

TOWN OF SYKESVILLE, MARYLAND
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2012



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

INDEPENDENT AUDITORS' REPORT

October 10, 2012

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Sykesville, Maryland (the "Town"), as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of 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'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's primary government unless the Town also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Town 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, 2012, or the changes in financial position thereof for the year then ended.

As discussed in Note 15 to the financial statements, the Town 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, 2012, 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.

Further, 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, 2012, 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 10 and 39, respectively, 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, 2012
UNAUDITED

This discussion and analysis of the Town of Sykesville's financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2012. 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. The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$20,061,286.
2. The Town's total net assets decreased by \$366,939. This was primarily due to the large amount of depreciation and the use of funds on infrastructure projects.
3. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,326,038, an increase of \$85,979 in comparison to the prior year balances of \$1,240,059. Approximately 70% of this total amount (\$926,479) constitutes unrestricted and unassigned fund balance, \$724,618 of which relates to cash balances available for spending at the Town's discretion.
4. At the May 29, 2012 Mayor & Town Council meeting, Matthew Candland, the Town Manager, tendered his resignation effective July 1, 2012. The Mayor and Town Council anticipate hiring a replacement in the fall of 2012.
5. The Town repaved and improved the Sandosky and Town House public parking lots. Both paving projects were funded with cash from the fund balance and current operations, plus a private donation for the landscaping.
6. The Town purchased a new trash truck and police car. Both vehicles were funded by current operations.
7. The Town of Sykesville applied for and received the designation of "Maryland Main Street." Although not a direct funding source, this designation gives the Town a higher priority on some grants and qualifies it to participate in others that would not be available without the designation. It is hoped that this will greatly aid in the revitalization and appeal of our downtown area.
8. Following another failure of the main sewer line which runs underneath Main Street (a State highway), Carroll County utilities began an extensive repair to the water and sewer lines. Road repairs over the area are expected early in FY 13. This project was not an expense for the Town of Sykesville, but should improve the reliability of service for businesses and residents on Main Street.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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9. Significant progress was made on the restoration of the stone office building located in South Branch Park. This was funded by grants from Howard County and the State of Maryland for the improvement of the park area.

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.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED

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.

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, the General Fund and Capital Projects Fund, 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 Fund 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.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED

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 \$20,061,286 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (almost 94%) 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, 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, 2012 AND 2011

	Governmental Activities		Total Government	
	2012	2011	2012	2011
ASSETS				
Current and Other Assets	\$ 1,585,808	\$ 1,457,963	\$ 1,585,808	\$ 1,457,963
Capital Assets, Net	<u>20,088,756</u>	<u>20,704,933</u>	<u>20,088,756</u>	<u>20,704,933</u>
TOTAL ASSETS	<u>21,674,564</u>	<u>22,162,896</u>	<u>21,674,564</u>	<u>22,162,896</u>
LIABILITIES				
Long-Term Debt	1,235,824	1,398,297	1,235,824	1,398,297
Other Liabilities	<u>377,454</u>	<u>336,374</u>	<u>377,454</u>	<u>336,374</u>
TOTAL LIABILITIES	<u>1,613,278</u>	<u>1,734,671</u>	<u>1,613,278</u>	<u>1,734,671</u>
NET ASSETS				
Invested In Capital Assets, Net of Related Debt	18,831,225	19,316,756	18,831,225	19,316,756
Restricted	25,412	27,041	25,412	27,041
Unrestricted	<u>1,204,649</u>	<u>1,084,428</u>	<u>1,204,649</u>	<u>1,084,428</u>
TOTAL NET ASSETS	<u>\$20,061,286</u>	<u>\$20,428,225</u>	<u>\$20,061,286</u>	<u>\$20,428,225</u>

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

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED

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

CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
REVENUES				
Program Revenues				
Charges for Services	\$ 317,106	\$ 302,593	\$ 317,106	\$ 302,593
Operating Grants and Contributions	160,406	92,738	160,406	92,738
Capital Grants and Contributions	42,763	143,880	42,763	143,880
General Revenues				
Income Taxes	558,951	571,907	558,951	571,907
Real Estate Taxes	1,194,739	1,165,289	1,194,739	1,165,289
Property Taxes	36,748	32,342	36,748	32,342
Other Taxes	759	936	759	936
Non-Restricted Grants/Contributions	263,295	214,416	263,295	214,416
Licenses and Permits	61,655	57,633	61,655	57,633
Interest and Rents	22,477	25,490	22,477	25,490
Miscellaneous	<u>9,673</u>	<u>3,088</u>	<u>9,673</u>	<u>3,088</u>
TOTAL REVENUES	<u>2,668,572</u>	<u>2,609,952</u>	<u>2,668,572</u>	<u>2,609,952</u>
PROGRAM EXPENSES				
General Government	572,540	560,076	572,540	560,076
Public Safety	597,409	705,561	597,409	705,561
Public Works	1,197,601	1,220,649	1,197,601	1,220,649
Recreation and Parks	124,061	101,709	124,061	101,709
Post Office	222,686	242,429	222,686	242,429
Historic Buildings	267,770	256,739	267,770	256,739
Interest on Long-Term Debt	<u>53,444</u>	<u>58,294</u>	<u>53,444</u>	<u>58,294</u>
TOTAL PROGRAM EXPENSES	<u>3,035,511</u>	<u>3,145,457</u>	<u>3,035,511</u>	<u>3,145,457</u>
CHANGE IN NET ASSETS	<u>\$ (366,939)</u>	<u>\$ (535,505)</u>	<u>\$ (366,939)</u>	<u>\$ (535,505)</u>

Governmental activities. For the year ended June 30, 2012, governmental activities decreased the Town's net assets by \$366,939, primarily due to the large amount of depreciation on the Town's capital assets.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED

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 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 \$1,326,038, an increase of \$85,979 in comparison with the prior year. Approximately 70% of this total amount (\$926,479) constitutes unrestricted and unassigned fund balance, of which \$724,618 relates to cash balances available for spending at the Town's discretion.

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 unassigned fund balance to total fund expenditures. Unassigned fund balance represents approximately 36% 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.

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

- Intergovernmental revenue received exceeded the budget by \$49,751 largely due to an increase in the amounts due for work at South Branch Park and the reimbursement from FEMA for storm damage, which were unbudgeted.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED

- Charges for Services exceeded the budgeted amount by \$203,635 as a result of the procedure for receiving and depositing amounts collected at the Post Office, which were unbudgeted.
- The Post Office expenditures exceeded the budget by \$157,862 as a result of the procedures for obtaining postal supplies, which were unbudgeted.
- Public Works ended the year under budget by \$51,607, due in large part to the mild winter of FY12, which saved in snow related costs, including a decreased need for road repair and patching and a sizable reduction in the anticipated tipping fees charged to the Town by Carroll County.
- Capital outlays fell short of the budget by \$29,025, mainly due to an unexpected delay in the purchase of a police vehicle from June 2012 until early FY13.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2012, amounted to \$20,088,756 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, park facilities, historic buildings, infrastructure, leasehold improvements at the South Branch Park, and parking lots. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$616,177, primarily due to depreciation.

Additional information on the Town's capital assets can be found in the financial statements and related notes.

Debt. The following summarizes the Town's outstanding debt as of June 30, 2012:

	Governmental <u>Activities</u>	<u>Total</u>
Loans Outstanding	\$ 11,464	\$ 11,464
Capital Lease Obligations	7,260	7,260
General Obligation Bonds	<u>1,253,610</u>	<u>1,253,610</u>
Total Debt	<u>\$1,272,334</u>	<u>\$1,272,334</u>

The Town's total debt decreased by 9% during the current fiscal year.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012
UNAUDITED

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The following factors were considered in preparing the Town's budget for the 2012-2013 fiscal year:

- The current tax rate was increased to \$0.35 per \$100. This was the first change since FY 2005.
- A total of \$23,249 from the prior year's fund balance was used in lieu of financing a portion of the capital purchases, compared to \$161,511 used in FY 2012.
- The Mayor and Town Council approved the sale of the relocated house at 732 Oklahoma Avenue in FY 2012, and it is expected that the closing will occur in fall of FY13.
- Although most revenues were comparable with FY 2012, the Real Estate estimate increased by \$87,894, largely due to the increased rate and, to a minor degree, by the sale of new homes in the Raincliffe development. Another increase in revenues concerned two anticipated grants for South Branch Park, which were offset by corresponding expenditures for South Branch Park improvements.

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, 2012

	<u>Governmental Activities</u>
ASSETS	
CURRENT ASSETS	
Cash and Cash Equivalents	
Unrestricted	\$ 527,490
Restricted	25,412
Certificates of Deposit	50,002
Accounts Receivable	27,776
Taxes Receivable	57,236
Grants Receivable	106,111
Due from Other Governments	19,063
Due from Component Unit	110,987
Prepaid Expenses	28,671
Current Portion of Notes Receivable	2,956
TOTAL CURRENT ASSETS	<u>955,704</u>
NON-CURRENT ASSETS	
Certificates of Deposit	454,000
Due from Component Unit	117,762
Notes Receivable	43,539
Bond Issue Costs (Net of Accumulated Amortization)	14,803
Property and Equipment	
Construction in Progress	159,262
Land	8,169,015
Buildings and Improvements	7,205,829
Equipment	1,108,582
Infrastructure	10,582,501
Leasehold Improvements	95,514
Vehicles	657,403
	<u>27,978,106</u>
Less: Accumulated Depreciation	7,889,350
Net Property and Equipment	<u>20,088,756</u>
TOTAL NON-CURRENT ASSETS	<u>20,718,860</u>
TOTAL ASSETS	<u>21,674,564</u>

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET ASSETS

JUNE 30, 2012

	<u>Governmental Activities</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts Payable	180,444
Accrued Expenses	34,766
Amounts Held in Escrow	150
Accrued Compensated Absences	26,817
Deferred Revenues	8,325
Current Portion of Capital Lease Obligations	7,260
Current Portion of Bonds Payable	119,692
TOTAL CURRENT LIABILITIES	<u>377,454</u>
NON-CURRENT LIABILITIES	
Accrued Compensated Absences	90,442
Loan Payable	11,464
Bonds Payable	1,133,918
TOTAL NON-CURRENT LIABILITIES	<u>1,235,824</u>
TOTAL LIABILITIES	<u>1,613,278</u>
NET ASSETS	
Investment in Capital Assets (Net of Related Debt)	18,831,225
Restricted	25,412
Unrestricted	1,204,649
TOTAL NET ASSETS	<u><u>\$ 20,061,286</u></u>

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues 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	\$ 572,540	\$ 46,549	\$ -	\$ -	\$ (525,991)	\$ (525,991)
Public Safety	597,409	450	40,697	-	(556,262)	(556,262)
Public Works	1,197,601	75,970	84,819	986	(1,035,826)	(1,035,826)
Recreation and Parks	124,061	-	19,543	41,777	(62,741)	(62,741)
Post Office	222,686	193,937	-	-	(28,749)	(28,749)
Historic Buildings	267,770	200	15,347	-	(252,223)	(252,223)
Interest on Long-Term Debt	53,444	-	-	-	(53,444)	(53,444)
TOTAL PRIMARY GOVERNMENT	\$ 3,035,511	\$ 317,106	\$ 160,406	\$ 42,763	(2,515,236)	(2,515,236)
GENERAL REVENUES						
Taxes						
					558,951	558,951
					1,194,739	1,194,739
					36,748	36,748
					759	759
					263,295	263,295
					61,655	61,655
					22,477	22,477
					9,673	9,673
					<u>2,148,297</u>	<u>2,148,297</u>
TOTAL GENERAL REVENUES						
CHANGES IN NET ASSETS						
					(366,939)	(366,939)
					20,428,225	20,428,225
					<u>\$ 20,061,286</u>	<u>\$ 20,061,286</u>
NET ASSETS - END OF YEAR						

See Accompanying Notes

TOWN OF SYKESVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2012

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and Cash Equivalents		
Unrestricted	\$ 527,490	\$ 527,490
Restricted	25,412	25,412
Certificates of Deposit	504,002	504,002
Accounts Receivable	27,776	27,776
Taxes Receivable	57,236	57,236
Grants Receivable	106,111	106,111
Due from Other Governments	19,063	19,063
Due from Component Unit	228,749	228,749
Prepaid Expenses	28,671	28,671
Notes Receivable	46,495	46,495
TOTAL ASSETS	<u>\$ 1,571,005</u>	<u>\$ 1,571,005</u>
LIABILITIES		
Accounts Payable	\$ 180,444	\$ 180,444
Accrued Expenses	29,231	29,231
Amounts Held in Escrow	150	150
Accrued Compensated Absences	26,817	26,817
Deferred Revenues	8,325	8,325
TOTAL LIABILITIES	<u>244,967</u>	<u>244,967</u>
FUND BALANCES		
Nonspendable	198,816	198,816
Restricted	25,412	25,412
Assigned	175,331	175,331
Unassigned	926,479	926,479
TOTAL FUND BALANCES	<u>1,326,038</u>	<u>1,326,038</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 1,571,005</u>	<u>\$ 1,571,005</u>

See Accompanying Notes

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

JUNE 30, 2012

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 1,326,038
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.	20,088,756
Bond issue costs are reported as expenditures in the year incurred in the governmental funds.	14,803
Long-term compensated absences are not payable in the current period and are reported as wages and related tax expenditures in the period during which the absence occurs in the fund financial statements.	(90,442)
Long-term liabilities, including bonds payable, loans payable, capital lease obligations, and interest payable, are not due and payable in the current period, and therefore, are not reported in the fund financial statements.	<u>(1,277,869)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 20,061,286</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, 2012

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 1,791,197	\$ 1,791,197
Intergovernmental	431,574	431,574
Charges for Services	268,307	268,307
Licenses and Permits	61,655	61,655
Fines and Forfeitures	450	450
Interest Income and Rents	70,826	70,826
Miscellaneous	44,563	44,563
TOTAL REVENUES	2,668,572	2,668,572
EXPENDITURES		
General Government	463,960	463,960
Public Safety	392,659	392,659
Public Works	469,308	469,308
Recreation and Parks	84,903	84,903
Post Office	222,686	222,686
Historic Buildings	39,936	39,936
Miscellaneous	374,283	374,283
Debt Service	186,383	186,383
Capital Outlays	348,475	348,475
TOTAL EXPENDITURES	2,582,593	2,582,593
NET CHANGES IN FUND BALANCES	85,979	85,979
Fund Balances - Beginning of Year	1,240,059	1,240,059
FUND BALANCES - END OF YEAR	\$ 1,326,038	\$ 1,326,038

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, 2012

CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$	85,979
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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 costs of those assets are allocated over their estimated useful lives as depreciation expense.

Add: Capital Outlays		348,475
Less: Depreciation Expense		(964,652)

Repayments 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.		131,992
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Amortization of bond issue costs.		(1,346)
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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:

Long-Term Portion of Accrued Compensated Absences		30,320
Accrued Interest Expense		2,293

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>(366,939)</u>
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TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Reporting Entity

The Town of Sykesville, Maryland (the "Town") 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, 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).

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 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, 2012.

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 general administrative services, public safety, public works, recreation and parks, post office, and historic buildings are classified as governmental activities. The Town has no business-type activities.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

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 OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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 revenues 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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 \$5,000 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
Vehicles	5 years

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. General infrastructure assets acquired prior to July 1, 2000 are not reported in the basic financial statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to July 1, 2000. The Town has elected not to retroactively report intangible assets, including capital assets identified as having indefinite useful lives or being internally generated, prior to July 1, 2009. All intangible assets acquired subsequent to July 1, 2009 are reported at historical cost.

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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 130 days, and at termination, a maximum of 45 days will be paid to employees at 20% of the employee's then current pay rate. 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.

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 Revenues

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 revenues. 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 revenues.

Debt Policies

The Town's formal debt policy establishes authority and circumstances for which the Town can obtain short- and long-term debt financing, and includes provisions that annual debt service costs are not to exceed eight percent of the Town's operating expenditures and remaining balances of long-term debt obligations are not to exceed 1.5% of the Town's net assessable base in any fiscal year new debt is incurred. For the year ended June 30, 2012, the Town had incurred no additional debt obligations.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 that are not restricted for any project or other purpose. However, these funds may be constrained for specific projects or purposes in the fund financial statements as discussed below.

In the fund financial statements, fund balances are classified in the following categories:

Nonspendable Fund Balance - This category represents amounts that are not in spendable form (such as inventory and long-term receivables) or are required to be maintained intact.

Restricted Fund Balance - This category represents amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance - This category represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned Fund Balance - This category represents amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

Unassigned Fund Balance - This category represents amounts that are available for any purpose.

For the classification of fund balances, the Town considers restricted or unrestricted amounts to have been spent when an expenditure is incurred for the purposes for which both restricted and unrestricted fund balance is available. Also for the classification of fund balance, the Town considers committed, assigned, or unassigned amounts to have been spent when an

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used.

For committed fund balance, the Town's highest level of decision-making authority is the Mayor and Town Council. The formal action that is required to be taken to establish and modify or rescind a fund balance commitment is an ordinance.

For assigned fund balance, the Mayor and Town Council are authorized to assign amounts to a specific purpose. The authorization policy is a formal motion.

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 87 budget amendments were approved during the fiscal year ended June 30, 2012. Both original and final budgets have been included in the presentation of the Town's 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 10, 2012, the date the financial statements were available to be issued.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Deposits

The deposits held at June 30, 2012 are shown below:

<u>Type</u>	<u>Rating/Interest Rate (Unaudited)</u>	<u>Maturities (Unaudited)</u>	<u>Carrying Value</u>
Deposits			
Demand Deposits			\$ 552,652
Time Deposits	0.20% - 3.45%	9/19/2012 – 3/19/2015	504,002
Cash on Hand			<u>250</u>
Total Deposits			<u>\$1,056,904</u>

Reconciliation to Statement of Net Assets

Current Assets		
Cash and Cash Equivalents		
Unrestricted		\$ 527,490
Restricted		<u>25,412</u>
Total Cash and Cash Equivalents		552,902
Certificates of Deposit		<u>50,002</u>
Total Current Assets		602,904
Non-Current Assets		
Certificates of Deposit		<u>454,000</u>
		<u>\$1,056,904</u>

Restricted cash and cash equivalents at June 30, 2012 consists of \$25,412 held for Public Works Agreements. Restricted assets are classified as current when they are restricted for payment of current liabilities. Otherwise, they are non-current in nature.

The Town is governed by the deposit and investment limitations of Maryland law. 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;

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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;
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:
 - a. contain only securities of the organizations listed in items (1), (2), and (3) of this subsection;
 - b. 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
 - c. 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:
 - a. the deposit is interest bearing; and
 - b. as provided for a depository for state money:
 - 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
 - a custodian holds the collateral.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Custodial Credit Risk

Deposits in financial institutions, reported as components of cash and cash equivalents and investments, had a bank balance of \$1,129,023 at June 30, 2012, \$629,023 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 and Credit 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, 2012 are provided in the previous schedule.

The Town's formal investment policy limits investment credit risk to the highest possible rating from at least one statistical rating organization designated by the SEC for Money Market Mutual Funds instruments. Credit ratings on investments held at June 30, 2012 are provided in the previous schedule, as applicable.

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, 2012, the Town had no concentration of credit risk.

Note 3. Loan Receivable

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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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

Year Ending <u>June 30.</u>	Governmental <u>Activities</u>
2013	\$ 2,956
2014	3,107
2015	3,266
2016	3,433
2017	3,609
2018-2022	21,009
2023-2024	<u>9,115</u>
	<u>\$ 46,495</u>

Note 4. Capital Assets and Depreciation

Capital asset activity for the year ended June 30, 2012 was as follows:

	Balance July 1, <u>2011</u>	<u>Increases</u>	<u>Decreases</u>	Transferred to Active Status	Balance June 30, 2012
Governmental Activities					
Non-Depreciable Assets					
Construction in Process	\$ 128,390	\$ 30,872	\$ -	\$ -	\$ 159,262
Land	<u>8,169,015</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,169,015</u>
Total Non-Depreciable Assets	<u>8,297,405</u>	<u>30,872</u>	<u>-</u>	<u>-</u>	<u>8,328,277</u>
Depreciable Assets					
Buildings and Improvements	7,187,539	18,290	-	-	7,205,829
Equipment	1,102,882	5,700	-	-	1,108,582
Infrastructure	10,464,570	117,931	-	-	10,582,501
Leasehold Improvements	95,514	-	-	-	95,514
Vehicles	<u>481,721</u>	<u>175,682</u>	<u>-</u>	<u>-</u>	<u>657,403</u>
Total Depreciable Assets	<u>19,332,226</u>	<u>317,603</u>	<u>-</u>	<u>-</u>	<u>19,649,829</u>
Total Capital Assets	<u>27,629,631</u>	<u>348,475</u>	<u>-</u>	<u>-</u>	<u>27,978,106</u>
Accumulated Depreciation					
Buildings and Improvements	2,989,998	303,670	-	-	3,293,668
Equipment	862,506	31,559	-	-	894,065
Infrastructure	2,655,637	562,888	-	-	3,218,525
Leasehold Improvements	11,433	9,260	-	-	20,693
Vehicles	<u>405,124</u>	<u>57,275</u>	<u>-</u>	<u>-</u>	<u>462,399</u>
Total Accumulated Depreciation	<u>6,924,698</u>	<u>964,652</u>	<u>-</u>	<u>-</u>	<u>7,889,350</u>
Total Capital Assets, Net	<u>\$20,704,933</u>	<u>\$ (616,177)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$20,088,756</u>

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Accumulated costs attributable to projects included in construction in progress in governmental activities at June 30, 2012 are as follows:

South Branch Park Improvements	\$ 46,924
House Relocation	<u>112,338</u>
	<u>\$159,262</u>

Depreciation expense for the year ended June 30, 2012, including amortization expense on assets under capital lease, was charged to the governmental activities function as follows:

General Government	\$ 15,626
Public Safety	51,337
Public Works	630,697
Recreation and Parks	39,158
Historic Buildings	<u>227,834</u>
	<u>\$964,652</u>

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, 2012, future minimum payments required under the lease and the present value of minimum capital lease payments were as follows for the year ending June 30, 2013:

	<u>Governmental Activities</u>
Total Minimum Lease Payments in 2013	\$ 7,775
Less: Amount Representing Interest	<u>515</u>
Present Value of Current Minimum Capital Lease Payments Due	<u>\$ 7,260</u>

Equipment under capital lease included in capital assets at June 30, 2012, includes the following:

	<u>Governmental Activities</u>
Vehicles	\$ 27,703
Less: Accumulated Depreciation	<u>15,237</u>
	<u>\$ 12,466</u>

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 6. Long-Term Debt

Loans and bonds payable at June 30, 2012 consist of the following:

	<u>Governmental Activities</u>
Loans Payable	
2010 Dodge Charger Commercial Loan; principal and interest due in annual installments of \$6,302; 6.5% annual interest rate; matures July 2014; secured by equipment under loan.	\$ <u>11,464</u>
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.	166,200
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.	195,700
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>891,710</u>
Total Bonds Payable	<u>1,253,610</u>
Total Loans and Bonds Payable	<u>\$1,265,074</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

<u>Type of Debt</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2012</u>	<u>Due Within One Year</u>
Governmental Activities					
Loans Payable					
2010 Dodge Charger	\$ 21,561	\$ -	\$ 10,097	\$ 11,464	\$ -
Total Loans Payable	<u>21,561</u>	<u>-</u>	<u>10,097</u>	<u>11,464</u>	<u>-</u>
Bonds Payable					
2002 Infrastructure Bonds	195,300	-	29,100	166,200	30,500
2005 Infrastructure Bonds	216,000	-	20,300	195,700	21,200
2008 General Obligation Bonds	<u>957,428</u>	<u>-</u>	<u>65,718</u>	<u>891,710</u>	<u>67,992</u>
Total Bonds Payable	<u>1,368,728</u>	<u>-</u>	<u>115,118</u>	<u>1,253,610</u>	<u>119,692</u>
Total Loans and Bonds Payable	1,390,289	-	125,215	1,265,074	119,692
Capital Lease Obligations	14,037	-	6,777	7,260	7,260
Compensated Absences	<u>120,762</u>	<u>-</u>	<u>3,503</u>	<u>117,259</u>	<u>26,817</u>
Total Long-Term Debt	<u>\$1,525,088</u>	<u>\$ -</u>	<u>\$ 135,495</u>	<u>\$1,389,593</u>	<u>\$ 153,769</u>

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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

Interest and related costs incurred for governmental activities for the year ended June 30, 2012 was \$53,444, all of which was expensed.

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

Year Ending <u>June 30.</u>	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 119,692	\$ 46,317
2014	129,292	42,382
2015	134,796	37,506
2016	133,897	32,190
2017	138,902	27,038
2018-2022	512,955	69,280
2023	<u>95,540</u>	<u>3,306</u>
	<u>\$1,265,074</u>	<u>\$ 258,019</u>

Note 7. Net Assets and Fund Balances

The following is a summary of General Fund nonspendable fund balances as of June 30, 2012:

Due from Component Unit	\$123,650
Prepaid Expenses	28,671
Note Receivable	<u>46,495</u>
	<u>\$198,816</u>

The following is a summary of restricted net assets and fund balances as of June 30, 2012:

Public Works Agreements	<u>\$ 25,412</u>
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Public Works Agreements - Net assets and fund balances in the governmental activities and General Fund, respectively, are restricted for unspent amounts received by the Town in relation to various Public Works Agreements for maintenance, improvements, and related costs and fees.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

The following is a summary of General Fund assigned fund balances as of June 30, 2012:

Budgetary Reserve	\$ 23,249
Development Inspection Fees	1,092
Gate House Museum	43,980
Historic Commission	8,203
Historic Schoolhouse	1,147
Impact Fees	49,031
Little Sykes Railroad	7,077
Main Street	9,499
Military Memorial	1,604
Parks and Recreation	12,983
Police Auxiliary	1,000
Schoolhouse Road	3,057
Unemployment Reserve	<u>13,409</u>
	<u>\$175,331</u>

Note 8. Property Taxes

The 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.

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.

TOWN OF SYKESVILLE, MARYLAND
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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 By</u>
Stone House/Former Mill Office	December 14, 2013
Weight Station	December 14, 2015
Recreational Areas	December 14, 2016
Water Tower	December 14, 2017

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 provided up to \$100,000 for planning, renovating, and stabilizing the Historic Structures and developing of the Property, \$30,000 of which was advanced to the Town in 2008, with the remaining balance of \$70,000 reimbursed to the Town in April 2012. 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. As of June 30, 2012, \$100,000 remains available to the Town from the State, \$80,737 of which has been incurred in expenses by the Town through June 30, 2012 but not yet sought for reimbursement.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2012, 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. 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. At June 30, 2012, the loan value is \$123,650.

Future minimum receipts under the note are as follows:

Year Ending <u>June 30,</u>	Governmental <u>Activities</u>
2013	\$ 5,888
2014	5,888
2015	5,888
2016	5,888
2017	5,888
2018-2022	29,440
2023-2027	29,441
2028-2032	29,441
2033	<u>5,888</u>
	<u>\$123,650</u>

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 \$105,099 as of June 30, 2012 are due on demand with no stated interest terms, and no amounts are anticipated to extend beyond one year.

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 have been dispersed. The loan bears a simple interest rate of three percent 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 12 and 17 active participants, respectively, as of June 30, 2012.

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 2011 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, 2012.

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 2011, 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. Employee vesting in these contributions is based on years of service, reaching 100% after four years of qualified service. The Town contributed \$71,377 to the 401(a) plan for the year ended June 30, 2012.

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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 12. Concentrations and Economic Dependencies

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.

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 assigned funds for potential claim settlements.

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

The Town participates in a number of federal, state, and county programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the Town may be required to reimburse the grantor government. As of June 30, 2012, significant amounts of grant expenditures have not been audited by the appropriate grantor government, but the Town believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the Town.

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NOTES TO BASIC FINANCIAL STATEMENTS

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. Significant Violations of Finance-Related Legal or Contractual Provisions

In November of 2011, the Town awarded a contract for the purchase of a trash truck for the Town's use for \$144,371 without advertisement or formal sealed bid process, as legally required by the Charter of the Town of Sykesville, Maryland; Article VI (Finance); § C-61.B (Purchases and Contracts; Over \$10,000). No actions have been taken by management to remedy the violation.

Note 17. New Governmental Accounting Standards Board Pronouncements

The GASB has issued several pronouncements prior to the year ended June 30, 2012 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. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, will be effective for the Town as of July 1, 2012. The objective of this statement is to improve financial reporting by addressing issues related to service concession arrangements (SCA's) which are a type of public-private or public-public partnership between a transferor (the government) and an operator where the transferor (1) conveys the right and related obligation to provide services through the use of infrastructure or another public asset to an operator and (2) the operator collects and is compensated by fees from third parties.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and 34*, will be effective for the Town as of July 1, 2012. The objective of this statement is to improve financial reporting for a governmental financial reporting entity specifically through revisions to criteria and presentation determination for component units of a primary government. The standard will require additional analysis in relation to financial benefit/burden relationships, including financial accountability, of the parties and operational responsibility as well as consideration of inclusion/exclusion of the component unit as

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

misleading to the financial statement readers.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, will be effective for the Town as of July 1, 2012. The objective of this statement is to standardize the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position, previously defined as net assets. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, will be effective for the Town as of July 1, 2013. The objective of this statement is to establish accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

GASB Statement No. 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62*, will be effective for the Town as of July 1, 2013. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance resulting from issuance of other recent pronouncements. The standard amends requirements for reporting of risk financing activities previously limited to the General Fund and Internal Service Fund type, and modifies guidance in relation to accounting for operating lease payments that vary from straight-line basis and for loan-servicing activities investments and servicing fees.

GASB Statement No. 67, *Financial Reporting for Pension Plans*, will be effective for the Town as of July 1, 2014. The objective of this statement is to improve financial reporting by state and local governmental pension plans by requiring enhanced note disclosures and schedules of required supplementary information and promoting more transparency and consistency amongst state and local governmental pension plan financial statements.

GASB Statement No. 68, *Accounting and Reporting for Pensions*, will be effective for the Town as of July 1, 2015. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions, including improving information provided by state and local government employers about financial support for pensions that is provided by other entities, by requiring enhanced note disclosures and schedules of required supplementary information and promoting more transparency and consistency amongst state and local government financial statements.

Note 18. Subsequent Events

On September 6, 2012, the Mayor and Town Council awarded a contract in the amount of \$156,760 to pave two roads in the Town and part of the McElroy parking lot.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SYKESVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2012

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 1,749,816	\$ 1,749,816	\$ 1,791,197	\$ 41,381
Intergovernmental	396,361	381,823	431,574	49,751
Charges for Services	62,672	64,672	268,307	203,635
Licenses and Permits	45,100	49,100	61,655	12,555
Fines and Forfeitures	1,000	1,000	450	(550)
Interest Income and Rents	58,813	64,213	70,826	6,613
Miscellaneous	21,500	29,391	44,563	15,172
TOTAL REVENUES	<u>2,335,262</u>	<u>2,340,015</u>	<u>2,668,572</u>	<u>328,557</u>
EXPENDITURES				
General Government	454,106	432,533	463,960	(31,427)
Public Safety	443,384	419,888	392,659	27,229
Public Works	520,615	520,915	469,308	51,607
Recreation and Parks	73,460	84,034	84,903	(869)
Post Office	62,874	64,824	222,686	(157,862)
Historic Buildings	32,300	38,853	39,936	(1,083)
Miscellaneous	403,163	392,779	374,283	18,496
Debt Service	179,371	179,371	186,383	(7,012)
Capital Outlays	347,500	377,500	348,475	29,025
TOTAL EXPENDITURES	<u>2,516,773</u>	<u>2,510,697</u>	<u>2,582,593</u>	<u>(71,896)</u>
NET CHANGES IN FUND BALANCE	(181,511)	(170,682)	85,979	256,661
Fund Balance - Beginning of Year	1,240,059	1,240,059	1,240,059	-
FUND BALANCE - END OF YEAR	<u>\$ 1,058,548</u>	<u>\$ 1,069,377</u>	<u>\$ 1,326,038</u>	<u>\$ 256,661</u>