

THE TOWN OF SYKESVILLE, MARYLAND

**BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2017



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INDEPENDENT AUDITORS' REPORT

October 12, 2017

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, 2017, 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, 2017, 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, 2017, 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, 2017, 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, 2017
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, 2017. 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 \$19,140,501.
2. The Town's total net assets decreased by \$208,284. 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 17, the Capital Reserve was replenished a total of \$17,600 for funds used during FY16 (\$9,600 for Baldwin's roof, and \$8,000 for an ATV). Also during FY17, a total of \$19,800 was used (\$5,000 for a Ford Ranger, \$7,000 for a speed trailer, and \$7,800 for tar and chip of the ADA accessible pathway at the Schoolhouse). This \$19,800 is to be replenished during FY18. The balance of the Capital Reserve as of June 30, 2017 is \$260,200.
6. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,233,524, an increase of \$264,716 in comparison to the prior year balance of \$2,968,808. Approximately \$2,138,187 or 66% of this total amount constitutes unassigned fund balance; \$2,046,176 of which relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$289,580 of the available cash balance for spending.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

7. During FY16, the Town was awarded an additional Community Legacy grant in the amount of \$50,000 for façade improvements. During FY17, façade improvements of \$38,372 were completed.
8. During FY17, the Town installed Wayside Exhibits, which were funded by a DHCD grant in the amount of \$7,500, a MIP mini-grant in the amount of \$3,355, and a Heart of Civil War grant in the amount of \$2,500.
9. 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, and it was installed in FY 17.
10. 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, will make the northern section of the trail more accessible for all users. The widening of the northern section of the Linear Trail should be completed in FY18.
11. During FY17, the Town applied for an additional SHA grant to widen the South end of the Linear Trail.
12. 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.
13. During FY17, the Town acquired the parking lot and vacant building at 714 Sandosky Road, formerly known as the Parrott Lot. The Town is soliciting bids for the resale and redevelopment of this property. A decision will be made during FY18.
14. The Town joined the Maryland State Retirement Pension system effective July 1, 2014. In FY17, the Town reported a liability of \$468,417 as its proportionate share of the net pension liability for FY17.
15. 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, FY16, and FY17 on meeting the conditions of the contract. Due to the need for an approved development plan, the sale was not completed in FY17. A preliminary development plan is anticipated to be developed and reviewed in FY18.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, public works, recreation and parks, post office, and historic buildings. The Town currently has no business-type activities.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

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

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

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

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$19,140,501 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (85%) 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.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

CONDENSED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2016 AND 2017

| | <u>Governmental Activities</u> | | <u>Total Government</u> | |
|-----------------------------|--------------------------------|----------------------------|----------------------------|----------------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| ASSETS | | | | |
| Current and Other Assets | \$ 3,331,758 | \$ 3,204,115 | \$ 3,331,758 | \$ 3,204,115 |
| Capital Assets, Net | <u>17,338,210</u> | <u>17,328,263</u> | <u>17,338,210</u> | <u>17,328,263</u> |
| TOTAL ASSETS | 20,669,968 | 20,532,378 | 20,669,968 | 20,532,378 |
| Deferred Outflows | | | | |
| From Pensions | 171,114 | 86,162 | 171,114 | 86,162 |
| LIABILITIES | | | | |
| Long-Term Debt | 1,448,440 | 926,446 | 1,448,440 | 926,446 |
| Other Liabilities | <u>243,371</u> | <u>337,630</u> | <u>243,371</u> | <u>337,630</u> |
| TOTAL LIABILITIES | 1,691,811 | 1,264,076 | 1,691,811 | 1,264,076 |
| Deferred Inflows | | | | |
| From Pensions | 8,770 | 5,679 | 8,770 | 5,679 |
| NET ASSETS | | | | |
| Invested In Capital Assets, | | | | |
| Net of Related Debt | 16,285,801 | 16,722,956 | 16,285,801 | 16,722,956 |
| Restricted | 229,303 | 243,423 | 229,303 | 243,423 |
| Unrestricted | <u>2,625,397</u> | <u>2,382,406</u> | <u>2,625,397</u> | <u>2,382,406</u> |
| TOTAL NET ASSETS | <u>\$19,140,501</u> | <u>\$19,348,785</u> | <u>\$19,140,501</u> | <u>\$19,348,785</u> |

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

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

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2017

| | <u>Governmental Activities</u> | | <u>Total Government</u> | |
|-------------------------------------|--------------------------------|---------------------------|---------------------------|---------------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| REVENUES | | | | |
| Program Revenues | | | | |
| Charges for Services | \$237,374 | \$250,625 | \$237,374 | \$250,625 |
| Operating Grants and Contributions | 211,783 | 373,133 | 211,783 | 373,133 |
| Capital Grants and Contributions | 320,826 | 1,526 | 320,826 | 1,526 |
| General Revenues | | | | |
| Income Taxes | 707,159 | 788,119 | 707,159 | 788,119 |
| Real Estate Taxes | 1,406,455 | 1,364,543 | 1,406,455 | 1,364,543 |
| Personal Property Taxes | 45,629 | 41,385 | 45,629 | 41,385 |
| Other Taxes | 830 | 1,562 | 830 | 1,562 |
| Non-Restricted Grants/Contributions | 336,076 | 340,344 | 336,076 | 340,344 |
| Licenses and Permits | 00 | 00 | 00 | 00 |
| Interest and Rents | 20,949 | 16,342 | 20,949 | 16,342 |
| Miscellaneous | 7,023 | 6,223 | 7,023 | 6,223 |
| TOTAL REVENUES | <u>\$3,294,104</u> | <u>\$3,183,802</u> | <u>\$3,294,104</u> | <u>\$3,183,802</u> |
| PROGRAM EXPENSES | | | | |
| General Government | 862,380 | 724,289 | 862,380 | 724,289 |
| Public Safety | 750,306 | 757,158 | 750,306 | 757,158 |
| Public Works | 1,310,079 | 1,322,781 | 1,310,079 | 1,322,781 |
| Recreation and Parks | 120,120 | 75,992 | 120,120 | 75,992 |
| Post Office | 176,238 | 163,449 | 176,238 | 163,449 |
| Historic Buildings | 250,915 | 277,626 | 250,915 | 277,626 |
| Interest on Long-Term Debt | 32,350 | 25,941 | 32,350 | 25,941 |
| TOTAL PROGRAM EXPENSES | <u>3,502,388</u> | <u>3,347,236</u> | <u>3,502,388</u> | <u>3,347,236</u> |
| CHANGE IN NET ASSETS | <u>(\$208,284)</u> | <u>(\$163,434)</u> | <u>(\$208,284)</u> | <u>(\$163,434)</u> |

Governmental activities. For the year ended June 30, 2017, governmental activities decreased the Town's net assets by \$208,284. This was primarily due to depreciation of the Town's major assets.

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,233,524, an increase of \$264,716 in comparison with the prior year. Approximately \$2,138,187 or 66% constitutes unassigned fund balance, of which \$2,046,176 relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$289,580 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 61% 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:

- Tax revenue received exceeded the budget by \$107,974 due to an increase in both real estate and income tax revenue.

**TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED**

- Intergovernmental revenues exceeded the budget by \$138,825 due to an increase in grant funding.
- Capital Outlays has a budget variance of \$629,106 mostly due to the purchase of 714 Sandosky Road. The budget accounted for the cash payment for the property, but did not account for the portion of the cost that was financed with a loan.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2017, amounted to \$17,338,210 (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 increase in the Town's investment in capital assets for the current fiscal year was \$9,947.

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

Debt. The following summarizes the Town's outstanding debt as of June 30, 2017:

| | Governmental <u>Activities</u> | <u>Total</u> |
|--------------------------|-----------------------------------|--------------------|
| General Obligation Bonds | 527,405 | 527,405 |
| Note Payable | <u>525,004</u> | <u>525,004</u> |
| Total Debt | <u>\$1,052,409</u> | <u>\$1,052,409</u> |

The Town's total debt increased by 74% during the current fiscal year.

**TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017
UNAUDITED**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The following factors were considered in preparing the Town's budget for the 2018 fiscal year:

- The tax rate was maintained at 0.35 per \$100 of assessed value.
- The Fiscal Year 2018 Budget includes a \$26,000 transfer from the prior year's fund balances, and a transfer of \$16,500 from the Gate House Restricted Fund. The Fiscal Year 2018 Budget is otherwise balanced without the use of prior year's fund balances.
- The State of Maryland approved a one-time grant in FY17 for Highway User Revenue and the Town received \$98,567. The Fiscal Year 2018 Budget reflects another one-time grant, resulting in a \$100,463 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 FY17 was \$34,556. The Town's required contribution for FY 18 is \$36,283. These funds will help to pay for upgrades to the Shannon Run and Lexington Run Stormwater Management Facilities.

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, 2017

| | Governmental Activities |
|---|----------------------------|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and Cash Equivalents | |
| Unrestricted | \$ 2,003,061 |
| Restricted | 1,000 |
| Certificates of Deposit | 502,236 |
| Accounts Receivable | 19,993 |
| Taxes Receivable | 46,640 |
| Grants Receivable | 18,694 |
| Due from Other Governments | 8,126 |
| Due from Component Unit | 23,906 |
| Prepaid Expenses | 29,290 |
| Current Portion of Notes Receivable | 3,793 |
| TOTAL CURRENT ASSETS | 2,656,739 |
| NON-CURRENT ASSETS | |
| Cash and Cash Equivalents - Restricted | 229,303 |
| Certificates of Deposit | 250,000 |
| Due from Component Unit | 169,385 |
| Notes Receivable | 26,331 |
| Property and Equipment | |
| Construction in Progress | 67,466 |
| Land | 8,713,771 |
| Buildings and Improvements | 7,940,521 |
| Equipment | 1,404,219 |
| Infrastructure | 10,917,965 |
| Vehicles | 809,157 |
| | 29,853,099 |
| Less: Accumulated Depreciation | 12,514,889 |
| Net Property and Equipment | 17,338,210 |
| TOTAL NON-CURRENT ASSETS | 18,013,229 |
| TOTAL ASSETS | 20,669,968 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Deferred Amounts from Pensions | 171,114 |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | 171,114 |

See Accompanying Notes

THE TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2017

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| LIABILITIES | |
| CURRENT LIABILITIES | |
| Accounts Payable and Accrued Expenses | 57,430 |
| Accrued Interest Payable | 2,109 |
| Accrued Payroll and Related Benefits | 38,362 |
| Accrued Compensated Absences | 16,069 |
| Unearned Revenues | 1,442 |
| Current Portion of Notes Payable | 46,362 |
| Current Portion of Bonds Payable | 80,597 |
| Payable from Restricted Assets | |
| Amounts Held in Escrow | 1,000 |
| TOTAL CURRENT LIABILITIES | <u>243,371</u> |
| NON-CURRENT LIABILITIES | |
| Accrued Compensated Absences | 54,573 |
| Notes Payable | 478,642 |
| Bonds Payable | 446,808 |
| Net Pension Liability | 468,417 |
| TOTAL NON-CURRENT LIABILITIES | <u>1,448,440</u> |
| TOTAL LIABILITIES | <u>1,691,811</u> |
| DEFERRED INFLOWS OF RESOURCES | |
| Deferred Amounts from Pensions | 8,770 |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>8,770</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 16,285,801 |
| Restricted | 229,303 |
| Unrestricted | 2,625,397 |
| TOTAL NET POSITION | <u><u>\$ 19,140,501</u></u> |

See Accompanying Notes

THE TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

| 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 |
| PRIMARY GOVERNMENT | | | | | | |
| Governmental Activities | | | | | | |
| General Government | \$ 862,380 | \$ 34,568 | \$ 2,900 | \$ - | \$ (824,912) | \$ (824,912) |
| Public Safety | 750,306 | 903 | 64,234 | - | (685,169) | (685,169) |
| Public Works | 1,310,079 | 43,505 | 138,865 | 232,924 | (894,785) | (894,785) |
| Recreation and Parks | 120,120 | 4,050 | 1,647 | 54,311 | (60,112) | (60,112) |
| Post Office | 176,238 | 144,549 | - | - | (31,689) | (31,689) |
| Historic Buildings | 250,915 | 9,799 | 4,137 | 33,591 | (203,388) | (203,388) |
| Interest on Long-Term Debt | 32,350 | - | - | - | (32,350) | (32,350) |
| TOTAL PRIMARY GOVERNMENT | \$ 3,502,388 | \$ 237,374 | \$ 211,783 | \$ 320,826 | (2,732,405) | (2,732,405) |
| GENERAL REVENUES | | | | | | |
| Taxes | | | | | | |
| | | | | | 707,159 | 707,159 |
| | | | | | 1,406,455 | 1,406,455 |
| | | | | | 45,629 | 45,629 |
| | | | | | 830 | 830 |
| Grants, Contributions, and Cable Franchise | | | | | | |
| | | | | | 336,076 | 336,076 |
| | | | | | 20,949 | 20,949 |
| | | | | | 7,023 | 7,023 |
| TOTAL GENERAL REVENUES | | | | | | |
| | | | | | 2,524,121 | 2,524,121 |
| CHANGES IN NET POSITION | | | | | | |
| | | | | | (208,284) | (208,284) |
| | | | | | 19,348,785 | 19,348,785 |
| NET POSITION - END OF YEAR | | | | | | |
| | | | | | \$ 19,140,501 | \$ 19,140,501 |

See Accompanying Notes

THE TOWN OF SYKESVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

| | <u>General Fund</u> | <u>Total Governmental Funds</u> |
|--|-------------------------|---|
| ASSETS | | |
| Cash and Cash Equivalents | | |
| Unrestricted | \$ 2,003,061 | \$ 2,003,061 |
| Restricted | 230,303 | 230,303 |
| Certificates of Deposit | 752,236 | 752,236 |
| Accounts Receivable | 19,993 | 19,993 |
| Taxes Receivable | 46,640 | 46,640 |
| Grants Receivable | 18,694 | 18,694 |
| Due from Other Governments | 8,126 | 8,126 |
| Due from Component Unit | 193,291 | 193,291 |
| Prepaid Expenses | 29,290 | 29,290 |
| Notes Receivable | 30,124 | 30,124 |
| TOTAL ASSETS | 3,331,758 | 3,331,758 |
| DEFERRED OUTFLOWS OF RESOURCES | - | - |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | \$ 3,331,758 | \$ 3,331,758 |

See Accompanying Notes

THE TOWN OF SYKESVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2017

| | <u>General Fund</u> | <u>Total Governmental Funds</u> |
|--|----------------------------|---|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | | |
| LIABILITIES | | |
| Accounts Payable and Accrued Expenses | \$ 57,430 | \$ 57,430 |
| Accrued Payroll and Related Benefits | 38,362 | 38,362 |
| Unearned Revenues | 1,442 | 1,442 |
| Payable from Restricted Assets | | |
| Amounts Held in Escrow | 1,000 | 1,000 |
| TOTAL LIABILITIES | <u>98,234</u> | <u>98,234</u> |
| DEFERRED INFLOWS OF RESOURCES | - | - |
| FUND BALANCES | | |
| Nonspendable | 237,758 | 237,758 |
| Restricted | 229,303 | 229,303 |
| Assigned | 628,276 | 628,276 |
| Unassigned | 2,138,187 | 2,138,187 |
| TOTAL FUND BALANCES | <u>3,233,524</u> | <u>3,233,524</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES | <u>\$ 3,331,758</u> | <u>\$ 3,331,758</u> |

See Accompanying Notes

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

JUNE 30, 2017

| | |
|---|------------------------------------|
| TOTAL FUND BALANCES - GOVERNMENTAL FUNDS | \$ 3,233,524 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. | (306,073) |
| Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements. | 17,338,210 |
| 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. | (70,642) |
| 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>(1,054,518)</u> |
| NET POSITION OF GOVERNMENTAL ACTIVITIES | <u><u>\$ 19,140,501</u></u> |

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, 2017

| | General Fund | Total Governmental Funds |
|--|---------------------|--------------------------------|
| REVENUES | | |
| Taxes | \$ 2,160,073 | \$ 2,160,073 |
| Intergovernmental | 605,376 | 605,376 |
| Charges for Services | 178,845 | 178,845 |
| Licenses and Permits | 75,252 | 75,252 |
| Fines and Forfeitures | 750 | 750 |
| Interest Income and Rents | 66,624 | 66,624 |
| Miscellaneous | 12,632 | 12,632 |
| TOTAL REVENUES | 3,099,552 | 3,099,552 |
| EXPENDITURES | | |
| General Government | 574,182 | 574,182 |
| Public Safety | 489,211 | 489,211 |
| Public Works | 656,436 | 656,436 |
| Recreation and Parks | 57,436 | 57,436 |
| Post Office | 176,238 | 176,238 |
| Historic Buildings | 59,903 | 59,903 |
| Miscellaneous | 423,137 | 423,137 |
| Debt Service | | |
| Principal | 100,398 | 100,398 |
| Interest | 31,986 | 31,986 |
| Capital Outlays | 934,531 | 934,531 |
| TOTAL EXPENDITURES | 3,503,458 | 3,503,458 |
| EXCESS OF REVENUES UNDER EXPENDITURES | (403,906) | (403,906) |
| OTHER FINANCING SOURCES | | |
| Proceeds from Sale of Capital Assets | 108,830 | 108,830 |
| Proceeds from Debt Issuance | 547,500 | 547,500 |
| Insurance Proceeds | 12,292 | 12,292 |
| TOTAL OTHER FINANCING SOURCES | 668,622 | 668,622 |
| NET CHANGES IN FUND BALANCES | 264,716 | 264,716 |
| Fund Balances - Beginning of Year | 2,968,808 | 2,968,808 |
| FUND BALANCES - END OF YEAR | \$ 3,233,524 | \$ 3,233,524 |

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, 2017

NET CHANGES IN FUND BALANCES - TOTAL
GOVERNMENTAL FUNDS **\$ 264,716**

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 | 934,531 |
| Less: Depreciation Expense | (955,659) |

| | |
|---|-----------|
| Proceeds from debt issuance provide current financial resources to governmental funds, but increase long-term liabilities in the statement of net position. | (547,500) |
|---|-----------|

| | |
|--|---------|
| 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. | 100,398 |
|--|---------|

| | |
|---|---------|
| Capital asset contributions are revenues in the statement of activities, but do not provide current financial resources and are not reported as revenue in the fund financial statements. | 232,924 |
|---|---------|

| | |
|---|-----------|
| In the statement of activities, only the loss on the disposal of capital assets is reported, whereas, in the Governmental Funds, the proceeds from the disposals increase financial resources. Thus the change in net position differs from the change in fund balance by the net book value of the capital assets. | (201,849) |
|---|-----------|

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 | 16,849 |
| Accrued Interest Payable | (364) |
| Net Pension Liability and related Deferred Inflows and Outflows | (52,330) |

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES **\$ (208,284)**

See Accompanying Notes

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, 2017.

New Accounting Pronouncements Adopted

The following summarizes GASB Statements implemented by the Town during the year ended June 30, 2017 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. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans* – 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. The provisions of this statement were effective for periods beginning after June 15, 2016 and were implemented by the Town as of July 1, 2016, with no effect on financial statements presentation and disclosure.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* - 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. The provisions of this statement were effective for periods beginning after June 15, 2017 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 77, *Tax Abatement Disclosures* - 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. The provisions of this statement were effective for periods beginning after December 15, 2015 and were implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 83, *Certain Asset Retirement Obligations* - The objective of this statement is to address accounting and financial reporting for certain asset retirement obligations (AROs), by recognizing a liability for the government that has legal obligations to perform future asset retirement activities related to its tangible capital assets. The provisions of this statement are effective for periods beginning after June 15, 2018, and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 84, *Fiduciary Activities* - The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes. The provisions of this statement were effective for periods beginning after December 15, 2018 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statements presentation and disclosure.

GASB Statement No. 86, *Certain Debt Extinguishment Issues* - The primary objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources - resources other than the

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

proceeds of refunding debt - are placed in an irrevocable trust for the sole purpose of extinguishing debt. The provisions of this statement were effective for periods beginning after June 15, 2017 and were early implemented by the Town as of July 1, 2016, with no effect on the financial statement presentation 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 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.

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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:

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.

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 acquisition 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 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.

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2017, the Town incurred one additional debt obligation in the amount of \$547,500.

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.

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.

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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 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, 2017, the stabilization balance (reported as a component of unassigned fund balance in the General Fund) was \$289,580.

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.

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2017. 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 12, 2017, the date the financial statements were available to be issued.

Note 2. Deposits

The deposits held as of June 30, 2017 are shown below:

| <u>Type</u> | <u>Interest Rate</u> | <u>Maturities</u> | <u>Carrying Value</u> |
|-------------------------|----------------------|-------------------|-----------------------|
| Cash on Hand | | | \$ 650 |
| Certificates of Deposit | 0.75% - 1.60% | 11/2017 - 10/2018 | 752,236 |
| Demand Deposits | | | <u>2,232,714</u> |
| | | | <u>\$ 2,985,600</u> |

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

| | |
|---|---------------------|
| Reconciliation to Statement of Net Position | |
| Current Assets | |
| Cash and Cash Equivalents | |
| Unrestricted | \$ 2,003,061 |
| Restricted | <u>1,000</u> |
| Total Cash and Cash Equivalents | ...2,004,061 |
| Certificate of Deposit |502,236 |
| Total Current Assets | ...2,506,297 |
| Non-Current Assets | |
| Cash and Cash Equivalents - Restricted | 229,303 |
| Certificate of Deposit | <u>250,000</u> |
| Total Non-Current Assets |479,303 |
| Total Current and Non-Current Assets | <u>\$ 2,985,600</u> |

Restricted cash and cash equivalents of \$230,303 as of June 30, 2017 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;
3. An obligation issued and unconditionally guaranteed by a supranational issuer denominated in United States dollars and eligible to be sold in the United States.
4. 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;

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

5. 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;
6. 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;
7. 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;
8. 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 \$2,982,818 as of June 30, 2017, \$1,974,455 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.

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

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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, 2017, 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 5.00%, 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> |
|--------------------------------|-----------------------------------|
| 2018 | \$ 3,793 |
| 2019 | 3,987 |
| 2020 | 4,191 |
| 2021 | 4,406 |
| 2022 | 4,631 |
| 2023-2024 | <u>9,116</u> |
| | <u>\$ 30,124</u> |

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Note 4. Capital Assets and Depreciation

A summary of governmental activities for the year ended June 30, 2017 was as follows:

| | Balance <u>July 1, 2016</u> | <u>Increases</u> | <u>Decreases</u> | Transferred to <u>Active Status</u> | Balance <u>June 30, 2017</u> |
|--------------------------------|--------------------------------|-------------------|-------------------|--|---------------------------------|
| Capital Assets | | | | | |
| Non-Depreciable Assets | | | | | |
| Construction in Progress | \$ 77,920 | \$ 34,556 | \$ - | \$ (45,010) | \$ 67,466 |
| Land | <u>8,459,386</u> | <u>352,922</u> | <u>98,537</u> | - | <u>8,713,771</u> |
| Total Non-Depreciable Assets | ...8,537,306 | ...387,478 | ...98,537 | ..(45,010) | ...8,781,237 |
| Depreciable Assets | | | | | |
| Buildings and Improvements | 7,525,040 | 476,386 | 105,915 | 45,010 | 7,940,521 |
| Equipment | 1,413,598 | 28,237 | 37,616 | - | 1,404,219 |
| Infrastructure | 10,685,041 | 232,924 | - | - | 10,917,965 |
| Vehicles | <u>839,538</u> | <u>42,430</u> | <u>72,811</u> | - | <u>809,157</u> |
| Total Depreciable Assets | ...20,463,217 | ...779,977 | ...216,342 | ...45,010 | ...21,071,862 |
| Total Capital Assets | ...29,000,523 | ...1,167,455 | ...314,879 | | ...29,853,099 |
| Accumulated Depreciation | | | | | |
| Buildings and Improvements | 4,588,439 | 334,060 | 2,603 | - | 4,919,896 |
| Equipment | 1,014,670 | 36,904 | 37,616 | - | 1,013,958 |
| Infrastructure | 5,350,309 | 523,945 | - | - | 5,874,254 |
| Vehicles | <u>718,842</u> | <u>60,750</u> | <u>72,811</u> | - | <u>706,781</u> |
| Total Accumulated Depreciation | ...11,672,260 | ...955,659 | ...113,030 | | ...12,514,889 |
| Total Capital Assets, Net | <u>\$ 17,328,263</u> | <u>\$ 211,796</u> | <u>\$ 201,849</u> | <u>\$ -</u> | <u>\$ 17,338,210</u> |

\$67,466 of accumulated costs attributable to the joint storm water project (see Note 10) are included in construction in progress in governmental activities as of June 30, 2017.

Depreciation expense, calculated using the straight line method, for the year ended June 30, 2017 was charged to the governmental activities function as follows:

| | |
|----------------------|-------------------|
| General Government | \$ 49,059 |
| Public Safety | 50,919 |
| Public Works | 563,613 |
| Recreation and Parks | 62,684 |
| Historic Buildings | <u>229,384</u> |
| | <u>\$ 955,659</u> |

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Note 5. Debt

Bonds and Notes payable as of June 30, 2017 consists of the following:

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Bonds Payable | |
| 2008 General Obligation Bonds; due in remaining annual principal installments, ranging from \$80,597 to \$95,550 through June 2023; 3.46% annual interest rate; secured by the credit and taxing power of the Town. | <u>\$ 527,405</u> |
| Total Bonds Payable | <u>527,405</u> |
| Notes Payable | |
| 714 Sandosky Road Note; payable in semi-annual installments of \$33,537, including principal and interest at 4.00% through December 2021 at which date annual interest rate adjustments will be made to reflect 4.00% plus 50% of the increase in the Prime rate provided by the Wall Street Journal from the note issuance date to the date of the adjustment, installment amounts will be adjusted as such; final installment due December 2026; secured by the real estate. | <u>525,004</u> |
| Total Notes Payable | <u>525,004</u> |
| Total Bonds and Notes Payable | <u>\$ 1,052,409</u> |

The following is a summary of changes in long-term debt for the year ended June 30, 2017:

| <u>Type of Debt</u> | <u>Balance July 1, 2016</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance June 30, 2017</u> | <u>Due Within One Year</u> |
|-------------------------------|-------------------------------------|-------------------|-------------------|--------------------------------------|------------------------------------|
| Governmental Activities | | | | | |
| Bonds and Notes Payable | | | | | |
| 2008 General Obligation Bonds | \$ 605,307 | \$ - | \$ 77,902 | \$ 527,405 | \$ 80,597 |
| 714 Sandosky Road Note | - | 547,500 | 22,496 | 525,004 | 46,362 |
| Total Bonds and Notes Payable | <u>605,307</u> | <u>547,500</u> | <u>100,398</u> | <u>1,052,409</u> | <u>126,959</u> |
| Accrued Compensated Absences | <u>87,491</u> | - | <u>16,849</u> | <u>70,642</u> | <u>16,069</u> |
| Total Long-Term Debt | <u>\$ 692,798</u> | <u>\$ 547,500</u> | <u>\$ 117,247</u> | <u>\$ 1,123,051</u> | <u>\$ 143,028</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, 2017 was \$31,986, all of which was expensed.

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

| Year Ending <u>June 30,</u> | <u>Governmental Activities</u> | |
|--------------------------------|--------------------------------|-------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2018 | \$ 126,959 | \$ 38,961 |
| 2019 | 131,637 | 34,283 |
| 2020 | 136,487 | 29,432 |
| 2021 | 141,518 | 24,402 |
| 2022 | 146,737 | 19,184 |
| 2023-2027 | <u>369,071</u> | <u>31,621</u> |
| | <u>\$1,052,409</u> | <u>\$ 177,883</u> |

Note 6. Net Position and Fund Balances

The following is a summary of General Fund nonspendable fund balances as of June 30, 2017:

| | |
|-------------------------|-------------------|
| Due from Component Unit | \$ 178,344 |
| Prepaid Expenses | 29,290 |
| Note Receivable | <u>30,124</u> |
| | <u>\$ 237,758</u> |

The following is a summary of General Fund assigned fund balances as of June 30, 2017:

| | |
|--|----------|
| ADA Pathway at Cooper Park | \$ 1,029 |
| Baldwin's Lot Concrete Islands | 15,000 |
| Capital Reserve | 260,200 |
| Development Inspection Fees | 1,682 |
| Gate House Museum | 30,230 |
| Hawk Ridge Linear Bridge Grant Match | 2,383 |
| Historic Commission | 2,216 |
| Historic Schoolhouse Site Improvements | 3,784 |
| Impact Fees | 111,674 |
| Linear Trail Widening | 3,950 |
| Little Sykes Railroad | 10,535 |
| Oklahoma Avenue Improvements | 6,905 |
| Parking Impact Fees | 23,937 |
| Parks and Recreation | 8,720 |
| Police Auxiliary | 3,708 |
| Public Works/Sanitation Vehicles | 18,792 |
| Records Management System | 3,500 |
| Springfield Avenue Sidewalk | 6,342 |
| Town Hall Plaza Master Plan | 5,000 |

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| | |
|----------------------|-------------------|
| Town Hall Security | 9,718 |
| Town Hall Server | 5,700 |
| Town Hall Website | 3,768 |
| Town Hall Windows | 3,000 |
| Unemployment Reserve | 18,503 |
| Warfield Complex | <u>68,000</u> |
| | <u>\$ 628,276</u> |

Net position and fund balances in the governmental activities and the General Fund, respectively, is restricted for unspent amounts totaling \$229,303 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 1st, on the assessed value listed as of the same date for all real property located in the Town. From the effective date of the budget, the amount stated thereon as the amount to be raised by the property tax shall constitute a determination of the amount of the tax levy in the corresponding tax year. Taxes shall be due and payable on July 1st 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, 2017 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

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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, 2017 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.

As part of the Cooperative Agreement, the Town was to perform rehabilitation of the Historic Structures and improvements to the Property, as well as construct utilities, driveways, and parking areas. Some of these improvements have been made; however the Town and the County have agreed that they are not operating under the proposed timeline in the original agreement. The Town and the County are in continuing talks on how to maintain and operate the Property going forward.

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, 2017, no rental payments were made under this agreement.

Upon incorporation and formal organization in 2005, the WDC began to directly receive the funding. As part of the subrecipient capacity, the Town advanced funds to cover architectural, engineering, legal, and development costs for the complex. In February 2005, the WDC entered into a repayment agreement with the Town for the advanced funds, with payment due

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in annual principal installments plus interest at a fixed rate of three percent per annum on April 30th, and any unpaid principal and interest due after that date is added to the outstanding principal. The loan matures in April 2033, with all outstanding principal and interest due and payable at that time. The note is payable based on net income and net proceeds generated, which is defined in the agreement. As of June 30, 2017, the loan value is \$143,344.

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, 2017) 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. Town Council has agreed to extend the repayment until settlement. 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:

| <u>Year Ending</u> <u>June 30,</u> | <u>Governmental</u> <u>Activities</u> |
|---------------------------------------|--|
| 2018 | \$ 8,959 |
| 2019 | 43,959 |
| 2020 | 8,959 |
| 2021 | 8,959 |
| 2022 | 8,959 |
| 2023-2027 | 44,795 |
| 2028-2032 | 44,795 |
| 2033 | <u>8,959</u> |
| | <u>\$ 178,344</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 \$14,947 as of June 30, 2017 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 February 2005 and is due annually on April 30th. Payments are due and payable on an annual basis with the final maturity being on or before April 30, 2030.

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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, 2017, the Town’s portion of these costs were \$34,556, 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:

| | |
|------|-------------------|
| 2018 | \$ 36,283 |
| 2019 | 38,097 |
| 2020 | <u>40,002</u> |
| | <u>\$ 114,382</u> |

Note 11. Pension Plan

The Town is a participating employer in the Maryland State Retirement and Pension System (the “System”) - Employees’ Pension System, a defined benefit pension plan (the “Plan”).

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 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_FullReport.pdf

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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 full service pension allowances when their combined age and eligibility service equals at least 90 years or they attain age 65 after 10 years of eligibility service. Members are eligible for early service pension allowances 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, 2017 was 4.64% 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 \$38,025 for the year ended June 30, 2017.

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

At June 30, 2017, the Town reported a liability of \$468,417 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Town's proportion of the net pension liability was based on the

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Town's share of contributions to the pension plan relative to the contributions of all participating employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.0020 percent, which was an increase of 0.0004 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the Town recognized pension expense of \$94,046. At June 30, 2017, 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 | \$ - | \$ 8,770 |
| Changes of assumptions | 12,524 | - |
| Net difference between projected and actual earnings on pension plan investments | 43,530 | - |
| Changes in Town's proportionate share of contributions | 77,035 | - |
| Town contributions subsequent to the measurement date | <u>38,025</u> | <u>-</u> |
| Total | <u>\$ 171,114</u> | <u>\$ 8,770</u> |

\$38,025 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, 2018. 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:

| | |
|------|-------------------|
| 2018 | \$ 27,961 |
| 2019 | 27,959 |
| 2020 | 32,863 |
| 2021 | 26,097 |
| 2022 | <u>9,439</u> |
| | <u>\$ 124,319</u> |

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Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|---|
| Inflation | 2.70 percent general, 3.20 percent wage |
| Salary Increases | 3.30 percent to 9.20 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, 2016 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 | 37% | 6.60% |
| Private Equity | 10% | 7.40% |
| Rate Sensitive | 20% | 1.30% |
| Credit Opportunity | 9% | 4.20% |
| Real Assets | 15% | 4.70% |
| Absolute Return | <u>9%</u> | 3.70% |
| | <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

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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 pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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> | <u>1% Decrease to 6.55%</u> | <u>Current Discount Rate (7.55%)</u> | <u>1% Increase to 8.55%</u> |
|--|---------------------------------|--|---------------------------------|
| Town’s Proportionate Share of the Net Pension Liability | \$ 643,417 | \$ 468,417 | \$ 322,798 |

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 3 and 1 active participants, respectively, as of June 30, 2017.

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, 2017.

The 401(a) plan, effective July 1, 2005, permits the Town to contribute five percent to ten percent of eligible employees’ salary to a maximum of \$46,000 per employee, adjusted for inflation after 2011, to this Plan based on qualified years of service, as well as a longevity lump-sum bonus based on attained years of service ranging from \$3,000 to \$13,000 and an additional five percent of the eligible employees’ salary. Employee vesting in these contributions is based on years of service, reaching 100% after four years of qualified service. The Town contributed \$3,932 to the 401(a) plan for the year ended June 30, 2017.

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, 2017, 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, 2017, 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 past 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, 2017 as detailed in Note 9.

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 March 2017, the Comptroller of Maryland has determined that the Town’s future income tax appropriations will be reduced by \$5,266. 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.

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

THE TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2017 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. 85, *Omnibus 2017*, will be effective for the Town as of July 1, 2017. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB statements.

GASB Statement No. 87, *Leases*, will be effective for the Town as of July 1, 2020. The objective of this statement is to improve accounting and financial reporting for leases by governments, by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. This statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The implementation of this statement, is expected to have significant effect on the Town's financial statements in the year of implementation; however, the effects of said implementation are not yet quantifiable.

REQUIRED SUPPLEMENTARY INFORMATION

THE TOWN OF SYKESVILLE, MARYLAND

Schedule "1"

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

UNAUDITED

| | Original Budget | Final Budget | Actual | Variance |
|--------------------------------------|----------------------------|----------------------------|----------------------------|--------------------------|
| REVENUES | | | | |
| Taxes | \$ 2,052,099 | \$ 2,052,099 | \$ 2,160,073 | \$ 107,974 |
| Intergovernmental | 466,551 | 466,551 | 605,376 | 138,825 |
| Charges for Services | 157,900 | 157,900 | 178,845 | 20,945 |
| Licenses and Permits | 69,670 | 69,670 | 75,252 | 5,582 |
| Fines and Forfeitures | 500 | 500 | 750 | 250 |
| Interest Income and Rents | 61,026 | 61,026 | 66,624 | 5,598 |
| Miscellaneous | 6,200 | 6,200 | 12,632 | 6,432 |
| TOTAL REVENUES | <u>2,813,946</u> | <u>2,813,946</u> | <u>3,099,552</u> | <u>285,606</u> |
| EXPENDITURES | | | | |
| General Government | 572,477 | 572,477 | 574,182 | (1,705) |
| Public Safety | 510,849 | 510,849 | 489,211 | 21,638 |
| Public Works | 675,950 | 695,312 | 656,436 | 38,876 |
| Recreation and Parks | 48,550 | 66,994 | 57,436 | 9,558 |
| Post Office | 161,581 | 163,166 | 176,238 | (13,072) |
| Historic Buildings | 40,582 | 60,200 | 59,903 | 297 |
| Miscellaneous | 491,786 | 491,786 | 423,137 | 68,649 |
| Debt Service | 98,845 | 132,383 | 132,384 | (1) |
| Capital Outlays | 214,686 | 305,425 | 934,531 | (629,106) |
| TOTAL EXPENDITURES | <u>2,815,306</u> | <u>2,998,592</u> | <u>3,503,458</u> | <u>(504,866)</u> |
| EXCESS OF | | | | |
| REVENUES UNDER EXPENDITURES | <u>(1,360)</u> | <u>(184,646)</u> | <u>(403,906)</u> | <u>(219,260)</u> |
| OTHER FINANCING SOURCES | | | | |
| Proceeds from Sale of Capital Assets | - | - | 108,830 | 108,830 |
| Proceeds from Debt Issuance | - | - | 547,500 | 547,500 |
| Insurance Proceeds | - | 12,292 | 12,292 | - |
| TOTAL OTHER FINANCING SOURCES | <u>-</u> | <u>12,292</u> | <u>668,622</u> | <u>656,330</u> |
| NET CHANGES IN FUND BALANCE | <u>(1,360)</u> | <u>(172,354)</u> | <u>264,716</u> | <u>437,070</u> |
| Fund Balance - Beginning of Year | 2,968,808 | 2,968,808 | 2,968,808 | - |
| FUND BALANCE - END OF YEAR | <u>\$ 2,967,448</u> | <u>\$ 2,796,454</u> | <u>\$ 3,233,524</u> | <u>\$ 437,070</u> |

THE TOWN OF SYKESVILLE, MARYLAND
SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LAST 3 FISCAL YEARS *

UNAUDITED

| | 2017 | 2016 | 2015 |
|---|------------|------------|------------|
| Town's proportion of the net pension liability | 0.0020% | 0.0016% | 0.0015% |
| Town's proportionate share of the net pension liability | \$ 468,417 | \$ 334,226 | \$ 258,150 |
| Town's covered payroll | \$ 819,511 | \$ 773,514 | \$ 656,619 |
| Town's proportionate share of the net pension liability as a percentage of its covered payroll | 57.16% | 43.21% | 39.32% |
| Plan fiduciary net position as a percentage of the total pension liability | 65.79% | 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 3 FISCAL YEARS
UNAUDITED

| | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-----------------|-----------------|-----------------|
| Contractually required contribution | \$ 38,025 | \$ 38,676 | \$ 40,903 |
| Contributions in relation to the contractually required contribution | <u>(38,025)</u> | <u>(38,676)</u> | <u>(40,903)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Town's covered payroll | \$ 819,511 | \$ 773,514 | \$ 656,619 |
| Contributions as a percentage of covered payroll | 4.6% | 5.0% | 6.2% |

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