

TOWN OF RISING SUN

**REPORTS REQUIRED BY GOVERNMENT AUDITING STANDARDS
AND THE UNIFORM GUIDANCE**

JUNE 30, 2017

TOWN OF RISING SUN

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Mayor and Town Commissioners
Town of Rising Sun
Rising Sun, MD

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rising Sun (Town), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 30, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses: Finding 2017 – 001 and Finding 2017 – 002.



Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards* (continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2017 – 002.

Town of Rising Sun's Response to Findings

The Town of Rising Sun's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town of Rising Sun's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Weyrich, Cronin + Sorra

October 30, 2017
Lutherville, MD



Independent Auditors' Report on Compliance For Each Major Federal Program, Internal Control Over Compliance and Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Mayor and Town Commissioners
Town of Rising Sun
Rising Sun, MD

Report on Compliance for Each Major Federal Program

We have audited Town of Rising Sun's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have direct and material effect on each of Town of Rising Sun's major federal programs for the year ended June 30, 2017. The Town of Rising Sun's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Rising Sun's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Rising Sun's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Town of Rising Sun's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Rising Sun complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.



Independent Auditors' Report on Compliance For Each Major Federal Program, Internal Control Over Compliance and Schedule of Expenditures of Federal Awards Required by the Uniform Guidance (continued)

Report on Internal Control over Compliance

Management of the Town of Rising Sun is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Rising Sun's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Rising Sun's internal control over compliance.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Rising Sun, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Rising Sun's basic financial statements. We issued our report thereon dated October 30, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Independent Auditors' Report on Compliance For Each Major Federal Program, Internal Control Over Compliance and Schedule of Expenditures of Federal Awards Required by the Uniform Guidance (continued)

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Weyrick, Monin + Sarra

October 30, 2017
Lutherville, MD

Town of Rising Sun

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

<i>Federal Grantor/Program or Cluster Title</i>	<i>Federal CFDA Number</i>	<i>Pass-through Entity Identifying Number</i>	<i>Federal Expenditures(\$)</i>
<i>United States Department of Agriculture</i>			
Rural Utilities Service			
Water and Waste Disposal Systems for Rural Communities - Loan - ARRA	10.781	N/A	\$ 44,770
Water and Waste Disposal Systems for Rural Communities	10.760	N/A	<u>792,071</u>
<i>Total Department of Agriculture</i>			<u>836,841</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 836,841</u>

See accompanying notes to schedule of expenditures of federal awards

TOWN OF RISING SUN

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2017

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Town of Rising Sun (Town). The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements. Because the Schedule of Expenditures of Federal Awards presents only a selected portion of operations of the Town of Rising Sun, it is not intended and does not present the financial position, changes in net position or cash flows of the Town.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule of Expenditures of Federal Awards are reported on the accrual basis of accounting. Such expenditures are recognized following, the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

3. Indirect Cost Rate

The Town has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

4. Balance of Loan Programs

The Town has the following loan programs under Water and Waste Disposal Systems for Rural Communities (CFDA 10.781):

	<u>Series 2015</u>	<u>Series 2014</u>
Balance as of July 1, 2016	\$ 5,000,000	\$ 8,098,500
Current year repayments	<u>- 0 -</u>	<u>66,941</u>
Balance as of June 30, 2017	<u>\$ 5,000,000</u>	<u>\$ 8,031,559</u>

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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

1. Summary of Auditors' Results

(i) The independent auditors' report expresses an unmodified opinion on whether the financial statements of the Town of Rising Sun were prepared in accordance with accounting principles generally accepted in the United States of America.

(ii) No significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements of the Town of Rising Sun. Material weaknesses in internal control over financial reporting were disclosed during the audit of the financial statements of the Town of Rising Sun and are reported in the Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

(iii) An instance of noncompliance material to the financial statements of the Town of Rising Sun, which would be required to be reported in accordance with *Government Auditing Standards*, was disclosed during the audit.

(iv) No material weakness or significant deficiencies were disclosed during the audit of internal control over major federal award programs.

(v) The Independent auditors' report on compliance for the major federal award program for the Town of Rising Sun expresses an unmodified opinion on the major federal award programs.

(vi) There were no findings and questioned costs for federal awards which would include audit findings as defined in accordance with 2 CFR section 200.516(a) of the Uniform Guidance.

(vii) The following program was tested as a major federal award program:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
10.760	<i>Water and Waste Program</i> Water and Waste Disposal Systems for Rural Communities

(viii) The threshold used for distinguishing between Type A and Type B programs was \$750,000.

(ix) The Town of Rising Sun did not qualify as a low-risk auditee.

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Schedule of Findings and Questioned Costs For the Year Ended June 30, 2017

2. Findings - Financial Statement Audit

MATERIAL WEAKNESS

Finding 2017 – 001: Material Misstatements (Adjustments) to the Financial Statements

Condition: During our audit we noted several areas requiring material adjustments to properly state Town balances. These areas include proceeds from financing, capital outlays and other assets.

Criteria: Fund accounting for governmental funds requires that amounts related to the financing of capital outlays be treated as an other financing source to offset amounts reported as capital outlays. As the Town had not taken possession of all financed equipment as of June 30, 2017 an other asset should have been recorded for the balance of funds held by the third party in escrow for anticipated future capital expenditures.

Cause: No amount was recorded for proceeds from financing of \$174,727, capital outlays of \$68,108 or proceeds held in escrow of \$106,619.

Effect: Balances of proceeds from financing, capital outlays and other assets were improperly reported prior to proposed audit adjustments.

Recommendation: Care should be taken during the year end closing process to ensure all amounts are booked including those that do not result in the Town directly receiving or paying cash.

View of Responsible Officials and Planned Corrective Action: We are in agreement with the finding and have made the necessary adjustments on the Town's books. We believe the missing items were an isolated event resulting from human oversight.

Finding 2017 – 002: Insufficient Collateralization of Public Funds

Condition: During our audit we noted one financial institution where funds deposited exceeded federal insurance at various times between July 1, 2016 and October 26, 2016. No collateral was held by the financial institution on behalf of the Town to secure the excess deposits during that time period.

Criteria: Section 17-101 of the Local Government Article of the Annotated Code of Maryland requires public funds to be held in federally insured institutions and amounts in excess of federal insurance be collateralized.

Cause: The Town released the collateral previously pledged by the Bank in August 2015 believing the account balances were sufficiently below insurance thresholds and therefore the collateral was unnecessary.

Effect: The Town was not in compliance with Annotated Code of Maryland regulations between July 1, 2016 and October 26, 2016 when collateral was reestablished.

Recommendation: The Town should monitor cash and collateral balances with all financial institutions to ensure all funds are properly insured or collateralized.

Management's Response: We are in agreement with the finding and transferred excess funds as of October 26, 2016 and reestablished collateralization. We have routinely monitored cash and collateral balances since this was brought to our attention to ensure all funds are properly insured or collateralized.

TOWN OF RISING SUN

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

3. Findings and Questioned Costs – Major Federal Award Programs

None were noted.

TOWN OF RISING SUN

Summary Schedule of Prior Audit Findings For the Year Ended June 30, 2017

Financial Statement Findings

Finding 2016 – 001: Material Misstatements (Adjustments) to Prior Period Amounts

Condition: During our audit we noted receivables of \$621,413 in the proprietary funds that pertained to construction costs incurred during the prior period and accordingly should have been accrued as earned. In addition, the Town provides for payment of earned but unused vacation time to employees upon separation of service. No liability had been accrued for these amounts. The balance as of July 1, 2015 was \$43,947.

Recommendation: All financial information should be provided to the accountant in a timely manner to ensure all assets and liabilities are reported as of the date of the financial statements and that all revenues and expenses are recorded for the reporting period.

Current year status: Prior period adjustments and expenditures of federal awards were corrected in the audited financial statements dated October 28, 2016 for the reporting period ended June 30, 2016. However, the Town had a material adjustment for the year ended June 30, 2017 reported as Finding 2017 – 001.

Finding 2016 – 002: Insufficient Collateralization of Public Funds

Condition: During our audit we noted one financial institution where funds deposited exceeded federal insurance by \$51,129 based on the Town's carrying value and \$150,527 based on the Bank's statement balance. No collateral was held by the financial institution on behalf of the Town to secure the excess deposits.

Recommendation: The Town should consider entering into another collateral agreement with the financial institution to ensure all funds are appropriately insured and collateralized.

Current year status: The Town reestablished collateral agreements with the banks and transferred excess funds to other bank accounts that are collateralized as of October 26, 2016. This finding is repeated as Finding 2017 – 002 for the period July 1, 2016 through the corrective date of October 26, 2016.

Federal Award Findings and Questioned Costs

Finding 2016 – 003: Preparation of Schedule of Expenditures of Federal Awards

Condition: The Town closed on a \$5,000,000 loan with USDA during the year ended June 30, 2016. Based on prior guidance received from USDA the Town initially prepared the Schedule of Expenditures of Federal Awards reporting \$5,000,000 of expenditures under the program based on the value of loan funding received during the year.

Recommendation: We understand federal award amounts reported have been corrected and the Town has subsequently created reports to track federal expenditures. However, as the Town begins another project that will be funded in the future with federal loans, we advise that continued care should be taken to track federal expenditures per year to accurately report the Schedule of Expenditures of Federal Awards.

Current year status: This finding has been corrected. Expenditures of federal awards were corrected in the audited financial statements dated October 28, 2016 for the reporting period ended June 30, 2016. No similar findings were noted in the June 30, 2017 audit.

MAYOR
Travis Marion

COMMISSIONERS
Allen Authenreath
Pauline Braun
August Pierson
Dave Warnick



TOWN ADMINISTRATOR
Calvin A. Bonenberger Jr

Names of Contact Persons:

Patricia Wagner – Treasurer
Calvin Bonenberger – Town Manager

Contact Information:

800-769-1886
410-658-5353

Corrective Action Plan:

Finding 2017 – 001: Adjustments brought to our attention during the audit process were posted to the Town's records and are incorporated in the audited financial statements dated October 30, 2017.

Finding 2017 – 002: The Town transferred excess funds as of October 26, 2016 and reestablished collateral agreements.

Expected Completion Date:

See corrective action plan above, all findings have been resolved.

Calvin Bonenberger

Patricia Wagner