

TOWN OF RISING SUN
FINANCIAL STATEMENTS
JUNE 30, 2010

TABLE OF CONTENTS

Independent Auditors' Report	1
Required Supplementary Information	
Management's Discussion and Analysis	2 - 8
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet - Governmental Funds	11
Reconciliation of the Balance Sheet to the Statement of Net Assets - Governmental Funds	12
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	13
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	14
Statement of Net Assets - Proprietary Funds	15
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds	16
Statement of Cash Flows - Proprietary Funds	17
Notes to the Financial Statements	18 - 27
Required Supplementary Information	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund	28

WM. C. SADDLER & CO., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

1400 Front Avenue
Suite 201
Lutherville, Maryland 21093
Tel: 410-321-6602
Fax: 410-321-5535

INDEPENDENT AUDITORS' REPORT

To the Mayor and Town Commissioners
Rising Sun, Maryland

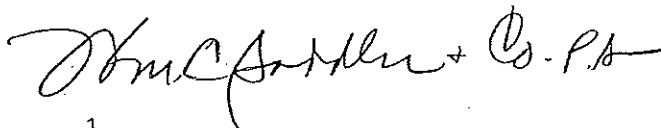
We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Rising Sun, Maryland as of and for the year ended June 30, 2010, which collectively comprise the Town of Rising Sun's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Rising Sun's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Rising Sun as of June 30, 2010 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 page 2 through 8 and budgetary comparison information on page 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

October 28, 2010



-1-

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010. Since this information is designed to focus on the current year activities, resulting changes, and currently known facts, it should be read in conjunction with the Town's financial statements beginning on page 9.

Financial Highlights

The assets of the Town exceeded its liabilities at the close of the fiscal year by \$6,597,102 (net assets). Of this amount, \$1,978,708 may be used to meet the Town's ongoing obligations to citizens and creditors.

- Total net assets of the primary government decreased \$56,098. The net assets of governmental activities increased \$71,871 from the previous year, while the net assets from business activities decreased \$127,969.
- At the close of the current fiscal year, the Town's governmental general fund reported ending fund balance of \$137,487, 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 \$2,310,754 for the year ended June 30, 2010.

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 Assets on page 9 presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-side 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 generally 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. The Fund Financial Statements begin on page 11 and provide detailed information about the major individual funds. A fund is a grouping of related accounts 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 Assets 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 statements are from a short-term perspective and the activities statements show long-term information.

- *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 15-17 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 18 of this report.

Financial Analysis of the Government as a Whole

Net Assets. As noted earlier, the Town of Rising Sun's net assets exceeded liabilities by \$6,597,102. Over time, changes in net assets serve as a useful indicator of a government's financial position. A year-to-year comparison of net assets follows:

	Governmental Activities		Business-type Activities		Government-wide Total	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 200,509	\$ 333,905	\$ 1,991,673	\$ 2,221,754	\$ 2,192,182	\$ 2,555,659
Capital Assets, Net	2,989,673	2,969,870	4,938,689	4,913,020	7,928,362	7,882,890
Total Assets	<u>3,190,182</u>	<u>3,303,775</u>	<u>6,930,362</u>	<u>7,134,774</u>	<u>10,120,544</u>	<u>10,438,549</u>
Current Liabilities	177,787	248,479	297,851	226,896	475,638	475,375
Long-Term Liabilities	1,660,314	1,775,086	1,387,490	1,534,888	3,047,804	3,309,974
Total Liabilities	<u>1,838,101</u>	<u>2,023,565</u>	<u>1,685,341</u>	<u>1,761,784</u>	<u>3,523,442</u>	<u>3,785,349</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	1,214,594	1,081,964	3,403,800	3,226,496	4,618,394	4,308,460
Unrestricted	137,487	198,246	1,841,221	2,146,494	1,978,708	2,344,740
Net Assets	<u>\$ 1,352,081</u>	<u>\$ 1,280,210</u>	<u>\$ 5,245,021</u>	<u>\$ 5,372,990</u>	<u>\$ 6,597,102</u>	<u>\$ 6,653,200</u>

The largest component of the Town's net assets, \$4,618,394, 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 \$309,934 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 assets is an unrestricted net asset balance of \$1,978,708. These funds are available for the general use of the Town to conduct its normal business. Unrestricted assets for governmental activities decreased by \$60,759 while unrestricted net assets for business-type activities decreased \$305,273 for a total decrease of \$366,032 from fiscal year 2009.

Changes in Net Assets. As shown in the following schedule, the Town's combined net assets decreased \$60,759.

Revenue	2010	2009
Taxes - Local Property	\$ 858,452	\$ 751,216
Taxes - Other Local	179,862	177,780
Licenses & Permits	6,882	7,231
Intergovernmental - Federal	36,929	-
Intergovernmental - State	197,560	144,157
Intergovernmental - County	65,005	61,242
Other Grants & Contributions	500	3,783
Charges for Services - Public Safety	3,908	2,318
Charges for Services - Waste Collection	161,710	130,104
Charges for Services - Planning & Zoning	8,014	38,801
Charges for Services - Street & Sidewalks	23,326	1,150
Charges for Services - Parks & Recreation	260	-
Investment Earnings (Loss)	4,353	(13,798)
Miscellaneous	8,031	3,785
Total Revenues	1,554,792	1,307,769
Expenditures		
General Government Services	181,576	134,327
Public Safety - Police	532,852	529,727
Public Safety - Code Enforcement	75,828	68,805
Public Works - General	128,444	91,041
Public Works - Streets & Sidewalks	270,530	711,286
Public Works - Solid Waste Collection	197,302	187,123
Parks & Recreation	10,225	32,674
Disaster Responses	29,486	-
Debt Service - Principal	112,827	133,205
Debt Service - Interest	76,481	58,961
Total Expenditures	1,615,551	1,947,149
Other Financing Sources		
Proceeds from Long-Term Debt	-	700,912
Total Other Financing Sources	-	700,912
Increase (decrease) in Net Assets	\$ (60,759)	\$ 61,532

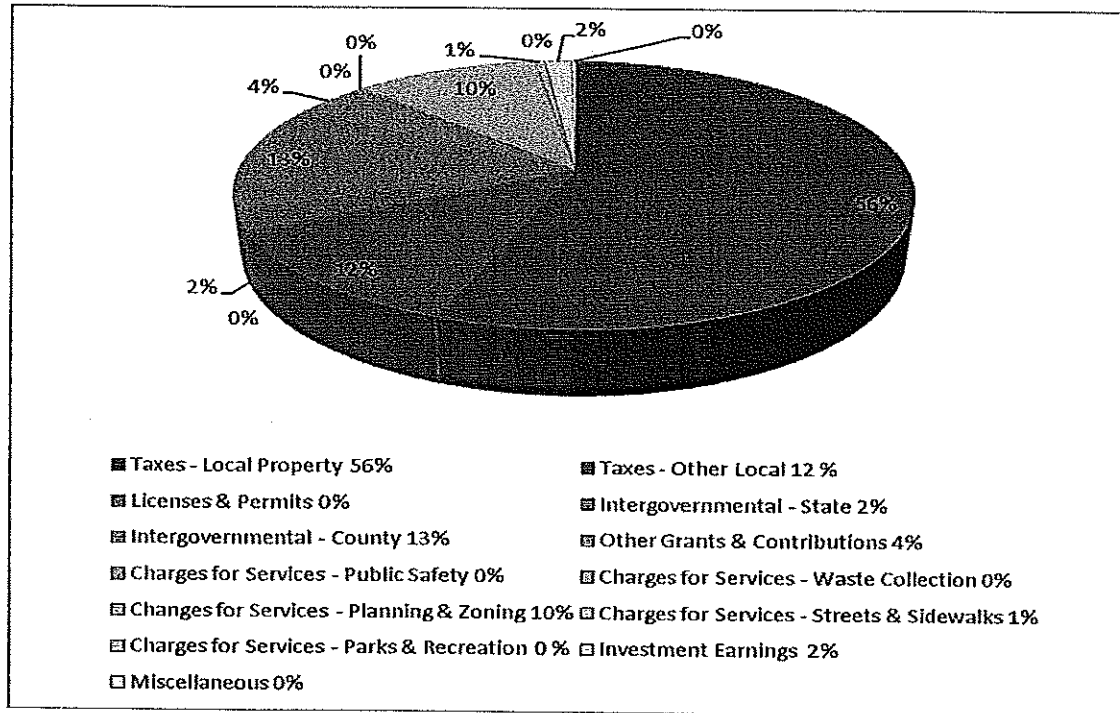
The net assets of the government-wide activities decreased \$60,759. The revenue from government-wide activities increased 19% while the expenditures decreased 17%. The Town decrease in expenditure is due to the reduction in capital expenditure with the completion of public works—streets & sidewalks.

For the fiscal year ended June 30, 2010, revenues from government-wide activities totaled \$1,554,792. Property and personal property taxes represented the largest revenue source (56%), followed by other local taxes (12%), and the intergovernmental revenues from Maryland (13%).

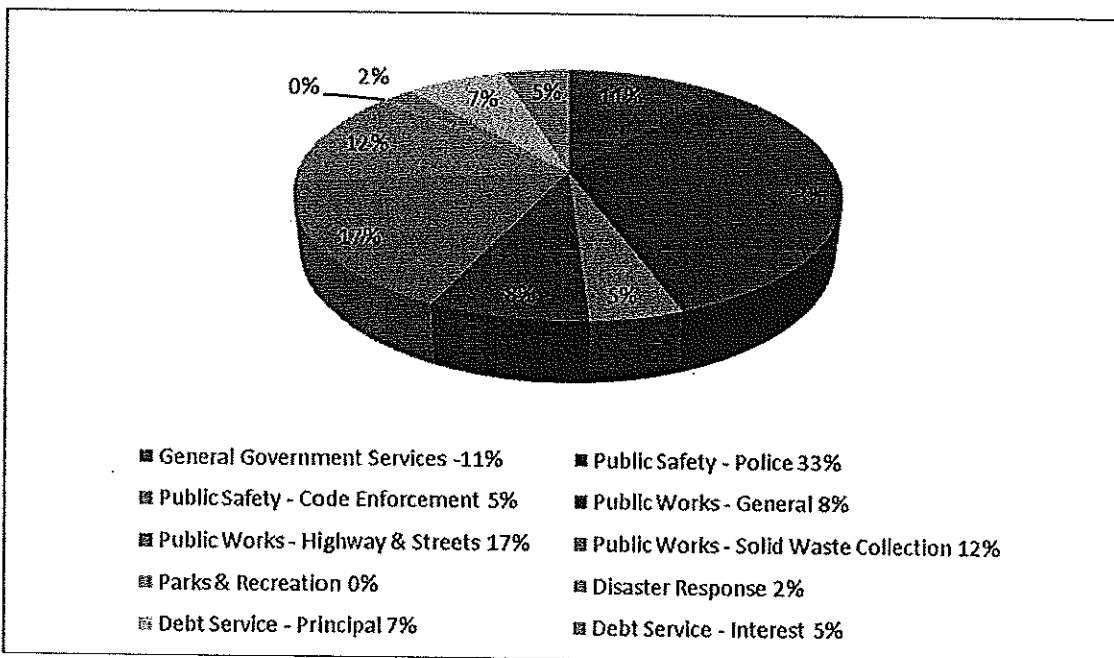
The largest components of the governmental activities' expenses of \$1,615,551 are public works-highway & streets (17%), public safety-police (33%), and public works – solid waste collection (12%).

The following charts depict revenues and expenditures of the government-wide activities for the fiscal year.

Revenues-Government-wide Activities Fiscal Year Ending June 30, 2010



Expenditures-Government-wide Activities Fiscal Year Ending June 30, 2010



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 balance of \$137,487, a net decrease of \$60,759 from the prior year. All of the ending fund balance constitutes unreserved fund balance.

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 \$5,245,021. Net assets invested in capital assets, net of related debt, were \$3,403,800 and unrestricted net assets were \$1,841,221. 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 \$421,885 (or 21%) below the amount budgeted. The primary reason for revenues being less than budgeted is due to approved grant and matching expenditures being budget however funding of these program did not happen till fiscal year 2011.

Actual expenditures were below budgeted spending \$602,797 (or 27%). The primary reason for expenditures being less than budgeted is due to approved grant and matching expenditures being budget however funding of these program did not happen till fiscal year 2011.

Capital Assets and Long-Term Debt

Capital Assets. As of June 30, 2010, the Town had invested \$7,928,362, net of accumulated depreciation, in a broad range of capital assets. Depreciation and depletion charges for this fiscal year totaled \$370,437.

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

- The completion of \$165,242 of infrastructure – sidewalks, streets
- The \$211,361 of infrastructure – water & sewer.

The following table depicts the Town's capital assets

	June 30, 2010			June 30, 2009		
	Governmental	Proprietary	Total	Governmental	Proprietary	Total
Capital Assets, at Cost	\$ 4,170,054	\$ 6,947,779	\$ 11,117,833	\$ 3,977,912	\$ 6,724,012	\$ 10,701,924
Less: Accum. Depreciation	1,180,381	2,009,090	3,189,471	1,008,042	1,810,992	2,819,034
Net Capital Assets	\$ 2,989,673	\$ 4,938,689	\$ 7,928,362	\$ 2,969,870	\$ 4,913,020	\$ 7,882,890

Long-Term Debt. At the end of current fiscal year, the Town had total long-term debt of \$3,309,968 of which \$262,164 is due within one year and the remaining \$3,047,804 is due in subsequent years. \$1,775,079 of the debt was related to governmental activities and \$1,534,889 was related to business-type activities. All business-type debt is bonded and backed by the full faith and credit of the government.

The Town's debt had a total net decrease of \$264,462 during the fiscal year; as a result of retiring of long-term debt.

Economic Factors and Next Year Budget

The Town is expecting to feel the impact of the Base Realignment and Closure Act (BRAC) will have on all of Cecil County and will have to modify future budgets according. BRAC is expected to bring more residential growth which will increase the demands on the Town's current infrastructure and demands for services.

These factors were taken in consideration when adopting the General Fund Budget for fiscal year 2011.

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, Town of Rising Sun, MD 21911.

TOWN OF RISING SUN
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash & Cash Equivalents	\$ 116,230	\$ 1,663,168	\$ 1,779,398
Investments	60,952		60,952
Taxes Receivable	82,563		82,563
Service Charges Receivable	33,502	166,645	200,147
Due from State of Maryland	30,473		30,473
Other Receivables	32,372		32,372
Prepaid Expenses	3,289	2,988	6,277
Internal Balances	(158,872)	158,872	0
Noncurrent Assets: Capital Assets, Net of Accumulated Depreciation	<u>2,989,673</u>	<u>4,938,689</u>	<u>7,928,362</u>
TOTAL ASSETS	<u>3,190,182</u>	<u>6,930,362</u>	<u>10,120,544</u>
LIABILITIES			
Accounts Payable and Accrued Expenses	63,022	150,452	213,474
Noncurrent Liabilities:			
Due Within One Year	114,765	147,399	262,164
Due in More than One Year	<u>1,660,314</u>	<u>1,387,490</u>	<u>3,047,804</u>
TOTAL LIABILITIES	<u>1,838,101</u>	<u>1,685,341</u>	<u>3,523,442</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	1,214,594	3,403,800	4,618,394
Unrestricted	<u>137,487</u>	<u>1,841,221</u>	<u>1,978,708</u>
TOTAL NET ASSETS	\$ <u>1,352,081</u>	\$ <u>5,245,021</u>	\$ <u>6,597,102</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Function/Program Activities	Program Revenues			Net Revenue (Expense) & Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Primary Government	Total
Primary Government:						
Governmental Activities:						
General Government Services	\$ 204,078	\$ 3,908	\$ 23,680	\$ 22,179	(204,078) \$	(204,078)
Public Safety - Police	546,379	8,014			(496,612)	(496,612)
Public Safety - Code Enforcement	75,828	1,420			(67,814)	(67,814)
Public Works - General	133,124	21,906	10,345	164,035	(131,704)	(131,704)
Public Works - Streets	196,889	161,709	9,574		(603)	(603)
Public Works - Solid Waste Collection	198,482	260			(27,199)	(27,199)
Parks & Recreation	22,174				(21,914)	(21,914)
Disaster Response	29,486		14,750		(14,736)	(14,736)
Interest on Long-Term Debt	76,481				(76,481)	(76,481)
Total Governmental Activities	1,482,921	197,217	58,349	186,214	(1,041,141)	(1,041,141)
Business-Type Activities:						
Water & Sewer Services	827,833	680,220			(147,613)	(147,613)
Total Primary Government	\$ 2,310,754	\$ 877,437	\$ 58,349	\$ 186,214	(1,041,141)	(1,188,754)
General Revenues:						
Real & Personal Property Taxes					858,452	858,452
Other Local Taxes					179,862	179,862
Traders Licenses					6,882	6,882
Grants & Contributions Not Restricted to Specific Programs					55,432	55,432
Unrestricted Investment Earnings					3,504	7,857
Miscellaneous					16,140	24,171
Total General Revenues					1,113,012	1,132,656
Change in Net Assets					71,871	(56,098)
Net Assets Beginning of Year					1,280,210	6,653,200
Net Assets End of Year					\$ 1,352,081	\$ 6,597,102

See accompanying notes and auditors' report.

TOWN OF RISING SUN
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	<u>General Fund</u>
ASSETS	
Cash & Cash Equivalents	\$ 116,230
Investments	60,952
Taxes Receivable	82,563
Service Charges Receivable	33,502
Due from State of Maryland	30,473
Other Receivables	32,372
Prepaid Expenses	<u>3,289</u>
 TOTAL ASSETS	 \$ <u>359,381</u>
LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 63,022
Due to Water & Sewer Proprietary Fund	<u>158,872</u>
 TOTAL LIABILITIES	 <u>221,894</u>
FUND BALANCES	
Unreserved - Undesignated	<u>137,487</u>
 TOTAL LIABILITIES & FUND BALANCES	 \$ <u>359,381</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS
JUNE 30, 2010

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

Fund Balance - Governmental Funds	\$	137,487
Capital assets used in governmental activities are not financial resources and, therefore are not reported in the funds:		
Governmental capital assets	\$	4,170,054
Less accumulated depreciation		<u>(1,180,381)</u>
Net capital assets		2,989,673
Long-term liabilities are not due and payable in the current period and, therefore not reported in the funds:		
General obligation debt		<u>(1,775,079)</u>
Net Assets of Governmental Activities	\$	<u>1,352,081</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund
REVENUES	
Taxes - Local Property	\$ 858,452
Taxes - Other Local	179,862
Licenses & Permits	6,882
Intergovernmental - Federal	36,929
Intergovernmental - State	197,560
Intergovernmental - County	65,005
Other Grants & Contributions	500
Charges for Services - Public Safety	3,908
Charges for Services - Waste Collection	161,710
Charges for Services - Planning & Zoning	8,014
Charges for Services - Streets & Sidewalks	23,326
Charges for Services - Parks & Recreation	260
Investment Earnings	4,353
Miscellaneous	8,031
	<hr/>
TOTAL REVENUES	1,554,792
	<hr/>
EXPENDITURES	
General Government Services	181,576
Public Safety - Police	532,852
Public Safety - Code Enforcement	75,828
Public Works - General	128,444
Public Works - Streets & Sidewalks	270,530
Public Works - Solid Waste Collection	197,302
Parks & Recreation	10,225
Disaster Response	29,486
Debt Service - Principal	112,827
Debt Service - Interest	76,481
	<hr/>
TOTAL EXPENDITURES	1,615,551
	<hr/>
EXCESS OF EXPENDITURES OVER REVENUES	(60,759)
	<hr/>
FUND BALANCES - BEGINNING	198,246
	<hr/>
FUND BALANCES - ENDING	\$ 137,487
	<hr/>

See accompanying notes and auditors' report.

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 YEAR ENDED JUNE 30, 2010

Amounts reported for governmental activities in the statement of activities are different because of the following:

Net Change in Fund Balances - Governmental Funds	\$	(60,759)
--	----	----------

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		192,142
Depreciation expense		(172,339)

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.

Proceeds		0
Principal payments		<u>112,827</u>
Change in Net Assets of Governmental Activities	\$	<u>71,871</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2010

	<u>Total</u>
ASSETS	
Cash & Cash Equivalents	\$ 1,663,168
Service Charges Receivable	166,645
Prepaid Expenses	2,988
Due from General Fund	158,872
Noncurrent Assets: Capital Assets, Net of Accumulated Depreciation	<u>4,938,689</u>
TOTAL ASSETS	<u>6,930,362</u>
LIABILITIES	
Accounts Payable and Accrued Expenses	150,452
Noncurrent Liabilities:	
Due Within One Year	147,399
Due in More than One Year	<u>1,387,490</u>
TOTAL LIABILITIES	<u>1,685,341</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	3,403,800
Unrestricted	<u>1,841,221</u>
TOTAL NET ASSETS	<u>\$ 5,245,021</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
OPERATING REVENUES			
Service Charges	\$ 291,932	\$ 358,288	\$ 650,220
Rents & Miscellaneous	<u>15,590</u>	<u>550</u>	<u>16,140</u>
TOTAL OPERATING REVENUE	<u>307,522</u>	<u>358,838</u>	<u>666,360</u>
OPERATING EXPENSES			
Chemicals & Testing	22,045	9,372	31,417
Contracted Services & Engineering	28,542	104,993	133,535
Depreciation	113,312	84,785	198,097
Fines		18,150	18,150
Other Administrative Expenses	23,197	33,123	56,320
Payroll Taxes & Fringe Benefits	38,435	38,213	76,648
Repairs & Maintenance	2,630	3,846	6,476
Salaries & Wages	109,187	107,976	217,163
Supplies & Materials	1,553	2,218	3,771
Utilities & Telephone	37,730	25,488	63,218
Vehicle Expenses	<u>8,017</u>	<u>8,017</u>	<u>16,034</u>
TOTAL OPERATING EXPENSES	<u>384,648</u>	<u>436,181</u>	<u>820,829</u>
OPERATING INCOME (EXPENSE)	<u>(77,126)</u>	<u>(77,343)</u>	<u>(154,469)</u>
OTHER REVENUE (EXPENSE)			
Improvement Charges		30,000	30,000
Interest Income	2,417	1,087	3,504
Interest Expense	<u>(4,268)</u>	<u>(2,736)</u>	<u>(7,004)</u>
TOTAL OTHER REVENUE (EXPENSE)	<u>(1,851)</u>	<u>28,351</u>	<u>26,500</u>
CHANGE IN NET ASSETS	(78,977)	(48,992)	(127,969)
NET ASSETS AT BEGINNING OF YEAR	<u>2,002,190</u>	<u>3,370,800</u>	<u>5,372,990</u>
NET ASSETS AT END OF YEAR	\$ <u>1,923,213</u>	\$ <u>3,321,808</u>	\$ <u>5,245,021</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Customers	\$ 689,583
Cash Paid to Suppliers & Employees	<u>(537,607)</u>
NET CASH FROM OPERATING ACTIVITIES	<u>151,976</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
Advances From (To) General Fund	<u>134,525</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of Property, Plant & Equipment	(223,766)
Repayment of Long-Term Debt	(151,635)
Capital Improvement Charges Received	30,000
Interest Paid on Long-Term Obligations	<u>(19,925)</u>
NET CASH USED IN CAPITAL & RELATED FINANCING ACTIVITIES	<u>(365,326)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Earned	<u>3,504</u>
NET INCREASE (DECREASE) IN CASH	(75,321)
CASH -- BEGINNING	<u>1,738,489</u>
CASH -- ENDING	\$ <u>1,663,168</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income (Loss)	\$ <u>(154,469)</u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	198,097
(Increase) Decrease in Accounts Receivable	23,223
(Increase) Decrease in Prepaid Expense	(2,988)
Increase (Decrease) in Accounts Payable	88,113
Total Adjustments	<u>306,445</u>
NET CASH FROM OPERATING ACTIVITIES	\$ <u>151,976</u>

See accompanying notes and auditors' report.

TOWN OF RISING SUN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

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 and Code Enforcement; Public Works - Streets and Sidewalks, and Trash Recycling; Water and Sewer; Recreation and 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.

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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. 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.

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.

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 Board of 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 one year. 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.

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	10 to 50 years
Water & Sewer plants, lines and tanks	25 to 50 years
Water & Sewer improvements	10 to 50 years

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 is 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:

	Carrying Amount	Bank Balance
Cash on Hand	\$ 176	
Insured (FDIC)	344,949	\$ 344,949
Uninsured, Collateral Held By Pledging Banks		
Trust Departments In Town's Name	208,148	289,206
MD Local Government Investment Pool	<u>1,226,125</u>	<u>1,226,125</u>
Total Deposits	<u>\$1,779,398</u>	<u>\$1,860,280</u>

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.

NOTE 3 - INVESTMENTS

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.

NOTE 4- 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 2010 was \$633,426. The total required contribution to the plan for fiscal 2010 was \$13,272. All employer contributions are fully insured. There is no obligation or provision for employees to contribute to the plan.

NOTE 4- RETIREMENT PLAN - CONTINUED

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 \$627,486 and the Town's contribution was \$21,706.

NOTE 5- RISK MANAGEMENT

The Town has commercial insurance which covers significant losses. However, the Town has recently discovered that they no longer have coverage regarding contractual claims which becomes significant in light of current litigation disclosed in Note 6. Settlement amounts have not exceeded insurance coverage for the current year or for the three prior years.

NOTE 6 - LITIGATION

The Town is the defendant in a lawsuit filed by a property owner seeking damages due to the property owners' inability to be serviced by water and sewer utilities by the Town. The suit consists of six counts each asking for damages of \$15 million for a total of \$90 million.

As the case stems from planning, funding and construction of water and sewer utilities, the Town has spent significant time and money resolving the underlying issues. However, despite the best efforts of the Town and cooperation of the plaintiff, to be successful several regulatory hurdles must be cleared by the Maryland Department of the Environment, and proper financing for the projects must be obtained. It is the Town's intention to negotiate a settlement in this matter that would allow for service to the subject property.

While it is too early to determine an outcome of the litigation, there is a severe threat to the Town with regards to this lawsuit. While the Town has insurance coverage for legal claims, only three of the six counts are covered by the policy. The remaining three counts are contractual claims in nature which, as described in Note 5, are not covered by the Town's insurance. This leaves a potential uncovered loss of \$45 million. Settlement negotiations have been ongoing and the case has been stayed by the Court with the agreement of the parties until March, 2011.

In a related matter, the Town is also 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

NOTE 6 - LITIGATION (CONTINUED)

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, 2010, the Town paid a total of \$18,500 in fines and penalties regarding this matter. It is likely that violations and penalties will continue at the plant until a new plant is online, possibly in late 2012.

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010 is as follows:

COST OF CAPITAL ASSETS:	6/30/09	Additions	Dispositions	6/30/10
Governmental Activities				
Land	417,807	\$	\$	417,807
Building & Improvements	1,551,091			1,551,091
Land Improvements	218,762			218,762
Infrastructure - Sidewalks, Streets	1,199,430	165,242		1,364,672
Machinery, Equipment & Vehicles	590,822	26,900		617,722
Total Governmental Activities	3,977,912	192,142	0	4,170,054
Business-Type Activities				
Land	105,491			105,491
Water Tanks, Mains, Wells & Plant	3,318,890	104,629		3,423,519
Sewer System & Improvements	2,907,651	106,732		3,014,383
Machinery, Equipment & Vehicles	391,980	12,406		404,386
Total Business-Type Activities	6,724,012	223,767	0	6,947,779
Total Cost	10,701,924	415,909	0	11,117,833
LESS: ACCUMULATED DEPRECIATION				
Governmental Activities				
Land				
Buildings & Improvements	242,262	31,022		273,284
Land Improvements	134,077	11,245		145,322
Infrastructure - Sidewalks & Streets	131,461	89,604		221,065
Machinery, Equipment & Vehicles	500,242	40,468		540,710
Total Governmental Activities	1,008,042	172,339	0	1,180,381
Business-Type Activities				
Land				
Water Tanks, Mains & Plants	776,497	98,168		874,665
Sewer System & Improvements	847,458	69,272		916,730
Machinery, Equipment & Vehicles	187,037	30,658		217,695
Total Business-Type Activities	1,810,992	198,098	0	2,009,090
Total Accumulated Depreciation	2,819,034	370,437	0	3,189,471
NET CAPITAL ASSETS:				
Governmental Activities	2,969,870	19,803		2,989,673
Business-Type Activities	4,913,020	25,669		4,938,689
Total Net Capital Assets	7,882,890	\$ 45,472	\$ 0	\$ 7,928,362

NOTE 8 - CAPITAL IMPROVEMENT REIMBURSEMENTS

The Town has applied for and received acceptance of a project under the American Recovery and Reinvestment Act (ARRA) to upgrade its water meters. As of June 30, 2010, the Town has expended \$209,257 in costs for this project which have not been, and are currently not eligible for reimbursement until routine inspections by the Maryland Department of the Environment are complete. Total costs available for this project are \$494,400. All costs to date have been included in the current year capital additions for the water and sewer systems. The Town is confident that all costs will be eligible for reimbursement and will be received during the next fiscal year.

NOTE 9 - LONG-TERM DEBT

Long-Term Debt at June 30, 2010 consists of:

Governmental Activities:

Mortgage Loan - NBRS Financial

Total authorized and issued as of June 30, 2010 - \$1,398,427. Principal repaid through June 30, 2010 - \$235,483. Interest at 3.94%, adjustable every three years.

Monthly principal and interest payments of \$6,627 through April, 2032. \$ 1,162,944

Capital Improvement Loan - NBRS Financial

Total authorized and issued as of June 30, 2010 - \$658,314.

Principal paid through June 30, 2010 - \$65,831 - Interest at variable rate, based on 75% of Wall Street Journal Prime Rate, Initial Rate 2.44%.

Annual principal payments of \$65,831 beginning January 1, 2010 through January, 2019.

Interest is paid semi-annually. 592,483

Secured Loan - NBRS Financial

Total authorized and issued as of June 30, 2010 - \$42,598.

Principal paid through June 30, 2010 - \$22,946. Interest at 4.5%. Monthly principal and interest payments of \$1,268 through October, 2011.

Loan is secured by 2 police vehicles. 19,652

Total Governmental Activities

1,775,079

Business-Type Activities:

Maryland Water Quality Financing Administration, Series 1990 Bond

Total authorized and issued as of June 30, 2010 - \$549,186. Principal repaid through June 30, 2010 - \$513,799. Interest at 4.9%, paid semi-annually.

Principal to be repaid in annual installments through February, 2011. 35,387

Maryland Water Quality Financing Administration, Series 2002 Bonds

Total authorized and issued as of June 30, 2010 - \$3,600,000. Issued as of June 30, 2010 - \$2,159,968. Principal repaid through June 30, 2010 - \$660,466.

Interest at 0.5%, paid semi-annually. Principal to be repaid in annual installments through February, 2032. 1,499,502

Total Business-Type Activities

1,534,889

Total Long-Term Debt

\$ 3,309,968

NOTE 9 - LONG TERM DEBT (CONTINUED)

During the year ended June 30, 2010, the following changes occurred in Long-Term Debt:

	Balance 6/30/09	Issued	Retired	Balance 6/30/10
Governmental Activities	\$ 1,887,906	\$	\$ 112,827	\$ 1,775,079
Business-Type Activities	1,686,524		151,635	1,534,889
Totals	\$ 3,574,430	\$ 0	\$ 264,462	\$ 3,309,968

Future debt service requirements are as follows:

Years Ending June 30	Governmental Activities		Business-Type Activities	
	Principal Maturing	Interest Payable	Principal Maturing	Interest Payable
2011	\$ 114,765	\$ 63,093	\$ 147,399	\$ 9,098
2012	106,421	59,377	112,572	6,805
2013	102,948	55,897	105,736	6,260
2014	104,437	52,449	60,318	5,846
2015	105,985	48,978	60,620	5,544
2016 through 2020	489,393	109,776	307,675	23,144
2021 through 2025	275,342	122,261	315,444	15,374
2026 through 2030	335,214	62,387	323,410	7,412
2031 through 2032	140,574	5,381	101,715	688
Totals	\$ 1,775,079	\$ 579,599	\$ 1,534,889	\$ 80,171

NOTE 10 - SUBSEQUENT EVENT

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 28, 2010, the date the financial statements were available to be issued.

TOWN OF RISING SUN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010

	Original and Final Budget	Actual	Variance with Final Budget - Positive (Negative)
REVENUES			
Property Taxes	\$ 775,891	\$ 858,452	\$ 82,561
Other Local Taxes	131,529	179,862	48,333
Licenses & Permits	300	6,882	6,582
Intergovernmental - Federal	98,540	36,929	(61,611)
Intergovernmental - State	618,095	197,560	(420,535)
Intergovernmental - County	76,609	65,005	(11,604)
Other Grants & Contributions	5,250	500	(4,750)
Charges for Services - Public Safety	34,100	3,908	(30,192)
Charges for Services - Waste Collection	168,316	161,710	(6,606)
Charges for Services - Streets and Sidewalks	500	23,326	22,826
Charges for Services - General	5,800		(5,800)
Charges for Services - Planning & Zoning	17,000	8,014	(8,986)
Charges for Services - Parks & Recreation		260	260
Investment Earnings	17,247	4,353	(12,894)
Miscellaneous	27,500	8,031	(19,469)
TOTAL REVENUES	1,976,677	1,554,792	(421,885)
EXPENDITURES			
General Government Services	215,553	181,576	33,977
Public Safety - Police	661,064	532,852	128,212
Public Safety - Code Enforcement	141,751	75,828	65,923
Public Works - General	212,033	128,444	83,589
Public Works - Streets & Sidewalks	311,340	270,530	40,810
Public Works - Solid Waste Collection	177,890	197,302	(19,412)
Parks & Recreation	270,863	10,225	(260,638)
Disaster Response	27,783	29,486	1,703
Debt Service - Principal	112,827	112,827	0
Debt Service - Interest	87,244	76,481	10,763
TOTAL EXPENDITURES	2,218,348	1,615,551	602,797
OTHER FINANCING SOURCES			
Proceeds from Long-Term Debt	241,671		(241,671)
TOTAL OTHER FINANCING SOURCES	241,671	0	(241,671)
EXCESS OF REVENUES OVER EXPENDITURES	\$ 0	\$ (60,759)	\$ (60,759)

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