

TOWN OF RISING SUN

FINANCIAL STATEMENTS

JUNE 30, 2007

JAMES D. BAXTER, P.A.
Certified Public Accountant
North East, Maryland

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1
Required Supplementary Information	
Management's Discussion and Analysis	2 - 7
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	8
Statement of Activities	9
Fund Financial Statements	
Balance Sheet - Governmental Funds	10
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	11
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Assets - Proprietary Funds	14
Statement of Revenue, Expenses and Changes in Net Assets - Proprietary Funds	15
Statement of Cash Flows - Proprietary Funds	16
Notes to the Financial Statements	17 - 22
Required Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	23
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	24

JAMES D. BAXTER, P.A.

Certified Public Accountant

P.O. Box 524

North East, MD 21901

(410) 287 - 6655

INDEPENDENT AUDITOR'S REPORT

To the Mayor and Town Commissioners
Rising Sun, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and the general and enterprise funds information of the Town of Rising Sun, Maryland as of and for the year ended June 30, 2007, 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 of Rising Sun's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that my audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the general fund information of the Town of Rising Sun as of June 30, 2007, 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.

Management's Discussion and Analysis on pages 2 through 7 and the budgetary comparison information on page 23 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 19, 2007, on our consideration of The Town of Rising Sun's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 read in conjunction with this report when considering the results of our audit.

November 19, 2007



Town of Rising Sun, Maryland
Management's Discussion and Analysis
June 30, 2007

INTRODUCTION

As management of the Town of Rising Sun, Maryland ("Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2007. It should be read in conjunction with the Town's basic financial statements, which begin on page 9, to enhance understanding of the Town's financial performance.

FINANCIAL HIGHLIGHTS

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$6.4 million. Of this amount, \$2.3 million may be used to meet the Town's ongoing obligations to citizens and creditors.
- At the close of the current fiscal year, the Town's governmental general fund reported ending fund balance of approximately \$235,000, all of which is unreserved and undesignated and available for spending at the Town's discretion.
- The total cost of all of the Town's programs was approximately \$1.76 million for fiscal 2007.
- During the fiscal year, the Town had expenses for governmental activities that were approximately \$21,000 less than the \$1.27 million generated in general and other program revenues.
- The business-type activities (water & sewer) increased net assets by approximately \$155,000 from operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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 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.

Both of the government-wide financial statements distinguish functions of the Town that are governmental activities (those principally supported by taxes and revenues from other governments) and functions of the Town that are business-type activities (those that are intended to recover all or a significant portion of their costs through user fees and charges). The governmental activities of the Town include general government, public safety, public works, planning and zoning, parks and recreation, and interest. The business-type activities of the Town include water and sewer service.

The government-wide financial statements (Statement of Net Assets and Statement of Activities) can be found on pages 8 – 9 of this 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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluation of a government's near-term financing requirements.

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

The Town maintains one governmental fund, the General Fund. The Town adopts an annual budget for the General Fund and a budgetary comparison statement has been provided as required supplemental information to the basic financial statements to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 10 – 13 of this report.

PROPRIETARY FUNDS

The Town maintains one enterprise type proprietary fund to account for the operations of providing water and sewer services. Enterprise funds are used to present the same functions as business-type functions in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

The basic water and sewer proprietary fund financial statements can be found on pages 14 – 16 of this report.

NOTES TO THE FINANCIAL STATEMENTS

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

The notes to the financial statements can be found on pages 17 – 22 of this report.

GOVERNMENT WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the Town, assets exceeded liabilities by approximately \$6.4 million at the close of the most recent fiscal year. By far, the largest portion of the Town's net assets (65%) is its investment in capital assets (land, land improvements, buildings, infrastructure and machinery and equipment), less any related debt outstanding that was used to acquire those assets. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. 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 the debt.

A summary of the Town's net assets is as follows (\$,000 omitted):

	June 30, 2007			June 30, 2006		
	Governmental	Business Type	Total	Governmental	Business Type	Total
Current Assets	\$ 257	\$ 2,058	\$ 2,315	\$ 478	\$ 2,184	\$2,662
Capital Assets, Net	<u>2,279</u>	<u>5,123</u>	<u>7,402</u>	<u>2,280</u>	<u>5,015</u>	<u>7,295</u>
Total Assets	<u>2,536</u>	<u>7,181</u>	<u>9,717</u>	<u>2,758</u>	<u>7,199</u>	<u>9,957</u>
Current Liabilities	50	183	233	291	209	500
Long-Term Liabilities	<u>1,228</u>	<u>1,836</u>	<u>3,064</u>	<u>1,257</u>	<u>1,983</u>	<u>3,240</u>
Total Liabilities	<u>1,278</u>	<u>2,019</u>	<u>3,297</u>	<u>1,548</u>	<u>2,192</u>	<u>3,740</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,022	3,141	4,163	995	2,888	3,883
Unrestricted	<u>236</u>	<u>2,021</u>	<u>2,257</u>	<u>215</u>	<u>2,119</u>	<u>2,334</u>
Net Assets	<u>\$ 1,258</u>	<u>\$ 5,162</u>	<u>\$ 6,420</u>	<u>\$ 1,210</u>	<u>\$ 5,007</u>	<u>\$ 6,271</u>

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

A summary of the Town's statement of activities for the current and prior fiscal years is as follows (\$,000 omitted):

	June 30, 2007			June 30, 2006		
	Governmental	Business Type	Total	Governmental	Business Type	Total
Expenses	\$ 1,223	\$ 535	\$ 1,758	\$ 1,254	\$ 753	\$ 1,957
Less: Charges for Services and Operating Grants	<u>(359)</u>	<u>(579)</u>	<u>(938)</u>	<u>(436)</u>	<u>(2,021)</u>	<u>(2,457)</u>
Net Expenses	864	(44)	820	818	(1,318)	(500)
General Revenues	<u>912</u>	<u>111</u>	<u>1,023</u>	<u>1,018</u>	<u>71</u>	<u>1,089</u>
Change in Net Assets	48	155	203	200	1,389	1,589
Net Assets at Beginning of Year	<u>1,210</u>	<u>5,007</u>	<u>6,217</u>	<u>1,010</u>	<u>3,618</u>	<u>4,628</u>
Net Assets at End of Year	<u>\$ 1,258</u>	<u>\$ 5,162</u>	<u>\$ 6,420</u>	<u>\$ 1,210</u>	<u>\$ 5,007</u>	<u>\$ 6,217</u>

For the current fiscal year, the Town is able to report an increase in its net assets for both its governmental activities and business-type activities as well as for the government as a whole.

GOVERNMENTAL ACTIVITIES

For the fiscal year ended June 30, 2007, revenues from governmental activities totaled approximately \$1.27 million. Property and personal property taxes represented the largest revenue source (52%), followed by charges for services (15%) and the intergovernmental revenues from Maryland (12%).

The largest components of the governmental activities' expenses of approximately \$1.25 million are public works (33%), public safety (34%), and general government (23%).

BUSINESS-TYPE ACTIVITIES

85% of the approximately \$690,000 of revenues from business-type activities were water and sewer service and connection charges, while capital grants and interest income comprised the remainder.

All of the approximately \$535,000 of business-type activities expenses relate to the operation of the water and sewer plants and the related distribution and collection systems. The largest components of these expenses are depreciation (34%), salaries and wages (22%), and utilities (14%).

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

GOVERNMENTAL FUNDS

The focus of the Town's governmental funds 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 particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$235,415, a net increase of \$20,839 from the prior year. All of ending fund balance constitutes unreserved fund balance.

The General Fund is the primary operating fund of the Town. At the end of the current fiscal year, the total fund balance of the General Fund was \$235,415, all of which was unreserved and undesignated. Two useful measures of liquidity are the portion of unreserved and undesignated fund balance to total expenditures and total fund balance to total expenditures. At the end of the current fiscal year the General Fund showed 19% for both these ratios.

PROPRIETARY FUNDS

The Town's proprietary funds provide the same type of information found in the business-type activities part of the government-wide financial statements, but in greater detail.

Total net assets of the water and sewer proprietary fund at year end were \$5.16 million. Net assets invested in capital assets, net of related debt, were \$3.14 million and unrestricted net assets were \$2.02 million. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town did not amend its General Fund budget during the fiscal year.

During the fiscal year, total actual revenues on a budgetary basis were approximately \$114,000 (or 8%) below the amount budgeted. The primary reason for revenues being less than budgeted was a mistake in estimating the amount of interest income to be received.

Actual expenditures on a budgetary basis were approximately \$135,000 (or 10%) below the amount budgeted. The primary reasons for the less than budgeted expenditures were lower than anticipated expenditures for salaries in general government and public safety as well as fewer than expected capital outlays in public works.

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

The Town's investment in capital assets for governmental and business-type activities at June 30, 2007, net of \$2.2 million of accumulated depreciation was \$7.4 million. This investment in capital assets includes land, land improvements, buildings, infrastructure and machinery and equipment.

Significant capital asset activity during the current fiscal year was the addition of approximately \$222,000 of business-type capital assets as the Town proceeded with construction of a new water well, water and sewer lines; as well as approximately \$79,000 of infrastructure (sidewalks and streets) for governmental type activities.

Capital assets at consisted of the following (\$,000 omitted):

	<u>June 30, 2007</u>			<u>June 30, 2006</u>		
	<u>Govern- mental</u>	<u>Business Type</u>	<u>Total</u>	<u>Govern- mental</u>	<u>Business Type</u>	<u>Total</u>
Capital Assets, at Cost	\$ 3,040	\$ 6,553	\$ 9,593	\$ 2,938	\$ 6,265	\$ 9,203
Less: Accum. Depreciation	<u>761</u>	<u>1,430</u>	<u>2,191</u>	<u>657</u>	<u>1,250</u>	<u>1,907</u>
Net Capital Assets	<u>\$ 2,279</u>	<u>\$ 5,123</u>	<u>\$ 7,402</u>	<u>\$ 2,281</u>	<u>\$ 5,015</u>	<u>\$ 7,296</u>

Additional information on the Town's capital assets can be found in Note 5 in the notes to the financial statements.

DEBT ADMINISTRATION

At the end of the current fiscal year the town had total long-term debt of \$3.24 million of which \$176,000 is due within one year and the remaining \$3.06 million is due in subsequent years. \$1.25 million of the debt was related to governmental activities and \$1.99 million was related to business-type activities.

The Town's total debt decreased by approximately \$172,000 during the fiscal year; as a result of making all required payments.

The Town is in the middle of several capital projects in the water & sewer proprietary fund. Funding for these projects had been secured in prior years by the authorization of \$3,600,000 of State bonds. During the current fiscal year, no additional amount of this debt was issued.

Additional information on the Town's long-term debt can be found in Note 6 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The Town's budgeted revenues and expenses for fiscal year 2008 are not significantly different than 2007's. There are no known economic factors with a significant impact on the Town for the upcoming year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview 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 Office of the Town Administrator, Town of Rising Sun, P.O. Box 465, Rising Sun, MD 21911.

TOWN OF RISING SUN
STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash & Cash Equivalents	\$ 331,380	\$ 1,649,300	\$1,980,680
Investments	99,539	-	99,539
Taxes Receivable	27,661	-	27,661
Service Charges Receivable	-	164,974	164,974
Due From State of MD	16,368	-	16,368
Other Receivables	24,140	-	24,140
Internal Balances	(242,970)	242,970	-
Noncurrent Assets:			
Capital Assets, Net of Accumulated Depreciation	<u>2,279,419</u>	<u>5,123,429</u>	<u>7,402,848</u>
Total Assets	<u>2,535,537</u>	<u>7,180,673</u>	<u>9,716,210</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	20,703	35,831	56,534
Noncurrent Liabilities:			
Due Within One Year	28,771	146,868	175,639
Due in More Than One Year	<u>1,228,310</u>	<u>1,835,731</u>	<u>3,064,041</u>
Total Liabilities	<u>1,277,784</u>	<u>2,018,430</u>	<u>3,296,214</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,022,338	3,140,830	4,163,168
Unrestricted	<u>235,415</u>	<u>2,021,413</u>	<u>2,256,828</u>
Total Net Assets	<u>\$1,257,753</u>	<u>\$5,162,243</u>	<u>\$6,419,996</u>

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

TOWN OF RISING SUN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

Function / Program Activities	Program Revenues				Net Revenue (Expense) and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government Services	\$ 333,804	\$ 35,677	\$ -	\$ (298,127)	\$ -	\$ -	\$ (298,127)
Public Safety	454,875	-	37,130	(417,745)	-	-	(417,745)
Public Works - Streets	205,508	22,975	113,702	(68,831)	-	-	(68,831)
Public Works - Solid Waste Collection	152,366	130,070	9,574	(12,722)	-	-	(12,722)
Parks and Recreation	21,262	-	9,132	(12,130)	-	-	(12,130)
Interest on Long-Term Debt	54,850	-	-	(54,850)	-	-	(54,850)
Total Governmental Activities	1,222,665	188,722	169,538	(864,405)	-	-	(864,405)
Business-Type Activities:							
Water and Sewer Services	534,941	568,130	11,235	-	44,424	44,424	44,424
Total Primary Government	\$ 1,757,606	\$ 756,852	\$ 180,773	(864,405)	44,424	(819,981)	
General Revenues:							
Property and Personal Property Taxes				666,178	-	-	666,178
Other Local Taxes from State				149,001	-	-	149,001
Grants and Contributions Not Restricted to Specific Programs				41,522	-	-	41,522
Unrestricted Investment Earnings				22,319	91,253	91,253	113,572
Miscellaneous				33,010	19,336	19,336	52,346
Total General Revenues				912,030	110,589	110,589	1,022,619
Change in Net Assets				47,625	155,013	155,013	202,638
Net Assets at Beginning of Year				1,210,128	5,007,230	5,007,230	6,217,358
Net Assets at End of Year				\$ 1,257,753	\$ 5,162,243	\$ 5,162,243	\$ 6,419,996

The accompanying notes are an integral part of the financial statements

TOWN OF RISING SUN
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2007

	<u>General Fund</u>
ASSETS	
Cash & Cash Equivalents	\$ 331,380
Investments	99,539
Taxes Receivable	27,661
Due From State of MD	16,368
Other Receivables	<u>24,140</u>
Total Assets	<u>\$ 499,088</u>
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 20,703
Due to Water & Sewer Proprietary Fund	<u>242,970</u>
Total Liabilities	<u>263,673</u>
FUND BALANCES	
Unreserved – Undesignated	<u>235,415</u>
Total Liabilities & Fund Balances	<u>\$ 499,088</u>

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

TOWN OF RISING SUN
 RECONCILIATION OF THE BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS – GOVERNMENTAL FUNDS
 JUNE 30, 2007

Amounts reported for governmental activities in the statement of net assets (page 9) are different because of the following:

Fund Balance – Governmental Funds (page 10)		\$ 235,415
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:		
Governmental capital assets	\$ 3,040,516	
Less accumulated depreciation	<u>(761,097)</u>	
Net capital assets		2,279,419
Long-term liabilities are not due and payable in the current period and, therefore not reported in the funds:		
General obligation debt		<u>(1,257,081)</u>
Net Assets of Governmental Activities (page 8)		<u>\$ 1,257,753</u>

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

TOWN OF RISING SUN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE – GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>General Fund</u>
REVENUES	
Taxes - Local Property	\$ 666,178
Taxes - Other Local	149,001
Licenses and Permits	10,749
Intergovernmental - State	159,964
Intergovernmental - County	51,096
Charges for Services - Waste Collection	130,070
Charges for Services – Sidewalks & Zoning	58,652
Investment Earnings	22,319
Other	<u>22,261</u>
Total Revenues	<u>1,270,290</u>
EXPENDITURES	
General Government	288,839
Public Safety - Police	422,490
Public Works - Highways & Streets	277,401
Public Works – Solid Waste Collection	152,366
Parks & Recreation	25,820
Debt Service - Principal	27,685
Debt Service - Interest	<u>54,850</u>
Total Expenditures	<u>1,249,451</u>
Excess of Revenues Over Expenditures	20,839
FUND BALANCE AT BEGINNING OF YEAR	<u>214,576</u>
Fund Balance at End of Year	<u>\$ 235,415</u>

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

TOWN OF RISING SUN
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Amounts reported for governmental activities in the statement of activities (page 10) are different because of the following:

Net Change in Fund Balance – Governmental Funds (page 12)	\$ 20,839
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	102,999
Depreciation expense	(103,898)

The issuance of long-term debt provides current financial resources to governmental funds, while repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments	<u>27,685</u>
Change in Net Assets of Governmental Activities (page 9)	<u>\$ 47,625</u>

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

TOWN OF RISING SUN
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
JUNE 30, 2007

	<u>Total</u>
ASSETS	
Cash & Cash Equivalents	\$ 1,649,300
Service Charges Receivable	164,974
Due From General Fund	242,970
Noncurrent Assets:	
Capital Assets, Net of Accumulated Depreciation	<u>5,123,429</u>
Total Assets	<u>7,180,673</u>
 LIABILITIES	
Accounts Payable and Accrued Expenses	35,831
Noncurrent Liabilities:	
Due Within One Year	146,868
Due in More Than One Year	<u>1,835,731</u>
Total Liabilities	<u>2,018,430</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,140,830
Unrestricted	<u>2,021,413</u>
Total Net Assets	<u>\$ 5,162,243</u>

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

TOWN OF RISING SUN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS –
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Service Charges	\$ 269,593	\$ 290,337	\$ 559,930
Rents & Misc.	<u>14,898</u>	<u>4,438</u>	<u>19,336</u>
 Total Operating Revenue	 <u>284,491</u>	 <u>294,775</u>	 <u>579,266</u>
OPERATING EXPENSES			
Chemicals	15,327	507	15,834
Contracted Services and Engineering	3,137	3,198	6,335
Depreciation	102,053	77,604	179,657
Other Expenses	9,376	7,127	16,503
Payroll Taxes and Fringe Benefits	25,695	38,208	63,903
Repairs and Maintenance	4,375	8,651	13,026
Salaries and Wages	49,408	67,966	117,374
Supplies and Materials	7,365	6,121	13,486
Testing	1,283	7,130	8,413
Utilities and Telephone	48,879	24,633	73,512
Vehicle Expenses	<u>4,996</u>	<u>4,684</u>	<u>9,680</u>
 Total Operating Expenses	 <u>271,894</u>	 <u>245,829</u>	 <u>517,723</u>
 Operating Income	 <u>12,597</u>	 <u>48,946</u>	 <u>61,543</u>
OTHER REVENUE (EXPENSE)			
Connection & Improvement Charges	4,100	4,100	8,200
Interest Income	43,555	47,698	91,253
Capital Grants	11,235	-	11,235
Interest Expense	<u>(7,307)</u>	<u>(9,911)</u>	<u>(17,218)</u>
 Total Other Revenue (Expense)	 <u>51,583</u>	 <u>41,887</u>	 <u>93,470</u>
 Change in Net Assets	 64,180	 90,833	 155,013
 NET ASSETS AT BEGINNING OF YEAR	 <u>1,929,655</u>	 <u>3,077,575</u>	 <u>5,007,230</u>
 Net Assets at End of Year	 <u>\$1,993,835</u>	 <u>\$3,168,408</u>	 <u>\$5,162,243</u>

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

TOWN OF RISING SUN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash Received From Customers	\$ 273,948	\$ 282,540	\$ 556,488
Cash Paid To Suppliers & Employees	<u>(192,276.)</u>	<u>(173,184)</u>	<u>(365,460)</u>
Net Cash From Operating Activities	<u>81,672</u>	<u>109,356</u>	<u>191,028</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES			
Advances From (To) General Fund	<u>(28,786)</u>	<u>(54,756)</u>	<u>(83,542)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of Property, Plant & Equipment	(238,602)	(49,565)	(288,167)
Repayment Of Long-Term Debt	(58,249)	(86,366)	(144,615)
Connection & Capital Improvement Charges Received	4,100	4,100	8,200
Capital Grants & Debt Forgiveness	11,235	-	11,235
Interest Paid On Long-Term Obligations	<u>(7,948)</u>	<u>(10,888)</u>	<u>(18,836)</u>
Net Cash From Capital and Related Financing Activities	<u>(289,464)</u>	<u>(142,719)</u>	<u>(432,183)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest Earned	<u>43,555</u>	<u>47,698</u>	<u>91,253</u>
Net Increase (Decrease) In Cash	(193,023)	(40,421)	(233,444)
CASH, JULY 1, 2006	<u>923,061</u>	<u>959,683</u>	<u>1,882,744</u>
Cash, June 30, 2007	<u>\$ 730,038</u>	<u>\$ 919,262</u>	<u>\$ 1,649,300</u>
 RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Operating Income	<u>\$ 12,597</u>	<u>\$ 48,946</u>	<u>\$ 61,543</u>
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities			
Depreciation	102,053	77,604	179,657
(Increase) Decrease In Accounts Receivable	(10,543)	(12,235)	(22,778)
Increase (Decrease) In Accounts Payable	<u>(22,435)</u>	<u>(4,959)</u>	<u>(27,394)</u>
Total Adjustments	<u>69,075</u>	<u>60,410</u>	<u>129,485</u>
Net Cash From Operating Activities	<u>\$ 81,672</u>	<u>\$ 109,356</u>	<u>\$ 191,028</u>

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

TOWN OF RISING SUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Rising Sun was incorporated in 1860. The Town operates under a Mayor - Commissioner form of government and provides the following services: Public Safety - Police; Public Works - Highways and Streets; Water, Sewer and Sanitation; Recreation - Parks; and General Administrative Services.

The financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America as applicable to government units. The Government Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Proprietary funds apply Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the government's accounting policies are described below.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements.

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 revenues not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING & FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they become 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 town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded as a liability when incurred, as under accrual accounting.

TOWN OF RISING SUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The Town maintains the following two funds:

Governmental Fund Type - General Fund

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Proprietary Fund Type - Water and Sewer Enterprise Fund

The Water and Sewer Enterprise Fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, or public policy, management control, accountability or other purposes.

BUDGETARY DATA

Formal budgetary accounting is employed as a management control for all funds of the Town. Annual operating budgets are adopted, after public hearings, by passing of an ordinance prior to the start of each fiscal year. Transfers of appropriations between functions require approval of the Town Commissioners. The budget uses the same basis of accounting as used to reflect actual revenues and expenditures.

RECEIVABLES

All receivables are reported at gross values. No allowance for uncollectible accounts is deemed necessary.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial cost of more than \$2,500 and an estimated useful life in excess of two years. Such items are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of an asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

TOWN OF RISING SUN
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, plant, and equipment is depreciated using the straight-line method over the following estimated useful lives:

Machinery, equipment and vehicles	4 to 25 years
Buildings and improvements	20 to 50 years
Public domain infrastructure	15 to 50 years
Water & Sewer plants, lines and tanks	25 to 50 years
Water & Sewer improvements	10 to 50 years

COMPENSATED ABSENCES

Since accumulated unpaid vacation and sick leave are relatively immaterial, no accruals have been made with respect to them.

NET ASSETS

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt

This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balance of the debt that are attributable to the acquisition, construction or improvement of these assets reduces this category.

Unrestricted Net Assets

This category represents the net assets of the Town which are not restricted for any project or other purpose by third parties.

NOTE 2 - CASH AND CASH EQUIVALENTS

Deposits are carried at cost plus accrued interest. The carrying amount of Deposits is separately displayed on the balance sheet as "Cash And Equivalents", and consists of demand deposits and certificates of deposit with short-term (less than six month) maturities.

Deposits, by level of risk, are:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 432,824	\$ 430,717
Uninsured, Collateral Held By Pledging Banks		
Trust Department In Town's Name	51,619	52,265
MD Local Government Investment Pool	<u>1,496,237</u>	<u>1,496,237</u>
Total Deposits	<u>\$1,980,680</u>	<u>\$1,979,219</u>

TOWN OF RISING SUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 2 - CASH AND CASH EQUIVALENTS - CONTINUED

The Town has adopted a policy to be followed when investing public funds in accordance with the provisions of Article 95, Section 22F of the Annotated Code of Maryland which prescribes the type of investments permissible for Maryland Municipalities. This policy requires that Town funds be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by a federal agency (such as the FDIC), obligations collateralized by federal obligations, and portfolios created under the Maryland Local Government Investment Pool. The Town has adhered to these policies when investing its funds throughout the fiscal year.

The Town was bequeathed some A.T.& T. stock in the 1950's. The shares now owned are a result of subsequent stock splits and the A.T.& T. divestiture in 1984. These stocks would not be a permitted investment under Article 95, Section 22 of the Annotated Code of Maryland. However, the Town retains the right to hold these stocks for public use under Article 23A, Subsection 24 of the Code. The Town follows GASB Statement 31, which provides that investments should be carried at fair market value and that the change in the market value of investments be reported as revenue in the operating statement. The current year's increase in market value of \$12,236 (from \$87,303 at June 30, 2006 to \$99,539 at June 30, 2007) has been reflected as a revenue item in the General Fund's Statement of Operations.

NOTE 3 - RETIREMENT PLAN

The Town provides pension benefits for all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate after reaching age 21 and completing one year of service. Vesting occurs 40% after four years, 5% additional for each of the next two years, and 10% additional for each of the next five years. Town contributions for, and interest forfeited by employees leaving employment before full vesting are used to reduce the Town's current contribution requirement.

The Town's total payroll in fiscal 2007 was \$558,535. Covered payroll was \$485,252. The total required contribution to the plan for fiscal 2007 was \$9,707. This amount represented a contribution of 2% for all covered employees. The actual contribution was \$6,263 as \$3,444 of forfeitures by former employees were utilized. All employer contributions are fully insured. There is no obligation or provision for employees to contribute to the plan.

Additionally, the Town offers a deferred compensation plan under IRS section 457(b). Employees are eligible to participate after reaching age 21 and completing one year of service. The Town matches the employee's salary deferral up to a maximum of 3%. Covered payroll was \$485,252 and the Town's contribution was \$14,558.

NOTE 4 - RISK MANAGEMENT

The Town has commercial insurance which covers all significant losses. There have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or for the three prior years.

TOWN OF RISING SUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

COST OF CAPITAL ASSETS:	<u>06/30/06</u>	<u>Additions</u>	<u>Dispositions</u>	<u>06/30/07</u>
Governmental Activities				
Land	\$ 417,807	\$ -	\$ -	\$ 417,807
Buildings & Improvements	1,551,091	-	-	1,551,091
Land Improvements	192,840	16,364	-	209,204
Infrastructure - Sidewalks, Streets...	236,224	79,412	-	315,636
Machinery, Equipment & Vehicles	<u>536,555</u>	<u>7,223</u>	-	<u>546,778</u>
Total Governmental Activities	<u>2,937,517</u>	<u>102,999</u>	-	<u>3,040,516</u>
Business-Type Activities				
Land	105,491	-	-	105,491
Water Tanks, Mains, Wells & Plant	3,064,641	208,450	-	3,273,091
Sewer System & Improvements	2,777,333	13,943	-	2,791,276
Machinery, Equipment & Vehicles	<u>317,292</u>	<u>65,774</u>	-	<u>383,066</u>
Total Business-Type Activities	<u>6,264,757</u>	<u>288,167</u>	-	<u>6,552,924</u>
Total Cost	<u>9,202,274</u>	<u>391,166</u>	-	<u>9,593,440</u>
LESS: ACCUMULATED DEPRECIATION:				
Governmental Activities				
Land	-	-	-	-
Buildings & Improvements	149,196	31,022	-	180,218
Land Improvements	101,502	11,102	-	112,604
Infrastructure - Sidewalks, Streets...	3,341	17,360	-	20,701
Machinery, Equipment & Vehicles	<u>403,160</u>	<u>44,414</u>	-	<u>447,574</u>
Total Governmental Activities	<u>657,199</u>	<u>103,898</u>	-	<u>761,097</u>
Business-Type Activities				
Land	-	-	-	-
Water Tanks, Mains & Plants	493,656	88,285	-	581,941
Sewer System & Improvements	653,348	63,136	-	716,484
Machinery, Equipment & Vehicles	<u>102,834</u>	<u>28,236</u>	-	<u>131,070</u>
Total Business-Type Activities	<u>1,249,838</u>	<u>179,657</u>	-	<u>1,429,495</u>
Total Accumulated Depreciation	<u>1,907,037</u>	<u>283,555</u>	-	<u>2,190,592</u>
NET CAPITAL ASSETS:				
Governmental Activities	2,280,318	(899)	-	2,279,419
Business-Type Activities	<u>5,014,919</u>	<u>108,510</u>	-	<u>5,123,429</u>
Total Net Capital Assets	<u>\$7,295,237</u>	<u>\$ 107,611</u>	<u>\$ -</u>	<u>\$7,402,848</u>

TOWN OF RISING SUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 6 – LONG-TERM DEBT

Long-Term Debt at June 30, 2007 consists of:

Governmental Activities:

Mortgage Loan – NBRFS Financial

Total Authorized and Issued as of June 30, 2007 \$1,398,427; Principal repaid through June 30, 2007 \$141,346; Interest at 4.31%; adjustable every three years; Monthly principal and interest payments of \$6,878 through April 2032.

\$ 1,257,081

Business-Type Activities:

Maryland Water Quality Financing Administration, Series 1990 Bond

Total Authorized and Issued as of June 30, 2007 \$549,186; Principal repaid through June 30, 2007 \$398,792; Interest at 4.9%, paid semi-annually; Principal to be repaid in annual installments through February 2011.

150,394

Maryland Water Quality Financing Administration, Series 2002 Bonds

Total Authorized as of June 30, 2007 \$3,600,000; Issued as of June 30, 2007 \$2,584,645; Principal repaid through June 30, 2007 \$752,440; Interest at 0.5%, paid semi-annually; Principal to be repaid in annual installments through February 2032.

1,832,205

Total Business-Type Activities

1,982,599

Total Long-Term Debt

\$ 3,239,680

During the year ended June 30, 2007, the following changes occurred in Long-Term Debt:

	Balance <u>06/30/06</u>	<u>Issued</u>	<u>Retired</u>	Balance <u>06/30/07</u>
Governmental Activities	\$1,284,766	\$ -	\$ 27,685	\$1,257,081
Business-Type Activities	<u>2,127,214</u>	-	<u>144,615</u>	<u>1,982,599</u>
Totals	<u>\$3,411,980</u>	<u>\$ -</u>	<u>\$ 172,300</u>	<u>\$3,239,680</u>

Future debt service requirements are as follows:

Years Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal Maturing</u>	<u>Interest Payable</u>	<u>Principal Maturing</u>	<u>Interest Payable</u>
2008	\$ 28,771	\$ 53,764	\$ 146,868	\$ 15,352
2009	30,184	52,351	149,207	12,968
2010	31,511	51,024	151,636	10,492
2011	32,896	49,639	147,399	8,083
2012	34,210	48,326	112,572	6,656
2013 through 2017	195,577	217,098	348,824	27,071
2018 through 2022	242,535	170,141	310,759	19,284
2023 through 2027	300,768	111,907	318,608	11,418
2028 through 2032	<u>360,629</u>	<u>39,707</u>	<u>296,726</u>	<u>3,425</u>
Totals	<u>\$ 1,257,081</u>	<u>\$ 793,957</u>	<u>\$ 1,982,599</u>	<u>\$ 114,749</u>

TOWN OF RISING SUN
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2007

	<u>Budget</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Property Taxes	\$ 665,000	\$ 665,000	\$ 666,178	\$ 1,178
Other Local Taxes	160,000	160,000	149,001	(10,999)
Licenses & Permits	8,500	8,500	10,749	2,249
Intergovernmental - State	181,000	181,000	159,964	(21,036)
Intergovernmental - County	51,096	51,096	51,096	-
Charges For Services - Waste Collection	137,500	137,500	130,070	(7,430)
Charges For Services - Sidewalks & Zoning	20,000	20,000	58,652	38,652
Investment Earnings	146,123	146,123	22,319	(123,804)
Miscellaneous	14,750	14,750	22,261	7,511
Total Revenues	<u>1,383,969</u>	<u>1,383,969</u>	<u>1,270,290</u>	<u>(113,679)</u>
Expenditures:				
General Government Services	367,497	367,497	288,839	78,658
Public Safety - Police	451,147	451,147	422,490	28,657
Public Works - Highways & Streets	337,475	337,475	277,401	60,074
Public Works - Solid Waste Collection	135,000	135,000	152,366	(17,366)
Parks and Recreation	10,250	10,250	25,820	(15,570)
Debt Service - Principal	27,700	27,700	27,685	15
Debt Service - Interest	54,900	54,900	54,850	50
Total Expenditures	<u>1,383,969</u>	<u>1,383,969</u>	<u>1,249,451</u>	<u>134,518</u>
Excess of Revenues Over Expenditures	-	-	20,839	20,839
Fund Balances at Beginning of Year	<u>214,576</u>	<u>214,576</u>	<u>214,576</u>	-
Fund Balances at End of Year	<u>\$ 214,576</u>	<u>\$ 214,576</u>	<u>\$ 235,415</u>	<u>\$ 20,839</u>

The accompanying notes are an integral part of the financial statements

JAMES D. BAXTER, P.A.

Certified Public Accountant

P.O. Box 524

North East, MD 21901

(410) 287-6655

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

To the Mayor and Town Commissioners
Rising Sun, Maryland

I have audited the basic financial statements of the Town of Rising Sun, as of and for the year ended June 30, 2007, and have issued my report thereon November 19, 2007. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Town of Rising Sun's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Rising Sun's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Town of Rising Sun's internal control over financial reporting.

A control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town of Rising Sun's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town of Rising Sun's financial statements that is more than inconsequential will not be prevented or detected by the Town of Rising Sun's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town of Rising Sun's internal control.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Mayor and Town Commissioners, Town of Rising Sun Management, and Federal awarding and audit agencies and is not intended to be and should not be used by anyone other than those specified parties. However, this report is a matter of public record and its distribution is not limited.

November 19, 2007

