

**THE TOWN OF SYKESVILLE, MARYLAND**

**BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEAR ENDED JUNE 30, 2016**



**RLH**

**CPAs &  
BUSINESS  
ADVISORS**

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## INDEPENDENT AUDITORS' REPORT

October 26, 2016

Honorable Mayor and Members of the Town Council  
The 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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes

evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit**

The financial statements referred to above do not include financial data for the Town's legally separate component unit. Accounting principles generally accepted in the United States of America require 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.

### **Adverse Opinion on Aggregate Discretely Presented Component Unit**

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of The Town of Sykesville, Maryland, as of June 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Qualified Opinion on Governmental Activities**

As discussed in Note 16 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 position, and expenses of the governmental activities is not reasonably determinable.

### **Qualified Opinion on Governmental Activities**

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of The Town of Sykesville, Maryland, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Unmodified Opinions**

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, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension schedules on pages 4 through 13 and 48 through 50, 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.

**RLH CPAs & Business Advisors, LLC**

Westminster, Maryland

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**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, 2016. 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 \$19,348,785.
2. The Town's total net assets decreased by \$163,434. This was primarily due to depreciation.
3. The Town maintains a fund balance policy that establishes a stabilization reserve to protect the Town against significant unanticipated budget shortfalls. The policy requires a stabilization amount of at least 12% of the average actual General Fund audited expenditures, less capital outlays, for the preceding five years.
4. The Town maintains a Capital Reserve of at least \$250,000. The purpose of this reserve is to have guaranteed funds available for capital projects or one-time purchases greater than \$5,000, to provide funds for planned and anticipated projects, and to allow for completion of projects in a timely manner that is not dependent on Town cash flow. A capital project is defined as a project costing more than \$5,000.
5. In FY 16, the Capital Reserve was replenished a total of \$35,119 for funds used during FY15 (\$26,619 for a police car and \$8,500 for the Millard Cooper Park playground wall). Also during FY 16, a total of \$17,600 was used (\$8,000 for an ATV and \$9,600 for Baldwin's roof). This \$17,600 is to be replenished during FY17. Finally, during FY16 \$30,000 was transferred to the Capital Reserve for infrastructure improvements. The balance of the Capital Reserve as of June 30, 2016 is \$262,400.

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
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6. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$2,968,808 an increase of \$388,674 in comparison to the prior year balance of \$2,580,134. Approximately \$1,821,673 or 61% of this total amount constitutes unassigned fund balance; \$1,691,851 of which relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$283,832 of the available cash balance for spending.
7. During FY16, the Town was awarded an additional Community Legacy grant in the amount of \$50,000 for façade improvements.
8. During FY15, the Town received grant awards from the Maryland State Highway Administration (SHA) Recreational Trails Program and from the Maryland Department of Natural Resources (DNR) Program Open Space Program to repair the deteriorated bridge and resurface a portion of the Linear Trail. In FY16, the Town ordered the replacement bridge for the Linear Trail with installation in FY 17. The Town is going to propose a different scope of work in the Linear Trail for the SHA grant, since the bridge was able to be completed with the Program Open Space grant.
9. In FY16, the Town received a Community Parks and Playground grant for widening a portion of the north section of the Linear Trail and to make the trail more accessible. This, in conjunction with widening of the trail completed with funds from an FY14 SHA Recreational Trails Program Grant, should make the northern section of the trail more accessible for all users.
10. During FY16, the Town declared 7610 Main Street as surplus to its needs and listed 7610 Main Street for sale. Four offers were received. Subsequently, in early FY17, the Mayor and Town Council selected the offer from the Firehouse Creamery Sykesville MD, LLC and completed the sale of the property.
11. The Town joined the Maryland State Retirement Pension system effective July 1, 2014. In FY16, the Town reported a liability of \$334,226 as its proportionate share of the net pension liability for FY16.
12. In FY14, the Town signed an Agreement for the Sale and Purchase of the Warfield Commerce and Cultural Center. The Town and the purchaser worked in FY15 and FY16 on meeting the conditions of the contract. Due to the need for an approved development plan, the sale was not completed in FY16. A preliminary development plan is anticipated to be developed and reviewed in FY17.

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
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**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, post office, 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

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
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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, 2016**  
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**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 \$19,348,785 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (almost 86%) 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, 2015 AND 2016**

	Governmental Activities		Total Government	
	2016	2015	2016	2015
<b>ASSETS</b>				
Current and Other Assets	\$ 3,204,115	\$ 2,795,663	\$ 3,204,115	\$ 2,795,663
Capital Assets, Net	<u>17,328,263</u>	<u>18,138,736</u>	<u>17,328,263</u>	<u>18,138,736</u>
<b>TOTAL ASSETS</b>	<b><u>20,532,378</u></b>	<b><u>20,934,399</u></b>	<b><u>20,532,378</u></b>	<b><u>20,934,399</u></b>
<b>Deferred Outflows</b>				
<b>from Pensions</b>	<b><u>86,162</u></b>	<b><u>10,739</u></b>	<b><u>86,162</u></b>	<b><u>10,739</u></b>
<b>LIABILITIES</b>				
Long-Term Debt	926,446	1,024,695	926,446	1,024,695
Other Liabilities	<u>337,630</u>	<u>379,968</u>	<u>337,630</u>	<u>379,968</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,264,076</u></b>	<b><u>1,404,663</u></b>	<b><u>1,264,076</u></b>	<b><u>1,404,663</u></b>
<b>Deferred Inflows</b>				
<b>from Pensions</b>	<b><u>5,679</u></b>	<b><u>28,256</u></b>	<b><u>5,679</u></b>	<b><u>28,256</u></b>
<b>NET ASSETS</b>				
Invested In Capital Assets,				
Net of Related Debt	16,722,956	17,265,932	16,722,956	17,265,932
Restricted	243,423	150,000	243,423	150,000
Unrestricted	<u>2,382,406</u>	<u>2,096,287</u>	<u>2,382,406</u>	<u>2,096,287</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$19,348,785</u></b>	<b><u>\$19,512,219</u></b>	<b><u>\$19,348,785</u></b>	<b><u>\$19,512,219</u></b>

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
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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.

**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2015 AND 2016**

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>				
<b>Program Revenues</b>				
Charges for Services	\$250,625	\$253,447	\$250,625	\$253,447
Operating Grants and Contributions	373,133	356,795	373,133	356,795
Capital Grants and Contributions	1,526	682,629	1,526	682,629
<b>General Revenues</b>				
Income Taxes	788,119	698,831	788,119	698,831
Real Estate Taxes	1,364,543	1,334,425	1,364,543	1,334,425
Personal Property Taxes	41,385	37,654	41,385	37,654
Other Taxes	1,562	1,742	1,562	1,742
Non-Restricted Grants/Contributions	340,344	322,353	340,344	322,353
Interest and Rents	16,342	12,853	16,342	12,853
Miscellaneous	6,223	15,831	6,223	15,831
<b>TOTAL REVENUES</b>	<b><u>\$3,183,802</u></b>	<b><u>\$3,716,560</u></b>	<b><u>\$3,183,802</u></b>	<b><u>\$3,716,560</u></b>
<b>PROGRAM EXPENSES</b>				
General Government	724,289	647,063	724,289	647,063
Public Safety	757,158	690,775	757,158	690,775
Public Works	1,322,781	1,429,485	1,322,781	1,429,485
Recreation and Parks	75,992	122,857	75,992	122,857
Post Office	163,449	173,470	163,449	173,470
Historic Buildings	277,626	250,389	277,626	250,389
Interest on Long-Term Debt	25,941	32,610	25,941	32,610
<b>TOTAL PROGRAM EXPENSES</b>	<b><u>3,347,236</u></b>	<b><u>3,346,649</u></b>	<b><u>3,347,236</u></b>	<b><u>3,346,649</u></b>
<b>CHANGE IN NET ASSETS</b>	<b><u>(\$163,434)</u></b>	<b><u>\$369,911</u></b>	<b><u>(\$163,434)</u></b>	<b><u>\$369,911</u></b>

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
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**Governmental activities.** For the year ended June 30, 2016, governmental activities decreased the Town's net assets by \$163,434. This was primarily due to depreciation of the Town's major assets.

**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 \$2,968,808, an increase of \$388,674 in comparison with the prior year. Approximately \$1,821,673 or 61% constitutes unassigned fund balance, of which \$1,691,851 relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$283,832 of the cash available for spending.

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 65% 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:

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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- Tax revenue received exceeded the budget by \$239,110 largely due to an increase in income tax revenue and real estate tax revenue.
- Post Office – Postage for Resale was budgeted at \$90,000. The actual amount of Postage for Resale came to \$116,867. This caused an over budget variance for the Post Office. Correspondingly, the revenue for the Post Office (under Charges for Services) was budgeted at \$90,000, while the actual came to \$120,162.
- Debt Service – The note payable for 7610 Main Street in the amount of \$62,500 was paid during FY16. This note was on the balance sheet as a payable, and therefore not in the FY16 budget. The payment of this \$62,500 caused Debt Service to have an over budget variance.
- During FY16, there was a reclassification of the Public Works Assistant Director from Public Works department to the position of Special Projects Coordinator under the Administration department.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The Town's investment in capital assets for its governmental activities as of June 30, 2016, amounted to \$17,328,263 (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 \$810,473, primarily due to depreciation.

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

**TOWN OF SYKESVILLE, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
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**Debt.** The following summarizes the Town's outstanding debt as of June 30, 2016:

	Governmental <u>Activities</u>	<u>Total</u>
General Obligation Bonds	<u>605,307</u>	<u>605,307</u>
Total Debt	<u>\$ 605,307</u>	<u>\$ 605,307</u>

The Town's total debt decreased by 31% during the current fiscal year.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The following factors were considered in preparing the Town's budget for the 2017 fiscal year:

- The current tax rate was maintained at 0.35 per \$100 of assessed value.
- The Fiscal Year 2017 Budget includes a \$25,000 transfer from the prior year's fund balances to the Capital Reserve. The Fiscal Year 2017 Budget is otherwise balanced without the use of prior year's fund balances.
- The State of Maryland approved a one-time grant in FY16 to the Maryland Department of Transportation for Highway User Revenue and the Town received \$97,273. The Fiscal Year 2017 Budget will reflect another one-time grant, resulting in a \$98,567 increase in Highway User Revenue.
- In FY 15, the Town signed a Memorandum of Agreement with Carroll County and the other municipalities in Carroll County to participate in a joint Phase I National Pollutant Discharge and Elimination System (NPDES) Municipal Separate Storm Sewer System (MS4) permit. The Town's required annual contribution for FY 16 was \$32,910. The Town's required contribution for FY 17 is \$34,556. These funds will help to pay for upgrades to the Shannon Run and Lexington Run Stormwater Management Facilities.
- During FY 16, The Town paid off the 2005 Series A CDA Bond, and the Mayor and Town Council directed that the annual payment (approximately \$26,000) be made to the Capital Reserve in future years.

**TOWN OF SYKESVILLE, MARYLAND  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2016  
UNAUDITED**

**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

## **BASIC FINANCIAL STATEMENTS**

THE TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2016

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	
Unrestricted	\$ 2,093,087
Restricted	26,000
Certificates of Deposit	100,000
Accounts Receivable	28,138
Taxes Receivable	73,187
Grants Receivable	24,822
Due from Other Governments	8,570
Due from Component Unit	159,575
Prepaid Expenses	32,596
Current Portion of Notes Receivable	3,609
	<u>2,549,584</u>
<b>TOTAL CURRENT ASSETS</b>	<b>2,549,584</b>
<b>NON-CURRENT ASSETS</b>	
Cash and Cash Equivalents - Restricted	243,423
Certificates of Deposit	250,000
Due from Component Unit	130,983
Notes Receivable	30,125
Property and Equipment	
Construction in Progress	77,920
Land	8,459,386
Buildings and Improvements	7,525,040
Equipment	1,413,598
Infrastructure	10,685,041
Vehicles	839,538
	<u>29,000,523</u>
Less: Accumulated Depreciation	11,672,260
Net Property and Equipment	17,328,263
	<u>17,982,794</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<b>17,982,794</b>
<b>TOTAL ASSETS</b>	<b>20,532,378</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Amounts from Pensions	86,162
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>86,162</b>

See Accompanying Notes

THE TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental Activities
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable and Accrued Expenses	169,921
Accrued Interest Payable	1,745
Accrued Payroll and Related Benefits	34,491
Accrued Compensated Absences	22,676
Unearned Revenues	4,895
Current Portion of Bonds Payable	77,902
Payable from Restricted Assets	
Amounts Held in Escrow	26,000
<b>TOTAL CURRENT LIABILITIES</b>	<u>337,630</u>
<b>NON-CURRENT LIABILITIES</b>	
Accrued Compensated Absences	64,815
Bonds Payable	527,405
Net Pension Liability	334,226
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>926,446</u>
<b>TOTAL LIABILITIES</b>	<u>1,264,076</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Amounts from Pensions	5,679
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>5,679</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	16,722,956
Restricted	243,423
Unrestricted	2,382,406
<b>TOTAL NET POSITION</b>	<u><u>\$ 19,348,785</u></u>

See Accompanying Notes

**THE TOWN OF SYKESVILLE, MARYLAND**

**STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
General Government	\$ 724,289	\$ 31,485	\$ 49,160	\$ -	\$ (643,644)	\$ (643,644)
Public Safety	757,158	575	70,148	-	(686,435)	(686,435)
Public Works	1,322,781	71,113	147,907	-	(1,103,761)	(1,103,761)
Recreation and Parks	75,992	2,975	2,412	-	(70,605)	(70,605)
Post Office	163,449	137,315	-	-	(26,134)	(26,134)
Historic Buildings	277,626	7,162	103,506	1,526	(165,432)	(165,432)
Interest on Long-Term Debt	25,941	-	-	-	(25,941)	(25,941)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,347,236</b>	<b>\$ 250,625</b>	<b>\$ 373,133</b>	<b>\$ 1,526</b>	<b>(2,721,952)</b>	<b>(2,721,952)</b>
<b>GENERAL REVENUES</b>						
Taxes						
					788,119	788,119
					1,364,543	1,364,543
					41,385	41,385
					1,562	1,562
Grants, Contributions, and Cable Franchise						
					340,344	340,344
					16,342	16,342
					6,223	6,223
					<u>2,558,518</u>	<u>2,558,518</u>
<b>CHANGES IN NET POSITION</b>						
					<b>(163,434)</b>	<b>(163,434)</b>
					19,512,219	19,512,219
					<u>\$ 19,348,785</u>	<u>\$ 19,348,785</u>

See Accompanying Notes

**THE TOWN OF SYKESVILLE, MARYLAND**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2016**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents		
Unrestricted	\$ 2,093,087	\$ 2,093,087
Restricted	269,423	269,423
Certificates of Deposit	350,000	350,000
Accounts Receivable	28,138	28,138
Taxes Receivable	73,187	73,187
Grants Receivable	24,822	24,822
Due from Other Governments	8,570	8,570
Due from Component Unit	290,558	290,558
Prepaid Expenses	32,596	32,596
Notes Receivable	33,734	33,734
<b>TOTAL ASSETS</b>	<b><u>3,204,115</u></b>	<b><u>3,204,115</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 3,204,115</u></b>	<b><u>\$ 3,204,115</u></b>

See Accompanying Notes

**THE TOWN OF SYKESVILLE, MARYLAND  
BALANCE SHEET - GOVERNMENTAL FUNDS**

**JUNE 30, 2016**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 169,921	\$ 169,921
Accrued Payroll and Related Benefits	34,491	34,491
Unearned Revenues	4,895	4,895
Payable from Restricted Assets Amounts Held in Escrow	26,000	26,000
<b>TOTAL LIABILITIES</b>	<u><b>235,307</b></u>	<u><b>235,307</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-
<b>FUND BALANCES</b>		
Nonspendable	240,499	240,499
Restricted	243,423	243,423
Assigned	663,213	663,213
Unassigned	1,821,673	1,821,673
<b>TOTAL FUND BALANCES</b>	<u><b>2,968,808</b></u>	<u><b>2,968,808</b></u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u><b>\$ 3,204,115</b></u>	<u><b>\$ 3,204,115</b></u>

See Accompanying Notes

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

**JUNE 30, 2016**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 2,968,808</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension liability and related deferred inflows and outflows in governmental activities is not payable (receivable) in the current period and, therefore, is reported as pension expense as annual contributions are paid in the governmental funds.	(253,743)
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	17,328,263
Accrued compensated absences, including both current and non-current portions, are not payable in the current period and, therefore, are reported as wages in the period during which the absence occurs in the fund financial statements.	(87,491)
Long-term liabilities, including both current and non-current portions of bonds payable, loans payable, and interest payable, are not due and payable in the current period, and, therefore, are not reported in the fund financial statements.	<u>(607,052)</u>
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 19,348,785</u></u></b>

See Accompanying Notes

**THE TOWN OF SYKESVILLE, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>		
Taxes	\$ 2,195,609	\$ 2,195,609
Intergovernmental	549,449	549,449
Charges for Services	192,621	192,621
Licenses and Permits	76,738	76,738
Fines and Forfeitures	475	475
Interest Income and Rents	56,769	56,769
Miscellaneous	112,141	112,141
<b>TOTAL REVENUES</b>	<b><u>3,183,802</u></b>	<b><u>3,183,802</u></b>
<b>EXPENDITURES</b>		
General Government	573,626	573,626
Public Safety	516,974	516,974
Public Works	645,039	645,039
Recreation and Parks	38,735	38,735
Post Office	163,449	163,449
Historic Buildings	48,591	48,591
Miscellaneous	374,294	374,294
Debt Service	294,535	294,535
Capital Outlays	139,885	139,885
<b>TOTAL EXPENDITURES</b>	<b><u>2,795,128</u></b>	<b><u>2,795,128</u></b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>388,674</b>	<b>388,674</b>
Fund Balances - Beginning of Year	<u>2,580,134</u>	<u>2,580,134</u>
<b>FUND BALANCES - END OF YEAR</b>	<b><u>\$ 2,968,808</u></b>	<b><u>\$ 2,968,808</u></b>

See Accompanying Notes

**THE 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, 2016**

**NET CHANGES IN FUND BALANCES - TOTAL**  
**GOVERNMENTAL FUNDS** **\$ 388,674**

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	139,885
Less: Depreciation Expense	(950,358)

Repayments of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	267,497
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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:

Accrued Compensated Absences	(32,153)
Accrued Interest Payable	1,097
Net Pension Liability and related Deferred Inflows and Outflows	21,924

**CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES** **\$ (163,434)**

**THE 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 the 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, 2016.

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented by the Town during the year ended June 30, 2016 and the relating effects on the financial statements presentation and disclosure, as applicable:

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

GASB Statement No. 72, *Fair Value Measurement and Application* - The objective of this statement is to provide guidance for determining fair value measurements for financial reporting purposes, and guidance for applying fair value to certain investments, disclosures related to all fair value measurements. The provisions of this statement were effective for periods beginning after June 15, 2015, and were implemented by the Town as of July 1, 2015 with no effect on the financial statements presentation or disclosure.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68* - The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The provisions of this statement were effective for periods beginning after June 15, 2015, and were implemented by the Town as of July 1, 2015 with no effect of the financial statements presentation or disclosure.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* - The objective of this statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP) to improve financial reporting and usefulness of financial statement information. The provisions of this statement were effective for periods beginning after June 15, 2015, and were implemented by the Town as of July 1, 2015 with no effect of the financial statements presentation or disclosure.

GASB Statement No. 78, *Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans* - The objective of this statement is to address a practice issue regarding the scope and applicability of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The provisions of this statement are effective for periods beginning after December 15, 2015, and were early implemented by the Town as of July 1, 2015 with no effect on financial statements presentation or disclosure.

GASB Statement No. 79, *Certain Investment Pools and Pool Participants* - The objective of this statement is to improve accounting and financial reporting for external investment pools and their participants resulting from changes in the regulatory provisions significantly amended in 2014 by the Securities and Exchange Commission, particularly those in relation to the Investment Company Act of 1940, Rule 2a7. The provisions of this statement are effective for periods beginning after December 15, 2015, and were early implemented by the Town as of July 1, 2015 with no effect on financial statements presentation or disclosure.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

GASB Statement No. 80, *Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14* - The objective of this statement is to improve accounting and financial reporting by clarifying the financial statement presentation requirements for certain component units, specifically blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The provisions of this statement are effective for periods beginning after June 15, 2016, and were early implemented by the Town as of July 1, 2015, with no effect on financial statements presentation or disclosure.

GASB Statement No. 81, *Irrevocable Split Interest Agreements* - The objective of this statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance when the government is a beneficiary of the agreement. The provisions of this Statement are effective for periods beginning after December 15, 2016, and were early implemented by the Town as of July 1, 2015, with no effect on financial statements presentation or disclosure.

GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73* - The objective of this statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions of this Statement are effective for periods beginning after June 15, 2016, and were early implemented by the Town as of July 1, 2015, with limited effect on required supplementary information and disclosure.

*Basic Financial Statements - Government-Wide Statements*

The Town's basic financial statements include both government-wide (reporting the Town as a whole) and fund (reporting the Town's major funds) financial statements. 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.

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

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other general revenues not restricted to specific program functions are reported instead as general revenues.

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 position 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, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues, and expenditures. The various funds are reported by generic classification within the financial statements.

The Town utilizes various criteria (percentage of the assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues or expenditures 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 and deferred inflows of resources are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities and deferred outflows of resources are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following is a description of the Town's major governmental fund:

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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 unearned revenues or deferred inflows of resources by the recipient.

Cash and Cash Equivalents

The Town considers all highly liquid investments purchased with an initial 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.

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.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated acquisition 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 years
Equipment	5 - 20 years
Improvements/Infrastructure	5 - 20 years
Vehicles	5 years

Government-Wide Statements

In the government-wide financial statements, capital assets used in governmental fund operations are accounted for as property and equipment. General infrastructure assets acquired prior to July 1, 2000 are not reported in the basic financial statements. All general infrastructure assets, including all roads, bridges, and other infrastructure assets acquired subsequent to July 1, 2000 are recognized 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, prior to July 1, 2009. All intangible assets acquired subsequent to July 1, 2009 are reported at historical cost.

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

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 capital assets is recorded by removing cost and accumulated depreciation from accounts and recognizing the resulting gain or loss to income.

Fund Financial Statements

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

Accrued 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 six months or 130 days, and at termination, a maximum of 45 days will be paid to employees at 20% of the

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

employee's then current pay rate. If however, an employee retires directly through the Maryland State Retirement System, upon terminating employment, unused sick leave hours will be added to the service time used to calculate retirement pay, up to the maximum allowed, as provided by state law. Since creditable service determines the amount of the benefit for retirement, unused sick leave can increase the amount of the benefit. It does not, however, affect when the employee is eligible to retire. 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.

*Unearned 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 unearned 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 unearned 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, 2016, the Town had not incurred any new debt obligations.

*Net Position and Fund Balances*

In the government-wide financial statements, net position is classified in the following categories:

*Net Investment in Capital Assets* - This category groups all capital assets, including infrastructure, into one component of net position. 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 Position* - 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.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Unrestricted Net Position - This category represents the net position of the Town that is 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. 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.

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

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 expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

In March 2013, the Town approved a fund balance policy that established a stabilization arrangement to alleviate significant unanticipated budget shortfalls. The arrangement requires a stabilization amount of at least 12% of the average actual General Fund audited expenditures, excluding capital outlays, for the preceding five years for which the audit is available. The conditions under which stabilization amounts are intended to be spent are to

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

address unanticipated, non-recurring needs, or known and planned future obligations, and require a majority approval of the Mayor and Town Council for use. Any reduction of the stabilization amount below the minimum 12% requirement are to include a financial plan to restore the reserve to the minimum level within the following two fiscal years thereafter. As of June 30, 2016, the stabilization balance (reported as a component of unassigned fund balance in the General Fund) was \$283,832.

*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 the end of the budget year to the extent they have not been expended.

Once a budget is approved, it can be amended by the Mayor and Town Council with reasonable discretion. Several budget amendments were approved during the year ended June 30, 2016. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

*Pensions*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Maryland State Retirement and Pension System (the "System"), and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

*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, deferred outflows of resources, liabilities, deferred inflows of resources, the disclosure of contingencies, and the reported revenues and expenditures/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 26, 2016, the date the financial statements were available to be issued.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 2. Deposits**

The deposits held as of June 30, 2016 are shown below:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Cash on Hand			\$ 650
Certificates of Deposit	0.5% - 1.6%	10/2016 - 10/2018	350,000
Demand Deposits			<u>2,361,860</u>
			<u>\$ 2,712,510</u>

Reconciliation to Statement of Net Position

Current Assets

Cash and Cash Equivalents

Unrestricted	\$ 2,093,087
Restricted	<u>26,000</u>

Total Cash and Cash Equivalents ...2,119,087

Certificate of Deposit .....100,000

Total Current Assets ...2,219,087

Non-Current Assets

Cash and Cash Equivalents - Restricted	243,423
Certificate of Deposit	<u>250,000</u>

Total Non-Current Assets .....493,423

Total Current and Non-Current Assets \$ 2,712,510

Restricted cash and cash equivalents of \$269,423 as of June 30, 2016 consisted of a restricted contribution and other deposits. 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;

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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;
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 item;
6. Commercial paper that has received the highest letter and numerical rating by at least two nationally recognized statistical rating organizations as designated by the United States SEC, provided that such commercial paper may not exceed 10% of the total investments made by the Treasurer under this subsection;
7. Money market mutual funds that:
  - a. are registered with the Securities and Exchange Commission under the Investment Company Act (ICA) of 1940, 15 U.S.C. § 80a-1 et seq., as amended;
  - b. are operated in accordance with Rule 2A-7 of the ICA of 1940, 17 C.F.R. § 270.2A-7, as amended; and
  - c. have received the highest possible rating from at least one nationally recognized statistical rating organization as designated by the United States SEC; and
8. Any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP) defined under §§ 17-301 through 17-309 of the Local Government Article of the Code that is administered by the Office of the State Treasurer.

*Custodial Credit Risk*

Deposits in financial institutions, reported as components of cash and cash equivalents and investments, had a bank balance of \$2,626,338 as of June 30, 2016, \$2,126,338 of which was exposed to custodial credit risk and uninsured. This amount was fully collateralized by securities pledged and held by a financial institution, not in the Town's name.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

*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.

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.

*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. As of June 30, 2016, the Town had no concentration of credit risk.

**Note 3. Note Receivable**

In December 2008, the Town entered into a note agreement with Caledonia, Inc., a restaurant located in the Town, 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 note agreement are as follows:

Year Ending <u>June 30,</u>	Governmental <u>Activities</u>
2017	\$ 3,609
2018	3,793
2019	3,987
2020	4,191
2021	4,406
2022-2024	<u>13,748</u>
	<u>\$ 33,734</u>

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 4. Capital Assets and Depreciation**

A summary of governmental activities for the year ended June 30, 2016 was as follows:

	<u>Balance</u> <u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transferred to</u> <u>Active Status</u>	<u>Balance</u> <u>June 30, 2016</u>
Capital Assets					
Non-Depreciable Assets					
Construction in Process	\$ 61,713	\$ 59,744	\$ -	\$ (43,537)	\$ 77,920
Land	<u>8,459,386</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,459,386</u>
Total Non-Depreciable Assets	...8,521,099	...59,744	.....-	..(43,537)	...8,537,306
Depreciable Assets					
Buildings and Improvements	7,503,281	-	-	21,759	7,525,040
Equipment	1,392,557	23,245	5,192	2,988	1,413,598
Infrastructure	10,615,183	51,068	-	18,790	10,685,041
Vehicles	<u>833,710</u>	<u>5,828</u>	<u>-</u>	<u>-</u>	<u>839,538</u>
Total Depreciable Assets	..20,344,731	...80,141	..5,192	...43,537	..20,463,217
Total Capital Assets	...28,865,830	...139,885	..5,192	.....-	...29,000,523
Accumulated Depreciation					
Buildings and Improvements	4,263,024	325,415	-	-	4,588,439
Equipment	986,808	33,054	5,192	-	1,014,670
Infrastructure	4,835,231	515,078	-	-	5,350,309
Vehicles	<u>642,031</u>	<u>76,811</u>	<u>-</u>	<u>-</u>	<u>718,842</u>
Total Accumulated Depreciation	..10,727,094	...950,358	..5,192	.....-	..11,672,260
Total Capital Assets, Net	<u>\$ 18,138,736</u>	<u>\$ (810,473)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,328,263</u>

As of June 30, 2016, one of the Town's properties, 7610 Main Street, is held for sale by the Town and is not being depreciated, and carries a net book value of \$166,452, of which \$98,537 is recorded in land and \$67,915 is recorded in buildings and improvements. Subsequent to year-end, during September 2016, the Town sold this property for \$110,001.

Accumulated costs attributable to projects included in construction in progress in governmental activities as of June 30, 2016 were as follows:

714 Sandosky Road Purchase	\$ 16,810
School House Site Improvements	28,200
Storm Water Project	<u>32,910</u>
	<u>\$ 77,920</u>

Depreciation expense, calculated using the straight line method, for the year ended June 30, 2016 was charged to the governmental activities function as follows:

General Government	\$ 32,705
Public Safety	48,743
Public Works	576,568
Recreation and Parks	63,307
Historic Buildings	<u>229,035</u>
	<u>\$ 950,358</u>

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 5. Debt**

The following is a summary of changes in short-term debt for the year ended June 30, 2016:

<u>Type of Debt</u>	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2016</u>	Due Within One <u>Year</u>
Governmental Activities					
Loans Payable					
7610 Main Street	<u>\$ 62,500</u>	-	<u>\$ 62,500</u>	-	-
Total Loans Payable	<u>\$ 62,500</u>	<u>\$ -</u>	<u>\$ 62,500</u>	<u>\$ -</u>	<u>\$ -</u>

Long-term Debt

Bonds payable as of June 30, 2016 consists of the following:

	<u>Governmental Activities</u>
Bonds Payable	
2008 General Obligation Bonds; due in remaining annual principal installments, ranging from \$77,902 to \$95,550 through June 2023; 3.46% annual interest rate; secured by the credit and taxing power of the Town.	<u>\$605,307</u>
Total Bonds Payable	<u>\$605,307</u>

The following is a summary of changes in long-term debt for the year ended June 30, 2016:

<u>Type of Debt</u>	Balance July 1, <u>2015</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, <u>2016</u>	Due Within One <u>Year</u>
Governmental Activities					
Bonds Payable					
2005 Infrastructure Bonds	\$ 129,700	\$ -	\$ 129,700	\$ -	\$ -
2008 General Obligation Bonds	<u>680,604</u>	-	<u>75,297</u>	<u>605,307</u>	<u>77,902</u>
Total Bonds Payable	<u>810,304</u>	-	<u>204,997</u>	<u>605,307</u>	<u>77,902</u>
Accrued Compensated Absences	<u>76,830</u>	<u>10,661</u>	-	<u>87,491</u>	<u>22,676</u>
Total Long-Term Debt	<u>\$ 887,134</u>	<u>\$ 10,661</u>	<u>\$ 204,997</u>	<u>\$ 692,798</u>	<u>\$ 100,578</u>

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, 2016 was \$27,038, all of which was expensed.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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>
2017	\$ 77,902	\$ 20,943
2018	80,597	18,248
2019	83,386	15,459
2020	86,271	12,574
2021	89,256	9,589
2022-2023	<u>187,895</u>	<u>9,807</u>
	<u>\$ 605,307</u>	<u>\$ 86,620</u>

**Note 6. Net Position and Fund Balances**

The following is a summary of General Fund nonspendable fund balances as of June 30, 2016:

Due from Component Unit	\$ 174,169
Prepaid Expenses	32,596
Note Receivable	<u>33,734</u>
	<u>\$ 240,499</u>

The following is a summary of General Fund assigned fund balances as of June 30, 2016:

ADA Pathway at Cooper Park	\$ 9,400
Capital Reserve	262,400
Development Inspection Fees	2,000
Gate House Museum	39,508
Hawk Ridge Linear Bridge Grant Match	4,000
Historic Commission	2,215
Historic Schoolhouse Site Improvements	3,784
Impact Fees	194,184
Little Sykes Railroad	10,523
Parking Impact Fees	17,000
Parks and Recreation	8,711
Police Auxiliary	3,704
Records Management System	3,500
Springfield Avenue Sidewalk	6,342
Town Hall Server	5,700
Town Hall Website	3,767
Unemployment Reserve	18,475
Warfield Complex	<u>68,000</u>
	<u>\$ 663,213</u>

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

Net position and fund balances in the governmental activities and the General Fund, respectively, is restricted for unspent amounts totaling \$243,423 received by the Town as a donation from a trust for the benefit of the Gate House Museum.

**Note 7. 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 1<sup>st</sup>, 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 1<sup>st</sup> in 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. Business personal property taxes are due within 30 days of billing, which occurs as assessment information is received by the State. The tax rates for real and business personal property for the year ended June 30, 2016 were \$0.35 and \$0.875, respectively, per \$100 assessed property value.

**Note 8. 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 weigh station, a wooden water tower (the water tower has subsequently been dismantled), 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 recreational, 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 as follows: 70% to the Town and 30% to the County. The related lease expense for the year ending June 30, 2016 was \$-0-. In the event of early termination of the agreement, the Town shall not be reimbursed for any profits that may have been anticipated but which have not been earned up to the date of termination.

**THE TOWN OF SYKESVILLE, MARYLAND**  
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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>
Brick Warehouse	December 14, 2011
Stone House/Former Mill Office	December 14, 2014
Weigh Station	December 14, 2016
Recreational Areas	December 14, 2016
Water Tower	December 14, 2017

The Town has made repairs and stabilized the Brick Warehouse and Stone House among other property improvements however, work has not followed the completion scheduled noted above. Management has noted the County has not indicated that this would be a cause for termination of the agreement.

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

The County initially provided \$100,000 for planning, renovating, and stabilizing the Historic Structures and developing of the Property. The Town has completed the required matching of \$100,000.

**Note 9. 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, 2016, no rental payments were made under this agreement.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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 30<sup>th</sup>, 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. As of June 30, 2016, the loan value is \$139,169.

In November 2013, the Town approved a promissory note for an additional \$90,000 (\$35,000 of which had been drawn and was outstanding as of June 30, 2016) for the WDC to fund operating expenses and other obligations of the WDC with full repayment of principal at the earlier of the settlement on the sale of any or all parcels of the Warfield Complex designated in the agreement or December 16, 2016. Simple interest accrues at 3% on the outstanding balance annually, and shall be waived by the Town if timely principal payment is made as outlined above.

Future minimum receipts under the two notes are as follows:

Year Ending <u>June 30.</u>	Governmental <u>Activities</u>
2017	\$ 43,186
2018	8,186
2019	8,186
2020	8,186
2021	8,186
2022-2026	40,932
2027-2031	40,932
2032-2033	<u>16,375</u>
	<u>\$ 174,169</u>

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 \$116,389 as of June 30, 2016 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 has been dispersed. The loan bears a simple interest rate of 3% per annum, which will accrue on the principal balance outstanding beginning on

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

February 2005 and is due annually on April 30<sup>th</sup>. 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 states that neither the WDC nor the Department of Business and Economic Development are able to seek any judgment for a deficiency of repayment against the Town.

**Note 10. Cost-Sharing Stormwater Mitigation Project with Carroll County**

Under Federal court order, the Environmental Protection Agency was ordered to implement a Chesapeake Bay clean up. The State of Maryland established a storm water management fee program to fund projects to direct nitrogen away from streams that feed into the Chesapeake Bay. This program will be implemented through a National Pollutant Discharge Elimination System (NPDES) permit for Carroll County, Maryland (County). As of October 2014, the Town along with 7 other municipalities entered into a cost-sharing of stormwater mitigation project with the County to comply with NPDES requirements. The annual amount for each municipality was calculated based on \$25,000 per impervious acre based on total number of impervious acres are required to be restored/mitigated by the permit over the 5 year period of this project. From the Town’s share of this project, the Town is required to pay 20% and the County covering the remaining 80%. For the year ended June 30, 2016, the Town’s portion of these costs were \$32,910, which are included as construction in progress as further disclosed in Note 4. An additional 5% increase will be applied annually to these estimated costs per the agreement. Expected future costs the Town will be covering for this project are as follows:

2017	\$ 34,556
2018	36,283
2019	38,097
2020	<u>40,002</u>
	<u>\$ 148,938</u>

**Note 11. Pension Plan**

The Town joined the Maryland State Retirement and Pension System (the “System”) – the municipal Reformed Contributory Pension Benefit, a defined benefit pension plan (the “Plan”), as of July 1, 2014.

**General Information about the Pension Plan**

*Plan Description* – Town employees that work a minimum of 500 regular hours, excluding overtime, are provided with pensions through the Maryland State Retirement and Pension System municipal pool, a cost sharing multiple-employer defined benefit pension plan administered by the State Retirement Agency (the “Agency”). Responsibility for the System’s

## THE TOWN OF SYKESVILLE, MARYLAND

### NOTES TO BASIC FINANCIAL STATEMENTS

administration and operation is vested in a 15-member Board of Trustees. The System issues a publicly available financial report that can be obtained at:  
<http://www.sra.maryland.gov/Agency/Downloads/CAFR/CAFR-2015.pdf>.

*Benefits Provided* - The plan provides retirement, disability, and death benefits. Retirement benefits are determined as 1.5% of average final compensation (AFC) for the five highest consecutive years as an employee for each year of creditable service accrued on or after July 1, 2011. Members are eligible for retirement benefits when their combined age and eligibility service equals at least 90 years or they attain age 65 after 10 years of eligibility service. Members may retire with reduced benefits upon attaining age 60 with at least 15 years of eligibility of service. Benefits are reduced by 0.5% per month for each month remaining until the retiree attains age 65. The maximum reduction for these members is 30%.

Employees are eligible for accidental disability benefits regardless of length of service as long as the accident occurred in the course of their job performance. Accidental disability benefits are equal to the sum of an annuity determined as the actuarial value of the members' accumulated contributions and  $\frac{2}{3}$  (66.7%) of their AFC. Five years of service is required for ordinary disability benefits. Ordinary disability benefits are equal to the full service pension allowance if the member is at least age 62 on the date of retirement. Otherwise, the benefit is equal to the full service pension benefit computed as though the member had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

To be eligible for death benefits, the member must have either accumulated one year of eligibility service prior to the date of death or died in the line of duty. Death benefits equal the member's annual earnable compensation on the date of death plus accumulated contributions and interest. This amount is provided as a lump sum except in certain circumstances where a monthly allowance option is available.

*Contributions* – Members are required to contribute 7% of their wages under the Plan. The Town is required to make a contribution which is established by annual actuarial valuations using the Individual Entry Age Normal Cost method with projection and other actuarial assumptions adopted by the Board of Trustees. The Town's required contribution rate for the year ended June 30, 2016 was 5.00% of covered payroll, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$38,676 for the year ended June 30, 2016.

#### **Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions**

At June 30, 2016, the Town reported a liability of \$334,226 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

valuation as of that date. The Town's proportion of the net pension liability was based on the Town's share of contributions to the pension plan relative to the contributions of all participating employers, actuarially determined. At June 30, 2015, the Town's proportion was 0.0016 percent, which was an increase of 0.0001 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$16,752. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 5,679
Changes of assumptions	16,121	-
Net difference between projected and actual earnings on pension plan investments	6,596	-
Changes in Town's proportionate share of contributions	24,769	-
Town contributions subsequent to the measurement date	<u>38,676</u>	<u>-</u>
Total	<u>\$ 86,162</u>	<u>\$ 5,679</u>

\$38,676 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows for the years ending June 30:

2017	\$ 7,754
2018	7,754
2019	7,752
2020	12,656
2021	<u>5,891</u>
	<u>\$ 41,807</u>

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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**NOTES TO BASIC FINANCIAL STATEMENTS**

Inflation	2.70 percent general, 3.20 percent wage
Salary Increases	3.20 percent to 10.70 percent, including inflation
Investment Rate of Return	7.55 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Combined Mortality Table for Males and Females.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study of the System for the period 2010-2014 after the completion of the June 30, 2014 valuations. Assumptions from the experience study including investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates, and rates of salary increase were adopted by the Board for first use in the actuarial valuation as of June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocations and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	35%	6.30%
Fixed Income	10%	0.60%
Credit Opportunity	10%	3.20%
Real Return	14%	1.80%
Absolute Return	10%	4.20%
Private Equity	10%	7.20%
Real Estate	10%	4.40%
Cash	<u>1%</u>	0.00%
	<u>100%</u>	

Discount Rate - A single discount rate of 7.55% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.55%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate used for the June 30, 2014 valuation was 7.65%.

*Sensitivity of the Net Pension Liability to Changes in the Discount Rate* - Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan's net pension liability, calculated using a single discount rate of 7.55%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>Asset Class</u>	1% Decrease to <u>6.55%</u>	Current Discount <u>Rate (7.55%)</u>	1% Increase to <u>8.55%</u>
Town's Proportionate Share of the Net Pension Liability	\$ 472,377	\$ 334,226	\$ 219,671

*Pension Plan Fiduciary Net Position* - Detailed information about the pension plan's fiduciary net position is available in the separately issued Agency financial report.

**Note 12. 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 and are defined contribution plans. The 457(b) and 401(a) plans have 4 and 1 active participants, respectively, as of June 30, 2016.

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 \$18,000, and up to an additional \$6,000 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, 2016.

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. No Town contributions were made to the 401(a) plan for the year ended June 30, 2016.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

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 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 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 purchases commercial insurance for workers compensation loss risks. The Town is a member in the Local Government Insurance Trust (LGIT), a public entity risk pool that is owned and directed by local governments (participants) that subscribe to its insurance coverages. LGIT provides the Town's general, automobile, employee, health, police, and public officials' legal liability insurance coverage. 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.

Premiums are charged to the Town, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2016, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**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, 2016, 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.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

In April 2014, the Town and the WDC entered into a sales agreement of the Warfield Complex parcels and improvements for a total amount of \$7,600,000 with an unrelated third party. There have been various extensions and amendments to the sales agreement, which have given the buyer the opportunity, for additional nonrefundable deposits, to extend the closing date of the sale to June 30, 2017.

Per terms of the sale agreement, upon the settlement of this sale/purchase agreement, the purchase price should be utilized to first cover the repayment of all outstanding debt and obligations of the WDC in relation to the parcels and improvements, all of which are payable under reduced, restructured amounts as part of the sales agreement, and the remaining balance will be deposited into the escrow account and managed by the Escrow Agent based on terms of the agreement. The balances owed by the WDC to the Town for the two notes detailed in Note 9, regardless of outstanding balances and accrued interest as of the closing date, will be satisfied for \$134,790.

There was no formal settlement reached as of the date the financial statements were available to be issued. Accordingly, due to absence of settlement, or restructuring approval for release from existing debt and obligations, the WDC is still bonded to the original loan terms as of June 30, 2016 as detailed in Note 9.

In March 2016, the Town entered into an agreement to purchase property located at 714 Sandosky Road. The amended purchase price is \$730,000. As of June 30, 2016, the Town has made a deposit of \$5,000 on the purchase of the property, which has been recorded as part of construction in progress \$16,810, further disclosed as part of Note 4. However, there was no formal settlement reached as of the date the financial statements were available to be issued. In addition, the Town has entered into a lease agreement for this property, which commenced July 15, 2016 at the conclusion of the inspection period. Under the lease, the Town shall pay \$5,000 per month to the seller, which will be applied to the purchase price through December 31, 2016. After December 31, 2016, \$3,000 of the \$5,000 monthly lease payment will be applied to the purchase price.

In June 2015, the Supreme Court of the United States affirmed its ruling on docket 13-485 (*Maryland State Comptroller of the Treasury v. Brian Wynne*) (“Wynne decision”) regarding income tax credits received by Maryland residents for taxes paid to other states. This ruling is expected to impact future income tax appropriations to the Town. As of July 29, 2016, the Comptroller of Maryland has determined that the Town’s future income tax appropriations will be reduced by \$4,418. The Town has the option to make a one-time payment of this liability by March 31, 2019, or reduce future income tax appropriations over 20 quarterly reductions, from May 2019 through February 2024.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 15. Concentrations and Economic Dependencies**

The Town is located in Carroll County, Maryland and provides various services to its residents. 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 16. 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 17. New Governmental Accounting Standards Board Pronouncements**

The GASB has issued several pronouncements prior to the year ended June 30, 2016 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. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective for the Town as of July 1, 2016. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability where OPEB plans are administered through trusts.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, will be effective for the Town as of July 1, 2017. The objective of this statement is to improve the usefulness of information about OPEB included in financial reports of state and local governmental OPEB plans for making decisions and assessing accountability for all employers with OPEB plans.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for the Town as of July 1, 2016. The objective of this statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public concerning nature and magnitude of tax abatements.

**REQUIRED SUPPLEMENTARY INFORMATION**

**THE TOWN OF SYKESVILLE, MARYLAND**  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2016**

*Schedule "1"*

**UNAUDITED**

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Taxes	\$ 1,956,499	\$ 1,956,499	\$ 2,195,609	\$ 239,110
Intergovernmental	452,069	530,011	549,449	19,438
Charges for Services	139,842	156,842	192,621	35,779
Licenses and Permits	61,520	61,520	76,738	15,218
Fines and Forfeitures	1,000	1,000	475	(525)
Interest Income and Rents	61,113	61,113	56,769	(4,344)
Miscellaneous	8,700	107,517	112,141	4,624
<b>TOTAL REVENUES</b>	<b><u>2,680,743</u></b>	<b><u>2,874,502</u></b>	<b><u>3,183,802</u></b>	<b><u>309,300</u></b>
<b>EXPENDITURES</b>				
General Government	504,734	594,339	573,626	20,713
Public Safety	483,957	522,944	516,974	5,970
Public Works	751,757	707,162	645,039	62,123
Recreation and Parks	49,235	48,450	38,735	9,715
Post Office	140,648	140,648	163,449	(22,801)
Historic Buildings	33,017	54,200	48,591	5,609
Miscellaneous	485,068	469,608	374,294	95,314
Debt Service	128,232	234,132	294,535	(60,403)
Capital Outlays	106,595	287,139	139,885	147,254
<b>TOTAL EXPENDITURES</b>	<b><u>2,683,243</u></b>	<b><u>3,058,622</u></b>	<b><u>2,795,128</u></b>	<b><u>263,494</u></b>
<b>NET CHANGES IN FUND BALANCE</b>	<b>(2,500)</b>	<b>(184,120)</b>	<b>388,674</b>	<b>572,794</b>
Fund Balance - Beginning of Year	2,580,134	2,580,134	2,580,134	-
<b>FUND BALANCE - END OF YEAR</b>	<b><u>\$2,577,634</u></b>	<b><u>\$2,396,014</u></b>	<b><u>\$2,968,808</u></b>	<b><u>\$ 572,794</u></b>

**THE TOWN OF SYKESVILLE, MARYLAND**

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET  
PENSION LIABILITY**

**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**

**LAST 2 FISCAL YEARS \***

**UNAUDITED**

	2016	2015
Town's proportion of the net pension liability	0.0016%	0.0015%
Town's proportionate share of the net pension liability	\$ 334,226	\$ 258,150
Town's covered payroll	\$ 773,514	\$ 656,619
Town's proportionate share of the net pension liability as a percentage of its covered-employee payroll	43.21%	39.32%
Plan fiduciary net position as a percentage of the total pension liability	68.78%	71.87%

\* The amounts presented were determined as of the end of the prior fiscal year.

**NOTES TO SCHEDULE:**

*Changes of assumptions* - Amounts reported in 2016 reflect an adjustment of the investment return, inflation, COLA increases, mortality rates, retirement rates, withdrawal rates, disability rates, and rates of salary increase to more closely reflect actual experience. For amounts reported in 2016 and later, the investment return assumption was 7.55%, the inflation assumption was 2.70%, and the expectation of mortality rates was based on RP-2014 Mortality Tables, rather than the 7.65%, 2.90%, and RP-2010 Mortality Tables, respectively, used to determine amounts reported prior to 2016.

**THE TOWN OF SYKESVILLE, MARYLAND**  
**SCHEDULE OF TOWN CONTRIBUTIONS**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**  
**LAST 2 FISCAL YEARS**  
**UNAUDITED**

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 38,676	\$ 40,903
Contributions in relation to the contractually required contribution	<u>(38,676)</u>	<u>(40,903)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 773,514	\$ 656,619
Contributions as a percentage of covered-employee payroll	5.0%	6.2%

*Note: Town joined and started contributions into the Maryland State Retirement Pension System on 7/1/2014.*