

**TOWN OF RISING SUN, MARYLAND
FINANCIAL STATEMENTS
JUNE 30, 2014**

TOWN OF RISING SUN, MD
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JUNE 30, 2014

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Lindsey + Associates

Independent Auditor's Report

Honorable Mayor and Board of Commissioners
Town of Rising Sun, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Rising Sun, Maryland, as of and for the year ended June 30, 2014, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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 and each major fund of the Town of Rising Sun, Maryland, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the budgetary comparison information on pages 3 through 9 and 35 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 responses 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.

Hinchey + Associates, LLC

October 28, 2014

**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The Town of Rising Sun's Discussion and Analysis provides an overview of the Town's financial activities for the fiscal year ended June 30, 2014. Since this information is designed to focus on the current year's activities, resulting changes, and currently known facts, it should be read in conjunction with the Town's financial statements beginning on page 10.

Financial Highlights

The assets of the Town exceeded its liabilities at the close of the fiscal year by \$8,484,551 (net position). Of this amount, \$2,496,829 may be used to meet the Town's ongoing obligations to citizens and creditors.

- Total net position of the primary government increased \$602,562. This is primarily due to increases in revenue due to the receipt of several grants and increase service charges for water and sewer.
- The net position of governmental activities increased \$387,129 from the previous year, while the net position from business activities increased \$215,433 due to the sewer project.
- The total cost of all of the Town's programs was \$2,340,829 for the year ended June 30, 2014.

Overview of the Financial Statements

This discussion and analysis is an introduction to the Town of Rising Sun's basic financial statements. The Town's basic financial statements consist of three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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

The statement of net position presents information on all of the Town's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increase or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the event causing the change occurs, regardless of the timing of related cash flows.

**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

- *Governmental Activities* – Most of the Town's basic services are reported in this category. Taxes and intergovernmental revenues generally support these services. Services provided include general administration, public safety, public works, planning and zoning, parks and recreation, and interest.
- *Business-type Activities* – The Town charges fees to customers to help it cover all or most of the cost of the water and sewer services.

Fund Financial Statements: A fund is a grouping of related accounts that is used to maintain control over specific sources that have been segregated for specific activities or objectives. The Town of Rising Sun uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories, governmental and proprietary.

- *Governmental Funds* – Most of the Town's basic services are reported in the governmental funds, which are used to account for essentially the same functions reported as governmental activities in the government-wide statements. However, the fund statements focus on near-term inflows and outflows of spendable resources and the balances available for future spending at fiscal year end. This information may be useful in evaluating the Town's near-term financing requirements.

Since the fund statements do not encompass the long-term focus of the government-wide statements, reconciliations are provided to demonstrate the differences between the Governmental Funds Balance Sheet and the Statement of Net Position and between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Statement of Activities. Comparison of the two sets of statements for the governmental funds and the governmental activities may provide the reader with insight into the long-term financing decisions, as the funds statement are from a short-term perspective, and the activities statement show long-term information.

- *Proprietary Funds* – When the Town charges customers for the services it provides, these services are generally reported in the proprietary funds. Proprietary funds are reported in the same way that all activities are report in the Statement of Net Position and The Statement of Activities. In fact, the Town's proprietary funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information such as cash-flows. Proprietary funds are used to present the same functions as business-type functions in the government-wide financial statements.

**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Government-wide Financial Analysis

Net Position: As noted earlier, the Town of Rising Sun's assets exceeded liabilities by \$8,484,551. Over time, changes in net position serve as a useful indicator of a government's financial position. A year-to-year comparison of net position follows:

	<u>Governmental Activities</u>		<u>Business Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Current and other assets	\$ 660,883	\$ 350,513	\$ 6,326,822	\$ 8,517,903	\$ 6,987,705	\$ 8,868,416
Capital assets	3,609,045	2,666,608	14,018,165	12,147,020	17,627,210	14,813,628
Total Assets	4,269,928	3,017,121	20,344,987	20,664,923	24,614,915	23,682,044
Deferred Outflows of Resources	-	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	4,269,928	3,017,121	20,344,987	20,664,923	24,614,915	23,682,044
Long-term liabilities	1,704,927	1,444,904	1,048,243	1,108,863	2,753,170	2,553,767
Other liabilities	638,219	32,564	12,738,975	13,213,724	13,377,194	13,246,288
Total Liabilities	2,343,146	1,477,468	13,787,218	14,322,587	16,130,364	15,800,055
Net position						
Net investment in capital assets	1,722,749	1,221,704	4,264,973	4,149,498	5,987,722	5,371,202
Unrestricted	204,033	317,949	2,292,796	2,192,838	2,496,829	2,510,787
Total Net Position	1,926,782	1,539,653	6,557,769	6,342,336	8,484,551	7,881,989
Program Revenue						
Charges for services	197,867	197,704	1,142,061	1,018,282	1,339,928	1,215,986
Grants/contributions	388,377	57,838	-	800,000	388,377	857,838
General Revenue						
Income taxes	237,275	201,074	-	-	237,275	201,074
Property taxes	877,910	876,193	-	-	877,910	876,193
Total General Revenues	1,189,192	1,176,604	25,894	42,797	1,215,086	1,219,401
Total Revenue and transfers	1,775,436	1,432,146	1,167,955	1,861,079	2,943,391	3,293,225
Expenses						
General government	232,357	250,916	-	-	232,357	250,916
Public safety	655,537	631,108	-	-	655,537	631,108
Public works	404,811	450,244	-	-	404,811	450,244
Parks and recreation	59,096	39,494	-	-	59,096	39,494
Disaster response	358	1,783	-	-	358	1,783
Utilities services	-	-	952,522	936,248	952,522	936,248
Transfers	-	-	-	-	-	-
Total Expenses and transfers	1,388,307	1,373,545	952,522	936,248	2,340,829	2,309,793
Change in net position	387,129	58,601	215,433	924,831	602,562	983,432
Net position, beginning of year	1,539,653	1,481,052	6,342,336	5,417,505	7,881,989	6,898,557
Net position, end of year	1,926,782	1,539,653	6,557,769	6,342,336	8,484,551	7,881,989

**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

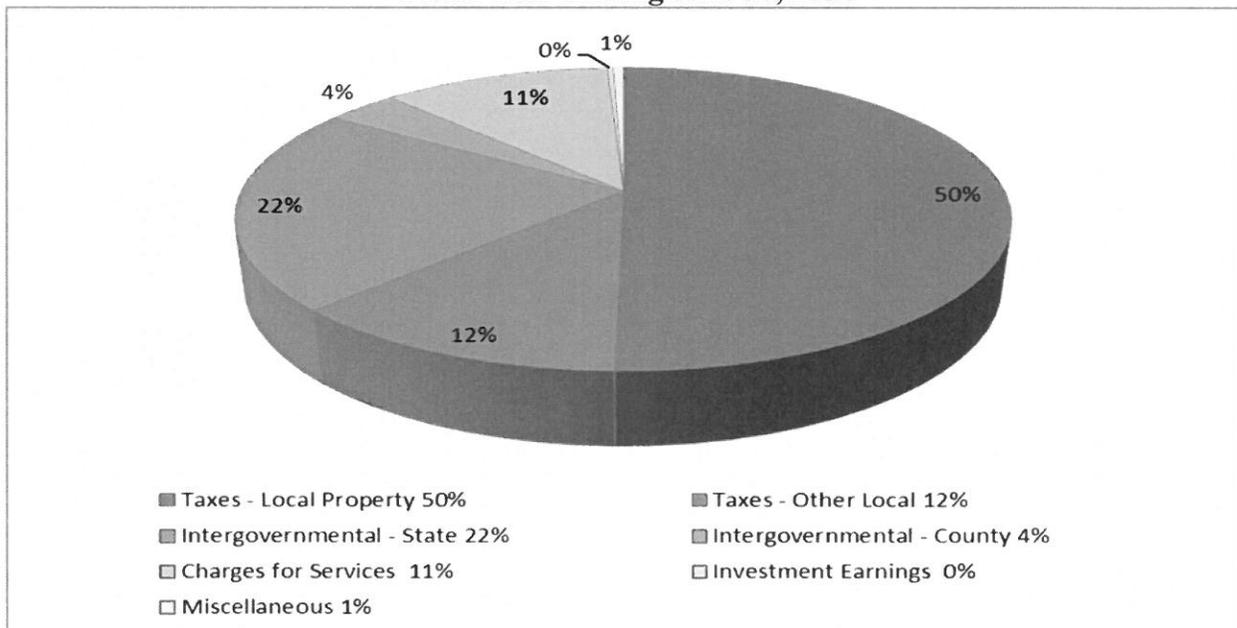
The largest component of the Town's net position, \$5,987,722, reflects its investment in capital assets (e.g., land, infrastructure, buildings, equipment, and others), less any related outstanding debt. The increase in Invested in Capital Assets (Net of Related Debt) of \$616,520 is primarily caused by new capital asset additions. It should be noted that capital assets are not available for future spending as they are used to provide services to citizens. Although the Town's investment in capital assets is reported net of related debt, the resources needed to repay this debt must be provided from other sources as the capital assets themselves cannot be liquidated to repay these liabilities.

The remaining portion of net position is an unrestricted net asset balance of \$2,496,829. These funds are available for the general use of the Town to conduct its normal business.

The revenue from government activities increased by 24%, while the expenditures increased by 1%. The Town's increase in expenditures is due to the Town's repair of streets and sidewalks and other improvement to parks.

For the fiscal year ended June 30, 2014, revenues from government activities totaled \$1,745,298. Property and personal property taxes represented the largest revenue source (50%), followed by Intergovernmental – State (22%) and other local taxes (12%). The following charts depict revenues of the government activities for the fiscal year.

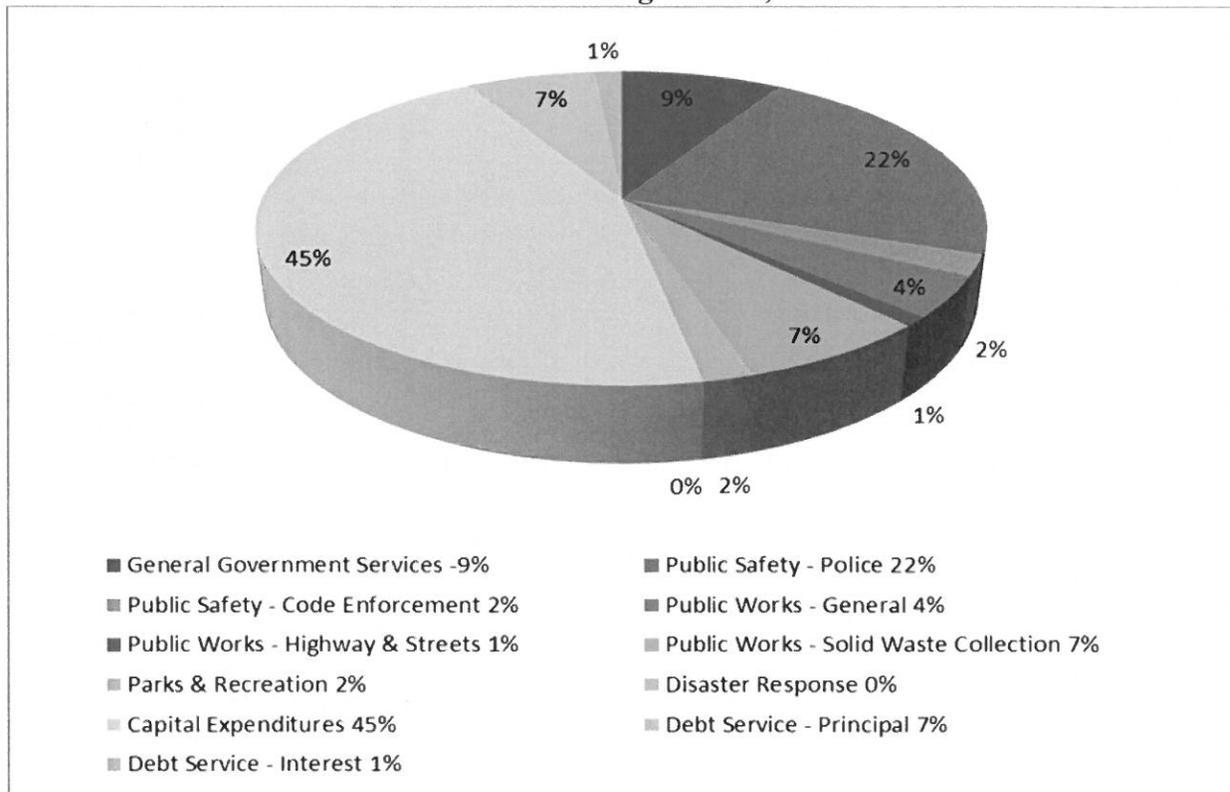
**Revenues – Government Activities
Fiscal Year Ending June 30, 2014**



**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

The largest components of the government activities' expenditures of \$2,498,992 are capital expenditures (45%), public safety-police (22%), and general government (9%). The following chart depict expenditures of the government activities for the fiscal year

**Expenditures – Government Activities
Fiscal Year Ending June 30, 2014**



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, unassigned fund balances may serve as a useful measure of the 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 a combined ending fund balance of \$173,895, a net decrease of \$144,054 from the prior year.

**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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 funds at year end were \$6,557,769. Net assets invested in capital assets, net of related debt, were \$4,264,973, and unrestricted net assets were \$2,292,796. 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 \$52,312 (3%) above the amount budgeted.

Actual expenditures were above budgeted spending by \$147,954 (6%). The primary reason for expenditures being above the budgeted is due to widening the scope of the street repaving.

Capital Assets and Long-Term Debt

Capital Assets: As of June 30, 2014, the Town had invested \$17,627,210, net of accumulated depreciation, in a broad range of capital assets. Depreciation and depletion charges for this fiscal year totaled \$396,339.

Major capital asset events during the current fiscal year included the following:

- \$2,083,650 of infrastructure – water & sewer.

The following table depicts the Town's capital assets:

	June 30, 2013			June 30, 2013		
	Governmental	Proprietary	Total	Governmental	Proprietary	Total
Capital Assets, at Cost	\$ 5,457,680	\$ 16,921,515	\$ 22,379,195	\$ 4,337,907	\$ 14,831,367	\$ 19,169,274
Less: Accum. Depreciation	1,848,635	2,903,350	4,751,985	1,671,299	2,684,347	4,355,646
Net Capital Assets	\$ 3,609,045	\$ 14,018,165	\$ 17,627,210	\$ 2,666,608	\$ 12,147,020	\$ 14,813,628

Long-Term Debt: At the end of current fiscal year, the Town had total long-term debt of \$16,095,159, of which \$13,341,989 is due within one year, and the remaining \$2,753,170 is due in subsequent years. \$1,886,296 of the debt was related to governmental activities, and \$14,208,863 was related to business-type activities. All business-type debt is bonded and backed by the full faith and credit of the state government.

The Town's debt had a total net decrease of \$228,566 during the fiscal year, as a result of retiring debt.

**TOWN OF RISING SUN, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

Requests for Information

This financial report is designed to provide a general overview of the Town of Rising Sun's finances to the citizens of the Town of Rising Sun and other users of such data. Requests for additional copies of this report, questions concerning any of the information in this report, and requests for additional financial information should be addressed to the Town Administrator, PO Box 456 Rising Sun, MD 21911.

TOWN OF RISING SUN, MARYLAND
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 127,413	\$ 170,853	\$ 298,266
Investments	123,409	1,573,104	1,696,513
Taxes receivable	31,538	-	31,538
Service charges receivable	24,170	126,694	150,864
Amounts due from other governments	299,444	-	299,444
Accounts receivable - income taxes	30,138	-	30,138
Other receivables	18,071	500	18,571
Prepaid expenses	6,700	-	6,700
Total Current Assets	660,883	1,871,151	2,532,034
Noncurrent Assets			
Cash and cash equivalents - restricted	-	4,455,671	4,455,671
Net property and equipment	3,609,045	14,018,165	17,627,210
Total Noncurrent Assets	3,609,045	18,473,836	22,082,881
TOTAL ASSETS	4,269,928	20,344,987	24,614,915
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
	\$ 4,269,928	\$ 20,344,987	\$ 24,614,915
LIABILITIES			
Current Liabilities			
Accounts payable and accrued expenses	\$ 31,631	\$ -	\$ 31,631
Amount due to State	-	3,574	3,574
Amount due to other funds	425,219	(425,219)	-
Current portion of long-term debt	181,369	13,160,620	13,341,989
Total Current Liabilities	638,219	12,738,975	13,377,194
Noncurrent Liabilities			
Long-term debt, net of current liabilities	1,704,927	1,048,243	2,753,170
Total Noncurrent Liabilities	1,704,927	1,048,243	2,753,170
TOTAL LIABILITIES	2,343,146	13,787,218	16,130,364
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Net investment in capital assets	1,722,749	4,264,973	5,987,722
Unrestricted	204,033	2,292,796	2,496,829
TOTAL NET POSITION	1,926,782	6,557,769	8,484,551
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION			
	\$ 4,269,928	\$ 20,344,987	\$ 24,614,915

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

**TOWN OF RISING SUN, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position	
	Expenses	Indirect Expense Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental	Primary Government
						Activities	Business-type Activities
Primary Government							
Governmental Activities:							
General government	\$ 232,357	\$ -	\$ 6,404	\$ -	\$ -	\$ (225,953)	\$ (225,953)
Public safety - police	601,565	36,148	941	32,640	-	(604,132)	(604,132)
Public safety - planning, zoning and code enforcement	53,972	-	6,425	-	-	(47,547)	(47,547)
Public works - general	119,865	-	-	-	-	(119,865)	(119,865)
Public works - streets	103,004	-	-	50,478	-	(52,526)	(52,526)
Public works - solid waste	181,942	-	183,437	7,659	-	9,154	9,154
Parks and recreation	59,096	-	660	297,600	-	239,164	239,164
Disaster response	358	-	-	-	-	(358)	(358)
Interest expense	36,148	(36,148)	-	-	-	-	-
Total Governmental Activities	<u>1,388,307</u>	<u>-</u>	<u>197,867</u>	<u>388,377</u>	<u>-</u>	<u>(802,063)</u>	<u>(802,063)</u>
Business-type Activities							
Water system	500,247	-	544,672	-	-	44,425	44,425
Sewer system	452,275	-	597,389	-	-	145,114	145,114
Total Business-Type Activities	<u>952,522</u>	<u>-</u>	<u>1,142,061</u>	<u>-</u>	<u>-</u>	<u>189,539</u>	<u>189,539</u>
Total Primary Government	<u>\$ 2,340,829</u>	<u>\$ -</u>	<u>\$ 1,339,928</u>	<u>\$ 388,377</u>	<u>\$ -</u>	<u>\$ (802,063)</u>	<u>\$ (612,524)</u>
General revenues:							
Taxes							
Property taxes						877,910	877,910
Income taxes						237,275	237,275
Other taxes						4,589	4,589
Grants and contributions						55,272	55,272
Interest and investment earnings						5,147	11,522
Miscellaneous						8,999	28,518
Total General Revenues						<u>1,189,192</u>	<u>1,215,086</u>
Transfers in (out)						-	-
Change in Net Position						387,129	602,562
Net Position, beginning of year						1,539,653	7,881,989
Net Position, end of year						<u>\$ 1,926,782</u>	<u>\$ 8,484,551</u>

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

**TOWN OF RISING SUN, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014**

**RECONCILIATION OF TOTAL GOVERNMENTAL
FUND BALANCE TO NET POSITION OF
GOVERNMENTAL ACTIVITIES
JUNE 30, 2014**

	General Fund	Total Governmental Funds	
ASSETS			
Cash and cash equivalents	\$ 127,413	\$ 127,413	
Investments	123,409	123,409	
Taxes receivable	31,538	31,538	
Service charges receivable	24,170	24,170	
Amounts due from other governments	299,444	299,444	
Accounts receivable - income taxes	30,138	30,138	
Other receivables	18,071	18,071	
Prepaid expenses	6,700	6,700	
Total Assets	660,883	660,883	
DEFERRED OUTFLOWS OF RESOURCES	-	-	
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 660,883	\$ 660,883	
LIABILITIES			
Accounts payable and accrued expenses	\$ 31,631	\$ 31,631	
Amounts due to other funds	425,219	425,219	
Total Liabilities	456,850	456,850	
DEFERRED INFLOWS OF RESOURCES	30,138	30,138	
FUND BALANCES			
Nonspendable	6,700	6,700	
Unassigned	167,195	167,195	
TOTAL FUND BALANCES	173,895	173,895	
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 660,883	\$ 660,883	

Total Governmental Fund Balances \$ 173,895

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 3,609,045

Long-term liabilities, including bonds and notes payable are not due and payable in the current period and therefore are not reported in the funds. (1,886,296)

Receivables pertaining to revenue that is not available in accordance with modified accrual accounting are reported as deferred inflows of resources in the funds. 30,138

Net Position of Governmental Activities \$ 1,926,782

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

TOWN OF RISING SUN, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Total Governmental Funds
REVENUES		
Taxes		
Local property	\$ 877,910	\$ 877,910
Income and other	211,726	211,726
Intergovernmental		
State	380,718	380,718
County	62,931	62,931
Charges for service	197,867	197,867
Investment earnings	5,147	5,147
Miscellaneous	8,999	8,999
Total Revenues	<u>1,745,298</u>	<u>1,745,298</u>
EXPENDITURES		
Current Operations		
General government	215,088	215,088
Public safety - police	548,262	548,262
Public safety - planning, zoning and code enforcement	53,972	53,972
Public works - general	104,278	104,278
Public works - streets	23,972	23,972
Public works - solid waste	181,942	181,942
Parks and recreation	47,309	47,309
Capital outlays	1,119,773	1,119,773
Debt service - principal	168,248	168,248
Debt service - interest	36,148	36,148
Total Expenditures	<u>2,498,992</u>	<u>2,498,992</u>
Excess of revenues over (under) expenditures and other financing uses	<u>(753,694)</u>	<u>(753,694)</u>
Other financing sources (uses)		
Proceeds from long-term debt	609,640	609,640
Total other financing sources (uses)	<u>609,640</u>	<u>609,640</u>
Excess of revenue and other financing sources over (under) expenditures and other financing uses	<u>(144,054)</u>	<u>(144,054)</u>
Fund balance, beginning of year	317,949	317,949
Fund balance, end of year	<u>\$ 173,895</u>	<u>\$ 173,895</u>

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2014

		\$ (144,054)
<i>Net Change in Fund Balances - Total Governmental Funds</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		942,437
Proceeds from new debt is considered an other financing source in the governmental funds, but is recorded as an increase in long-term debt in the statement of activities. This is the amount of the proceeds from new debt.		(609,640)
Increases in deferred inflows of resources pertaining to state income taxes do not provide current financial resources and are not reported as revenues in the governmental funds.		30,138
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		168,248
<i>Change in Net Position of Governmental Activities</i>		<u>\$ 387,129</u>

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

TOWN OF RISING SUN, MARYLAND
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2014

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
ASSETS			
Current Assets			
Cash and cash equivalents - unrestricted	\$ 57,186	\$ 113,667	\$ 170,853
Investments	402,196	1,170,908	1,573,104
Service charges receivable	48,922	77,772	126,694
Amount due from other funds	308,256	388,720	696,976
Other receivables	-	500	500
Total Current Assets	<u>816,560</u>	<u>1,751,567</u>	<u>2,568,127</u>
Noncurrent Assets			
Cash and cash equivalents - restricted	-	4,455,671	4,455,671
Net capital assets	2,554,960	11,463,205	14,018,165
Total Noncurrent Assets	<u>2,554,960</u>	<u>15,918,876</u>	<u>18,473,836</u>
TOTAL ASSETS	<u>3,371,520</u>	<u>17,670,443</u>	<u>21,041,963</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 3,371,520</u>	<u>\$ 17,670,443</u>	<u>\$ 21,041,963</u>
LIABILITIES			
Current Liabilities			
Amounts due to other governments	\$ -	\$ 3,574	\$ 3,574
Amounts due to other funds	271,757	-	271,757
Current portion of long-term debt	60,620	13,100,000	13,160,620
Total Current Liabilities	<u>332,377</u>	<u>13,103,574</u>	<u>13,435,951</u>
Noncurrent Liabilities			
Long-term debt, net of current liabilities	1,048,243	-	1,048,243
Total Noncurrent Liabilities	<u>1,048,243</u>	<u>-</u>	<u>1,048,243</u>
TOTAL LIABILITIES	<u>1,380,620</u>	<u>13,103,574</u>	<u>14,484,194</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION			
Net investment in capital assets	1,446,097	2,818,876	4,264,973
Unrestricted	544,803	1,747,993	2,292,796
TOTAL NET POSITION	<u>1,990,900</u>	<u>4,566,869</u>	<u>6,557,769</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 3,371,520</u>	<u>\$ 17,670,443</u>	<u>\$ 21,041,963</u>

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

TOWN OF RISING SUN, MARYLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Operating Revenues			
Charges for services	\$ 544,672	\$ 597,389	\$ 1,142,061
Rents and miscellaneous	19,519	-	19,519
Total Operating Revenues	<u>564,191</u>	<u>597,389</u>	<u>1,161,580</u>
Operating Expenses			
Chemicals and testing	19,375	19,488	38,863
Contract services	11,434	13,093	24,527
Other administrative	58,961	98,877	157,838
Payroll taxes and fringe benefits	46,799	46,121	92,920
Repairs and maintenance	26,611	6,658	33,269
Salaries and wages	144,193	144,774	288,967
Supplies and materials	3,753	8,180	11,933
Utilities	45,068	14,533	59,601
Vehicles	8,331	8,429	16,760
Depreciation	126,881	92,122	219,003
Total Operating Expenses	<u>491,406</u>	<u>452,275</u>	<u>943,681</u>
Operating Income (Loss)	<u>72,785</u>	<u>145,114</u>	<u>217,899</u>
Non-operating Revenues (Expenses)			
Interest and investment earnings	238	6,137	6,375
Interest expense	(8,841)	-	(8,841)
Net Non-operating Revenues (Expenses)	<u>(8,603)</u>	<u>6,137</u>	<u>(2,466)</u>
Income Before Contributions and Transfers	64,182	151,251	215,433
Changes in Net Position	64,182	151,251	215,433
Total net position at beginning of year	<u>1,926,718</u>	<u>4,415,618</u>	<u>6,342,336</u>
Total net position at end of year	<u>\$ 1,990,900</u>	<u>\$ 4,566,869</u>	<u>\$ 6,557,769</u>

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

**TOWN OF RISING SUN, MARYLAND
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014**

	Business-Type Activities		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities			
Cash received from customers	\$ 570,681	\$ 589,414	\$ 1,160,095
Cash paid to suppliers	(220,332)	(265,211)	(485,543)
Cash paid to employees	(144,193)	(144,774)	(288,967)
Net cash provided (used) by operating activities	<u>206,156</u>	<u>179,429</u>	<u>385,585</u>
Cash flows from capital and related financing activities			
Principal paid on debt	(60,318)	-	(60,318)
Interest paid on capital debt	(8,841)	-	(8,841)
Capital outlays	(6,498)	(2,083,650)	(2,090,148)
Net cash (used) for capital and related financing activities	<u>(75,657)</u>	<u>(2,083,650)</u>	<u>(2,159,307)</u>
Cash flows from non-capital financing activities			
Transfers (to) from other funds	(129,075)	(312,252)	(441,327)
Net cash (used) for non-capital financing activities	<u>(129,075)</u>	<u>(312,252)</u>	<u>(441,327)</u>
Cash flows from investing activities			
Purchase of investments	-	(600,000)	(600,000)
Interest and dividends	238	6,137	6,375
Interest reinvested	(238)	(603)	(841)
Net cash provided by investing activities	<u>-</u>	<u>(594,466)</u>	<u>(594,466)</u>
Net increase (decrease) in cash and cash equivalents	1,424	(2,810,939)	(2,809,515)
Cash and cash equivalents at beginning of year	55,762	7,380,277	7,436,039
Cash and cash equivalents at end of year	<u>\$ 57,186</u>	<u>\$ 4,569,338</u>	<u>\$ 4,626,524</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating Income (Loss)	\$ 72,785	\$ 145,114	\$ 217,899
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	126,881	92,122	219,003
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable	6,490	(7,975)	(1,485)
Increase (decrease) in accounts payable	<u>-</u>	<u>(49,832)</u>	<u>(49,832)</u>
Cash provided (used) by operating activities	<u>\$ 206,156</u>	<u>\$ 179,429</u>	<u>\$ 385,585</u>

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

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Town of Rising Sun, Maryland, was incorporated in 1860. The Town operates under a Mayor-Commissioner form of government and provides the following services as authorized by its charter: public safety – police and planning, zoning and code enforcement; public works – streets and sidewalks and solid waste collection; water and sewer; parks and recreation; and general administration.

The accounting policies of the Town of Rising Sun conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

In evaluating how to define the Town of Rising Sun, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set by the Governmental Accounting Standards Board. Component units are legally separate organizations for which the elected officials of the Town are financially accountable and a financial benefit or burden relationship exists. In addition, component units can be other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the Town's financial statements to be misleading. Based upon the application of criteria set by the Governmental Accounting Standards Board, there are no separate component units of the Town.

Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

The Town's funds are grouped into two broad fund categories.

Governmental funds include the 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.

The Proprietary Fund includes the Enterprise Funds. The Water and Sewer Funds are used to account for operations that are financed and operated in manner similar to private business enterprises. 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.

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Basis of Accounting

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the Town, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, including the reclassification or elimination of internal activity (between funds). This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues, for each segment of the business-type activities of the Town, and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. The Town does not allocate indirect costs. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as needed. Program revenues include charges paid by the recipients of the goods or services offered by the programs, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the Town.

Net position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Fund Financial Statements

Fund financial statements report detailed information about the Town. The focus of governmental and enterprise financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds, if any, are aggregated and presented in a single column.

Governmental Funds

Town activities pertaining to general government, public safety, public works, recreation, and culture are reported in the governmental funds. All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e. collectible within the current year or within two months of year-end and available to pay obligations of the current period). These include property taxes, income taxes, charges for services and intergovernmental revenues.

Some revenues, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, some revenues are recorded as receivables and deferred inflows of resources.

Other revenues, including licenses and permits, certain charges for services, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid.

Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Proprietary Funds

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges for water and sewer services. Operating expenses of the Town's enterprise fund include contract and electric services, supplies, administrative costs and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town's proprietary funds are all classified as enterprise funds. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. The following is a description of the Town's major enterprise funds:

Water and Sewer Funds: The Water and Sewer Funds are used to account for the revenues generated from the charges for sanitary sewer services and distribution of water to residential and commercial users of the Town.

Cash and Cash Equivalents

The Town's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with short-term maturities of six months or less from the date of acquisition.

Investments

Investments held at June 30, 2014 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Receivables

Receivables at June 30, 2014 consist of property taxes, accounts (billings for user charged services, including utility services), and other receivables. Accounts receivable are deemed collectible in full, and the allowance for doubtful accounts at June 30, 2014 is \$0.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Inventory of Supplies

Inventories, if any, are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds, and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the Town as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. Assets over \$2,500 are capitalized. Infrastructure such as bridges, roads, curbs and gutters, streets, sidewalks, drainage systems and lighting systems are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated. Intangible assets are recognized if they are identifiable, and are amortized over their useful lives if they do not have indefinite useful lives.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: machinery, equipment and vehicles, 4 to 25 years; buildings and improvements, 20 to 50 years; infrastructure, 10 to 50 years; water and sewer plants, lines and tanks, 25 to 50 years; and water and sewer improvements 10 to 50 years.

Compensated Absences

The Town's full-time employee policy grants qualifying employees annual vacation leave to a maximum of 25 days a year, with carryover limited to 80 hours per year. Upon termination, the employees will be paid the number of days accrued.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Interfund Activity

Sales of goods and services between funds are reported as revenues in the seller fund and as expenditures/expenses in the purchaser fund. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds.

On fund financial statements, short-term interfund loans are classified as interfund receivables/payables. These amounts are eliminated in the statement of net position, except for amounts due between governmental and business-type activities, which are presented as internal balances.

Deferred Outflows and Inflows of Resources

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Town has implemented this standard as of July 1, 2013.

A deferred outflow of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. Likewise, a deferred inflow of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow or resources (revenue) until that time.

Local Tax Reserve Fund

At June 30, 2014, the Town was advised by the State of Maryland that \$30,138 of the Local Tax Reserve Fund was allocable to the Town. The Town recorded receivable and deferred inflows of resources in the amount of \$30,138 in the fund financial statements. The change in this amount has been reflected as current year income tax revenue in the government-wide financial statements in accordance with full accrual accounting.

Restricted Reserves

The Town uses restricted resources first when an expense is incurred, for purposes for which both restricted and unrestricted net position is available.

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Interest Expense

Interest is expensed as incurred except when interest is incurred during the construction period, and is capitalized as part of the cost of the asset. During the year ended June 30, 2014, \$255,614 was capitalized as part of construction in progress.

Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues, expenditures, and expenses. Actual results could vary from the estimates that were used.

Equity Classifications

Equity is classified as net position and is displayed in three components:

Net investment in capital assets – Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings, and reduced or increased by deferred inflows and outflows attributable to the acquisition, construction or improvement of those assets.

Restricted net position – Consists of net position with constraints placed on its use either by 1) external groups, such as creditors, grantors, contributors, or laws or regulations of other governments; or 2) law through constitutional provisions or enabling legislation and are reduced by liabilities and deferred inflows of resources related to those constraints.

Unrestricted net position – consists of net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Governmental Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

1. Non-Spendable Fund Balance – amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
2. Restricted Fund Balance – amounts that can be spent only for specific purposes because of restrictions imposed externally by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or imposed by the Town Charter, Town Code or enabling legislation.
3. Committed Fund Balance – amounts that can be used only for specific purposes determined by a formal action by the Board of Commissioners, the Town’s highest level of decision-making authority, ordinance or resolution.
4. Assigned Fund Balance – amounts that are constrained by the Town’s intent that they will be used for specific purposes but are neither restricted nor committed. Pursuant to the Town Charter, the Board of Commissioners is authorized to assign amounts for specific purposes.
5. Unassigned Fund Balance – all amounts not included in other spendable classifications.

The Town considers restricted fund balances to be spent for governmental expenditures first when both restricted and unrestricted resources are available. The Town also considers committed fund balances to spend first when other unrestricted fund balance classifications are available for use.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

Budget Requirements, Accounting, and Reporting

Requirements for all funds:

Formal budgetary accounting is employed as a management control. Annual budgets are adopted for all Town funds by passing a resolution prior to the start of each fiscal year. The Board of Commissioners and Mayor may subsequently amend the budget, and the budget was not amended during fiscal year 2014. The Town prepares an annual operating budget on a basis consistent with generally accepted accounting principles.

For day-to-day management control, expenditures may not exceed budget at the general classification of expenditure. The Town exceeded its budget at June 30, 2014 as follows:

General government	\$	28,046
Public works - general		5,028
Capital outlays		214,321

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposit Policies

Statutes authorize the Town to invest in certificates of deposit, repurchase agreements, passbooks, banker's acceptance, and other available bank investments, provided that approved securities are pledged to secure those funds deposited in an amount equal to the amount of those funds. In addition, the Town can invest in direct debt securities of the United States, unless such an investment is expressly prohibited by law and can invest in the State of Maryland Local Government Investment Pool.

The Town's deposits are insured or collateralized with securities held by the Town, its agent, or by the pledging financial institution's trust department, or agent in the name of the Town.

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned, or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be invested in obligations for which the United States has pledged its full faith and credit, obligations insured by FDIC, or obligations collateralized by federal obligations. Collateral is to be held by the Town, its agent, or by the pledging financial institution's trust department or agent, in the name of the Town.

At year-end, the carrying amounts of the Town's deposits were \$4,753,937 and the bank balances totaled \$4,964,197. At year-end, The Town was not exposed to any custodial credit risk because all amounts were fully insured or collateralized.

Restricted Cash

The Town has a restricted cash balance of \$4,455,671 as of June 30, 2014. These funds were received as a result of the PNC Bank – Bond Anticipation Note (see Note 7). Use of these funds is restricted to costs associated with the waste water treatment plant upgrade.

Investment Policies

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Town's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as follows: the Town will attempt to match its investments with anticipated cash flow requirements and unmatched investments are to be limited to securities maturing up to two years from the date of purchase.

Concentration of Investment Credit Risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town's formal investment policy limits the amount of concentration, except for United States Treasury Securities, authorized pool bank deposits and/or certificates of deposit, to no more than 50% of the total investment portfolio in a single security type with a single financial institution.

For investments, **custodial credit risk** is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities in the possession of an outside party. Town policy provides that investment collateral is held by a third party custodian with whom the Town has a current custodial agreement in the Town's name.

Generally, the Town's investing activities are managed by the Board of Commissioners. Investing is performed in accordance with investment policies adopted by the Town Council complying with State Statutes and the Town Charter. Town funds may be invested in: 1) U.S. Treasury obligations; 2) U.S. Government Agency and U.S. Government-sponsored instrumentalities; 3) Repurchase agreements (master repurchase agreement required); 4) Collateralized certificates of deposit (only Maryland commercial banks); 5) Bankers' acceptances from domestic banks which also include the United States affiliates of large international banks with a short-term rating of A1 from Standard and Poor's Corporation and P1 from Moody's Investor Service; 6) Money market mutual funds, highest rating by at least one recognized rating agency; 7) Commercial paper with a minimum of an A1/P1 rating by at least one recognized rating agency; 8) State of Maryland Local Government Investment Pool; 9) Bonds, notes or other obligation (with the highest rating by at least one recognized rating agency) issued by or on behalf of any state or any agency, department, county, municipal or public corporation, special district authority or political subdivision thereof, or in any fund or trust that invests only in the securities described in this paragraph.

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 3 – DEPOSITS AND INVESTMENTS – continued

The Town was bequeathed AT&T stock in the 1950's. The shares now owned are a result of subsequent stock splits and the AT&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. Fair market value has been determined by quoted market prices of the underlying securities.

As of June 30, 2014, the Town had the following investments:

<u>Types of Investments</u>	<u>Fair Value/ Carrying Amount</u>	<u>Cost</u>	<u>Average Credit Quality/ Ratings</u>
MLGIP	\$ 1,601,665	\$ 1,601,665	AAAm
Stock	94,848	94,848	N/A
Total Investments	<u>\$ 1,696,513</u>	<u>\$ 1,696,513</u>	

Note: Ratings are provided where applicable to indicate associated Credit Risk.
N/A indicates not applicable.

NOTE 4 - INTERFUND TRANSFERS AND BALANCES

As of June 30, 2014 the amount due from the general fund to the water and sewer proprietary funds was \$425,219. Transfers are indicative of funding for subsidies of various Town operations. Interfund transfers for the year ended June 30, 2014 were \$441,327.

NOTE 5 – PROPERTY TAX

Real estate and personal property taxes are levied based on the State of Maryland assessments. Cecil County bills and collects property taxes for the Town. Property taxes include amounts levied against all real and public utility property and tangible personal property which are used in businesses located in the Town. Real property taxes are levied on the first day of July on the assessed value. When taxes are overdue a lien is placed against the property. Taxes are due and payable on the first day of July in the year for which they are levied and become overdue and in arrears on the first day of the following October. Penalties and interest are charged on any unpaid taxes. The property tax rate for fiscal year 2014 is \$0.4062 per \$100 of the full value assessment for real property, and \$0.90 per \$100 of assessed value for personal property.

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Not being depreciated:				
Land	\$ 417,807	\$ -	\$ -	\$ 417,807
Construction in progress	-	-	-	-
Subtotal	<u>417,807</u>	<u>-</u>	<u>-</u>	<u>417,807</u>
Depreciable capital assets:				
Building and improvements	1,551,091	-	-	1,551,091
Land improvements	259,931	355,618	-	615,549
Infrastructure	1,368,647	741,266	-	2,109,913
Machinery, equipment and vehicles	740,431	22,889	-	763,320
Subtotal	<u>3,920,100</u>	<u>1,119,773</u>	<u>-</u>	<u>5,039,873</u>
Total capital assets	<u>4,337,907</u>	<u>1,119,773</u>	<u>-</u>	<u>5,457,680</u>
Accumulated depreciation:				
Building and improvements	366,350	31,022	-	397,372
Land improvements	178,076	12,129	-	190,205
Infrastructure	490,164	89,869	-	580,033
Machinery, equipment and vehicles	636,709	44,316	-	681,025
Subtotal, accumulated depreciation	<u>1,671,299</u>	<u>177,336</u>	<u>-</u>	<u>1,848,635</u>
Net capital assets	<u>\$ 2,666,608</u>	<u>\$ 942,437</u>	<u>\$ -</u>	<u>\$ 3,609,045</u>

Depreciation expense was charged to governmental functions as follows:

General government	\$ 17,269
Public safety - police	53,303
Public works - general	15,587
Public works - streets	79,032
Parks and recreation	11,787
Disaster response	358
Total	<u>\$ 177,336</u>

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION – continued

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Not being depreciated:				
Land	\$ 105,491	\$ -	\$ -	\$ 105,491
Construction in progress - water system	142,134	6,498	-	148,632
Construction in progress - sewer system	7,304,720	2,083,650	-	9,388,370
Subtotal	<u>7,552,345</u>	<u>2,090,148</u>	<u>-</u>	<u>9,642,493</u>
Other depreciable capital assets:				
Water tanks, mains and plants	3,560,983	-	-	3,560,983
Sewer system and improvements	3,253,129	-	-	3,253,129
Machinery, equipment and vehicles	464,910	-	-	464,910
Subtotal	<u>7,279,022</u>	<u>-</u>	<u>-</u>	<u>7,279,022</u>
Total capital assets	<u>14,831,367</u>	<u>2,090,148</u>	<u>-</u>	<u>16,921,515</u>
Accumulated depreciation:				
Water tanks, mains and plants	1,197,610	110,395	-	1,308,005
Sewer system and improvements	1,161,431	80,793	-	1,242,224
Machinery, equipment and vehicles	325,306	27,815	-	353,121
Subtotal accumulated depreciation	<u>2,684,347</u>	<u>219,003</u>	<u>-</u>	<u>2,903,350</u>
Net capital assets	<u>\$ 12,147,020</u>	<u>\$ 1,871,145</u>	<u>\$ -</u>	<u>\$ 14,018,165</u>

Depreciation was charged to business-type activities as follows:

Sewer services	\$ 92,122
Water services	126,881
	<u>\$ 219,003</u>

The Town's only material construction commitment as of June 30, 2014 is the completion of the sewer project.

**TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014**

NOTE 7 – LONG-TERM DEBT

Governmental Activities

Mortgage loan – NBRS Financial – total authorized and issued \$1,398,427. The loan is secured by real property in the Town. Monthly principal and interest payments of \$5,758 are due through April 2032. The interest rate as of June 30, 2014 was 2.44% and is adjustable every three years. The balance outstanding as of June 30, 2014 is \$995,431.

Capital improvement loan – NBRS Financial – total authorized and issued \$658,330. Semi-annual principal payments of \$32,916 are due through January 2019. Interest varies at 75% of the Wall Street Journal Prime Rate and is paid semi-annually. As of June 30, 2014 the interest rate was 2.44%. The balance outstanding as of June 30, 2014 is \$296,242.

Vehicle loan – NBRS Financial – total authorized and issued \$81,000. The loan is secured by Town vehicles. The interest rate is 4.88%. Monthly principal and interest payments of \$2,426 are due through November 2013. The balance outstanding as of June 30, 2014 is \$0.

Vehicle loan – NBRS Financial – total authorized and issued \$76,000. The loan is secured by Town vehicles. The interest rate is 5.39%. Monthly principal and interest payments of \$1,091 are due through November 2017. The balance outstanding as of June 30, 2014 is \$19,538.

Sidewalk repair loan – NBRS Financial – total authorized and issued \$609,640. As of June 30, 2014 the interest rate was 2.44%. The balance outstanding as of June 30, 2014 is \$575,085.

Business-Type Activities

Series 2002 Bonds – Maryland Water Quality Financing Administration. Total authorized of \$1,861,000. Total issued of \$1,698,717 as of June 30, 2014. The interest rate is 0.5% and is paid semi-annually. Annual principal payments are due through February 2032. The balance outstanding as of June 30, 2014 is \$1,108,863.

Bond Anticipation Note – PNC Bank – Total authorized and issued \$13,100,000. The interest rate is 2.23%. Quarterly interest-only payments of \$73,033 are due through November 2015. Principal of \$13,100,000 is due on November 15, 2015. The balance outstanding as of June 30, 2014 is \$13,100,000.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 – LONG-TERM DEBT – continued

The following is a summary of the changes in long-term debt for the year ended June 30, 2014.

	Beginning Balance July 1, 2013	Retired During Year	Additions During Year	Ending Balance June 30, 2014	Amount Due Within 1 Year
Governmental Activities					
Mortgage loan - NBRS	\$ 1,039,624	\$ 44,193	\$ -	\$ 995,431	\$ 43,615
Capital improvement loan - NBRS	362,073	65,831	-	296,242	65,831
Vehicle loan - NBRS	11,982	11,982	-	-	-
Vehicle loan - NBRS	31,225	11,687	-	19,538	10,987
Sidewalk Repair - NBRS	-	34,555	609,640	575,085	60,936
Total Governmental	\$ 1,444,904	\$ 168,248	\$ 609,640	\$ 1,886,296	\$ 181,369
Business-Type Activities					
2002 bonds - MWQFA	\$ 1,169,181	\$ 60,318	\$ -	\$ 1,108,863	\$ 60,620
Bond anticipation notes - PNC	13,100,000	-	-	13,100,000	13,100,000
Total Business-Type	\$ 14,269,181	\$ 60,318	\$ -	\$ 14,208,863	\$ 13,160,620

The principal and interest payments to maturity of the long-term debt obligations are as follows:

Year(s) Ended	Governmental Activities			Business-type Activities		
	June 30	Principal	Interest	Total	Principal	Interest
2015	\$ 181,369	\$ 46,232	\$ 227,601	\$ 13,160,620	\$ 151,458	\$ 13,312,078
2016	184,512	41,474	225,986	60,923	5,089	66,012
2017	196,608	36,339	232,947	61,227	4,784	66,011
2018	178,471	31,153	209,624	61,534	4,477	66,011
2019	148,391	26,690	175,081	61,841	4,168	66,009
2020-2024	545,900	86,916	632,816	313,874	16,160	330,034
2025-2029	292,306	36,694	329,000	321,801	8,215	330,016
2030-2032	158,739	4,433	163,172	167,043	1,106	168,149
	\$ 1,886,296	\$ 309,931	\$ 2,196,227	\$ 14,208,863	\$ 195,457	\$ 14,404,320

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 8 – DEFERRED COMPENSATION PLAN

The Town provides pension benefits for all its full-time employees through 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%. Vesting occurs 40% after four years, 5% 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. During the year ended June 30, 2014, the Town matched employees' contributions of up to 3%, for a total contribution of \$13,489. All employee contributions are fully vested. There is no obligation or provision for employees to contribute to the plan.

In compliance with the Internal Revenue Code Section 457(g), all assets and income of the plan are held in trust for the exclusive benefit of participants and their beneficiaries. Accordingly the investments designated for compensation benefits are not reflected in the Town's financial statements.

NOTE 9 – DEFINED CONTRIBUTION PLAN

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The Town has adopted this statement as of July 1, 2013.

The Town Charter empowers the Town to provide benefits to employees. The Town has a 401(a) defined contribution plan to which it can contribute a discretionary 2% of any full-time employee's salary. No employees are participating and no discretionary contribution was authorized for the fiscal year ended June 30, 2014.

NOTE 10 – CONCENTRATIONS

The Town provides various services to its residents. The Town is located in Cecil County, Maryland. Credit is granted to its residents for taxes, water, and sewer bills. The Town may place a lien on any property associated with unpaid taxes and water and sewer services, therefore, an allowance for uncollectible amounts is not considered necessary.

NOTE 11 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to workers; and natural disasters.

The Town has commercial insurance which covers significant losses. However, the Town does not have coverage regarding contractual claims. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Grants

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement, which may arise as the result of these audits, is not believed to be material according to the Town's management.

Litigation

The Town is the defendant in a civil action filed by the Maryland Department of the Environment for violations of the Federal Safe Drinking Water Act, stemming from violations at the Town's wastewater treatment plant. The suit incorporates a Consent Order agreed to by the Town. To date, the Town has complied with all terms of the Order established under the suit. Penalties are ongoing and could be as much as \$1,800 per month. Failure to meet target dates carries additional penalties of \$500 per day. During the year ended June 30, 2014, the Town paid a total of \$0 in fines and penalties regarding this matter. It is likely that violations and penalties will continue at the plant until a new plant is on line.

NOTE 13 – FUND BALANCE REPORTING

Fund balances for the Town's governmental funds consisted of the following as of June 30, 2014:

Nonspendable

Nonspendable fund balance is comprised of \$6,700 of prepaid expenses that are not in spendable form.

Unassigned Fund Balance

Unassigned fund balance totals \$167,915.

TOWN OF RISING SUN, MARYLAND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 – NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, issued June 2012, effective for fiscal years beginning after June 15, 2014.

Statement No. 69, *Government Combinations and Disposals of Government Operations*, issued January 2013, effective for fiscal years beginning after December 15, 2013.

Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, issued November 2013, effective for fiscal years beginning after June 15, 2014.

The Town will implement these statements as necessary as of their effective dates. While the Town is still in the process of determining the effect of implementing these GASB statements, they are not expected to have a material effect on the financial position of the Town.

NOTE 15 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 28, 2014, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment of or disclosure in the accompanying financial statements.

**TOWN OF RISING SUN, MARYLAND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2014**

	General Fund			
	Original Budget	Final Budget	Actual	Variance
Revenues				
Taxes				
Local property	\$ 903,427	\$ 903,427	\$ 877,910	\$ (25,517)
Income and other	120,353	120,353	211,726	91,373
Intergovernmental				
State	364,000	364,000	380,718	16,718
County	67,500	67,500	62,931	(4,569)
Licenses and permits	1,391	1,391	6,404	5,013
Service charges	211,065	211,065	191,463	(19,602)
Investment earnings	8,515	8,515	5,147	(3,368)
Miscellaneous	16,735	16,735	8,999	(7,736)
Total Revenues	\$ 1,692,986	\$ 1,692,986	\$ 1,745,298	\$ 52,312
Expenditures				
General government	\$ 187,042	\$ 187,042	\$ 215,088	\$ (28,046)
Public safety - police	559,894	559,894	548,262	11,632
Public safety - planning, zoning and code enforcement	55,711	55,711	53,972	1,739
Public works - general	99,250	99,250	104,278	(5,028)
Public works - streets	47,740	47,740	23,972	23,768
Public works - solid waste	184,817	184,817	181,942	2,875
Parks and recreation	63,515	63,515	47,309	16,206
Disaster response	575	575	-	575
Capital outlays	905,452	905,452	1,119,773	(214,321)
Debt Service				
Principal	168,248	168,248	168,248	-
Interest	78,794	78,794	36,148	42,646
Total Expenditures	\$ 2,351,038	\$ 2,351,038	\$ 2,498,992	\$ (147,954)