

TOWN OF SYKESVILLE, MARYLAND
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

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RAGER, LEHMAN & HOUCK, P.C.
Opportunity Innovation Excellence

INDEPENDENT AUDITORS' REPORT

October 14, 2010

Honorable Mayor and
Members of the Town Council
Town of Sykesville, Maryland

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Sykesville, Maryland, as of and for the year ended June 30, 2010, which collectively comprise the Town of Sykesville, Maryland's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Sykesville, Maryland's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements do not include financial data for the Town of Sykesville, Maryland's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the Town of Sykesville, Maryland's primary government unless the Town of Sykesville, Maryland also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Town of Sykesville, Maryland has not issued such reporting entity financial statements. Because the component unit's financial statements have not been audited, the effects of this departure from accounting principles generally accepted in the United States of America are not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the Town of Sykesville, Maryland as of June 30, 2010, or the respective changes in financial position thereof, for the year then ended.

As discussed in Note 15 to the financial statements, the Town of Sykesville, Maryland has not measured the effects of Governmental Accounting Standards Board Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations* in relation to the Warfield Complex buildings. Accounting principles generally accepted in the United States of America require that pollution remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities, be accounted for, reported and disclosed when an obligating event has occurred and a corresponding liability should be recognized. The amount by which this departure would affect the assets, liabilities, net assets and expenses of the governmental activities is not reasonably determinable.

In our opinion, except for the omission of the information referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Town of Sykesville, Maryland as of June 30, 2010, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Town of Sykesville, Maryland as of June 30, 2010, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* and *budgetary comparison information* on pages 3 through 9 and 39 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.

Rager, Lehman & Houck, P.C.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

This discussion and analysis of the Town of Sykesville, Maryland's (the "Town") financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying basic financial statements and the accompanying notes to those financial statements. The emphasis of discussion about these statements will be on current year data.

FINANCIAL HIGHLIGHTS

1. In June 2008, the Town issued a private placement bond and designated \$583,751 for certain infrastructure projects to be completed in the next 36 months. During FY2010, the Mayor and Town Council voted to reallocate a total of \$59,140 from the pole shed and the Road Overlay projects to the following:

Skid Loader Purchase	\$3,140
Parking Lot	\$40,000
Carl Ave Drainage Repair	\$16,000

The following projects were completed by the year ended June 30, 2010:

	<u>Designated Amount</u>	<u>Actual</u>	<u>Under / (Over) Budget</u>
Riverfront Demo	\$28,751	\$31,713	(\$2,962)
Parking Lot	\$175,000	\$182,938	(\$7,938)
Road Overlays	\$260,000	\$195,881	\$64,119
Generator	\$50,000	\$44,048	\$5,952
Skid Loader	\$3,140	\$3,140	\$ -

The following infrastructure projects are expected to be completed during the fiscal year ending June 30, 2011:

	<u>Designated Amount</u>
Carl Ave Drain Repair	\$16,000
House Relocation	\$50,000
Pole Shed	\$860
Infrastructure to be Determined	\$60,031

2. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$20,963,730.
3. The Town's total net assets decreased by \$460,831. This was primarily due to the large amount of depreciation on capital assets.
4. As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,225,140, a decrease of \$104,424 in comparison with the prior year. Approximately 61% of this total amount (\$745,838) constitutes unreserved and undesignated fund balance, \$530,262 of which relates to cash balances available for spending at the Town's discretion. Of the combined ending fund balance, \$118,694 has been designated (as discussed in the notes to financial statements) for specific purposes.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors to consider are discussed later in this report.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unbilled tax revenue).

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). The governmental activities of the Town include general government, public safety, public works, recreation and parks, and historic buildings. The Town currently has no business-type activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town are governmental funds.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

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

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

The Town maintains two individual governmental funds, as needed. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general and capital projects fund, as needed.

The Town adopts an annual appropriated budget for the General Fund. A budgetary comparison statement for the General Fund has been provided to demonstrate compliance with the budget.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$20,963,730 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (over 95%) reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources,

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

since the capital assets themselves cannot be used to liquidate these liabilities. Our following analysis focuses on the net assets and changes in net assets of the Town's governmental activities.

CONDENSED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

	Governmental Activities		Total Government	
	2010	2009	2010	2009
ASSETS				
Current and Other Assets	\$ 1,458,342	\$ 1,683,219	\$ 1,458,342	\$ 1,683,219
Capital Assets, Net	<u>21,347,368</u>	<u>21,789,416</u>	<u>21,347,368</u>	<u>21,789,416</u>
TOTAL ASSETS	<u>22,805,710</u>	<u>23,472,635</u>	<u>22,805,710</u>	<u>23,472,635</u>
LIABILITIES				
Long-Term Debt	1,502,443	1,609,603	1,502,443	1,609,603
Other Liabilities	<u>339,537</u>	<u>438,471</u>	<u>339,537</u>	<u>438,471</u>
TOTAL LIABILITIES	<u>1,841,980</u>	<u>2,048,074</u>	<u>1,841,980</u>	<u>2,048,074</u>
NET ASSETS				
Invested In Capital Assets, Net of Related Debt	19,994,768	20,575,913	19,994,768	20,575,913
Restricted	170,924	354,901	170,924	354,901
Unrestricted	<u>798,038</u>	<u>493,747</u>	<u>798,038</u>	<u>493,747</u>
TOTAL NET ASSETS	<u>\$20,963,730</u>	<u>\$21,424,561</u>	<u>\$20,963,730</u>	<u>\$21,424,561</u>

The Town has sufficient funds to meet requirements for cash outflows for the next fiscal year as well as capital improvements.

At the end of the current fiscal year, the Town is able to report positive balances in all categories of net assets.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
REVENUES				
Program Revenues				
Charges for Services	\$ 317,744	\$ 370,587	\$ 317,744	\$ 370,587
Operating Grants and Contributions	111,554	536,789	111,554	536,789
Capital Grants and Contributions	238,622	213,906	238,622	213,906
General Revenues				
Income Taxes	535,240	587,427	535,240	587,427
Real Estate Taxes	1,204,269	1,076,585	1,204,269	1,076,585
Property Taxes	33,878	60,762	33,878	60,762
Other Taxes	1,762	17,326	1,762	17,326
Non-Restricted Grants/Contributions	236,521	-	236,521	-
Licenses and Permits	65,444	48,689	65,444	48,689
Interest and Rents	48,802	34,313	48,802	34,313
Gain on Sale of Capital Asset	-	5,250	-	5,250
Miscellaneous	16,990	10,909	16,990	10,909
TOTAL REVENUES	<u>\$2,810,826</u>	<u>\$2,961,543</u>	<u>\$2,810,826</u>	<u>\$2,961,543</u>
PROGRAM EXPENSES				
General Government	563,774	610,864	563,774	610,864
Public Safety	714,425	715,934	714,425	715,934
Public Works	1,239,495	1,246,245	1,239,495	1,246,245
Recreation and Parks	121,304	113,794	121,304	113,794
Post Office	321,811	341,118	321,811	341,118
Historic Buildings	247,400	274,063	247,400	274,063
Interest on Long-Term Debt	63,448	62,833	63,448	62,833
TOTAL PROGRAM EXPENSES	<u>3,271,657</u>	<u>3,364,851</u>	<u>3,271,657</u>	<u>3,364,851</u>
CHANGE IN NET ASSETS	<u>\$(460,831)</u>	<u>\$(403,308)</u>	<u>\$(460,831)</u>	<u>\$(403,308)</u>

Governmental activities. For the year ended June 30, 2010, governmental activities decreased the Town's net assets by \$460,831.

FINANCIAL ANALYSIS OF THE GOVERNMENT'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

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,225,140, a decrease of \$104,424 in comparison with the prior year. Approximately 61% of this total amount (\$745,838) constitutes unreserved and undesignated fund balance, \$530,262 of which relates to cash balances available for spending at the Town's discretion. Of the combined ending fund balance, \$118,694 has been designated (as discussed in the notes to financial statements) for specific purposes.

The General Fund is the chief operating fund of the Town. As a measure of the General Fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved and non-designated fund balance represents 25% of the total General Fund expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for the Town was amended numerous times during the year as approved by Council. There were changes to reclass budgeted expenditures to other cost centers. Expected construction of a pole shed for the Public Works Department was postponed and the funding source was used to cover additional Parking Lot expenses and to fund the unexpected repair of the drainage problem at Carl Ave, planned for completion in FY11. An unprecedented amount of snow fall during the winter created unexpected snow removal costs, which were partially offset by Federal disaster relief funds,

The following is discussion regarding some of the more significant differences between the Town's final budget and actual results:

Intergovernmental revenue received exceeded the budget by \$120,405 largely due to \$100,000 unbudgeted grant for South Branch Park. Charges for services and Post Office expenditures exceeded the budgeted amount by \$269,494 and \$259,949, respectively, as a result of the procedures for receiving and depositing amounts collected and postal supplies obtained at the Post office. Public works expenditures were less than the budget by \$51,662 mainly due to a budgeted infrastructure project being postponed.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2010, amounted to \$21,347,368 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, park facilities, historic buildings, leasehold improvements, infrastructure, and parking lots. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$442,048, primarily related to depreciation expense.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS - continued
FOR THE YEAR ENDED JUNE 30, 2010
UNAUDITED

Major capital asset events during the current fiscal year are discussed in the financial highlights. Additional information on the Town's capital assets can be found in the financial statements and related notes.

Debt administration. The Town's outstanding debt as of June 30, 2010 is summarized as follows:

	Governmental <u>Activities</u>	<u>Total</u>
Loan and Capital Leases Outstanding	\$ 29,391	\$ 29,391
General Obligation Bonds	<u>1,480,049</u>	<u>1,480,049</u>
Total Debt	<u>\$1,509,420</u>	<u>\$1,509,420</u>

The Town's total debt decreased by \$100,780 (5.8%) during the current fiscal year.

Additional information on the Town's long-term debt can be found in the financial statements and related notes.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the Town's budget for the 2010-2011 fiscal year:

- The current tax rate of .33 cents per \$100 has not changed since FY 04/05.
- Two remaining capital projects that were funded with the issuance of a bond will be completed in FY2011.
- The failing economy influenced the decision to again freeze salaries and not award any cost of living increases in FY2011.
- It is expected that revenues may continue to decrease slightly, but the economy continues to be somewhat unstable.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Treasurer at: Town of Sykesville, 7547 Main Street, Sykesville, MD 21784.

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET ASSETS

JUNE 30, 2010

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Pooled Cash and Cash Equivalents	
Unrestricted	\$ 260,454
Restricted	3,046
Non-Pooled Cash and Cash Equivalents	
Unrestricted	224,200
Restricted	43,887
Accounts Receivable	17,936
Taxes Receivable	13,852
Grants Receivable	87,013
Investments	50,000
Due from Other Governments	45,980
Due from Component Unit	46,837
Prepaid Expenses	21,150
Current Portion of Notes Receivable	<u>11,700</u>
TOTAL CURRENT ASSETS	<u>826,055</u>
NON-CURRENT ASSETS	
Notes Receivable	<u>49,307</u>
Investments	
Unrestricted	330,009
Restricted	<u>123,991</u>
	<u>454,000</u>
Due from Component Unit	<u>111,485</u>
Bond Issue Costs (Net of Accumulated Amortization)	<u>17,495</u>
Property and Equipment	
Land	8,169,015
Construction in Progress	109,835
Buildings and Improvements	7,157,140
Equipment	1,010,369

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Governmental Activities
Infrastructure	10,354,679
Leasehold Improvements	76,517
Vehicles	517,389
	<u>27,394,944</u>
Less: Accumulated Depreciation	(6,047,576)
Net Property and Equipment	<u>21,347,368</u>
TOTAL NON-CURRENT ASSETS	<u>21,979,655</u>
TOTAL ASSETS	<u>22,805,710</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	146,240
Accrued Expenses	63,360
Amounts Held in Escrow	255
Deferred Revenues	3,007
Current Portion of Capital Lease Obligations	6,329
Current Portion of Bonds and Loan Payable	120,346
TOTAL CURRENT LIABILITIES	<u>339,537</u>
NON-CURRENT LIABILITIES	
Accrued Compensated Absences	119,678
Capital Lease Obligations	14,037
Bonds Payable	1,368,728
TOTAL NON-CURRENT LIABILITIES	<u>1,502,443</u>
TOTAL LIABILITIES	<u>1,841,980</u>
NET ASSETS	
Investment in Capital Assets (Net of Related Debt)	19,994,768
Restricted	170,924
Unrestricted	798,038
TOTAL NET ASSETS	<u>\$ 20,963,730</u>

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
PRIMARY GOVERNMENT						
Governmental Activities						
General Government	\$ 563,774	\$ 5,639	\$ -	\$ -	\$ (558,135)	\$ (558,135)
Public Safety	714,425	1,750	43,709	-	(668,966)	(668,966)
Public Works	1,239,495	28,427	34,950	152,202	(1,023,916)	(1,023,916)
Recreation and Parks	121,304	-	21,097	86,420	(13,787)	(13,787)
Post Office	321,811	281,288	-	-	(40,523)	(40,523)
Historic Buildings	247,400	640	11,798	-	(234,962)	(234,962)
Interest on Long-Term Debt	63,448	-	-	-	(63,448)	(63,448)
Total Governmental Activities	3,271,657	317,744	111,554	238,622	(2,603,737)	(2,603,737)
TOTAL PRIMARY GOVERNMENT	\$ 3,271,657	\$ 317,744	\$ 111,554	\$ 238,622	(2,603,737)	(2,603,737)
GENERAL REVENUES						
Taxes:						
					535,240	535,240
					1,204,269	1,204,269
					33,878	33,878
					1,762	1,762
					236,521	236,521
					65,444	65,444
					48,802	48,802
					16,990	16,990
					2,142,906	2,142,906
CHANGES IN NET ASSETS						
					(460,831)	(460,831)
					21,424,561	21,424,561
					\$ 20,963,730	\$ 20,963,730

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2010

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Pooled Cash and Cash Equivalents		
Unrestricted	\$ 260,454	\$ 260,454
Restricted	3,046	3,046
Non-Pooled Cash and Cash Equivalents		
Unrestricted	224,200	224,200
Restricted	43,887	43,887
Investments		
Unrestricted	380,009	380,009
Restricted	123,991	123,991
Accounts Receivable	17,936	17,936
Taxes Receivable	13,852	13,852
Grants Receivable	87,013	87,013
Due from Other Governments	45,980	45,980
Due from Component Unit	158,322	158,322
Notes Receivable	61,007	61,007
Prepaid Expenses	21,150	21,150
TOTAL ASSETS	<u>\$ 1,440,847</u>	<u>\$ 1,440,847</u>
LIABILITIES		
Accounts Payable	\$ 146,240	\$ 146,240
Accrued Expenses	57,180	57,180
Amounts Held in Escrow	255	255
Deferred Revenues	3,007	3,007
Loan Payable	9,025	9,025
TOTAL LIABILITIES	<u>215,707</u>	<u>215,707</u>
FUND BALANCES		
Reserved for Restricted Purposes		
Infrastructure Projects	123,991	123,991
Public Works Agreements	46,933	46,933
Due from Component Unit	116,552	116,552
Note Receivable	51,982	51,982
Prepaid Expenses	21,150	21,150
Unreserved - Designated	118,694	118,694
Unreserved - Undesignated	745,838	745,838
TOTAL FUND BALANCES	<u>1,225,140</u>	<u>1,225,140</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$1,440,847</u>	<u>\$ 1,440,847</u>

See Accompanying Notes

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS **\$ 1,225,140**

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	21,347,368
Bond issue costs are reported as expenditures in the year incurred in the governmental funds.	17,495
Long-term compensated absences are not payable in the current period and are reported as wages in the period during which the absence occurs in the fund financial statements.	(119,678)
Long-term liabilities, including bonds payable, capital lease obligations, and interest payable, are not due and payable in the current period, and therefore, are not reported in the fund.	<u>(1,506,595)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 20,963,730</u></u>

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Taxes	\$ 1,775,149	\$ 1,775,149
Intergovernmental	532,463	532,463
Charges for Services	315,994	315,994
Licenses and Permits	65,444	65,444
Fines and Forfeitures	1,750	1,750
Interest Income and Rents	63,069	63,069
Miscellaneous	57,820	57,820
TOTAL REVENUES	<u>2,811,689</u>	<u>2,811,689</u>
EXPENDITURES		
General Government	461,768	461,768
Public Safety	497,139	497,139
Public Works	522,567	522,567
Recreation and Parks	84,496	84,496
Post Office	321,811	321,811
Historic Buildings	19,560	19,560
Miscellaneous	378,143	378,143
Debt Service	190,646	190,646
Capital Outlays	468,124	468,124
TOTAL EXPENDITURES	<u>2,944,254</u>	<u>2,944,254</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>(132,565)</u>	<u>(132,565)</u>
OTHER FINANCING SOURCES		
Proceeds from Leases	28,141	28,141
TOTAL OTHER FINANCING SOURCES	<u>28,141</u>	<u>28,141</u>
NET CHANGES IN FUND BALANCES	(104,424)	(104,424)
Fund Balances - Beginning of Year	1,329,564	1,329,564
FUND BALANCES - END OF YEAR	<u>\$ 1,225,140</u>	<u>\$ 1,225,140</u>

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS **\$ (104,424)**

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

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.

Add: Capital Outlays	478,387
Less: Depreciation Expense	(933,839)

Proceeds from capital lease obligations provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net assets.	(28,141)
---	----------

Repayment of bond, loan, and capital lease obligation principal are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	113,803
---	---------

Amortization of bond issue costs.	(1,346)
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Capital asset contributions are revenues in the statement of activities that do not provide current financial resources and are not reported as revenue in the fund financial statements.	13,404
---	--------

In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the change in:

Accrued Compensated Absences	851
Accrued Interest Expense	474

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (460,831)**

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Town of Sykesville, Maryland was incorporated in 1904, pursuant to authority of Article XIE of the Constitution of Maryland and Article 23A of the Annotated Code of Maryland. The Town operates under a mayor-council form of government and provides the following services as authorized by its charter: public safety (police), highways and streets, sanitation, health and social services, recreation and parks, post office, public improvements, planning and zoning and general administrative services.

The Town's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The Town has elected not to apply FASB pronouncements issued after November 30, 1989.

In evaluating how to define the Town for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Town is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is considered a component unit of the Town:

Warfield Development Corporation (WDC) - The Corporation is a 501(c)(3) legally separate organization incorporated for the purpose of promoting economic development of the Warfield Complex. The WDC is a component unit of the Town because five of nine authorized board member positions are appointed and/or occupied by the Town Mayor and members of the Town Council. However, the financial statements of the WDC have not been included in the Town's financial statements because audited financial statements were not available for the year ended June 30, 2010.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Basic Financial Statements - Government-Wide Statements

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The Town's public safety, public works, parks and recreation, historic buildings, post office, and general administrative services are classified as governmental activities. The Town has no business-type activities.

In the government-wide statement of net assets, the governmental column (a) is presented on a consolidated basis, (b) and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; net assets reserved for restricted purposes; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property and income taxes, certain intergovernmental revenues, licenses, fines, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. The program revenues must be directly associated with the function. Program revenues include revenues from fines, licenses and permit fees, and charges for services. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property and income taxes, intergovernmental revenues, interest income, etc.).

The Town does not allocate indirect costs.

This government-wide focus is on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

Basic Financial Statements - Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Basic Financial Statements - Fund Financial Statements - continued

The Town utilizes various criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

Governmental Funds

Governmental funds are those through which most governmental functions of the Town are financed. Governmental funds reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following is a description of the Town's major governmental fund:

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

Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Accrual - Governmental activities in the government-wide financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

Modified Accrual - The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Basis of Accounting - continued

Modified Accrual - continued

In applying the “susceptible to accrual” concept to intergovernmental revenues, the provider should recognize liabilities and expenses, and the recipient should recognize receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and as deferred revenue by the recipient.

Cash and Cash Equivalents

The Town considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. The carrying amount approximates estimated fair value because of the short maturity of those instruments.

Receivables

All receivables are reported net of estimated uncollectible amounts.

Investments

Investments in certificates of deposit are stated at carrying value, which approximates fair value.

Bond Issue Costs

In the government-wide financial statements, bond issue costs are capitalized and amortized over the terms of the respective bonds using a method, which approximates the effective interest method. In the governmental fund financial statements, bond issue costs are expensed in the year of the bond issuance.

Capital Assets and Depreciation

Capital assets used in governmental fund type operations are accounted for in the government-wide statements, rather than in governmental funds.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Capital assets with a value of \$1,000 or more are capitalized by the Town.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	20 - 50 years
Equipment	2 - 20 years
Improvements/Infrastructure	5 - 50 years

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Capital Assets and Depreciation - continued

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. The Town has elected not to report major general infrastructure assets retroactively. All infrastructure assets acquired after June 30, 2000 are valued at historical cost. The Town has elected not to retroactively report intangible assets, including capital assets identified as having indefinite useful lives or being internally generated. All intangible assets acquired after June 30, 2009 are reported at historical cost. Disclosures required regarding intangible assets are established by GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which was prospectively implemented by the Town as of July 1, 2009.

Depreciation of all exhaustible fixed assets is recorded as a direct expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets.

Additions are recorded at cost or, if contributed property, at their estimated fair value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from accounts and changing the resulting gain or loss to income.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Compensated Absences

The Town permits employees to accumulate unused vacation time to a maximum of two times the amount earned based on length of service. Upon termination of employment, an employee will be paid for annual vacation leave accumulated to the date of separation, not to exceed a maximum of 40 days, plus any accumulated annual leave earned up to the time of termination during the calendar year. Sick leave is permitted to be accrued up to a maximum of 45 days, one-fifth of which will be paid to employees upon termination of employment. Comp time is permitted to be accrued with no maximum, but is paid down to 80 hours on the employees' anniversary date, all of which will be paid to employees in full upon termination of employment plus any accumulated comp time earned up to the time of termination during the calendar year.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Compensated Absences - continued

The salary-related payments representing the employer's share of Social Security and Medicare taxes have been accrued. The vested annual leave is expensed as incurred in the appropriate funds.

Deferred Revenue

On governmental fund financial statements, tax receivables that were not collected within the available period and charges for services collected in advance are recorded as deferred revenue. Revenues received under reimbursable grant agreements are recognized in the period in which the qualified expenditures are incurred. Any unexpended funds are reported as deferred revenue.

Debt

In 2009, the Town implemented a debt policy with provisions that must be met in any fiscal year new debt is incurred. For the year ended June 30, 2010, the Town had a new capital lease and was within the provisions of the debt policy at issuance.

Net Assets and Fund Balances

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

Investment 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 balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted Net Assets - This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Assets - This category represents the net assets of the Town, which are not restricted for any project or other purpose. However, these funds may be designated for specific projects or purposes in the fund financial statements.

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Mayor and Town Council and management and can be increased, reduced or eliminated by similar actions. Fund balance reservations and designations as of June 30, 2010 are further disclosed in Note 7.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 1. Summary of Significant Accounting Policies - continued

Budgets and Budgetary Analysis

The Town is required by the Town Code to adopt an annual budget for the general fund. The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at fiscal year end.

Once a budget is approved, it can be amended by the Mayor and Town Council with reasonable discretion, and several budget amendments were approved during the fiscal year ended June 30, 2010. Both original and final budgets have been included in the presentation of the Town's other required supplementary information.

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 and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 14, 2010, the date the financial statements were available to be issued.

Note 2. Deposits and Investments

The Town is governed by the deposit and investment limitations of Maryland law. The deposits and investments held at June 30, 2010 are shown below:

<u>Type</u>	<u>Rating/Interest Rate (Unaudited)</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits			
Demand Deposits			\$ 267,887
Time Deposits		09/19/10-3/19/15	504,000
Cash on Hand			<u>200</u>
Total Deposits			772,087
Investments			
State Investment Pool	AAA by S&P/0.34%	46 Day Average	<u>263,500</u>
Total Deposits and Investments			<u>\$1,035,587</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 2. Deposits and Investments - continued

Reconciliation to Statement of Net Assets	
Current	
Cash and Cash Equivalents	
Pooled - Unrestricted	\$ 260,454
Pooled - Restricted	3,046
Non-Pooled - Unrestricted	224,200
Non-Pooled - Restricted	43,887
Investments - Unrestricted	<u>50,000</u>
581,587
Non-Current	
Investments - Unrestricted	330,009
Investments - Restricted	<u>123,991</u>
454,000
	<u>\$1,035,587</u>

The Town is a participant of the Maryland Local Government Investment Pool (MLGIP), which provides all local government units of the state an investment vehicle for short-term investment of funds. The State Legislature created MLGIP with the passage of Article 95 22G, of the Annotated Code of Maryland. The MLGIP, under the administrative control of the state treasurer, has been managed by a single financial institution. An MLGIP advisory committee of current participants reviews, on a quarterly basis, the activities of the fund and provides suggestions to enhance the pool. The fair value of the pool is the same as the value of the pool shares. As of June 30, 2010, all pool holdings are in cash and cash equivalents.

The Town's MLGIP investments are held by a broker who is a member of the Securities Investor Protection Corporation (SIPC). SIPC insures the cash and securities in each investor's account up to \$500,000 against loss in the case of a failed brokerage firm or misappropriation of assets by the broker, however only up to \$100,000 for cash investments. The investments held at the Town's broker are insured up to \$500,000 by the SIPC in the event such failure or misappropriation occurs.

Restricted cash and cash equivalents, and investments at June 30, 2010 are comprised of the following:

	<u>General Fund</u>
Restricted Cash and Cash Equivalents	
Funds held for Public Works Agreements	\$ 46,933
Restricted Investments	
Unspent bond proceeds on the 2008 General Obligation Bond Issue held for construction and acquisition costs for various infrastructure projects	<u>123,991</u>
Total Restricted Cash and Cash Equivalents	<u>\$170,924</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 2. Deposits and Investments - continued

Restricted assets are classified as current when they are restricted for payment of current liabilities. Otherwise, they are non-current in nature.

Custodial Credit Risk

Deposits in financial institutions, reported as components of non-pooled cash and cash equivalents and investments, had a bank balance of \$772,040 at June 30, 2010, \$121,191 of which was exposed to custodial credit risk. This amount was fully collateralized by securities pledged and held by a financial institution, not in the Town's name.

Interest Rate Risk

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 three years from the date of purchase. In addition, reserve funds may be invested in securities maturing up to five years from date of purchase if such maturity is made to precede or coincide with the expected need for funds and appropriate management approval. Maturities of investments held at June 30, 2010, are provided in the previous schedule.

Credit Risk

The Town's formal investment policy does not limit its investment choices beyond the limitations of state law as follows:

- (1) An obligation for which the United States has pledged its faith and credit for the payment of the principal and interest;
- (2) An obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress;
- (3) A repurchase agreement collateralized in an amount not less than 102% of the principal amount by an obligation of the United States, its agencies or instrumentalities, provided the collateral is held by a custodian other than the seller designated by the buyer;
- (4) Bankers' acceptances guaranteed by a financial institution with a short-term debt rating in the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by either the United States Securities and Exchange Commission (SEC) or the Treasurer;

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 2. Deposits and Investments - continued

Credit Risk - continued

(5) With respect to amounts treated by the Internal Revenue Service as bond sale proceeds only, bonds, notes, or other obligations of investment grade in the highest quality letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States SEC issued by or on behalf of this or any other 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 securities of the type described in this paragraph;

(6) Commercial paper that has received the highest letter and numerical rating by at least one nationally recognized statistical rating organization as designated by the United States SEC, provided that such commercial paper may not exceed five percent of the total investments made by the Treasurer under this subsection;

(7) Money market mutual funds that (i) contain only securities of the organizations listed in items (1), (2), and (3) of this subsection; (ii) are registered with the United States SEC under the Investment Company Act (ICA) of 1940, 15 U.S.C. § 80a-1 et seq., as amended; and (iii) are operated in accordance with Rule 2A-7 of the ICA of 1940, 17 C.F.R. § 270.2A-7, as amended;

(8) Any investment portfolio created under the MLGIP defined under Article 95, § 22G of the Code that is administered by the Office of the State Treasurer;

(9) A deposit of unexpended or surplus money over which the Treasurer has custody of with a financial institution in the state provided that:

(i) the deposit is interest bearing; and

(ii) as provided for a depository for state money:

(a) the financial institution provides collateral that has a market value that equals or exceeds the amount by which a deposit exceeds the deposit insurance; and

(b) a custodian holds the collateral.

Concentration of Credit Risk

The Town's formal investment policy places the following limits on the maximum percent of portfolio it may invest in any one specific instrument, financial institution or issuer: 100% in United States Governmental Obligations and MLGIP, 90% in United States Government Agencies and Instrumentalities, Repurchase Agreements and Certificates of Deposit, and 50% in Money Market Mutual Funds instruments. At June 30, 2010, the Town had no concentration of credit risk.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 3. Note Receivable and Loan Payable

In November 1990, the Town entered into a loan agreement with the Department of Housing and Community Development, for renovations to an existing train station to convert it into Baldwin’s Restaurant, on behalf of Caledonia, Inc. Caledonia, Inc. is the current tenant of the property and is under agreement with the Town for lease of the premises and repayment of the principal and interest due on the loan. Even though the loan is in the Town’s name, Caledonia, Inc. is responsible for reimbursing the Town for all loan payments based on the agreement. See Note 6 for additional detail regarding the Train Station Renovation loan payable.

In December 2008, the Town entered into a note agreement with Caledonia, Inc. to finance one-half of the necessary accessibility alterations to the restaurant, with any project costs exceeding the contracted amounts being the responsibility of Caledonia, Inc. The note also includes \$5,000 in principal due to the Town for anticipated tax credits to be received in relation to the alterations, which will be curtailed by one-half of any shortfall in credits received. The note is due in monthly installments of principal and interest at an annual rate of five percent, and unpaid interest and principal is due on April 1, 2024.

Future minimum principal receipts under the loan and note agreements are as follows:

Year Ending <u>June 30,</u>	Governmental <u>Activities</u>
2011	\$11,700
2012	2,812
2013	2,956
2014	3,107
2015	3,266
2016-2020	19,014
2021-2024	<u>18,152</u>
	<u>\$61,007</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 4. Capital Assets and Depreciation

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

	Balance <u>July 1, 2009</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance <u>June 30, 2010</u>
Governmental Activities					
Non-Depreciable Assets					
Land	\$ 8,169,015	\$ -	\$ -	\$ -	\$ 8,169,015
Construction in Process	<u>22,302</u>	<u>106,367</u>	<u>-</u>	<u>(18,834)</u>	<u>109,835</u>
Total Non-Depreciable Assets	...8,191,317	...106,367-	...18,834	...8,278,850
Depreciable Assets					
Buildings and Improvements	6,933,707	221,233		2,200	7,157,140
Equipment	951,448	76,605	17,684	-	1,010,369
Infrastructure	10,354,679	-	-	-	10,354,679
Leasehold Improvements	-	59,883	-	16,634	76,517
Vehicles	<u>489,686</u>	<u>27,703</u>	<u>-</u>	<u>-</u>	<u>517,389</u>
Total Depreciable Assets	...18,729,520	...385,424	...17,684	...18,834	...19,116,094
Total Capital Assets	...26,920,837	...491,791	...17,684-	...27,394,944
Accumulated Depreciation					
Buildings and Improvements	2,381,122	306,737	-	-	2,687,859
Equipment	823,861	26,325	17,684	-	832,502
Infrastructure	1,563,231	537,961	-	-	2,101,192
Leasehold Improvements	-	3,966	-	-	3,966
Vehicles	<u>363,207</u>	<u>58,850</u>	<u>-</u>	<u>-</u>	<u>422,057</u>
Total Accumulated Depreciation	...5,131,421	...933,839	...17,684-	...6,047,576
Total Capital Assets, Net	<u>\$21,789,416</u>	<u>\$(442,048)</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$21,347,368</u>

Accumulated costs attributable to projects included in construction in progress in governmental activities at June 30, 2010 are as follows:

South Branch Park Improvements	\$ 13,385
House Relocation	<u>96,450</u>
	<u>\$109,835</u>

Depreciation expense, including amortization expense on assets under capital lease, was charged to the governmental activities function as follows:

General Government	\$ 12,488
Public Safety	42,291
Public Works	614,412
Recreation and Parks	36,808
Historic Buildings	<u>227,840</u>
	<u>\$933,839</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 5. Capital Lease Obligations

The Town entered into a lease agreement for a police vehicle in October 2009. The obligation is secured by the vehicle with an interest rate of 7.1%.

At June 30, 2010, future minimum payments required under the leases and the present value of minimum capital lease payments were as follows for the years ending June 30:

	<u>Governmental Activities</u>
2011	\$ 7,775
2012	7,774
2013	<u>7,775</u>
Total Minimum Lease Payments	23,324
Less: Amount Representing Interest	<u>2,958</u>
Present Value of Minimum Lease Payments Due Under Capital Leases included in General Long-Term Debt	20,366
Less: Current Portion	<u>6,329</u>
Long-Term Portion	<u>\$14,037</u>

Equipment under capital lease included in capital assets at June 30, 2010, includes the following:

	<u>Governmental Activities</u>
Vehicles	\$27,703
Less: Accumulated Depreciation	<u>4,155</u>
	<u>\$23,548</u>

Note 6. Long-Term Debt

Loan and bonds payable at June 30, 2010 consist of the following:

	<u>Governmental Activities</u>
Loan Payable	
Loan Payable - Train Station Renovation; principal and interest due in monthly installments of \$1,396; 7% annual interest rate; Matures April 2011	\$.....9,025
Bonds Payable	
2002 Series A Infrastructure Bonds - Parking Lot Construction; due in annual principal installments, ranging from \$25,700 to \$36,200, through May 2017; interest rates ranging from 3% to 4.55%; secured by the credit and taxing power of the Town	223,400

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 6. Long-Term Debt - continued

	<u>Governmental Activities</u>
Bonds Payable - continued	
2005 Series A Infrastructure Bonds - Police Station Construction; due in annual principal installments, ranging from \$18,400 to \$28,200, through May 2020; interest rates ranging from 3.75% to 4%; secured by the credit and taxing power of the Town	235,700
2008 General Obligation Bonds; due in annual principal installments, ranging from \$56,630 to \$95,540, through June 2023; 3.46% annual interest rate; secured by the credit and taxing power of the Town	<u>1,020,949</u>
Total Bonds Payable	<u>1,480,049</u>
Total Loan and Bonds Payable	<u>\$1,489,074</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2010.

<u>Type of Debt</u>	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2010</u>	<u>Due Within One Year</u>
Governmental Activities					
Long-Term Debt					
Loan Payable					
Train Station Loan Payable	\$ 22,124	\$ -	\$ 13,099	\$ 9,025	\$ 9,025
Bonds Payable					
2002 Infrastructure Bonds	250,200	-	26,800	223,400	28,100
2005 Infrastructure Bonds	254,700	-	19,000	235,700	19,700
2008 General Obligation Bonds	<u>1,082,345</u>	<u>-</u>	<u>61,396</u>	<u>1,020,949</u>	<u>63,521</u>
Total Bonds Payable	<u>1,587,245</u>	<u>-</u>	<u>107,196</u>	<u>1,480,049</u>	<u>111,321</u>
Total Loan and Bonds Payable	1,609,369	-	120,295	1,489,074	120,346
Capital Lease Obligations	-	28,141	7,775	20,366	6,329
Compensated Absences	<u>120,529</u>	<u>-</u>	<u>851</u>	<u>119,678</u>	<u>-</u>
Total Governmental Activities					
Long-Term Debt	<u>\$1,729,898</u>	<u>\$28,141</u>	<u>\$128,921</u>	<u>\$1,629,118</u>	<u>\$126,675</u>

Other long-term liabilities in governmental activities are liquidated from general revenues in the General Fund.

Interest incurred for governmental activities for the year ended June 30, 2010 was \$63,448, all of which was expensed.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 6. Long-Term Debt - continued

The principal and interest requirements to maturity of the loan and bonds payable debt are as follows:

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 120,346	\$ 54,945
2012	115,118	50,608
2013	119,692	46,317
2014	123,745	41,627
2015	128,879	37,116
2016-2020	604,153	112,418
2021-2023	<u>277,141</u>	<u>19,396</u>
	<u>\$1,489,074</u>	<u>\$362,427</u>

Note 7. Restricted Net Assets, Fund Balances Reserved for Restricted Purposes and Designations of Fund Balances

The following is a summary of restricted net assets as of June 30, 2010:

	<u>Governmental Activities</u>
Restricted Net Assets	
Investments - 2008 General Obligation Bond Accounts	\$123,991
Schoolhouse Road Public Works Agreement	3,046
Raincliffe Public Works Agreement	<u>43,887</u>
	<u>\$170,924</u>

The following is a description of the purposes of the fund balances reserved for restricted purposes at June 30, 2010:

Infrastructure Projects - Net assets and fund balance in the General Fund are restricted for unspent bond proceeds on the 2008 General Obligation Bond Issue, which are restricted for construction and acquisition costs for various infrastructure projects. As of June 30, 2010, the Town had committed to a contract for \$8,900 relating to these funds.

Public Works Agreements - Net assets and fund balance in the General Fund are restricted for unspent amounts received by the Town in relation to various Public Works Agreements for maintenance, improvements, and related costs and fees.

Reserved for Due from Component Unit: This reservation was established to reflect non-current resources so that they will not be considered as current available funds, which are reserved for the note receivable disclosed in Note 10.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 7. Restricted Net Assets, Fund Balances Reserved for Restricted Purposes and Designations of Fund Balances - continued

Reserved for Note Receivable: This reservation was established to reflect non-current resources so that they will not be considered as current available funds, which are reserved for the note receivable disclosed in Note 3.

Reserved for Prepaid Expenses: This reservation was established to reflect non-current resources so that they will not be considered as current available funds.

The following is a summary of designations of fund balances as of June 30, 2010:

	General <u>Fund</u>
Historic Commission	\$ 8,057
Gate House Museum	43,313
Parks and Recreation	18,268
Purchase of Police Car in FY11	6,648
State Retirement Fees	7,000
Little Sykes Reserve	4,380
Unemployment Funds	14,700
Impact Fees	15,240
Development Inspection Fees	<u>1,088</u>
	<u>\$118,694</u>

Note 8. Property Taxes

The Town Mayor and Town Council hold an annual public hearing each year for the residents to voice their opinion on the proposed tax rate and the annual budget. Property taxes are levied as of July 1st, on the assessed value listed as of the same date for all real property located in the Town. From the effective date of the budget, the amount stated thereon as the amount to be raised by the property tax shall constitute a determination of the amount of the tax levy in the corresponding tax year. Taxes shall be due and payable on July 1st on the year for which they are levied and shall be overdue and in arrears on the first day of October, where they will accrue two-thirds of one percent interest per month unpaid and the Town has the ability to place liens against the properties.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 9. South Branch Park Cooperative Agreement and Lease

On December 14, 2006, the Town entered into an agreement with Howard County, Maryland (the County). The County owns 9.578 acres of land presently improved with four historic structures: a brick warehouse, a weight station, a wooden water tower, and the Sykes Mill stone house (collectively referred to as the “Historic Structures”) situated on the Howard County side of South Branch Patapsco River, Sykesville, Howard County (the “Property”). The County and Town desire to create a recreational area to be used primarily for recreation, historic and cultural purposes and to preserve, rehabilitate, and operate for public use the Historic Structures on the Property.

The County agreed to lease the Property to the Town for a term of 35 years, beginning on the execution of the Cooperative Agreement and ending on December 1, 2041. There are no rental charges for the first five years of the Cooperative Agreement. Commencing on the sixth anniversary, the Town shall pay an annual rent in the amount of one dollar and shall split the net revenue from the Property’s operation, 70% to the Town and 30% to the County. Upon early termination, the Town shall not be reimbursed for any profits which may have been anticipated but which have not been earned up to the date of termination.

As part of the Cooperative Agreement, the Town will perform rehabilitation of the Historic Structures and improvements to the Property, as well as construct utilities, driveways, and parking areas. The Cooperative Agreement’s schedule of restoration provides the following timeline:

<u>Historic Structure</u>	<u>Cooperative Agreement Completion Date</u>
Brick Warehouse	Within 5 years of Cooperative Agreement date
Stone House/Former Mill Office	Within 7 years of Cooperative Agreement date
Weight Station	Within 9 years of Cooperative Agreement date
Recreational Areas	Within 10 years of Cooperative Agreement date
Water Tower	Within 11 years of Cooperative Agreement date

The County reserves the right to terminate the Cooperative Agreement upon giving 120 days written notice to the Town. Upon termination the County will reimburse the Town for reasonable cost of construction and rehabilitation if deemed acceptable by the County.

The County may provide up to \$100,000 for planning, renovating, and stabilizing the Historic Structures and developing of the Property. As of June 30, 2010, \$70,000 remains available to the Town. The Town is required to match funding provided by the County dollar for dollar or in value of services rendered for improvements to the property, which are anticipated to be met by the Town through expenditures reimbursable by a \$100,000 grant through the State.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 10. Warfield Development Corporation Transactions and Agreements

As discussed in Note 1, the Warfield Development Corporation (WDC) is a component unit of the Town. In prior fiscal years, the Town served as a subrecipient for the WDC, for various funding sources, for the re-development of the Warfield Complex. In January 2005, the Town entered into a 95-year master ground lease with the WDC for the Warfield Complex for re-development and preservation of historic nature, which will expire in December 2099. Rental payments due under the lease are contingent upon cash flow, as defined by the agreement, generated by the operation of the complex as follows: 100% of net cash flows after 75% of gross cash flows have been distributed to the Maryland Department of Health and Mental Hygiene, for benefit of the Community Trust Fund, up to the fund reaching \$1,000,000, after which point the Town will receive 50% of gross cash flows generated from the operation of the complex. For the year ended June 30, 2010, no rental payments were made under this agreement.

Upon incorporation and formal organization in 2005, the WDC began to directly receive the funding. As part of the subrecipient capacity, the Town advanced funds to cover architectural, engineering, legal, and development costs for the complex and is due \$116,552 from the WDC as of June 30, 2010.

In February 2005, the WDC entered into a repayment agreement with the Town for the advanced funds, with payment due in annual principal installments plus interest at a fixed rate of three percent per annum on April 30th, and any unpaid principal and interest due after that date is added to the outstanding principal. The loan matures in April 2033, with all outstanding principal and interest due and payable at that time. The note is payable based on net income and net proceeds generated, which is defined in the agreement.

Future minimum receipts under the note are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental</u> <u>Activities</u>
2011	\$ 5,067
2012	5,067
2013	5,067
2014	5,067
2015	5,067
2016-2020	25,337
2021-2025	25,337
2026-2030	25,337
2031-2033	<u>15,206</u>
	<u>\$116,552</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 10. Warfield Development Corporation Transactions and Agreements

- continued

In addition, the Town, from time to time, serves as the primary vendor for Warfield Complex activities, and amounts incurred on behalf of the WDC of \$41,770 as of June 30, 2010 are due on demand. There are no stated interest-terms on these inter-entity loans, and no amounts are anticipated to extend beyond one year.

Included in the funding sources for the re-development is a \$4,000,000 loan from the Department of Business and Economic Development (DBED) to the WDC, which includes designation of budgeted funds related to the relocation of the MD-851/MD-32 intersection, all of which have been forwarded to the Town. The WDC is solely responsible for the repayment of the loan based on an agreement between the DBED and WDC. For the year ended June 30, 2010, the WDC advanced \$37,088 from disbursement requests to the DBED to the Town, which have been reported as capital grants and contributions related to the Town's Public Works Program.

In February 2005, the Town entered into a promissory note with the WDC, which was approved by the Carroll County Commissioners (CCC), for joint promise to pay the maturing principal and interest on a County Trust Fund loan of \$1,097,680 for the relocation of the MD-851/MD-32 intersection, all of which had been dispersed as of June 30, 2009. The loan bears a simple interest rate of 3% per annum, which will accrue on the principal balance outstanding beginning on February 2005 and is due annually on April 30th. Payments are due and payable on an annual basis with the final maturity being on or before April 30, 2030.

The promissory note subsequently assigns the responsibility of repayment on the debt to the WDC based on the County Deed of Trust, and that neither the WDC nor DBED are able to seek any judgment for a deficiency of repayment against the Town.

Note 11. Deferred Compensation Plans

The Town, in accordance with Town Council approval, has two deferred compensation plans created in accordance with Internal Revenue Code Sections 457(b) and 401(a), respectively. Both plans are available to all full-time employees. The 457(b) and 401(a) plans have 13 and 18 active participants, respectively, as of June 30, 2010.

The 457(b) plan permits employees to defer a portion of their salary until future years, which the employees are fully vested in upon contribution. Employees can defer the lesser of \$16,500, adjusted for cost-of-living after 2010 and up to an additional \$5,000 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. No Town contributions were made to the 457(b) plan for the year ended June 30, 2010.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 11. Deferred Compensation Plans - continued

The 401(a) plan, effective July 1, 2005, permits the Town to contribute five percent to ten percent of eligible employees' salary to a maximum of \$46,000 per employee, adjusted for inflation after 2010, to this plan based on qualified years of service, as well as a longevity lump-sum bonus based on attained years of service ranging from \$3,000 to \$13,000 and an additional five percent of the eligible employees' salary. The Town contributed \$70,316 to the 401(a) plan for the year ended June 30, 2010. Employee vesting in these contributions is based on years of service, reaching 100% after four years of qualified service.

All amounts of compensation deferred under the plans and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The Plan Administrator, Nationwide Retirement Solutions, is the trustee of the investments.

Note 12. Concentration of Credit Risk and Economic Conditions

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

As a result of the current economic conditions occurring presently within the world's economy, the Town may experience some financial impact due to this crisis. The continued rise in residential foreclosures may impact the Town's ability to timely collect property tax revenue. Also, the Town receives shared revenue from the county and state. The amounts of these funds are not guaranteed and may be reduced as a result of the current economic environment.

Note 13. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases commercial insurance coverage for these types of losses, including workers' compensation and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The Town self-insures against risks of loss in relation to unemployment compensation, as determined and required by the State, and maintains designated funds for potential claim settlements.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 13. Risk Management - continued

The Town is a member in the Local Government Insurance Trust (LGIT), which is owned and directed by local governments (participants) that subscribe to its insurance coverages. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The Town does not exercise any control over the LGIT's operations.

The maximum coverage under the liability pool of the LGIT is \$1,000,000 per claim. The Town also participates in an excess liability pool, which has maximum coverage of \$2,000,000.

Note 14. Commitments and Contingencies

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.

Note 15. Environmental Concerns and Pollution Remediation Obligations

Several of the Warfield Complex buildings contain asbestos, and the estimated cost of asbestos abatement, based on a study performed in 1995, was \$370,200. No subsequent studies have been performed. The ground lease between the Town and the WDC assigns the obligation for redevelopment and abatement to the WDC. However, if contamination occurred, the Town could become liable for the cost of abatement; though it is improbable that such an event would occur since the affected buildings are uninhabited and secured. Management has not measured the effects of implementation of GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* on its financial statements, which addresses recognition of pollution remediation liabilities and related disclosures.

Note 16. New Governmental Accounting Standards Board Pronouncements

The GASB has issued several pronouncements prior to the year ended June 30, 2010 that have effective dates that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following statements may have on the financial statements of the Town:

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will be effective for the Town as of July 1, 2010. The purpose of this statement is to improve the usefulness, including the understandability, of governmental fund balance presentation.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS - continued

Note 16. New Governmental Accounting Standards Board Pronouncements
- continued

GASB Statement No. 59, *Financial Instruments Omnibus*, will be effective for the Town as of July 1, 2010. The purpose of this statement is to provide accounting and financial reporting guidance related to certain financial instruments and external investment pools.

Note 17. Subsequent Events

The Town entered into a loan agreement for the purchase of a police vehicle on July 9, 2010 in the amount of \$27,838.

Town Council approved a contract bid for a road overlay project in the amount of \$92,225 on August 9, 2010.

Town Council approved a contract bid for the stabilization of the stone building (the "Sykes Mill" stone house) at South Branch in the amount of \$47,933 on October 12, 2010.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SYKESVILLE, MARYLAND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$1,780,508	\$1,780,508	\$1,775,149	(\$5,359)
Intergovernmental	596,391	412,058	532,463	120,405
Charges for Services	46,500	46,500	315,994	269,494
Licenses and Permits	44,350	44,350	65,444	21,094
Fines and Forfeitures	750	750	1,750	1,000
Interest Income and Rents	53,700	55,650	63,069	7,419
Miscellaneous	21,100	23,100	57,820	34,720
TOTAL REVENUES	<u>2,543,299</u>	<u>2,362,916</u>	<u>2,811,689</u>	<u>448,773</u>
EXPENDITURES				
General Government	505,038	474,247	461,768	12,479
Public Safety	488,988	479,288	497,139	(17,851)
Public Works	635,442	574,229	522,567	51,662
Recreation and Parks	66,760	72,260	84,496	(12,236)
Post Office	61,362	61,862	321,811	(259,949)
Historic Buildings	45,610	33,518	19,560	13,958
Miscellaneous	471,013	421,113	378,143	42,970
Debt Service	182,086	182,086	190,646	(8,560)
Capital Outlays	306,000	470,640	468,124	2,516
TOTAL EXPENDITURES	<u>2,762,299</u>	<u>2,769,243</u>	<u>2,944,254</u>	<u>(175,011)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>(219,000)</u>	<u>(406,327)</u>	<u>(132,565)</u>	<u>273,762</u>
OTHER FINANCING SOURCES				
Proceeds from Lease	-	-	28,141	28,141
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>28,141</u>	<u>28,141</u>
NET CHANGES IN FUND BALANCE				
	<u>(219,000)</u>	<u>(406,327)</u>	<u>(104,424)</u>	<u>301,903</u>
Fund Balance - Beginning of Year	1,329,564	1,329,564	1,329,564	-
FUND BALANCE - END OF YEAR	<u>\$ 1,110,564</u>	<u>\$ 923,237</u>	<u>\$ 1,225,140</u>	<u>\$ 301,903</u>