacity in the CNW plant for treating current and anticipated wastewater flows from the Town's service area, Wise has increased its allocated plant capacity from 1.188 MGD to 1.78 MGD. This additional 590,000 gallons per day of treatment will provide for future growth of the Town and handling of excess wastewater associated with infiltration and inflow in the Town's sanitary sewer system. This project will increase the Town's debt service by nearly $15,000 per month.

The Treasurer's office remains vigilant in the collection of delinquent taxes and fees. Tools utilized include participation in the Virginia Department of Taxation's Debt Set-Off Program, the Virginia Department of Motor Vehicle Registration Withholding Program, bank and wage liens, skip tracing, and the issuance of warrants-in-debt. As a result, this fiscal year, the Treasurer's office collected 93 percent of the current tax levy.

The Town supports a number of charitable institutions, volunteer, and nonprofit organizations which serve residents. Most notable, during Fiscal Year 2012, just over $105,000 was provided to support the operation of the Wise Volunteer Fire Department, $11,750 for the Lonesome Pine Regional Library, $4,000 for the Cumberlands Airport Commission, $9,150 for Pro-Art, $20,000 for the Wise Rescue Squad, $2,000 for the Library Art Gallery, and $2,500 for Appalachian Children's Theatre. In addition, the Town contributed $1,000 to the Wise Senior Citizens group and provided $6,000 to assist with Wise Fall Fling festival expenses. The Town also supported the fund-raising activities of the Wise County/City of Norton Chamber of Commerce sponsoring a table at the annual gala.

The region's deep roots in mountain traditions and its strong music heritage are gaining popularity. To build on this cultural resource, the Town continued its financial support of the Southwest Virginia Cultural Heritage Foundation with a $5,000 contribution. The Foundation is a platform to encourage economic development through cultural heritage ventures, tourism initiatives, and other asset-based enterprises throughout the 19 counties of Southwest Virginia. Under this umbrella are the familiar Crooked Road musical heritage trail, "Round the Mountain" artisans' network, agritourism trail, and outdoor recreation trails program. It is hoped that this initiative will enhance recognition of the area as a viable tourist destination.

Employees supported the community-wide American Cancer Society's Relay for Life through aggressive fund-raising and fielded a team for the event. The Town sponsored a golf tournament and motorcycle poker run. Monies raised by employees in the fight against cancer exceeded $12,000 this year.

Public Safety

The Wise Police Department works to provide professional law enforcement services to the citizens of the Town of Wise. The Department is committed to community policing whereby the officer spends time in personal contact with residents and business owners. The Department also provides on-demand crime prevention programs to citizens and organizations, and continues to sponsor the Wise Explorer Post Program.

In carrying out its various law enforcement functions this past year, the police department handled 32,561 requests for assistance. Calls ranged from reports of robbery, arson, juvenile crimes, traffic accidents, and family violence incidents, to requests for bank escorts, property checks, and disabled motorist assists.

In November of 2011 Chapman Construction Company began work on a project to build a Prototype 1 Class A Fuel Burn Building for the Wise Fire Department at the regional training facility. This state of the art facility designed by Thompson & Litton, Inc. provides an unoccupied structure to be utilized by fire service personnel for training exercises in controlled & supervised fire simulations and dense smoke environments. The Virginia Department of Fire Programs provided $430,000 in funding and the Wise Fire Department closed the gap with a contribution of $53,800. We were pleased to celebrate completion of construction on June 1, 2012.

Public Works

Much of the work performed by the Public Works Department involves routine maintenance. Utility crews answered 2,670 service calls during normal business hours and responded to 29 after hours call-outs. The Division also installed 44 new water taps and 22 new sewer taps and 3,460 feet of new water line. Water and revenue losses occur in all water utilities. The public works departments regularly audits water supplies and implement controls to keep system losses at reasonable minimal levels. As a result of this active resource management, the average monthly water loss through leakage was 12% which is well below the industry standard.

This past year, Over 6,000 feet of sewer line was filmed and tested, 32 meters were replaced, 3 fire hydrants were repaired and 3 were replaced. Personnel also responded to 161 requests for location and marking of underground utilities.

The Street Division performed routine town-wide preventive maintenance on storm drains in advance of and after all major rainstorms in order to reduce the severity of storm water problems. The crew also managed all snow and ice removal activities, operated a curbside vacuum leaf collection program from September through December, and carried out a weekly program of street cleaning for major thoroughfares. The Street Department performed routine maintenance for 27 miles of road, roadside, and storm water systems.

The Department is also responsible for the maintenance of many acres of municipal park property including Dotson Park, Arrowhead Park, the swim facility, the Gateway Garden, the Big Glades community square, and the Wise Cemetery. The Department maintains outdoor shelters and structures, public restrooms, playground equipment, fencing, and trash receptacles. In addition, the Department mows and maintains the sites, waters all plantings in the central business district and gateways, and prunes trees and vegetation from all town right-of-way.

This year, the Street Department overlaid portions of twelve roads in an effort to repair damage associated with the weather, wear and tear, and utility cuts. Maintenance of coal haul routes during FY 11-12 included the pavement of a portion of West Main Street and Darden Drive.

A four-person sanitation crew collected and transported over 4,000 tons of waste to Wise County's Blackwood Landfill in FY 2012. The crew also operated a residential recycling program consisting of collection of recyclables from five neighborhood drop centers. At the conclusion of FY 2012, over 60,000 pounds of recyclable material including glass, plastic, aluminum, and newsprint was diverted from the waste stream. In addition, 155 dump truck loads of yard waste were collected and chipped.

In order to facilitate the work of the Public Works Department, one new four wheel drive dump truck was purchased along with one new ten foot heavy duty hydraulic snow plow and a new salt spreader. In addition, one new dual wheel service truck with a utility bed was purchased for the water line crew. Also important was the installation of a new phone system for the department designed for high call volume with a central answering point for efficient call routing.

Planning and Community Development

The Town of Wise continues to be a commercial center for the county and the region. Within a 20-mile radius of Wise there are 91,470 persons and within a 30-mile radius there are 234,227 persons. As always, the Planning Department in conjunction with the Town Manager's office continues to assist businesses and individuals seeking to invest in Wise providing both information and services. Marketing Wise to prospective national and regional retailers is also part of the work performed. At the beginning of the year, Wise had 217 established businesses and during FY 11-12, 15 new businesses chose to locate in the Town. During FY 11-12, three permits were issued for the construction of new residences and two permits were issued for new commercial projects.

The Planning Department has also worked to eliminate blight throughout the Town through enforcement of the Uniform Property Maintenance Code, local mowing ordinances, and litter regulations. One property was cited for zoning ordinance violations and twenty-five requests for mowing of property were sent.

Special events continue to be an important part of a marketing strategy to attract customers and investors to Wise. In July, the Town hosted its fifth three-day civil war re-enactment, "The Battles At Wise". The event featured skirmishes on both Saturday and Sunday along with a kids' field day with period-appropriate games and prizes. Saturday's activities also included a scholar's discussion with presentations by Brian D. McKnight of UVA-Wise and Tom Mackey of Lincoln Memorial University. In addition, Dr. Mackey brought special exhibits from the university's museum. Story-teller Jerry Vencill assumed the persona of a period character to entertain the young and young at heart with tall tales, and on Saturday evening performer Stan Clardy was scheduled to provide a one-man show called "Soldiers In Gray," featuring music and story-telling from the era. The union and confederate encampments included living history presentations on civil war medicine, blacksmithing, and infantry life with settlers, and period clothing.

The 2011-2012 event season at Big Glades Community Square was the Town's first full year of activity since the facility was opened in August of 2011. The concert series kicked off on May 5th with a concert featuring two bands sponsored by Bristol Rhythm & Roots and ended with the 34th Annual Wise County Famous Fall Fling on October 14th and 15th. During the summer, sixteen separate concerts featuring forty-eight bands were staged at the amphitheatre and offered free to the public. The first full year of operation was a big hit and tribute bands for KISS and AC/DC drew the largest crowds with over 1,000 in attendance at each event. Various genres of music were represented throughout the concert series including blues, jazz, bluegrass, country, golden oldies, and hard rock.

In addition, the Town partnered with Sykes Enterprises to host a free outdoor movie series at Big Glades to bring more attention to a revitalized downtown. This hugely popular event featured six family movie nights hosted throughout the summer. The kick-off event was held the last day of school on May 29th

with additional movies shown every two weeks. Costumed characters mingled with the crowd and the local Health Department provided Zumba instruction before show time to encourage kids to remain active while away from school on summer break.

In recognition of the importance of the College to this community, the Town manned a welcome booth during Convocation Day in August to welcome new and returning students, faculty, and staff. Informational literature and maps were distributed along with a bag of free complimentary items. Key staff members from various departments were on hand to answer questions.

Each October, the Planning Department and Public Works personnel work with the Wise Business Association to prepare for Wise County's Famous Fall Fling. The celebration features traditional mountain music and an arts and crafts festival. Approximately 150 vendors participated and there were two separate music venues. This year's event started on Wednesday with a Senior Citizens picnic in the park and a concert by Taylor Cochran followed by a talent contest on Thursday and a community-wide yard sale on Friday leading up to the main events on Saturday and Sunday. More than 5,000 people attended and activities included a quilt workshop, 5K run and 1K fitness walk, bicycle poker ride, book fair, a memorial baseball classic, business decorating contest, fashion show, beauty pageant, and photography, art, and writing contests. New this year was a free shuttle service all day on Saturday. The Town provides security, traffic control, tent, stage, and food court set-up, garbage collection, and other logistical and support services.

In December, the Town hosted a Christmas Tree Lighting Ceremony in the Gateway Garden to usher in the holiday season. In conjunction with the tree lighting event, the Town launched a "Shop Local" campaign and contest to educate citizens about the importance of shopping locally and to provide financial incentives for consumers to shop in Wise. In addition to its Facebook pages, the Town also publishes a monthly electronic newsletter to keep everyone informed of downtown revitalization efforts and Wise activities.

Work continues on the design of a project to enlarge sidewalks, install new street lighting, and construct other streetscape improvements in a portion of the central business district from Spring Street to Railroad Avenue. The project is funded in part by a grant of nearly $300,000 from the Virginia Department of Transportation supplemented by an additional $497,000 in local money.

Parks and Recreation

The 2012 pool season began on May 26th and ended on August 26th with just over 12,000 people visiting the facility during that time period. Despite good attendance, fees for services were not sufficient to fund the costs of daily operations and maintenance.

Parks are a tangible reflection of the quality of life in a community and are often cited as one of the most important factors in surveys of how livable communities are. They provide gathering places for families and social groups, as well as for individuals of all ages and economic status. Places for children and families to connect with nature and recreate outdoors together, our parks also improve community health. In recognition of their importance, the Town upgraded the park furnishings at Bear Creek Reservoir and at Arrowhead Park demolishing aged and deteriorated shelters and constructing new picnic facilities equipped with new tables.

FACTORS AFFECTING FUTURE FINANCIAL CONDITION

The economic condition and outlook for the Town of Wise continues to be guarded. The presence of the University of Virginia's College at Wise (UVA-Wise) brings many advantages to the economic condition

of the town. The combination of approximately 2,000 students and almost 300 faculty and staff bring significant potential buying power and tax base to the Town which local merchants can work to capture. The Town continues to work with the College to assure the presence of required infrastructure necessary to facilitate the expansion of campus facilities.

Approximately fifty percent of the land area within Wise consists of slopes exceeding twenty percent which generally precludes any large scale commercial or industrial development. Approximately forty percent of the remaining land area is already principally developed. Further, some of the remaining land area is located within flood prone areas of Glade and Yellow creeks which means that for all practical purposes, there is very little room for additional economic growth in the Town.

Lying within the coalfields of Southwest Virginia, the Town's economic and demographic profile generally reflects the prevailing conditions of the coalfield region. Looking realistically to the future requires that we consider the new economic reality of a long-term recession, legislation and regulations not favorable to the coal industry, and a new focus on natural gas as the preferred fuel source for energy production. Unless changes are forthcoming, this could have profound ramifications for our community including loss of rural jobs and loss of local businesses. In the past, taxes paid by the coal industry have supported local and state government and contributed to the economic diversification of the coalfield region through various grant programs. The coal industry has also been a heavy supporter of nonprofit and charitable organizations that meet local human service needs. We will be hard-pressed to replace these losses.

The automatic federal spending cuts and federal tax hikes to take effect January 2013 threaten to eliminate over 200,000 defense-related and non-defense jobs in Virginia and cut appropriations for programs that provide grant assistance to localities. They will also decrease personal earnings of the entire workforce, eliminate jobs, and raise the unemployment rate. The state is already girding for the impact, and even if Congress delays action or waters down the package of tax and spending cuts in the Budget Control Act, the impacts to local government finances will still be very acute. At the current pace, it is projected that the US debt will exceed 100% of the GDP in fifteen years. It is clear that drastic action will be required now and for the foreseeable future in order to restore the nation's solvency. As a result, the Town will have to carefully consider budgetary actions being taken at the state and federal level in setting municipal spending priorities for the next fiscal year. We can expect more decreases in current federal and state aid programs and additional shifting of new costs to localities. However, the current revenue structure imposed by the state provides few means to address these anticipated difficulties.

Looking realistically to the future, there will be multiple challenges. Costs to support retirement and healthcare programs continue to rise at an alarming rate and implementation of the provisions of the Affordable Health Care Act will affect local finances. And despite all our progress, the local tax base remains largely dependent on the health of the coal industry which is currently in crisis. The governing body will have to provide policy leadership to strategically reduce expenses while minimizing impact to services if a healthy financial position is to be maintained. Balancing the funding for existing programs and the needs for capital improvements with taxpayer affordability will be an extremely difficult exercise.

For the 2011-2012 Fiscal Year, Town Council has approved a General Fund Operating Budget of $7.5 million. In the face of significant outlays for planned capital projects, the historical trend of adding to fund balance was unsustainable for FY 12. The Town ended the year with a deficit less than that projected and budgeted. However, a transfer from prior year reserves (unassigned fund balance) in the amount of $887,147 was required to balance the budget.

Similar occurrences in prior years point to the need for stronger financial management and greater reserve. This is especially true in light of recent and anticipated bond issues for water and sewer

improvements and the impact that significant increases in debt retirement will have on future rate structures and operating budgets.

Cash Management

Cash temporarily idle during the year was invested in time deposits and various authorized money market instruments. The town's investment activities are designed to allow the Town to obtain the highest possible yield on available funds consistent with constraints imposed by safety objectives, cash flow considerations, and state laws restricting the placement of funds. The amount of interest earned for FY 12 was $22,686. This is a small increase from interest earned on temporary investments in FY 11 which totaled $17,409. Drawdowns of reserve funds banked for planned capital projects limit the amount of money available for investment. Anemic market interest rates also contribute to the low returns.

Risk Management

The Town is exposed to various risks of losses. Staff uses a variety of techniques to identify and monitor its risks and exposures for the activities of the Town and has an ongoing employee safety program to help prevent losses. The Town is a member of the Virginia Municipal Liability Pool and the Virginia Municipal Group Self Insurance Association. These programs provide self-insurance coverage for workers' compensation, general liability, automobile liability, property and fire protection, public officials' liability, and law enforcement liability.

Respectfully submitted,

Beverly Owens
Town Manager

MEMBERS OF COUNCIL

Erra Sutherland, Mayor

Caynor A. Smith, Jr., Vice-Mayor

Teresa H. Adkins

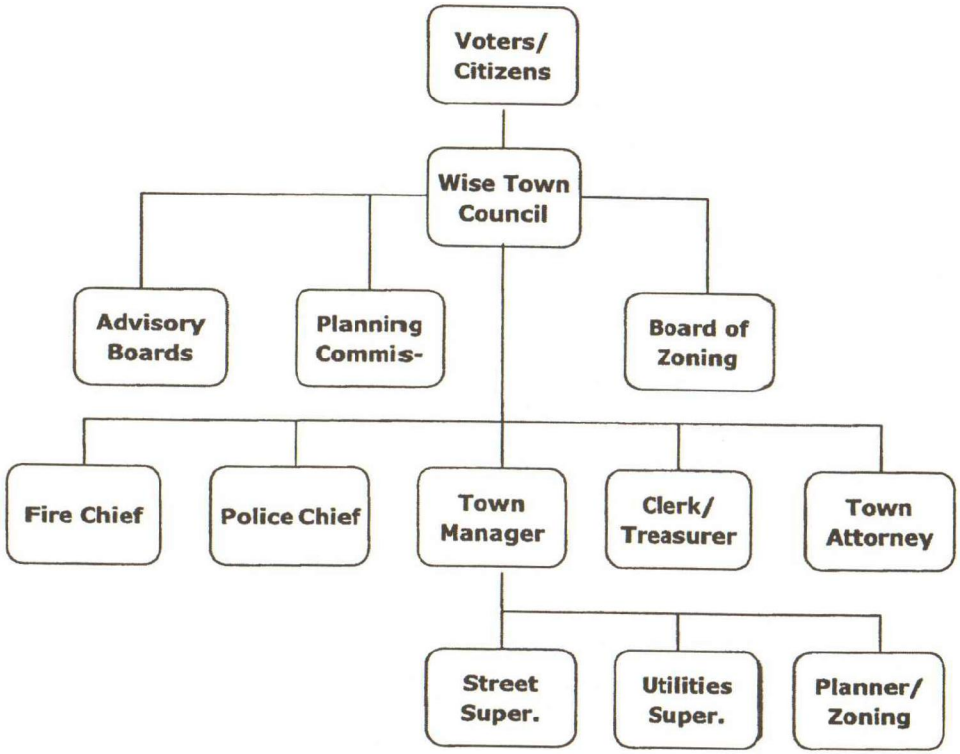
Luther D. Adkins

Clifton Carson

OTHER TOWN OFFICIALS

Town Manager	Beverly Owens
Town Treasurer	Robin Bryant
Chief of Police	Tony Bates

Town of Wise Organizational Chart



LARRY D. STURGILL, P. C.

LARRY D. STURGILL

MEMBER
AMERICAN INSTITUE OF
CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER
TENNESSEE & VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

The Honorable Members of Town Council
Town of Wise
Wise, Virginia 24293

Council Members:

We have audited the accompanying financial statements of the governmental activity and the business-type activity of the Town of Wise, Virginia, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activity and the business-type activity of the Town of Wise, Virginia, as of June 30, 2012 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 November 9, 2012, on our consideration of the Town of Wise, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 39 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Wise, Virginia's financial statements as a whole. The introductory section and statistical section, is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit if the basic financial statements and, accordingly, we do not express an opinion or provide any issues on them.

Larry D. Sturgill, P.C.
Wise, Virginia
November 9, 2012

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

MEMBER
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Honorable Members of Town Council
Town of Wise
Wise, Virginia 24293

Council Members:

We have audited Town of Wise, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Town of Wise, Virginia's major federal program for the year ended June 30, 2012. Town of Wise, Virginia's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Town of Wise, Virginia's management. Our responsibility is to express an opinion on Town of Wise, Virginia'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 Town of Wise, Virginia'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 of Town of Wise, Virginia's compliance with those requirements.

In our opinion, Town of Wise, Virginia, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2012.

Internal Control over Compliance

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

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

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

This report is intended solely for the information and use of management, Town Council, others within the entity, 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.

Larry D. Sturgill, P.C.
Wise, Virginia
November 9, 2012

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Town of Wise, Virginia
Management's Discussion and Analysis

As management of the Town we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2012. I encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal in the Introductory Section of this report, and the Town's financial statements which follow this discussion and analysis.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by $20,586,563 (net assets). Of this amount, $2,060,453 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors from the general fund.

- The Towns total net assets increased by $242,186, of which the governmental activities decreased by $288,876 and business-type activities increased by $531,062.

- As of the close of the current fiscal year; the Town's general fund reported an ending fund balance of $3,244,009, a decrease of $887,147 in comparison with the prior year. $2,740,612 of this total amount is available for spending at the Town's discretion (unassigned fund balance).

- Unassigned fund balance for the general fund was $2,740,612, or 67.58% percent of total general fund expenditures and 65.34% of total general fund revenues.

- The Town's total debt increased by $2,346,488 during the current fiscal year. New debt transactions included USDA Rural Development General Obligation Bonds secured for construction improvements at the Bear Creek Reservoir in the amount of $2,423,541.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) notes to the financial statements.

This report also contains 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 Town's overall financial status, in a manner similar to a private-sector business.

The *statement of activities* presents information showing how the Town'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 related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both the government-wide financial statements distinguish functions of the Town which are principally supported by taxes, and other non-exchange revenues transactions *(governmental activities)* from other activities which are intended to recover all or a significant portion of their costs through user fees charged to external parties *(business-type activities)*. The governmental activities of the Town include general government administration; public safety; public works; parks and recreation and cultural: community development. The business-type activities consist of public utilities.

The government-wide financial statements (Exhibit 1 and 2) include the Town itself. The Town has no component units to report.

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. The Town like other local governments uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Town can be divided into two categories: governmental fund, and proprietary fund.

Governmental Funds: Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements *focus on near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare to the information presented for *governmental funds* with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town adopts an annual appropriated budget for its General fund and proprietary fund, although not required. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The Town maintains one type of **Proprietary Funds:** The *Enterprise Fund* is used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its public utilities (water and sewer) fund.

Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found at Exhibits 7 through 9 of this report.

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

Financial Analysis of the Town

Over time changes in net assets may serve over time as a useful indicator of a Town's financial position. Of interest, the Town's assets exceeded liabilities by $20,586,563 at the close of fiscal year 2012.

The largest portion of the Town's net assets ($17,222,257, 84 percent of the total) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide service to citizens: consequently, these assets are *not* available for future spending, as capital assets are generally not sold or otherwise disposed of during their useful life. Although the Town'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 these liabilities.

Government-wide Financial Analysis (Continued)

Town of Wise, Virginia's Net Assets

	Primary Governmental Activities	
ASSETS:	**2012**	**2011**
Current and other assets	$ 3,932,828	$ 4,938,346
Capital assets	19,773,293	16,849,836
Total assets	23,706,121	21,476,811
LIABILITIES:		
Long-term liabilities outstanding	$ 2,594,071	$ 129,362
Current liabilities	525,487	1,295,343
Total liabilities	$ 3,119,558	$ 1,424,705
NET ASSETS:		
Invested in capital assets, net of related debt	$ 17,222,257	$ 16,645,289
Restricted	1,303,853	-0-
Unrestricted	2,060,453	3,699,088
Total net assets	$ 20,586,563	$ 20,344,377
Total Liabilities and Net Assets	$23,706,121	$ 21,769,082

At the end of the current fiscal year, the Town is able to report a positive balance in its net assets, both for the Town as a whole, and as well as for its governmental activities.

Government-wide Financial Analysis (Continued)

Governmental Activities – Governmental activities decreased the Town's net assets by ($288,876). Key elements of this increase are as follows:

Town of Wise, Virginia's Change in Net Assets

	Primary Governmental Activities	
	2012	**2011**
REVENUES:		
Program revenues:		
Charges for services	$ 292,545	$ 296,925
Operating grants and contributions	1,107,713	1,466,638
General Revenues:		
Property taxes	636,194	642,303
Other Local taxes	1,976,178	2,103,472
Other	(836,118)	(203,553)
TOTAL REVENUES	$ 3,176,512	$ 4,305,785
EXPENSES:		
General government	$ 521,651	$ 200,226
Public safety	1,221,533	1,437,540
Public works	1,234,521	1,253,400
Health and welfare	9,920	6,398
Parks, recreation and culture	255,680	169,438
Community development	216,965	1,148,946
Interest Expense	5,118	9,185
TOTAL EXPENSES	$ 3,465,388	$ 4,225,132
Increase (decrease) in net assets	$ (288,876)	$ 80,653
Net assets – June 30, 2011	13,149,351	13,068,698
Net assets – June 30, 2012	$ 12,860,475	$13,149,351

Financial Analysis of the Town's Funds

As noted earlier, the Town used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Fund: The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town's financing requirements. In addition, the Town's fund balance classifications are useful to identify the extent to which the Town's fund balances are constrained and how binding those constrained are and how binding those constraints are.

At the end of the current fiscal year, the Town's *governmental fund* reported an ending fund balance of $3,244,009, a decrease of $887,147 in comparison with the prior year. $127,494 (3.93%) is classified as restricted to indicate that it can only be spent for specific purposes as stipulated by external resource providers (for example, through debt covenants, grant agreements, or by laws or regulations of other governments. Eighty-four percent of this total amount, $2,740,612 constitutes *unassigned fund balance.* Unassigned fund balances are technically available for any remaining purpose, but are maintained at targeted levels in accordance with sound financial management practices.

The General Fund is the only operating fund of the Town (Exhibit 3). The General Fund's balance decreased $887,147 (21.47%) during fiscal year 2012 to $3,244,009, of which $2,740,612 is unassigned. As one measure of the General Fund's liquidity, it is useful to compare the total of Town's assigned and unassigned fund balances to total revenues. At the end of fiscal year 2012, the General Fund's unassigned fund balances of $2,740,612 represents (65.34%) of total General Fund revenues of $4,194,466. In addition General Fund's unassigned fund balance totaled $2,740,612 and continues to exceed the 10% minimum set by the Town's fund balance policy. The $887,147 fiscal year 2012 decrease in the General Fund's fund balance resulted from General Fund revenues of $4,194,466 less expenditures of $4,055,182 and other transfers of $1,026,431.

Proprietary Funds: The Town's proprietary funds financial statements provide the same type of information presented in the business-type activities on the government-wide financial statements, as their basis of accounting is the same, but in more detail. Factors relating to the financial position and results of operation of the Town's Public Utilities System (water and sewer fund) have been addressed in the discussion of the Town's business type activities.

General Fund Budgetary Highlights

Differences between the budgeted and the actual amounts represent expenditures being $2,431,227 lower than anticipated, while revenues were $3,318,374 lower than anticipated, resulting in an unfavorable difference of $887,147 (the net change in fund balance) $618,827 of this difference (70 percent) is due to timing of grant reimbursements.

Capital Asset and Debt Administration

Capital assets: The Town's investment in capital assets for its governmental fund as of June 30, 2012 amounts to $9,697,334, net of accumulated depreciation. This investment is in land, buildings and improvements, infrastructure, and machinery and equipment. The total increase in the Town's investment in capital assets for the current fiscal year was $592,452.

Town of Wise, Virginia's Change in Net Assets

	Governmental Activities	
	2012	**2011**
Land	$ 1,988,498	$ 1,988,498
Buildings and Building Improvements	2,628,927	2,120,943
Infrastructure	6,770,891	6,272,002
Equipment	2,921,078	2,920,842
Total	14,309,394	13,302,285
Less: accumulated depreciation	(4,484,566)	(4,009,129)
Net capital assets	$ 9,824,828	$ 9,293,156

Additional information on the Town's capital assets can be found in Note 6.

Long-term debt: At the end of the current fiscal year, the Town had total primary government debt outstanding of $2,667,769, including claims, judgments, and compensated absences of $116,734. Of this amount $2,551,035 comprises debt backed by the full faith and credit of the Town.

In the Commonwealth of Virginia there is no State statue that limits the amount of general obligation debt a Town may issue.

During the current fiscal year, the Town's total primary government debt increased by $2,346,488.

Additional information on the Town of Wise, Virginia's long-term debt can be found in Note 8 of this report.

Economic Factors and Next Year's Budgets and Rates

- The June 2012 unemployment rate for the local area was 7.5% percent, which is an increase from a rate of 5.5 % percent in November 2011. This is higher than the state's average unemployment rate of 6.0 % percent by 1.5 percent while the rate was lower than the national average rate of 8.4%.

All of these factors were considered in preparing the Town's budget for the 2012 fiscal year.

Rates

The appropriate tax rates for the 2011-2012 year are as follows: .245 per $100 value for real estate, mobile home taxes, and public utilities real estate, .53 per $100 value for personal property, machinery and tools, and public service personal property. In fiscal year 2012, Public Utilities' user fee increased 20% for water and decreased 17% for sewer.

Request for Information

This financial report is designed to provide a general overview of the Town of Wise, Virginia's finances for all those with an interest in the Town's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Ms. Beverly Owens, Wise, Virginia 24293.

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

TOWN OF WISE, VIRGINIA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total Primary Governmental Activities
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 3,129,436	$ 106,455	$ 3,235,891
Receivables, net			
Taxes	125,837	-	125,837
Accounts	37,552	167,557	205,109
Other	1,316	272,578	273,894
Due from Other Governmental Units	92,097	-	92,097
TOTAL CURRENT ASSETS	3,386,238	546,590	3,932,828
NONCURRENT ASSETS			
Capital assets, depreciable, net	7,836,331	9,652,464	17,488,795
Capital assets, non-depreciable	1,988,498	296,000	2,284,498
TOTAL NONCURRENT ASSETS	9,824,829	9,948,464	19,773,293
TOTAL ASSETS	$ 13,211,067	$ 10,495,054	$ 23,706,121
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	$ 69,486	$ 99,316	$ 168,802
Deferred Revenue	-	52,606	52,606
Accrued liabilities and wages	34,980	18,552	53,532
Compensated Absences	5,645	5,347	10,992
Other Post Employment Benefits	49,048	-	49,048
Customer deposits	-	106,455	106,455
Accrued Interest	505	20,841	21,346
General Obligation Bonds Payable	62,706	-	62,706
TOTAL CURRENT LIABILITIES	222,370	303,117	525,487
NONCURRENT LIABILITIES			
Noncurrent Portion of Compensated Absences	63,434	42,308	105,742
Noncurrent Portion of Long-term Obligation	64,788	2,423,541	2,488,329
TOTAL NONCURRENT LIABILITIES	128,222	2,465,849	2,594,071
TOTAL LIABILITIES	350,592	2,768,966	3,119,558
NET ASSETS			
Invested in capital assets, net of related debt	9,697,334	7,524,923	17,222,257
Restricted-Cemetery Savings	375,903	-	375,903
Restricted-Debt Reserves	127,494	800,456	927,950
Unrestricted	2,659,744	(599,291)	2,060,453
TOTAL NET ASSETS	12,860,475	7,726,088	20,586,563
TOTAL LIABILITIES AND NET ASSETS	$ 13,211,067	$ 10,495,054	$ 23,706,121

The accompanying notes are an integral part of the financial statements

EXHIBIT 2

TOWN OF WISE, VIRGINIA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
					Primary Government		
FUNCTIONS/PROGRAMS:	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government administration	$ 521,651	$ -	$ 281,159	$ -	$ (240,492)	$ -	$ (240,492)
Public safety	1,221,533	-	24,534	300,000	(896,999)	-	(896,999)
Public works	1,234,521	214,675	1,506	495,515	(522,825)	-	(522,825)
Health & Welfare	9,920	-	-	-	(9,920)	-	(9,920)
Parks, recreation and cultural	255,680	77,870	-	-	(177,810)	-	(177,810)
Community Development	216,965	-	5,000	-	(211,965)	-	(211,965)
Interest & Fiscal Charges	5,118	-	-	-	(5,118)	-	(5,118)
Total Governmental Activities	3,465,388	292,545	312,199	795,515	(2,065,129)	-	(2,065,129)
Business-Type Activities:							
Water and sewer	2,729,000	2,228,584	-	-	-	(500,416)	(500,416)
Total Business-Type Activities	2,729,000	2,228,584	-	-	-	(500,416)	(500,416)
TOTAL PRIMARY GOVERNMENT	$ 6,194,388	$ 2,521,129	$ 312,199	$ 795,515	(2,065,129)	(500,416)	$ (2,565,545)
		General Revenues:					
		Taxes:					
		Property Taxes, levied for general purposes			636,194	-	636,194
		Utility Taxes			40,543	-	40,543
		Mineral Taxes			223,155	-	223,155
		Franchise Taxes			6,718	-	6,718
		Local Sales & Use Taxes			117,328	-	117,328
		Other Local Taxes			1,588,434	-	1,588,434
		Investment Income			29,979	2,786	32,765
		Miscellaneous			154,760	-	154,760
		Operating transfers and adjustments			(1,026,431)	1,026,431	-
		Other			5,573	2,261	7,834
		Total general revenues and transfers			1,776,253	1,031,478	2,807,731
		Net change in assets			(288,876)	531,062	242,186
		NET ASSETS - JULY 01			13,149,351	7,195,026	20,344,377
		NET ASSETS - JUNE 30			$ 12,860,475	$ 7,726,088	$ 20,586,563

The accompanying notes are an integral part of the financial statements

TOWN OF WISE, VIRGINIA
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012

	General Fund	Total
ASSETS		
Cash and cash equivalents	$ 3,129,436	$ 3,129,436
Receivables, net:		
Taxes	125,838	125,838
Accounts	37,552	37,552
Other	1,316	1,316
Due from Other Governmental Units	81,452	81,452
TOTAL ASSETS	$ 3,375,594	$ 3,375,594
LIABILITIES		
Accounts payable	$ 69,486	$ 69,486
Accrued payroll and related liabilities	34,978	34,978
Deferred revenue	27,121	27,121
TOTAL LIABILITIES	131,585	131,585
FUND BALANCES		
Unassigned Funds	2,740,612	2,740,612
Restricted for Debt Service	127,494	127,494
Nonspendable for cemetery	375,903	375,903
TOTAL FUND BALANCES	3,244,009	3,244,009
TOTAL LIABILITIES AND FUND BALANCES	$ 3,375,594	$ 3,375,594

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Total Fund Balances	$ 3,244,009
Capital assets used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. The cost of the assets is $14,309,394 and the accumulated depreciation is $4,484,566	9,824,828
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures and are not included in the governmental funds.	37,766
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consisted of the following:	
Bond payable ($127,496)	
Other Post Employment Benefit (49,048)	
Accrued interest payable (505)	
Compensated absences (69,079)	(246,128)
Net Assets of Governmental Activities	$ 12,860,475

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

EXHIBIT 4

TOWN OF WISE, VIRGINIA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund 2012	General Fund 2011
REVENUES:		
General property taxes	$ 638,392	$ 612,985
Other local taxes	1,965,533	2,103,470
Permits, privilege fees and regulatory licenses	1,674	2,304
Fines and forfeitures	16,637	17,586
Revenue from the Use of Money and Property	29,979	50,296
Charges for services	292,545	296,925
Miscellaneous	141,993	214,324
Intergovernmental	1,107,713	1,466,638
TOTAL REVENUES	4,194,466	4,764,528
EXPENDITURES:		
Current:		
General government administration	490,230	481,125
Public safety	1,592,775	1,216,251
Public works	1,326,770	1,353,447
Health & Welfare	9,920	6,398
Parks, recreation and cultural	250,430	186,666
Community development	318,313	1,447,764
Debt Service:		
Principal Retirement	60,779	58,912
Interest	5,965	7,833
TOTAL EXPENDITURES	4,055,182	4,758,396
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	139,284	6,132
OTHER FINANCING SOURCES (USES):		
Loan proceeds	-	-
Operating transfers	(1,026,431)	(488,061)
TOTAL OTHER FINANCING SOURCES (USES)	(1,026,431)	(488,061)
NET CHANGE IN FUND BALANCE	(887,147)	(481,929)
FUND BALANCE, JULY 01	4,131,156	4,613,085
FUND BALANCE, JUNE 30	$ 3,244,009	$ 4,131,156

The accompanying notes are an integral part of the financial statements

TOWN OF WISE, VIRGINIA

EXHIBIT 5

RECONCILIATION OF THE REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund
Net Change in Fund Balance- (As Presented In This Statement):	$ (887,147)
Amounts Presented for Governmental Activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds 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 capital outlays exceeds depreciation in the period.	531,643
Because some property taxes will not be collected for several months after the Town's year end, they are not considered as "available" revenues in the governmental funds. Deferred revenue decreased by this amount this year.	(2,197)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This amount is the net effect of these differences in the treatment of long-term debt and related items.	60,779
In the statement of activities, revenues that do not provide current financial resources and expenses that are not paid by current resources are not reported in the fund statements.	(1,382)
In the statement of activates, compensated absences are measured by the amounts earned during the year. In governmental funds however, expenditures for these items are measured by the amount of financial resources used. This amount represents the difference between the amount earned versus the amount used.	9,428
Change in Net Assets of Governmental Activities as Reported on the Statement of Activities	$ (288,876)

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

EXHIBIT 6

TOWN OF WISE, VIRGINIA
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

	2012 Enterprise Fund Water & Sewer	Total
ASSETS		
Current Assets:		
Cash & cash equivalents	$ 106,455	$ 106,455
Receivables, net	440,135	440,135
Noncurrent Assets:		
Capital assets, depreciable, net	9,652,464	9,652,464
Capital assets, non-depreciable	296,000	296,000
TOTAL ASSETS	$ 10,495,054	$ 10,495,054
LIABILITIES		
Accounts payable	$ 99,316	$ 99,316
Deferred Revenue	52,606	52,606
Accrued wages and liabilities	18,552	18,552
Customer deposits	106,455	106,455
Compensated Absences:		
Due within one year	5,347	5,347
Due within more than one year	42,308	42,308
Accrued interest	20,841	20,841
Long-term liabilities:		
Due within one year	-	-
Due within more than one year	2,423,541	2,423,541
TOTAL LIABILITIES	2,768,966	2,768,966
NET ASSETS		
Invested in capital assets, net of related debt	7,524,923	7,524,923
Restricted-Debt Reserves	800,456	800,456
Unrestricted	(599,291)	(599,291)
TOTAL NET ASSETS	7,726,088	7,726,088
TOTAL LIABILITIES AND NET ASSETS	$ 10,495,054	$ 10,495,054

The accompanying notes are an integral part of the financial statements

EXHIBIT 7

TOWN OF WISE, VIRGINIA
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	2012 Enterprise Fund Water & Sewer	2011 Enterprise Fund Water & Sewer
OPERATING REVENUES:		
Charges for services	$ 2,041,581	$ 1,904,377
Connection charges	112,258	87,313
Miscellaneous	74,745	60,933
Total Operating Revenues	$ 2,228,584	$ 2,052,623
OPERATING EXPENSES:		
Personnel services	$ 795,777	$ 754,533
Fringe benefits	431,897	445,444
Contractual services	50,168	46,461
Other charges	1,008,027	983,720
Amortized Bond Issuance Costs	-	298
Depreciation	421,899	376,180
Total Operating Expenses	2,707,768	2,606,636
OPERATING INCOME (LOSS)	(479,184)	(554,013)
NON-OPERATING REVENUES (EXPENSES) :		
Miscellaneous Income	-	-
Interest Income	2,786	1,739
Interest Expense	(21,231)	(932)
Gain (Loss) on Sale of Assets	2,260	-
TOTAL NON-OPERATING REVENUE (EXPENSES)	(16,185)	807
INCOME (LOSS) BEFORE OPERATING TRANSFEI	(495,369)	(553,206)
Operating Transfer In	1,026,431	488,061
Contribution from Other Governmental Units	-	266,000
NET INCOME	531,062	200,855
NET ASSETS, JULY 01	7,195,026	6,994,171
NET ASSETS, JUNE 30	$ 7,726,088	$ 7,195,026

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

EXHIBIT 8

TOWN OF WISE, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	2012 Enterprise Fund Water & Sewer	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	$ 2,224,348	
Cash payments to suppliers	(1,791,499)	
Cash payments to employees	(784,819)	
Other Operating Revenues	-	
Net Cash Provided (Used) By Operating Activities		(351,970)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Penalties and interest charges	2,786	
Increase (decrease) in customer deposits	240	
Net Cash Provided (Used) By NonCapital Financing Activities		3,026
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets	(2,813,682)	
Operating transfers from other funds	1,026,431	
Loan proceeds	2,150,963	
Principal paid on revenue bond	(16,273)	
Interest paid on revenue bonds	(516)	
Gain from sale of capital assets	2,261	
Net Cash Provided (Used) By Capital and Related Financing Activities		349,184
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and dividends on investments	-	
Net Cash Provided (Used) By Investing Activities		-
Net Increase (Decrease) In Cash And Cash Equivalents		240
CASH BALANCES, BEGINNING OF YEAR		106,215
CASH BALANCES, END OF YEAR		$ 106,455

Disclosure of Accounting Policy

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.

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

TOWN OF WISE, VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2012

	2012 Enterprise Fund Water & Sewer
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	$ (479,184)
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
Depreciation	421,899
Amortization	(58)
Change in Assets & Liabilities:	
(Increase) decrease in accounts receivable	(4,236)
Increase (Decrease) in accounts payable	(301,149)
Increase (Decrease) in accrued liabilities	7,930
Increase (Decrease) in accrued vacation	2,828
NET CASH USED IN OPERATING ACTIVITIES	$ (351,970)

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

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Statement Presentation

Financial Statement Presentation

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

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

Management's Discussion and Analysis – GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Government-wide and Fund Financial Statements

Government-wide financial statements – The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government. For the most part, effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

NOTE 1 (Continued)

Statement of Activities – The new government-wide statement of activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

Separate financial statements are provided for the governmental fund and the proprietary fund.

Budgetary comparison schedules – Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the new reporting model governments will continue to provide budgetary comparison information in their annual reports. An important change, however, is a requirement to add the government's original budget to the current comparison of final budget and actual results.

B. The Financial Reporting Entity

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit's reporting entity for basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organizations governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

As required by generally accepted accounting principles, these financial statements present the Town as a primary government. Upon consideration of potential component units, it was determined that there were no component units for the Town.

NOTE 1 (Continued)

C. Potential Component Unit Consideration

No potential component units were detected during review.

D. Measurement Focus, Basis of Accounting, Financial Statement Presentation

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

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

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

The government-wide statement of activities reflect both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues, (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 45 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

NOTE 1 (Continued)

The government reports the following major governmental funds:

(1) Governmental Funds account for the expendable financial resources, other than those accounted for in 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 Fund is:

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

(2) Proprietary Funds account for activities similar to those found in the private sector. The measurement focus is upon determination of net income. Proprietary Funds consist of Enterprise and Internal Service Funds.

Enterprise Funds - Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the Town of Wise is that the cost of providing services to the general public be financed or recovered through user charges. The Enterprise Fund consists of the Water and Sewer Fund.

E. Budgets and Budgetary Accounting

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

(1) The Town Manager submits to the Town 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 department level or category level. The appropriation for each department or category can be revised only by the Council. The Town Manager is authorized to transfer budgeted amounts within general government departments.
(5) Formal budgetary integration is employed as a management control device during the year for the General Fund.
(6) All budgets are adopted on a cash basis, but variances from modified accrual basis budgets are not considered to be material.
(7) Appropriations lapse on June 30 for all Town units.
(8) All budget data presented in the accompanying financial statements is the original budget, as no amendments were made during the year.

NOTE 1 (Continued)

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 Fund. Encumbrances outstanding at year-end and are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

G. Property, Plant and Equipment

Property, plant and equipment purchased is stated at cost. Donated property is recorded at market value prevailing at date of donation. Depreciation has been provided in the proprietary fund over the following estimated useful lives using the Straight Line Method:

	Water and Sewer Fund
Water/Sewer System	30 years
Improvements Other Than Buildings	30 – 50 years
Equipment	3 – 10 years

H. Allowance for Uncollectible Accounts

Town calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately $40,323 at June 30, 2012, and is composed of the following:

	Amount
General Fund:	
Property Tax Receivable	$ 6,838
Garbage Receivable	5,744
Water and Sewer Fund:	
Accounts Receivable	27,741
TOTAL	$ 40,323

NOTE 2: CASH AND INVESTMENTS

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

Investments: Statutes authorize the Town to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions

NOTE 2 (Continued)

thereof, obligations of the International Bank for Reconstruction and Development (World Bank) the Asian Development Bank, the African Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP)
The Town had no investments required to be categorized in accordance with standards. All funds were on deposit.

NOTE 3: PROPERTY TAXES RECEIVABLE

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

NOTE 4: DUE FROM OTHER GOVERNMENTAL UNITS

	Amount	Total
Treasurer of Wise County:		
Sales Tax	$ 32,550	
Court Fines	2,266	
Coal Road Improvement	46,561	
Total Treasurer of Wise County		$ 81,377
TOTAL DUE		$ 81,377

NOTE 5: 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 $27,121 is comprised of uncollected tax billings not available for funding of current expenditures as of June 30, 2012.

NOTE 6: CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets follows:

	BALANCE BEGINNING	ADDITIONS	DELETIONS	BALANCE ENDING
Land	$ 1,988,498	$ -	$ -	$ 1,988,498
Buildings	2,120,943	507,984	-	$ 2,628,927
Infrastructure	6,272,001	498,890	-	$ 6,770,891
Equipment	2,920,843	114,789	114,554	$ 2,921,078
TOTAL	13,302,285	1,121,663	114,554	14,309,394
Less: Accumulated Depreciation				(4,484,566)
NET				$ 9,824,828

NOTE 7: PROPRIETARY FIXED ASSETS

A summary of proprietary fund property, plant and equipment at June 30, 2012 follows:

	Water & Sewer
Land	$ 296,000
Buildings	271,817
Improvements other than Buildings	14,082,706
Equipment	1,100,820
TOTAL	15,751,343
Less: Accumulated Depreciation	(5,802,878)
NET	$ 9,948,465

NOTE 8: LONG-TERM DEBT

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

	Bonds and Notes Payable		
Year Ended June 30,	Principal	Interest	Total
2013	$ 62,706	$ 82,330	$ 145,036
2014	95,284	97,795	$ 193,079
2015	37,849	113,639	$ 151,488
2016	39,269	112,219	$ 151,488
2017	40,744	110,744	$ 151,488
2018-2022	227,973	529,467	$ 757,440
2023-2027	274,676	482,764	$ 757,440
2028-2032	331,463	425,977	$ 757,440
2033-2037	400,589	356,851	$ 757,440
2038-2042	484,825	272,615	$ 757,440
2043-2047	307,573	72,722	$ 380,295
2048-2052	120,590	6,494	$ 127,084
TOTALS	2,423,541	2,663,617	$ 5,087,158

Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the Town for the Year ended June 30, 2012:

Primary Government	Balance 7/1/2011	Additions	Reductions	Balance 6/30/2012	Due Within One Year
Governmental Activities:					
General Obligation Bond-Series 1994	$ 188,274	$ -	$ 60,779	$ 127,495	$ 62,706
Total Governmental Activities	188,274	-	60,779	127,495	62,706
Business-Type Activities:					
General Obligation Bond-Series 1976	16,273	-	16,273	-	-
General Obligation Bond-Series 2011A	-	1,673,541	-	1,673,541	-
General Obligation Bond-Series 2011B	-	750,000	-	750,000	-
Total Business-Type Activities	16,273	2,423,541	16,273	2,423,541	-
Total Primary Government	$ 204,547	$ 2,423,541	$ 77,052	$2,551,036	$ 62,706

NOTE 8 (Continued)

DETAILS OF LONG-TERM INDEBTEDNESS

	AMOUNT OUTSTANDING
GENERAL FUND:	
General Obligation Bond:	
An $875,555 General Obligation Refunding Bond was issued April 10, 2003 to Blue Ridge Bank for the refinancing of a general obligation bond. Of the refunding bond, 71% was allocated to the general fund. A principal payment is due annually and interest is paid semi-annually at 3.10% interest rate.	$ 127,494
Total General Obligation Bonds	127,494
Total Compensated Absences	69,079
Total General Long-term obligation Debt	$ 196,573
ENTERPRISE FUND:	
General Obligation Bonds:	
A $2,274,000 General Obligation Water Bond was issued April 26, 2011, through Rural Development Authority at a rate of 4.25% per year. Interest only shall be payable on August 9, 2012, and August 9, 2013. Monthly installments of combined principal and interest in the amount of $10,074 shall be payable beginning on September 9, 2013.	$ 1,673,541
A $750,000 General Obligation Water Bond was issued April 26, 2011, through Rural Development Authority at a rate of 2.50% per year. Interest only shall be payable on August 9, 2012, and August 9, 2013. Monthly installments of combined principal and interest in the amount of $2,550 shall be payable beginning on September 9, 2013.	750,000
Total General Obligation Bonds	2,423,541
Total Compensated Absences	47,655
Total Enterprise Long-term obligation Debt	$ 2,471,196

NOTE 9: DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

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

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2. Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.

Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.

Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70 %. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial

NOTE 9 (Continued)

Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

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

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf or by writing to the System's Chief Financial Officer 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 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended 2012 was 3.84% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2012, Town's annual pension cost of $75,717 was equal to the Town's required and actual contributions.

Three-Year Trend Information for Town

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2010	73,069.	100%	-0-
June 30, 2011	67,622	100%	-0-
June 30, 2012	75,717	100%	-0-

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009

NOTE 9 (Continued)

included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town'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. Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

D. Funded Status and Funding Progress

As of June 30, 2011, the most recent actuarial valuation date, the plan was 87.73% funded. The actuarial accrued liability for benefits was $7,849,668 and the actuarial value of assets was $6,886,802, resulting in an unfunded actuarial accrued liability (UAAL) of $962,866. The covered payroll (annual payroll of active employees covered by the plan) was $1,886,959, and ratio of the UAAL to the covered payroll was 51.03%.

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

NOTE 10: CONTINGENT LIABILITIES

Federal programs in which the Town participates were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments and the Single Audit Act of 1984. Pursuant to the provisions of the above, all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by the audit, the Federal government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

NOTE 11: SURETY BONDS

Position Fidelity Schedule Bond:

	Amount
Mayor	$ 200,000
Treasurer	200,000
Town Manager	200,000
Assistant Treasurer	200,000
Utility Clerk	200,000
Cashier	200,000

NOTE 12: CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES

In accordance with NCGA Statement 4 "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences", the Town has accrued the liability arising from outstanding claims and judgments and compensated absences. Town employees earn sick leave at the rate of one day for each per month and vacation time is accrued based on length of service. No benefits or pay are received for unused sick leave upon termination. Accumulated vacation, up to the specified maximum, is paid upon termination. The Town has outstanding accrued vacation pay totaling $69,079 in the General Long-Term Obligation Account Group and $47,655 in the Water and Sewer Fund, with $5,645 and $5,347, respectively, expected to be paid within one year.

NOTE 13: SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Interest Paid-Proprietary Fund – Cash paid interest expense relating to debt for the year ended June 30, 2012 amounted to $516.

The Town considers all short-term investments with an original maturity date of three months or less to be cash equivalents.

NOTE 14: LITIGATION

According to the Town's Legal Counsel, there is one outstanding claim concerning the Town of Wise, Virginia. As of the date of this report, a liability from the litigation is not deemed to be probable, and therefore, a contingency liability has not been recorded.

NOTE 15: GASB 54 Fund Balance Reporting and Governmental Fund Type Definitions:

Purpose

The Town Council of the Town of Wise is dedicated to maintaining an appropriate level of fund balance sufficient to mitigate current and future financial risks and to ensure stable tax rates; and, therefore, formally establishes this policy for the Town's Fund Balance. This policy also authorizes and directs the Finance Director to prepare financial reports which accurately categorize fund balance as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

Components of Fund Balance

Fund balance is the difference between the assets and liabilities reported in a governmental fund. The following five fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- Non-spendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts

NOTE 15 (Continued)

- cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority; for all funds except the general fund, assigned fund balance is the residual fund balance classification;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

Committed Fund Balance Policy

The Town Council is the Town's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Town Council. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

Assigned Fund Balance Policy

The Town Manager in consultation with the Town Treasurer and discussions with the Town Council shall determine funds to be classified as assigned.

Minimum Unassigned Fund Balance Policy

The Town will maintain an unassigned fund balance in the general fund equal to an amount established by the Town Council for expenditures/operating revenues. The Town considers a balance of less than the amount established by the Town Council to be cause for concern, barring unusual or deliberate circumstances. The balance of "unassigned funds" shall be at least equal to 10% of the General Fund's Total Revenues measured during the budget process as Total General Fund Revenue net of any appropriation from prior year fund balance. Except in extraordinary circumstances, Unassigned Fund Balance should not be used to fund any portion of the ongoing and routine year-to-year operating expenditures of the Town. It should be used primarily to ensure adequate reserves, to respond to unforeseen emergencies, to provide cash flow, and to provide overall financial stability.

Resource Flow Policy

When fund balance resources are available for a specific purpose in more than one classification, it is the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

NOTE 16: New Accounting Standard:

The Governmental Accounting Standards Board (GASB) has issued the following statement which is not yet effective:

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements* improves financial reporting by addressing the issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This statement will be effective for periods beginning after December 15, 2011.

Management has not yet evaluated the effects, if any, of adopting this standard, but does not expect it to be material.

NOTE 17: Other Post-Employment Benefits

PLAN DESCRIPTION

Name of Plan: Town of Wise Plan
Identification of Plan: Sole-employer
Administering Entity: Town of Wise, Virginia

A. Health Plan Eligibility

Participants in the Town of Wise Plan must meet the eligibility requirements based on service earned with the Town to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are not eligible for the benefit.

- General Town-Participants must have attained age 50 with a minimum of 30 years of service including 10 years of continuous service with the Town.
- Public Safety Officers-Participants must have attained age 50 with a minimum of 25 years of service including 10 years of continuous service with the Town.

Health benefits include medical, dental, and vision. Retirees may elect Blue Cross PPO medical option. Benefits end at age 65.

B. Health Plan Benefits

Coverage is for the retiree and eligible spouses/dependents.

C. Retiree Contributions

- Non-Medicare eligible retirees and spouses (Under Age 65)-The Town contributes 100% of the retiree only premiums for a maximum of 18 months following retirement or until the retiree reaches age 65, whichever is earlier. After the 18-month period following retirement, retiree contributes 100% of the premium cost for retiree coverage. The retiree must contribute 100% of the premium cost for spouse/dependent coverage at all times.

NOTE 17: (continued)

- Medicare eligible retirees and spouses (Age 65+) – No Coverage.

D. Disability Retirement Benefit

The Plan does not include any disability retirement benefits.

E. Death Benefit

The Plan does not include any pre-retirement death benefits. If a participant dies while employed and was eligible for benefits, the surviving spouse or family member would not be able to continue health coverage.

F. Withdrawal Benefit

The Plan does not include a withdrawal benefit.

G. Benefit Service

Benefit service is credited from the date of hire with the Town of Wise.

ANNUAL COST

SCHEDULES OF EMPLOYER CONTRIBUTIONS			
FISCAL YEAR ENDING 6/30	ANNUAL OPEB COST	ACTUAL CONTRIBUTION	PERCENT FUNDED
2009	$ 18,200	$ -	0.00%
2010	19,175	11,050	57.63%
2011	19,908	15,282	76.76%
2012	26,427	8,330	31.52%

The FY 2012 required contribution was determined as part of the January 1, 2012 actuarial valuation using the Projected Unit Credit actuarial cost method. The actuarial assumptions at January 1, 2012 included an investment rate of return of 4.0%, and a projected salary increase of 3.75% per year. The annual required contribution (ARC) was calculated as the normal cost plus the 30-year amortization (30 years remaining as of January 1, 2012) of the unfunded portion of actuarial accrued liability. The amortization amount was determined as a level percent of payroll. The Health Cost Trend Assumption was based on the Getzen Trend Model – 7.2% graded to 4.80% over 83 years. The Schedule of Funding Progress, and the Calculation of Net OPEB Obligation (NOO) are located in Schedule 9 after the notes to the financial statements.

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SCHEDULES OF CAPITAL ASSETS

TOWN OF WISE, VIRGINIA
SCHEDULE OF CAPITAL ASSETS BY SOURCE
FOR THE YEAR ENDED JUNE 30, 2012

EXHIBIT 9

	TOTAL
CAPITAL ASSETS:	
Land	$ 1,988,498
Building and Building Improvements	2,628,927
Infrastructure	6,770,891
Equipment	2,921,078
Total Capital Assets	$ 14,309,394
INVESTMENT IN CAPITAL ASSETS BY SOURCE:	
Proceeds from Indebtedness	$ 127,494
General Fund Revenues	14,181,900
TOTAL INVESTMENT IN CAPITAL ASSETS	$ 14,309,394

TOWN OF WISE, VIRGINIA **EXHIBIT 10**

SCHEDULE OF CAPITAL ASSETS BY FUNCTION

FOR THE YEAR ENDED JUNE 30, 2012

PRIMARY GOVERNMENT:	LAND	BUILDING and BUILDING IMPROVEMENTS	INFRA-STRUCTURE	EQUIPMENT	TOTAL
General Government Adm	$ 1,988,498	$ 1,584,473	$ -	$ 64,211	$ 3,637,182
Judicial Administration	-	-	-	-	-
Public Safety	-	882,982	-	1,453,747	2,336,729
Public Works	-	161,472	3,051,711	1,269,127	4,482,310
Health & Welfare	-	-	-	-	-
Education	-	-	-	-	-
Parks, Recreation & Cultural	-	-	1,857,329	82,164	1,939,493
Community Development	-	-	1,861,850	51,830	1,913,680
TOTAL CAPITAL ASSETS BY FUNCTION	$ 1,988,498	$ 2,628,927	$ 6,770,890	$ 2,921,079	$ 14,309,394

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SUPPLEMENTARY SCHEDULES

TOWN OF WISE, VIRGINIA
GOVERNMENTAL FUND
STATEMENT OF REVENUES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

FUND, MAJOR & MINOR REVENUE SOURCE	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
General Fund:				
Revenue From Local Sources:				
General Property Taxes:				
Real Property Taxes	$ 431,000	$ 431,000	$ 480,420	$ 49,420
Real & Personal Public Service Corporation Property Taxes	11,000	11,000	10,102	(898)
Personal Property Taxes	101,810	101,810	131,629	29,819
Penalties & Interest	6,500	6,500	16,241	9,741
PROPERTY TAXES	550,310	550,310	638,392	88,082
Other Local Taxes:				
Local Sales & Use Taxes	170,000	170,000	106,683	(63,317)
Consumer Utility Taxes	80,000	80,000	34,253	(45,747)
Consumption Tax	15,000	15,000	6,290	(8,710)
Business License Taxes	363,100	363,100	454,416	91,316
Franchise License Taxes	5,000	5,000	6,718	1,718
Motor Vehicle Licenses	32,000	32,000	31,173	(827)
Bank Stock Taxes	90,000	90,000	126,638	36,638
Transient Lodging Taxes	36,000	36,000	40,871	4,871
Coal Road Improvement Taxes	160,000	160,000	223,155	63,155
Cigarette Tax	34,000	34,000	36,300	2,300
Meal Tax	860,000	860,000	899,036	39,036
	1,845,100	1,845,100	1,965,533	120,433
Permits, Privilege Fees & Regulatory Licenses:				
Animal License	500	500	799	299
Permits	750	750	875	125
REGULATORY LICENSES	1,250	1,250	1,674	424
Fines & Forfeitures	17,550	17,550	16,637	(913)
Revenue From Use of Money & Property:				
Interest and Rent Revenue	25,000	25,000	29,979	4,979
TOTAL REVENUE FROM USE OF MONEY & PROPERTY	25,000	25,000	29,979	4,979

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

TOWN OF WISE, VIRGINIA
GOVERNMENTAL FUND
STATEMENT OF REVENUES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE 1
Page 2

FUND, MAJOR & MINOR REVENUE SOURCE	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
General Fund: (continued)				
Charges For Services:				
Charges For Parks & Recreation	$ 70,500	$ 70,500	$ 77,870	$ 7,370
Charges For Sanitation & Waste Removal	200,000	200,000	214,675	14,675
TOTAL CHARGES FOR SERVICES	270,500	270,500	292,545	22,045
Miscellaneous Revenue:				
Sale of Cemetery Plots	10,000	10,000	20,602	10,602
Sale of Property	100	100	10,059	9,959
County of Wise-Payment in Lieu of Taxes	-	-	-	-
Coal Severance Committee Appropriation	90,000	90,000	64,886	(25,114)
Miscellaneous	3,210	3,210	46,446	43,236
TOTAL MISCELLANEOUS REVENUE	103,310	103,310	141,993	38,683
TOTAL REVENUE FROM LOCAL SOURCES	2,813,020	2,813,020	3,086,753	273,733
Revenue From The Commonwealth:				
Non-Categorical Aid:				
Mobile Home Titling Tax	7,500	7,500	19,714	12,214
Rolling Stock Tax	10	10	2	(8)
Car Rental Tax	1,800	1,800	2,897	1,097
Financial Assistance To Police Dept.	71,650	71,650	76,980	5,330
PPTRA Tax Relief	55,000	55,000	57,392	2,392
Communications Sales & Use Tax	100,000	100,000	108,046	8,046
TOTAL NON-CATEGORICAL AID	235,960	235,960	265,031	29,071
Categorical Aid:				
Other Categorical Aid:				
Street & Highway Maintenance	420,000	420,000	455,469	35,469
Litter Grant	1,500	1,500	1,506	6
Fire Programs	8,000	8,000	9,856	1,856
Virginia Commission of Arts	5,000	5,000	5,000	-
Byrnes Justice Assistance Grant	3,500	3,500	2,392	(1,108)
VDFP Burn Building Grant	400,000	400,000	300,000	(100,000)
VDHCD CIG Micro Loan Grant	70,000	70,000	-	(70,000)
VDEM Disaster Assistance	-	-	3,658	3,658
VA Tobacco Comm. Agri Business Grant	-	-	-	-
DMV Highway Safety Grant	1,000	1,000	-	(1,000)
VDHCD CIG Grant Business Dist Revit	200,000	200,000	-	(200,000)
TOTAL CATEGORICAL AID	1,109,000	1,109,000	777,881	(331,119)
TOTAL REVENUE FROM THE COMMONWEALTH	1,344,960	1,344,960	1,042,912	(302,048)

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

TOWN OF WISE, VIRGINIA
GOVERNMENTAL FUND
STATEMENT OF REVENUES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

FUND, MAJOR & MINOR REVENUE SOURCE	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
General Fund: (continued)				
Revenue From The Federal Government:				
Categorical Aid:				
FEMA Disaster Assistance	$ -	$ -	$ 12,469	$ 12,469
RD Farmers Market Grant	-	-	-	-
COBRA Premium Assistance Payments	-	-	-	-
Selective Enforcement Grant	10,000	10,000	12,286	2,286
VDOT Enhancement Grant	371,580	371,580	40,046	(331,534)
Ground Transportation Systems	-	-	-	-
TOTAL CATEGORICAL AID	381,580	381,580	64,801	(316,779)
TOTAL REVENUE FROM THE FEDERAL GOVT.	381,580	381,580	64,801	(316,779)
Suppl. Approp. From Prior Year Fund Bal.	2,973,280	2,973,280	-	(2,973,280)
TOTAL GENERAL FUND	$ 7,512,840	$ 7,512,840	$ 4,194,466	$ (3,318,374)

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

TOWN OF WISE, VIRGINIA
GOVERNMENTAL FUND
STATEMENT OF EXPENDITURES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE 2
Page 1

FUND, MAJOR & MINOR EXPENDITURE SOURCE	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
General Government Administration:				
Legislative:				
Town Council	$ 63,850	$ 63,850	$ 63,508	$ 342
TOTAL LEGISLATIVE	63,850	63,850	63,508	342
General & Financial Administration:				
Employee Benefits	47,200	47,200	21,262	25,938
Manager	93,900	93,900	90,668	3,232
Professional Services	53,800	53,800	28,945	24,855
Treasurer	171,325	171,325	157,763	13,562
Risk Management	96,330	96,330	82,044	14,286
Data Processing	50,720	50,720	46,040	4,680
TOTAL GENERAL & FINANCIAL ADMINISTRATION	513,275	513,275	426,722	86,553
TOTAL GENERAL GOVERNMENT ADMINISTRATION	577,125	577,125	490,230	86,895
Public Safety:				
Law Enforcement & Traffic Control:				
Police Department	1,114,340	1,114,340	976,247	138,093
TOTAL LAW ENFORCEMENT & TRAFFIC CONTROL	1,114,340	1,114,340	976,247	138,093
Fire & Rescue Services:				
Volunteer Fire Department	559,730	559,730	596,288	(36,558)
Ambulance & Rescue Service	20,000	20,000	20,000	-
TOTAL FIRE & RESCUE SERVICES	579,730	579,730	616,288	(36,558)
Correction & Detention:				
Court Expense	3,000	3,000	240	2,760
TOTAL COURT EXPENSE	3,000	3,000	240	2,760

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

TOWN OF WISE, VIRGINIA
GOVERNMENTAL FUND
STATEMENT OF EXPENDITURES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE 2
Page 2

FUND, MAJOR & MINOR EXPENDITURE SOURCE	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Public Safety: (continued)				
Animal Control:				
Animal Control	$ -	$ -	$ -	$ -
TOTAL ANIMAL CONTROL	-	-	-	-
TOTAL PUBLIC SAFETY	1,697,070	1,697,070	1,592,775	104,295
Public Works:				
Maintenance of Highways, Streets, Bridges, and Sidewalks:				
General Administration	143,730	143,730	72,167	71,563
Storm Drainage	13,000	13,000	9,998	3,002
Street Maintenance	1,945,900	1,945,900	839,261	1,106,639
Street Lights	60,000	60,000	52,958	7,042
Snow & Ice Removal	100,950	100,950	42,115	58,835
TOTAL MAINTENANCE OF HIGHWAYS, STREETS, BRIDGES, & SIDEWALKS	2,263,580	2,263,580	1,016,499	1,247,081
Sanitation & Waste Removal:				
General Engineering/Administration:				
Solid Waste Removal	255,450	255,450	235,095	20,355
TOTAL SANITATION & WASTE REMOVAL	255,450	255,450	235,095	20,355
Maintenance of General Buildings and Grounds:				
General Engineering/Administration:				
General Properties	168,470	168,470	75,176	93,294
TOTAL MAINTENANCE OF GENERAL BUILDINGS & GROUNDS	168,470	168,470	75,176	93,294
TOTAL PUBLIC WORKS	2,687,500	2,687,500	1,326,770	1,360,730
Health and Welfare:				
Welfare Social Service:				
Property Tax Relief for Elderly	11,500	11,500	9,920	1,580
TOTAL HEALTH AND WELFARE	11,500	11,500	9,920	1,580

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

TOWN OF WISE, VIRGINIA
GOVERNMENTAL FUND
STATEMENT OF EXPENDITURES - BUDGET & ACTUAL
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE 2
Page 3

FUND, MAJOR & MINOR EXPENDITURE SOURCE	ORIGINAL BUDGET	BUDGET AS AMENDED	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
Parks, Recreation & Cultural:				
Parks & Recreation:				
Parks and Play Grounds	$ 108,050	$ 108,050	$ 85,819	$ 22,231
Swimming Pool	175,400	175,400	89,752	85,648
Cemeteries	32,730	32,730	7,777	24,953
TOTAL PARKS & RECREATION	316,180	316,180	183,348	132,832
Cultural Enrichment:				
General Administration	38,000	38,000	12,786	25,214
Contract Services (Big Glades)	15,000	15,000	14,400	600
Reenactment	10,000	10,000	9,496	504
Pro Art Association	9,150	9,150	9,150	-
The Crooked Road	5,000	5,000	5,000	-
Library Art Gallery	2,000	2,000	2,000	-
Appalachian Children's Theatre	4,000	4,000	2,500	1,500
Regional Library	11,750	11,750	11,750	-
TOTAL CULTURAL ENRICHMENT	94,900	94,900	67,082	27,818
TOTAL PARKS, RECREATION, & CULTURAL	411,080	411,080	250,430	160,650
Community Development:				
Planning & Community Development:				
General Administration	221,350	224,650	115,055	109,595
Business District Revitalization	300,000	296,700	198,485	98,215
Planning Community/Board Zoning Appeals	3,000	3,000	773	2,227
Cumberland Airport	4,000	4,000	4,000	-
TOTAL COMMUNITY DEVELOPMENT	528,350	528,350	318,313	210,037
Debt Service:				
Principal Curtailments	160,500	160,500	60,779	99,721
Interest & Fiscal Charges	11,500	11,500	5,965	5,535
TOTAL DEBT SERVICE	172,000	172,000	66,744	105,256
Transfer to Water/Sewer Fund	1,428,215	1,428,215	1,026,431	401,784
TOTAL GENERAL FUND	$ 7,512,840	$ 7,512,840	$ 5,081,613	$ 2,431,227

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

SCHEDULE 3

TOWN OF WISE, VIRGINIA

GENERAL GOVERNMENT REVENUES BY SOURCE

LAST TEN FISCAL YEARS

FISCAL YEAR	GENERAL PROPERTY TAXES	OTHER LOCAL TAXES	FINES AND FORFEITURES	PERMITS, PRIVILEGE FEES & REGULATORY LICENSES	CHARGES FOR SERVICES	MISCELLANEOUS	REVENUE FROM USE OF MONEY AND PROPERTY	INTER-GOVERN-MENTAL	TOTAL
2012	$ 638,392	$ 1,965,533	$ 16,637	$ 1,674	$ 292,545	$ 141,993	$ 29,979	$ 1,107,713	$ 4,194,466
2011	612,985	2,103,473	17,586	2,304	296,925	214,324	50,296	1,466,638	4,764,531
2010	593,612	2,120,307	19,207	1,289	290,139	152,901	72,512	769,721	4,019,688
2009	545,798	2,047,941	25,528	2,344	252,195	114,685	113,235	618,075	3,719,801
2008	533,967	1,958,075	32,215	1,548	257,055	93,129	206,913	645,909	3,728,811
2007	513,447	1,926,114	34,213	914	251,487	65,825	232,318	616,262	3,640,580
2006	511,017	1,942,507	30,013	1,281	236,402	125,933	124,091	693,506	3,664,750
2005	519,245	1,893,677	38,705	2,159	230,724	48,996	80,520	1,338,306	4,152,332
2004	562,320	1,788,585	56,625	2,500	214,799	44,177	52,566	617,952	3,339,524
2003	447,783	1,497,698	42,805	1,993	191,515	44,250	60,467	528,851	2,815,362
2002	420,691	1,379,250	28,742	1,804	167,597	46,831	147,266	523,003	2,715,184

SCHEDULE 4

TOWN OF WISE, VIRGINIA

GENERAL GOVERNMENT EXPENDITURES BY FUNCTION

LAST TEN FISCAL YEARS

FISCAL YEAR	GENERAL ADMINI-STRATION	PUBLIC SAFETY	PUBLIC WORKS	PARKS, RECREATION AND CULTURAL	HEALTH AND WELFARE	COMMUNITY DEVELOP-MENT	NON DEPART-MENTAL	DEBT SERVICE	TOTAL
2012	$ 490,230	$ 1,592,775	$ 1,326,770	$ 213,748	$ 9,920	$ 354,995	$ -	$ 66,745	$ 4,055,183
2011	481,126	1,216,251	1,353,447	186,666	6,398	1,447,764	-	66,745	4,758,397
2010	460,570	1,173,552	1,436,894	236,987	7,881	236,029	-	66,745	3,618,658
2009	424,020	1,182,865	1,680,823	259,604	6,230	264,672	-	66,745	3,884,959
2008	406,137	1,176,522	1,475,337	182,841	7,339	265,433	-	66,712	3,580,321
2007	420,161	1,106,967	1,360,055	173,650	6,864	90,225	-	66,703	3,224,625
2006	398,018	1,096,462	1,179,230	133,086	11,221	81,665	-	66,681	2,966,363
2005	359,662	1,035,880	1,855,818	153,986	7,325	131,053	-	66,556	3,610,280
2004	343,483	882,395	1,137,226	217,901	6,926	85,800	-	66,458	2,740,189
2003	331,910	842,969	1,037,719	1,121,189	6,626	167,101	177,989	685,853	4,371,356

TOWN OF WISE, VIRGINIA SCHEDULE 5

ASSESSED VALUE OF TAXABLE PROPERTY

LAST TEN FISCAL YEARS

FISCAL YEARS	REAL ESTATE	PERSONAL PROPERTY	MOBILE HOMES	PUBLIC UTILITY	TOTAL
2012	$ 199,270,789	$ 34,311,994	$ 1,940,981	$ 3,977,500	239,501,264
2011	196,135,891	30,363,988	4,106,290	4,603,246	235,209,415
2010	194,439,215	29,851,736	4,050,805	4,884,009	233,225,765
2009	160,596,939	32,721,952	4,319,930	3,098,502	200,737,323
2008	159,834,215	30,233,687	3,869,023	4,739,996	198,676,921
2007	156,553,081	30,622,337	3,988,457	4,595,882	195,759,757
2006	153,358,767	28,699,923	3,907,424	5,186,500	191,152,614
2005	150,448,836	27,610,251	3,697,987	5,776,893	187,533,967
2004	145,494,440	30,399,181	3,105,763	6,152,782	185,152,166
2003	125,438,895	25,239,677	3,392,027	5,983,356	160,053,955

PROPERTY TAX RATES

LAST TEN YEARS

FISCAL YEARS	REAL ESTATE	PERSONAL PROPERTY	MOBILE HOMES	PUBLIC UTILITY
2012	0.245	0.530	0.245	0.245
2011	0.245	0.530	0.245	0.245
2010	0.245	0.530	0.245	0.245
2009	0.245	0.530	0.245	Various
2008	0.245	0.530	0.245	Various
2007	0.245	0.530	0.245	Various
2006	0.245	0.530	0.245	Various
2005	0.245	0.530	0.245	Various
2004	0.260	0.530	0.260	Various
2003	0.260	0.530	0.260	Various

SCHEDULE 6

TOWN OF WISE, VIRGINIA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS

FISCAL YEAR	TOTAL (1) TAX LEVY	CURRENT TAX (1) COLLECTIONS	PERCENT OF LEVY COLLECTED	DELINQUENT (1) TAX (2) COLLECTIONS	TOTAL TAX COLLECTIONS	PERCENT OF TOTAL TAX COLLECTIONS OF TAX LEVY	OUTSTANDING (1) DELINQUENT TAXES	PERCENT OF DELINQUENT TAXES TO TAX LEVY
2012	$ 664,052	$ 600,317	90.40%	$ 21,834	622,151	93.69%	$ 44,850	6.75%
2011	658,603	576,569	87.54%	20,140	596,709	90.60%	44,189	6.71%
2010	670,880	634,711	94.61%	8,757	643,468	95.91%	29,712	4.43%
2009	576,329	565,569	98.13%	10,760	589,694	102.32%	25,506	4.43%
2008	574,232	558,855	97.32%	13,163	578,732	100.78%	41,160	7.17%
2007	558,498	548,144	98.15%	12,556	560,700	100.39%	38,927	6.97%
2006	557,210	535,995	96.19%	6,797	554,941	99.59%	34,462	6.18%
2005	544,263	531,971	97.74%	19,437	555,432	102.05%	40,692	7.48%
2004	546,013	510,227	93.45%	2,182	534,153	97.83%	51,222	9.38%
2003	477,670	454,352	95.12%	(32,459)	477,768	100.02%	41,370	8.66%

Notes:

(1) Exclusive of penalties and interest.

(2) Does not include land redemptions.

TOWN OF WISE, VIRGINIA

SCHEDULE 7

RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN FISCAL YEARS

FISCAL YEAR	POPULATION (1)	ASSESSED VALUE (IN THOUSANDS)	GROSS BONDED DEBT (2)	LESS: DEBT SERVICE MONIES AVAILABLE	LESS: DEBT PAYABLE FROM ENTERPRISE REVENUES	NET BONDED DEBT	RATIO OF NET BONDED DEBT TO ASSESSED VALUE	NET BONDED DEBT PER CAPITA
2012	3,286	$ 239,501	$ 2,278,457	-	$ 2,150,963	$ 127,494	0.0005	$ 38.80
2011	3,255	235,209	204,547	-	16,273	188,274	0.0008	57.84
2010	3,255	233,226	279,232	-	32,046	247,186	0.0011	75.94
2009	3,255	200,737	351,622	-	47,335	304,287	0.0015	93.48
2008	3,255	198,676	421,789	-	62,154	359,635	0.0018	110.49
2007	3,255	195,760	489,798	-	76,517	413,281	0.0021	126.97
2006	3,255	191,153	555,718	-	90,439	465,279	0.0024	142.94
2005	3,255	185,152	761,174	-	196,642	564,532	0.0030	173.44
2004	3,255	185,152	761,174	-	196,642	564,532	0.0030	173.44
2003	3,255	187,534	859,237	-	247,448	611,789	0.0033	187.95

Notes:

(1) Bureau of Census.

(2) Includes all long-term general obligation debt.

TOWN OF WISE, VIRGINIA

SCHEDULE 8

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR TOWN
DEFINED PENSION BENEFIT PLAN
JUNE 30, 2012

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) (3) - (2)	FUNDED RATIO (2) / (3)	ANNUAL COVERED PAYROLL	UAAL AS % OF PAYROLL (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
June 30, 2011	$6,886,802	$7,849,668	$962,866	87.73%	$1,886,959	51.03%
June 30, 2010	$6,633,330	$7,355,993	$722,663	90.18%	$1,936,727	37.31%
June 30, 2009	$6,429,770	$6,224,432	($205,338)	103.30%	$1,902,844	-10.79%
June 30, 2008	$6,127,047	$5,766,420	($360,627)	106.25%	$1,854,239	-19.45%
June 30, 2007	$5,407,812	$4,990,802	($417,010)	108.36%	$1,816,389	-22.96%
June 30, 2006	$4,689,291	$4,130,178	($559,113)	113.54%	$1,649,707	-33.89%

TOWN OF WISE, VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
TOWN OF WISE PLAN
OTHER POST EMPLOYMENT BENEFITS-GASB 45
JUNE 30, 2012

A. SCHEDULE OF FUNDING PROGRESS

VALUATION DATE	ACTUARIAL VALUE OF ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL) (3) - (2)	FUNDED RATIO (2) / (3)	ANNUAL COVERED PAYROLL	UAAL AS % OF PAYROLL (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
January 1, 2009	$0	$176,800	$176,800	0.00%	$1,893,800	9.34%
January 1, 2012	$0	$269,400	$269,400	0.00%	$2,036,700	13.23%

B. CALCULATION OF NET OPEB OBLIGATION (NOO)

FISCAL YEAR ENDING	ANNUAL REQUIRED CONTRIBUTION	INTEREST ON OPEB OBLIGATION	ADJUSTMENT TO THE ARC	NET OPEB COST AT END OF FY	CONTRIBUTIONS FOR FY	CHANGE IN NET OPEB OBLIGATION	NET OPEB OBLIGATION AT END OF FY
6/30/2009	$ 18,200	$ -	$ -	$ 18,200	$ -	$ 18,200	$ 18,200
6/30/2010	19,100	728	(653)	19,175	11,050	8,125	26,325
6/30/2011	19,800	1,053	(945)	19,908	15,282	4,626	30,951
6/30/2012	26,300	1,238	(1,111)	26,427	8,330	18,097	49,048

TOWN OF WISE, VIRGINIA
SCHEDULE OF LEGAL DEBT MARGIN
FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE 10

Legal Debt Limit	
10% of Assessed Value Of Taxable Real Estate	
(Including Public Utility Real Estate)	
($203,248,289 x .10)	$ 20,324,829
Deduct	
Bonds Payable	(2,551,035)
Legal Margin For Creation Of Additional Debt	$ 17,773,794

TOWN OF WISE SCHEDULE 11

SCHEDULE OF FUND BALANCES - GASB 54

JUNE 30, 2012

Fund Balances:

Nonspendable:	
Cemetery Saving	$ 375,903
Restricted for:	
Debt Service and Bond Covenants	127,494
Unassigned:	2,740,612
Fund Balance June 30, 2012	$3,244,009

TOWN OF WISE, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2012

SCHEDULE 12

FEDERAL GRANTING AGENCY/RECEIPT STATE AGENCY/ GRANT PROGRAM/GRANT NUMBER	FEDERAL CATALOGUE NUMBER	EXPENDITURES
DEPARTMENT OF AGRICULTURE:		
Direct Payments		
** Rural Development Loan	10.760	$ 2,423,541
DEPARTMENT OF HOMELAND SECURITY:		
Passed Through the Commonwealth of Virginia:		
Federal Emergency Management Agency (FEMA)	97.109	12,469
DEPARTMENT OF AGRICULTURE:		
Passed Through the Commonwealth of Virginia:		
Department of Housing and Community Development	10.446	40,046
DEPARTMENT OF TRANSPORTATION:		
Passed Through the Commonwealth of Virginia:		
Department of Motor Vehicles	20.607	12,286
Total Federal Expenditures		$ 2,488,342

**** Major Program**

TOWN OF WISE, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I-Summary of Auditor's Results
Financial Statements

Type of Auditor's reports issued:	Unqualified
Internal Control over financial reporting:	
Material weaknesses identified?	No
Significant Deficiencies identified not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unqualified
Internal control over major programs:	
Material weaknesses identified?	No
Significant Deficiencies identified not considered to be material weaknesses?	None Reported
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No
Identification of major program: CFDA# 10.760 Rural Development Loan	
Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	YES

Section II-Financial Statement Findings

There are no financial statement findings to report.

Section III-Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THIS FINANCIAL STATEMENT

COMPLIANCE

LARRY D. STURGILL, P. C.

LARRY D. STURGILL

MEMBER
AMERICAN INSTITUE OF
CERTIFIED PUBLIC ACCOUNTANTS

CERTIFIED PUBLIC ACCOUNTANT

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TELEPHONE (276) 328-9593 FAX (276) 328-2131

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MEMBER
TENNESSEE & VIRGINIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Members of Town Council
Town of Wise
Wise, Virginia 24293

Council Members:

We have audited the financial statements of the governmental activity and the business-type activity of the Town of Wise, Virginia as of and for the year ended June 30, 2012, which collectively comprise the Town of Wise, Virginia's basic financial statements and have issued my report thereon dated November 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and with the *Specifications for Audit of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control Over Financial Reporting

Management of the Town of Wise, Virginia is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, I considered the Town of Wise, Virginia's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Wise, Virginia's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Wise, Virginia's internal control over financial reporting. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance

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

This report is intended solely for the information and use of management, town council, others within the entity 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.

Larry D. Sturgill, P.C.
Wise, Virginia
November 9, 2012

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