

**TOWN OF SYKESVILLE, MARYLAND**  
**BASIC FINANCIAL STATEMENTS AND**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30, 2018**



**CPAs &  
BUSINESS  
ADVISORS**

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## INDEPENDENT AUDITORS' REPORT

October 18, 2018

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Sykesville, Maryland (the "Town"), as of and for the year ended June 30, 2018, 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 discussed 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, 2018, 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.

### **Unmodified Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Sykesville, Maryland, as of June 30, 2018, 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 schedule - general fund, schedule of the Town's proportionate share of the net pension liability, and schedule of Town contributions on pages 4 through 13, 47, 48, and 49, 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, 2018**  
**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, 2018. 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 \$12,591,894.
2. The Town's total net assets decreased by \$6,548,607. This was primarily due to the sale of the Warfield Complex.
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 18, the Capital Reserve was replenished a total of \$19,800 for funds used during FY17 (\$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). Also during FY18, a total of \$6,800 was borrowed from the Capital Reserve for the purchase of a HVAC unit for the 2<sup>nd</sup> floor of the Town House. This \$6,800 is to be replenished during FY19. Lastly, \$22,000 was transferred to the Capital Reserve to be used towards sidewalks. The balance of the Capital Reserve as of June 30, 2018 is \$295,200.
6. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$5,553,945, an increase of \$2,320,421 in comparison to the prior year balance of \$3,233,524. Approximately \$2,149,286 or 39% of this total amount constitutes unassigned fund balance; \$1,991,634 of which relates to cash balances available for

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
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- spending at the Town's discretion. The Stabilization Reserve constitutes \$297,615 of the available cash balance for spending.
7. During FY16, the Town was awarded a Community Legacy grant in the amount of \$50,000 for façade improvements. During FY17, façade improvements of \$38,372 were completed, and final façade improvements of \$11,628 were completed during FY18.
  8. The Town was awarded an additional Community Legacy grant in the amount of \$50,000 for FY18. Funds are being used for façade improvements during FY19.
  9. In FY16, the Town received a Community Parks and Playground grant for widening a portion of the north section of the Linear Trail and to make the trail more accessible. This, in conjunction with widening of the trail completed with funds from an FY14 SHA Recreational Trails Program Grant, will make the northern section of the trail more accessible for all users. The widening of the northern section of the Linear Trail was completed in FY18.
  10. During FY18, the Town was awarded an \$18,000 grant from the Maryland Heritage Area Authority. These funds will be used for the Gate House Museum during FY19.
  11. During FY17, the Town acquired the parking lot and vacant building at 714 Sandosky Road, formerly known as the Parrott Lot. During FY18, the Town paid off the mortgage on this property.
  12. The Town joined the Maryland State Retirement Pension system effective July 1, 2014. In FY18, the Town reported a liability of \$403,985 as its proportionate share of the net pension liability for FY18.
  13. 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, FY17, and FY18 on meeting the conditions of the contract. The sale was finally completed at the end of FY18.

## **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.

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

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

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

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

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to 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

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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.

### **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 \$12,591,894 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (59%) 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

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available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Our following analysis focuses on the net assets and changes in net assets of the Town's governmental activities.

**CONDENSED STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2018 AND 2017**

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>				
Current and Other Assets	\$ 5,766,085	\$ 3,331,758	\$ 5,766,085	\$ 3,331,758
Capital Assets, Net	<u>7,865,037</u>	<u>17,338,210</u>	<u>7,865,037</u>	<u>17,338,210</u>
<b>TOTAL ASSETS</b>	<b>13,631,122</b>	<b>20,669,968</b>	<b>13,631,122</b>	<b>20,669,968</b>
<b>Deferred Outflows</b>				
<b>From Pensions</b>	<b>142,304</b>	<b>171,114</b>	<b>142,304</b>	<b>171,114</b>
<b>LIABILITIES</b>				
Other Liabilities	296,814	243,371	296,814	243,371
Long Term Debt	<u>836,202</u>	<u>1,448,440</u>	<u>836,202</u>	<u>1,448,440</u>
<b>TOTAL LIABILITIES</b>	<b>1,133,016</b>	<b>1,691,811</b>	<b>1,133,016</b>	<b>1,691,811</b>
<b>Deferred Inflows</b>				
<b>From Pensions</b>	48,516	8,770	48,516	8,770
<b>NET ASSETS</b>				
Invested In Capital Assets, Net of Related Debt	7,418,229	16,285,801	7,418,229	16,285,801
Restricted	1,562,803	229,303	1,562,803	229,303
Unrestricted	<u>3,610,862</u>	<u>2,625,397</u>	<u>3,610,862</u>	<u>2,625,397</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$12,591,894</u></b>	<b><u>\$19,140,501</u></b>	<b><u>\$12,591,894</u></b>	<b><u>\$19,140,501</u></b>

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.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>REVENUES</b>				
<b>Program Revenues</b>				
Charges for Services	238,149	\$237,374	238,149	\$237,374
Operating Grants and Contributions	200,121	211,783	200,121	211,783
Capital Grants and Contributions	101,161	320,826	101,161	320,826
<b>General Revenues</b>				
Income Taxes	649,094	707,159	649,094	707,159
Real Estate Taxes	1,443,341	1,406,455	1,443,341	1,406,455
Personal Property Taxes	45,938	45,629	45,938	45,629
Other Taxes	542	830	542	830
Non-Restricted Grants/Contributions	334,369	336,076	334,369	336,076
Licenses and Permits	00	00	00	00
Interest and Rents	20,950	20,949	20,950	20,949
Miscellaneous	38,665	7,023	38,665	7,023
<b>TOTAL REVENUES</b>	<b><u>\$3,072,330</u></b>	<b><u>\$3,294,104</u></b>	<b><u>\$3,072,330</u></b>	<b><u>\$3,294,104</u></b>
<b>PROGRAM EXPENSES</b>				
General Government	836,185	862,380	836,185	862,380
Public Safety	754,622	750,306	754,622	750,306
Public Works	1,175,581	1,310,079	1,175,581	1,310,079
Recreation and Parks	264,554	120,120	264,554	120,120
Post Office	175,155	176,238	175,155	176,238
Historic Buildings	282,901	250,915	282,901	250,915
Interest on Long-Term Debt	31,909	32,350	31,909	32,350
<b>TOTAL PROGRAM EXPENSES</b>	<b><u>3,520,907</u></b>	<b><u>3,502,388</u></b>	<b><u>3,520,907</u></b>	<b><u>3,502,388</u></b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b><u>(448,577)</u></b>	<b><u>(208,284)</u></b>	<b><u>(448,577)</u></b>	<b><u>(208,284)</u></b>
<b>Special Item: Loss on Sale of Warfield Complex</b>	<b><u>(\$6,100,030)</u></b>	<b>00</b>	<b><u>(\$6,100,030)</u></b>	<b>00</b>
<b>CHANGE IN NET ASSETS</b>	<b><u>(\$6,548,607)</u></b>	<b><u>(\$208,284)</u></b>	<b><u>(\$6,548,607)</u></b>	<b><u>(\$208,284)</u></b>

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JUNE 30, 2018**  
**UNAUDITED**

**Governmental activities.** For the year ended June 30, 2018, governmental activities decreased the Town's net assets by \$6,548,607. This was primarily due to the sale of the Warfield Complex.

**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 \$5,553,945, an increase of \$2,320,421 in comparison with the prior year. Approximately \$2,149,286 or 39% constitutes unassigned fund balance, of which \$1,991,634 relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$297,615 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 63% 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:

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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- Tax revenues received were lower than budgeted by \$23,411. This is primarily due to a decrease in income tax received. Income taxes collected for FY18 were \$649,094 (\$675,000 was budgeted). Income taxes collected for FY17 were \$707,159 (\$650,000 was budgeted).
- Intergovernmental revenues were lower than budgeted by \$21,686. This is primarily due to grant funding being higher than what was actually spent. The Linear Trail widening had an approved grant of \$79,000, but the work was completed for \$63,060. The Cooper Park grant had approved funding of \$29,960, but only \$22,100 was spent.
- For FY18, \$79,000 of Public Works salaries were reclassified to Recreation and Parks. This caused a budget overage variance on Recreation and Parks, and a budget underage variance on Public Works.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** The Town's investment in capital assets for its governmental activities as of June 30, 2018, amounted to \$7,865,037 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, park facilities, historic buildings, infrastructure, leasehold improvements at the South Branch Park, and parking lots. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$9,473,173, which was primarily a result of the Warfield Complex sale.

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, 2018:

	Governmental	
	<u>Activities</u>	<u>Total</u>
General Obligation Bonds	446,808	446,808
Total Debt	<u>\$446,808</u>	<u>\$446,808</u>

**TOWN OF SYKESVILLE, MARYLAND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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The Town's total debt decreased by 58% during the current fiscal year due to the early payoff of the note payable on 714 Sandosky Road.

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

The following factors were considered in preparing the Town's budget for the 2019 fiscal year:

- The tax rate was maintained at 0.35 per \$100 of assessed value.
- The Fiscal Year 2019 Budget includes a \$44,000 transfer from the prior year's fund balances, and a transfer of \$26,000 from the Gate House Restricted Fund. The Fiscal Year 2019 Budget is otherwise balanced without the use of prior year's fund balances.
- The State of Maryland approved a one-time grant in FY18 for Highway User Revenue and the Town received \$100,463. The Fiscal Year 2019 Budget reflects another one-time grant, resulting in a \$102,469 increase in Highway User Revenue.
- In FY 15, the Town signed a Memorandum of Agreement with Carroll County and the other municipalities in Carroll County to participate in a joint Phase I National Pollutant Discharge and Elimination System (NPDES) Municipal Separate Storm Sewer System (MS4) permit. The Town's required annual contribution for FY 18 was \$36,283. The Town's required contribution for FY 19 is \$38,097. 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**

**TOWN OF SYKESVILLE, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2018**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	
Unrestricted	\$ 1,345,120
Restricted	351,075
Certificates of Deposit	1,556,533
Accounts Receivable	24,159
Taxes Receivable	38,964
Grants Receivable	6,400
Other Receivable	1,100,000
Due from Other Governments	8,347
Due from Component Unit	82,940
Prepaid Expenses	39,413
Current Portion of Notes Receivable	3,987
<b>TOTAL CURRENT ASSETS</b>	<u><b>4,556,938</b></u>
<b>NON-CURRENT ASSETS</b>	
Cash and Cash Equivalents - Restricted	186,803
Notes Receivable	1,022,344
Property and Equipment	
Construction in Progress	103,749
Land	1,407,171
Buildings and Improvements	3,639,209
Equipment	1,431,628
Infrastructure	10,923,165
Vehicles	847,353
	<u>18,352,275</u>
Less: Accumulated Depreciation	10,487,238
Net Property and Equipment	<u>7,865,037</u>
<b>TOTAL NON-CURRENT ASSETS</b>	<u><b>9,074,184</b></u>
<b>TOTAL ASSETS</b>	<u><b>13,631,122</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred Amounts from Pensions	142,304
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u><b>142,304</b></u>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**

**STATEMENT OF NET POSITION**

**JUNE 30, 2018**

	<u>Governmental Activities</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable and Accrued Expenses	92,754
Accrued Interest Payable	1,288
Accrued Payroll and Related Benefits	41,153
Unearned Revenues	3,158
Current Portion of Bonds Payable	83,386
Payable from Restricted Assets	
Amounts Held in Escrow	<u>75,075</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u><b>296,814</b></u>
<b>NON-CURRENT LIABILITIES</b>	
Accrued Compensated Absences	68,795
Bonds Payable	363,422
Net Pension Liability	<u>403,985</u>
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u><b>836,202</b></u>
<b>TOTAL LIABILITIES</b>	<u><b>1,133,016</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred Amounts from Pensions	<u>48,516</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u><b>48,516</b></u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	7,418,229
Restricted	1,562,803
Unrestricted	<u>3,610,862</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 12,591,894</b></u>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Total
<b>PRIMARY GOVERNMENT</b>						
<b>Governmental Activities</b>						
General Government	\$ 836,185	\$ 33,019	\$ -	\$ -	\$ (803,166)	\$ (803,166)
Public Safety	754,622	3,455	57,955	-	(693,212)	(693,212)
Public Works	1,175,581	37,715	137,205	-	(1,000,661)	(1,000,661)
Recreation and Parks	264,554	4,010	1,350	89,533	(169,661)	(169,661)
Post Office	175,155	147,763	-	-	(27,392)	(27,392)
Historic Buildings	282,901	12,187	3,611	11,628	(255,475)	(255,475)
Interest on Long-Term Debt	31,909	-	-	-	(31,909)	(31,909)
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>\$ 3,520,907</b>	<b>\$ 238,149</b>	<b>\$ 200,121</b>	<b>\$ 101,161</b>	<b>(2,981,476)</b>	<b>(2,981,476)</b>
<b>GENERAL REVENUES</b>						
Taxes						
					649,094	649,094
					1,443,341	1,443,341
					45,938	45,938
					542	542
Grants, Contributions, and Cable Franchise						
					334,369	334,369
					20,950	20,950
					38,665	38,665
<b>TOTAL GENERAL REVENUES</b>					<b>2,532,899</b>	<b>2,532,899</b>
<b>SPECIAL ITEM</b>						
					<b>(6,100,030)</b>	<b>(6,100,030)</b>
<b>CHANGES IN NET POSITION</b>						
					<b>(6,548,607)</b>	<b>(6,548,607)</b>
					19,140,501	19,140,501
<b>NET POSITION - END OF YEAR</b>					<b>\$ 12,591,894</b>	<b>\$ 12,591,894</b>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>		
Cash and Cash Equivalents		
Unrestricted	\$ 1,345,120	\$ 1,345,120
Restricted	537,878	537,878
Certificates of Deposit	1,556,533	1,556,533
Accounts Receivable	24,159	24,159
Taxes Receivable	38,964	38,964
Grants Receivable	6,400	6,400
Other Receivable	1,100,000	1,100,000
Due from Other Governments	8,347	8,347
Due from Component Unit	82,940	82,940
Prepaid Expenses	39,413	39,413
Notes Receivable	1,026,331	1,026,331
<b>TOTAL ASSETS</b>	<b><u>5,766,085</u></b>	<b><u>5,766,085</u></b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b><u>\$ 5,766,085</u></b>	<b><u>\$ 5,766,085</u></b>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2018**

	General Fund	Total Governmental Funds
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>		
<b>LIABILITIES</b>		
Accounts Payable and Accrued Expenses	\$ 92,754	\$ 92,754
Accrued Payroll and Related Benefits	41,153	41,153
Unearned Revenues	3,158	3,158
Payable from Restricted Assets		
Amounts Held in Escrow	75,075	75,075
<b>TOTAL LIABILITIES</b>	<b>212,140</b>	<b>212,140</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	-	-
<b>FUND BALANCES</b>		
Nonspendable	1,065,744	1,065,744
Restricted	1,562,803	1,562,803
Assigned	776,112	776,112
Unassigned	2,149,286	2,149,286
<b>TOTAL FUND BALANCES</b>	<b>5,553,945</b>	<b>5,553,945</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 5,766,085</b>	<b>\$ 5,766,085</b>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**  
**RECONCILIATION OF THE BALANCE SHEET -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	<b>\$ 5,553,945</b>
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.	(310,197)
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	7,865,037
Accrued compensated absences 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.	(68,795)
Long-term liabilities, including both current and non-current portions of bonds and interest payable, are not due and payable in the current period, and, therefore, are not reported in the fund financial statements.	(448,096)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b><u><u>\$ 12,591,894</u></u></b>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	Total Governmental Funds
<b>REVENUES</b>		
Taxes	\$ 2,138,915	\$ 2,138,915
Intergovernmental	568,839	568,839
Charges for Services	173,654	173,654
Licenses and Permits	72,375	72,375
Fines and Forfeitures	3,415	3,415
Interest Income and Rents	71,506	71,506
Miscellaneous	43,626	43,626
<b>TOTAL REVENUES</b>	<b>3,072,330</b>	<b>3,072,330</b>
<b>EXPENDITURES</b>		
General Government	635,811	635,811
Public Safety	518,474	518,474
Public Works	569,672	569,672
Recreation and Parks	163,314	163,314
Post Office	175,155	175,155
Historic Buildings	52,001	52,001
Miscellaneous	443,625	443,625
Debt Service		
Principal	605,601	605,601
Interest	32,730	32,730
Capital Outlays	231,643	231,643
<b>TOTAL EXPENDITURES</b>	<b>3,428,026</b>	<b>3,428,026</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(355,696)</b>	<b>(355,696)</b>
<b>OTHER FINANCING SOURCES</b>		
Proceeds from Sale of Capital Assets	14,432	14,432
Insurance Proceeds	4,243	4,243
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>18,675</b>	<b>18,675</b>
<b>SPECIAL ITEM</b>		
Net Proceeds from Sale of Warfield Complex	2,657,442	2,657,442
<b>TOTAL SPECIAL ITEM</b>	<b>2,657,442</b>	<b>2,657,442</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>2,320,421</b>	<b>2,320,421</b>
Fund Balances - Beginning of Year	3,233,524	3,233,524
<b>FUND BALANCES - END OF YEAR</b>	<b>\$ 5,553,945</b>	<b>\$ 5,553,945</b>

See Accompanying Notes

**TOWN OF SYKESVILLE, MARYLAND**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES -**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2018**

**NET CHANGES IN FUND BALANCES -**  
**TOTAL GOVERNMENTAL FUNDS** **\$ 2,320,421**

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	231,643
Less: Depreciation Expense	(947,344)

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.	605,601
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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 disposed.	(8,757,472)
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In the statement of activities, certain expenses do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. These expenses include the change in:

Accrued Compensated Absences	1,847
Accrued Interest Payable	821
Net Pension Liability and related Deferred Inflows and Outflows	(4,124)

<b>CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<b>\$ (6,548,607)</b>
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**TOWN OF SYKESVILLE, MARYLAND**  
**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

Reporting Entity

The Town of Sykesville, Maryland (the “Town”) was incorporated in 1904, pursuant to 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 the degree of 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 WDC is a 501(c)(3) legally separate organization incorporated for the purpose of promoting economic development of the Warfield Complex, a historic site containing twelve historic buildings. The Warfield Complex was sold on June 26, 2018 to an unrelated party. 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 WDC have not been included in the Town’s financial statements because audited financial statements were not available for WDC. The compiled financial statements for the year ended December 31, 2017 for WDC can be obtained at the following address: Town of Sykesville, 7547 Main Street, Sykesville, Maryland 21784.

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

*New Accounting Pronouncements Adopted*

The following summarizes GASB Statements implemented by the Town during the year ended June 30, 2018 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 85, *Omnibus 2017* - The objective of this Statement is to address practice issues that have been identified during implementation of certain GASB statements, including blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and OPEB). The provisions of this Statement were effective for periods beginning after June 15, 2017, and were implemented by the Town as of July 1, 2017, with no effect on financial statements presentation and disclosure.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* - The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes that interest cost incurred before the end of construction period be expensed in the period incurred and not capitalized as historical cost of the project. The provisions of this Statement are effective for periods beginning after December 15, 2019, and were early implemented by the Town as of July 1, 2017, with no effect on the financial statements presentation or 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

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

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 (a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and (b) 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 on the change in the Town's net position resulting from the current year's activities.

*Basic Financial Statements - Fund Financial Statements*

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

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

*Governmental Funds*

Governmental funds are those through which all 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.

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

*Basis of Accounting*

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

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

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

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

*Cash and Cash Equivalents*

The Town considers all highly liquid investments 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 and an estimated useful life in excess of one year are capitalized by the Town.

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

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

Buildings and Improvements	5 - 20 years
Equipment	5 - 20 years
Infrastructure	5 - 20 years
Vehicles	5 years

Government-Wide Statements

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

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

Additions are recorded at cost or, if contributed property, at their estimated 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.

Deferred Outflows and Inflows of Resources

In addition to assets and liabilities, the statement of net position will sometimes report separate sections for deferred outflows and inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to future periods and will not be recognized as an outflow (expense/expenditure) or inflow (revenue) of resources until that time.

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

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 General Fund.

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. The formal debt policy includes provisions that annual debt service costs are not to exceed 8.0% 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.

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

Pensions

For purposes of measuring the net pension liability, the deferred outflows of resources and deferred inflows of resources related to pensions, the pension expense, the information about the fiduciary net position of the Maryland State Retirement and Pension System (the "System"), and the 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.

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 long-term receivables) or are required to be maintained intact.

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

Committed Fund Balance - This category represents amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. For committed fund balance, the Town's highest level of decision-making authority is the Mayor and Town Council. The formal action that is required to be taken to establish and

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

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.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, or unassigned fund balances are available for use, it is the Town's policy to use fund balances in the following order: 1) committed, 2) assigned, 3) unassigned.

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, 2018, the stabilization balance (reported as a component of unassigned fund balance in the General Fund) was \$297,615. The Town has remained in compliance with this policy since established.

Budgets and Budgetary Analysis

The Town is required by the Town Code to adopt an annual budget for the General Fund. The budget is presented on a basis consistent with accounting principles generally accepted in the United States of America. All appropriations lapse at the end of the budget year to the extent they have not been expended.

Once a budget is approved, it can be amended by the Mayor and Town Council with reasonable discretion. Several budget amendments were approved during the year ended June 30, 2018. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

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

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 18, 2018, the date the financial statements were available to be issued.

**Note 2. Deposits**

The deposits held as of June 30, 2018 were as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Cash on Hand			\$ 650
Demand Deposits	-0% - 0.5%		1,882,348
Certificates of Deposit	1.0% - 1.9%	9/17/2018 - 3/08/2019	<u>1,556,533</u>
			<u>\$ 3,439,531</u>

Reconciliation to Statement of Net Position:

Current Assets		
Cash and Cash Equivalents		
Unrestricted		\$ 1,345,120
Restricted		<u>351,075</u>
Total Cash and Cash Equivalents		...1,696,195
Certificate of Deposit		<u>1,556,533</u>
Total Current Assets		...3,252,728
Non-Current Assets		
Cash and Cash Equivalents - Restricted		<u>186,803</u>
Total Non-Current Assets		.....186,803
Total Current and Non-Current Assets		<u>\$ 3,439,531</u>

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

Restricted cash and cash equivalents as of June 30, 2018 is comprised as follows:

Gate House Contribution	\$ 212,803
Public Project Funds	250,000
Planning and Zoning Escrow and Other Deposits	<u>75,075</u>
	<u>\$ 537,878</u>

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

The Town's formal investment policy does not limit its investment choices, except for the guidelines outlined below, beyond the limitations of Maryland State Finance and Procurement Code Ann. § 6-222, which authorizes the Town to invest in obligations of the United States and related agencies, repurchase agreements of United States obligations, certain bankers' acceptances, bonds, and commercial paper with the highest letter and numerical rating by at least one nationally recognized statistical rating organization, money market mutual funds operated in accordance with Rule 2A-7 of the ICA of 1940, and any investment portfolio created under the Maryland Local Government Investment Pool (MLGIP).

*Custodial Credit Risk*

Deposits in financial institutions, reported as components of cash and cash equivalents and investments, had a bank balance of \$3,494,552 as of June 30, 2018, \$1,685,487 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 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 Securities and Exchange Commission (SEC) for money market mutual funds instruments.

**TOWN OF SYKESVILLE, MARYLAND**  
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*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, 2018, the Town had no concentration of credit risk.

**Note 3. Special Item – Sale of Warfield Complex**

Special items are significant transactions that are either unusual or infrequent and within the control of management. The Warfield Complex was sold on June 26, 2018 to an unrelated party and fits the special item criteria outlined above. The table below summarizes the transactions that occurred during the sale of the Warfield Complex:

Sales Price	\$ 3,185,132
Payment to satisfy in full any and all monetary obligations to the State's Community Trust Fund	(500,000)
Miscellaneous Selling Expenses	<u>(27,690)</u>
Net Proceeds from Sale of Warfield Complex	... <u>2,657,442</u>
Proceeds Received in the Form of a Note Receivable from Purchaser (see Note 6)	(1,000,000)
Proceeds to be held in Escrow – Town will contribute towards the Complex's renovations by paying for eligible invoices (see Notes 5 and 9)	(1,100,000)
Payoff of WDC Repayment Agreement Principal (see Note 4)	99,790
Payoff of WDC Promissory Note (see Note 4)	<u>35,000</u>
Total Cash Received	<u>\$ 692,232</u>

Of the cash proceeds above, \$250,000 is restricted for Public Projects (see Note 2).

**Note 4. Warfield Development Corporation Transactions and Agreements**

As discussed in Note 1, Warfield Development Corporation (WDC) is a component unit of the Town. The WDC is a 501(c)(3) legally separate organization incorporated for the purpose of promoting economic development of the Warfield Complex. The Warfield Complex was sold on June 26, 2018 to an unrelated party.

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Upon incorporation and formal organization in 2005, the WDC began to directly receive funding. As part of the subrecipient capacity, the Town advanced funds to cover architectural, engineering, legal, and development costs for the Complex. In February 2005, the WDC entered into a repayment agreement with the Town for the advanced funds, with payment due in annual principal installments, plus interest at a fixed rate of 3% per annum on April 30<sup>th</sup>, with any unpaid principal and interest due after that date added to the outstanding principal. As part of the sale of the Warfield Complex, WDC paid the Town \$99,790 for the full principal of the loan. As of June 30, 2018, the accrued interest due on the loan is \$48,534, which is expected to be received by the Town before June 30, 2019.

In November 2013, the Town approved a promissory note for an additional \$90,000 (\$35,000 of which has been drawn) 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 agreed to extend the repayment until settlement, which occurred June 26, 2018. Simple interest accrues at 3% on the outstanding balance annually. As part of the sale of the Warfield Complex, WDC paid the Town \$35,000 for the full principal of the loan.

In addition, the Town, from time to time, serves as the primary vendor for Warfield Complex activities. Amounts the Town has incurred on behalf of WDC totaled \$34,406 as of June 30, 2018 and are due on demand with no stated interest terms. Repayment is anticipated to be within one year.

**Note 5. Other Receivable - Escrow Agreement**

The Town entered into an agreement with the purchaser of the Warfield Complex (“purchaser”) on June 26, 2018 for the Town to place \$1,100,000 in escrow (Parcel D Escrow Fund I) as a contribution to the eligible work (the stabilization, mothballing, preservation, rehabilitation, build-out, construction and/or expansion of a building) on parcel D of the Warfield Complex. The \$1,100,000 is recorded as an other receivable as of June 30, 2018 because the funds were not deposited into escrow until July 2018. The purchaser agreed to place \$400,000 in escrow as initial funding for eligible work on parcel D of the Warfield Complex (Parcel D Escrow Fund II). The purchaser also agreed to place \$300,000 in escrow as initial funding for eligible work on buildings F and W of the Warfield Complex (Buildings F and W Escrow Fund).

On June 26, 2030, any and all funds remaining in the three escrow accounts listed above (including all accrued interest) will be disbursed to the Town, unless the Town extends the date or the Town exercises its rights under the reversion agreement, as described below.

**TOWN OF SYKESVILLE, MARYLAND**  
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Unless the Town extends the dates, the purchaser of the Warfield Complex must complete eligible work on parcel D certified by an inspecting consultant totaling \$525,000 or more by June 26, 2021; totaling \$1,050,000 or more by June 26, 2025; and totaling \$2,500,000 or more by June 26, 2030. Parcel D Escrow Fund I, Parcel D Escrow Fund II, and the note for \$1,000,000 (see Note 6) sum to the \$2,500,000 required to be spent by June 26, 2030. If the eligible work completion requirements listed above are not met, the purchaser's right, title, and interest to all buildings remaining on the lien will revert to the Town in accordance with the terms of the reversion agreement.

**Note 6. Notes 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 are due on April 1, 2024.

In June 2018, the Town entered into a note agreement with the purchaser of the Warfield Complex for \$1,000,000. Interest accrues annually at the rate of 2.34% through June 25, 2019. The rate is then adjusted for the second year of the note to be the short-term adjusted Applicable Federal Rate (AFR) published by the Internal Revenue Service as of June 26, 2019. The principal and accrued interest are due in full on June 26, 2020.

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

Year Ending <u>June 30,</u>	Governmental <u>Activities</u>
2019	\$ 3,987
2020	1,004,191
2021	4,406
2022	4,631
2023	4,868
2024	<u>4,248</u>
	<u>\$ 1,026,331</u>

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**Note 7. Capital Assets and Depreciation**

A summary of governmental activities is as follows:

	<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
Capital Assets				
Non-Depreciable Assets				
Construction in Progress	\$ 67,466	\$ 36,283	\$ -	\$ 103,749
Land	<u>8,713,771</u>	<u>-</u>	<u>7,306,600</u>	<u>1,407,171</u>
Total Non-Depreciable Assets	<u>8,781,237</u>	<u>36,283</u>	<u>7,306,600</u>	<u>1,510,920</u>
Depreciable Assets				
Buildings and Improvements	7,940,521	106,418	4,407,730	3,639,209
Equipment	1,404,219	45,546	18,137	1,431,628
Infrastructure	10,917,965	5,200	-	10,923,165
Vehicles	<u>809,157</u>	<u>38,196</u>	<u>-</u>	<u>847,353</u>
Total Depreciable Assets	<u>21,071,862</u>	<u>195,360</u>	<u>4,425,867</u>	<u>16,841,355</u>
Total Capital Assets	<u>29,853,099</u>	<u>231,643</u>	<u>11,732,467</u>	<u>18,352,275</u>
Accumulated Depreciation				
Buildings and Improvements	4,919,896	342,645	2,956,858	2,305,683
Equipment	1,013,958	39,808	18,137	1,035,629
Infrastructure	5,874,254	526,319	-	6,400,573
Vehicles	<u>706,781</u>	<u>38,572</u>	<u>-</u>	<u>745,353</u>
Total Accumulated Depreciation	<u>12,514,889</u>	<u>947,344</u>	<u>2,974,995</u>	<u>10,487,238</u>
Total Capital Assets, Net	<u>\$ 17,338,210</u>	<u>\$ (715,701)</u>	<u>\$ 8,757,472</u>	<u>\$ 7,865,037</u>

The construction in progress in governmental activities as of June 30, 2018 consists of \$103,749 of accumulated costs attributable to the cost-sharing stormwater mitigation project with Carroll County (see Note 13).

Depreciation expense, calculated using the straight-line method, for the year ended June 30, 2018 was charged to the governmental activities functions as follows:

General Government	\$ 61,200
Public Safety	46,711
Public Works	548,174
Recreation and Parks	60,359
Historic Buildings	<u>230,900</u>
	<u>\$ 947,344</u>

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**Note 8. Non-Current Liabilities Other than Net Pension Liability**

Bonds Payable as of June 30, 2018 consists of the following:

	<u>Governmental Activities</u>
2008 General Obligation Bonds; due in remaining annual principal installments ranging from \$83,386 to \$95,540 through June 2023; 3.46% annual interest rate; secured by the credit and taxing power of the Town	\$ 446,808

The following is a summary of changes in non-current liabilities, excluding net pension liability, for the year ended June 30, 2018:

<u>Type of Liability</u>	<u>Balance July 1, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2018</u>	<u>Due Within One Year</u>
Governmental Activities					
Bonds and Note Payable					
2008 General Obligation Bonds	\$ 527,405	\$ -	\$ 80,597	\$ 446,808	\$ 83,386
714 Sandosky Road Note	<u>525,004</u>	<u>-</u>	<u>525,004</u>	<u>-</u>	<u>-</u>
Total Bonds and Note Payable	<u>1,052,409</u>	<u>-</u>	<u>605,601</u>	<u>446,808</u>	<u>83,386</u>
Accrued Compensated Absences	<u>70,642</u>	<u>13,080</u>	<u>14,927</u>	<u>68,795</u>	<u>-</u>
Total Non-Current Liabilities Excluding Net Pension Liability	<u>\$ 1,123,051</u>	<u>\$ 13,080</u>	<u>\$ 620,528</u>	<u>\$ 515,603</u>	<u>\$ 83,386</u>

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, 2018 was \$32,730, all of which was expensed.

The principal and interest requirements to maturity of the bond payable are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2019	\$ 83,386	\$ 15,459
2020	86,271	12,574
2021	89,256	9,589
2022	92,345	6,501
2023	<u>95,550</u>	<u>3,306</u>
Total	<u>\$ 446,808</u>	<u>\$ 47,429</u>

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

**Note 9. Property Taxes**

The Mayor and Town Council hold an annual public hearing for the residents to voice their opinion on the proposed tax rate and the annual budget. Property taxes are levied as of July 1<sup>st</sup> on the assessed value listed as of the same date for all real property located in the Town. From the effective date of the budget, the amount stated thereon as the amount to be raised by the property tax shall constitute a determination of the amount of the tax levy in the corresponding tax year. Taxes shall be due and payable on July 1<sup>st</sup> in the year for which they are levied and shall be overdue and in arrears on October 1<sup>st</sup>, where they will accrue two-thirds of 1% interest per month unpaid; 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, 2018 were \$0.35 and \$0.875, respectively, per \$100 assessed property value.

**Note 10. Net Position and Fund Balances**

The following is a summary of General Fund nonspendable fund balance as of June 30, 2018:

Notes Receivable	\$ 1,026,331
Prepaid Expenses	<u>39,413</u>
	<u>\$ 1,065,744</u>

The following is a summary of restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2018:

Gate House Museum	\$ 212,803
Public Project Funds	250,000
Warfield Complex Renovation Escrow	<u>1,100,000</u>
	<u>\$ 1,562,803</u>

Gate House Museum - Unspent amounts from a donation from a trust for the benefit of the Gate House Museum.

Public Project Funds - Funds set aside from the proceeds of the sale of the Warfield Complex to be used for specific public projects (see Note 3).

Warfield Complex Renovation Escrow - Funds set aside from the proceeds of the sale of the Warfield Complex to be donated towards the Complex's renovations (see Notes 3 and 5).

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The following is a summary of General Fund assigned fund balance as of June 30, 2018:

4 <sup>th</sup> of July Fireworks	\$ 5,000
Baldwin's Lot Concrete Islands	15,000
Capital Reserve	295,200
Development Inspection Fees	76,684
Gate House Museum	30,297
General Liability Insurance	730
Health Insurance	28,396
Historic Commission	2,501
Impact Fees	112,009
Lexington Run Sediment Pond	4,300
Little Sykes Railroad	12,445
Oklahoma Avenue Improvements	6,905
Parking Impact Fees	23,969
Parks and Recreation	8,729
Police Auxiliary	3,711
Springfield Avenue Sidewalk	1,535
Streets and Roads	5,942
Town House Plaza Master Plan	5,000
Town House Security	2,460
Town House Website	3,768
Town House Windows	3,000
Unemployment Reserve	18,531
Warfield Complex	103,000
Weigh Station Painting	<u>7,000</u>
	<u>\$ 776,112</u>

**Note 11. 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 historic structures: a brick warehouse, a weigh station, and the Sykes Mill stone house (collectively referred to as the "Historic Structures") situated on the Howard County side of South Branch Patapsco River, Sykesville, Howard County (the "Property"). The County and Town desire to create a recreational area to be used primarily for recreational, historic, and cultural purposes and to preserve, rehabilitate, and operate for public use the Historic Structures on the Property.

The County agreed to lease the Property to the Town for a term of 35 years, beginning on the execution of the Cooperative Agreement and ending on December 1, 2041. There are no rental charges for the first five years of the Cooperative Agreement. Commencing on the sixth anniversary, the Town shall pay an annual rent in the amount of \$1 and shall split the net

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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, 2018 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 12. Water Tower Agreement**

The Town entered into an agreement with the purchaser of the Warfield Complex ("purchaser") on June 26, 2018 which outlines the agreed upon payments the purchaser must make to the Town under various scenarios in relation to the water tower that is located in the Warfield Complex. The term of the agreement is through June 2048 if the water tower is not demolished. The term of the agreement is through June 2028 if the water tower is demolished and a cell tower is not constructed in its place. If the water tower is demolished and a cell tower is constructed in its place, the agreement is active for thirty years after the cell tower construction completion date.

Under the agreement, the purchaser is required to remit 75% of the water tower net revenues (rent received under cell tower rental agreements less, among other items, payments for repairs and maintenance related to the cell tower equipment) until the Town has received \$200,000 in water tower net revenues. From that point forward, into perpetuity (regardless of the terms of the agreement listed above), the purchaser is required to remit 50% of the water tower net revenues to the Town (unless the Town requires the purchaser to purchase the Town's interest in the agreement, as outlined below).

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If the water tower is demolished by the purchaser, the purchaser is required to pay the Town, within 90 days of demolition, \$150,000 less the total water tower net revenues already received by the Town since June 2018. This payment is deemed a prepayment to the Town for anticipated future water/cell tower net revenues. Therefore, when/if rents are collected on cell tower rental agreements after this payment is received by the Town, the purchaser may retain the Town's allocated portion of the water/cell tower net revenues, as outlined above, until the retained amount is greater than the payment made to the Town after the water tower demolition, at which point the payments for the water/cell tower net revenues resume per the terms outlined above.

At any time between June 26, 2021 and June 26, 2025, the Town has the right to require the purchaser to purchase the Town's interest in the agreement (unless the water tower was already demolished by the purchaser requiring the purchaser to make the payment to the Town as outlined above). The purchase price of the Town's interest in the agreement is equal to \$150,000 less the total water tower net revenues already received by the Town since June 2018. Upon the Town's receipt of the purchase price, the agreement would be deemed terminated, and the Town would not have further rights to water tower net revenues.

As of June 30, 2018, the water tower has not been demolished, and the purchaser did not have any cell tower rental agreements in place.

**Note 13. 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 stormwater management fee program to fund projects to direct nitrogen away from streams that feed into the Chesapeake Bay. This program is implemented through a National Pollutant Discharge Elimination System (NPDES) permit for Carroll County, Maryland (the "County"). In October 2014, the Town, along with seven 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 the total number of impervious acres which are required to be restored/mitigated by the permit over the five year period of this project. From the Town's share of this project, the Town is required to pay 20%, and the County will cover the remaining 80%. For the year ended June 30, 2018, the Town's portion of these costs was \$36,283, which is included as construction in progress as further disclosed in Note 7. An additional 5% increase will be applied annually to these estimated costs per the agreement.

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Expected future costs the Town will be covering for this project are as follows for the fiscal years ending June 30:

2019	\$ 38,097
2020	<u>40,002</u>
	<u>\$ 78,099</u>

**Note 14. 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](http://www.sra.maryland.gov/Agency/Downloads/CAFR/CAFR_FullReport.pdf)

Benefits Provided - The plan provides retirement, disability, and death benefits. Retirement benefits equal 1.5% of average final compensation (AFC) for the five highest consecutive years as an employee multiplied by the number of years 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 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

**TOWN OF SYKESVILLE, MARYLAND**  
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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 7.00% 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, 2018 was 5.03% 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 \$42,980 for the year ended June 30, 2018.

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

As of June 30, 2018, the Town reported a liability of \$403,985 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 Town's share of contributions to the pension plan relative to the contributions of all participating employers, actuarially determined. As of June 30, 2017, the Town's proportion was 0.0019%, which was a decrease of 0.0001% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$47,104. As of June 30, 2018, 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	\$ -	\$ 27,684
Changes of assumptions	12,802	-
Net difference between projected and actual earnings on pension plan investments	26,362	-
Changes in Town's proportionate share of contributions	60,160	20,832
Town contributions subsequent to the measurement date	<u>42,980</u>	<u>-</u>
Total	<u>\$ 142,304</u>	<u>\$ 48,516</u>

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\$42,980 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, 2019. 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:

2019	\$ 18,625
2020	24,755
2021	16,472
2022	(2,785)
2023	<u>(6,259)</u>
	<u>\$ 50,808</u>

Actuarial Assumptions - The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.65% general, 3.15% wage
Salary Increases	3.15% to 9.15%, including wage inflation
Investment Rate of Return	7.50%, 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, 2017 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, cost-of-living adjustment (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. New economic assumptions were adopted by the Board for the June 30, 2017 valuation.

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.

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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	36%	5.30%
Private Equity	11%	7.00%
Rate Sensitive	21%	1.20%
Credit Opportunity	9%	3.60%
Real Assets	15%	5.70%
Absolute Return	<u>8%</u>	3.10%
	<u>100%</u>	

*Discount Rate* - A single discount rate of 7.50% 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 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate used for the June 30, 2016 valuation was 7.55%.

*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 7.50%, as well as what the plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>Asset Class</u>	1% Decrease to <u>6.50%</u>	Current Discount <u>Rate (7.50%)</u>	1% Increase to <u>8.50%</u>
Town's Proportionate Share of the Net Pension Liability	\$ 572,523	\$ 403,985	\$ 264,141

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

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**NOTES TO BASIC FINANCIAL STATEMENTS**

**Note 15. 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. The 457(b) plan is available to all full-time employees and the 401(a) is available to employees who have already retired from the Maryland State Retirement System from a former employer. Both plans are defined contribution plans. The 457(b) and 401(a) plans have 4 and 1 active participants, respectively, as of June 30, 2018.

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 \$18,500, 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, 2018.

The 401(a) plan, effective July 1, 2005, permits the Town to contribute 5% to 10% of eligible employees' salary to a maximum of \$55,000 per employee, adjusted for inflation, 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 \$6,649 to the 401(a) plan for the year ended June 30, 2018.

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 16. 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.

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

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, 2018, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

**Note 17. Other 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, 2018, significant amounts of grant expenditures have not been audited by the appropriate grantor government, but the Town believes that disallowed expenditures, if any, will not have a material effect on any of the individual governmental funds or the overall financial position of the Town.

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 2018, 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 18. 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.

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

**Note 19. New Governmental Accounting Standards Board Pronouncements**

The GASB issued several pronouncements prior to the year ended June 30, 2018 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. 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.

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, will be effective for the Town as of July 1, 2018. The objective of this Statement is to improve financial statement disclosures related to debt, including direct borrowings and direct placements, and it clarifies which liabilities governments should include when disclosing information related to debt. Management expects that implementation will have no effect on the financial statements presentation or disclosure.

**Note 20. Subsequent Event**

Effective July 1, 2018, the Town was accepted into the Maryland State Retirement and Pension System's Law Enforcement Officers' Pension System (LEOPS), a defined contribution pension plan (the "Plan"). All sworn police officers of the Town currently participating in the Employees' Pension System (see Note 14) were transferred to the LEOPS plan as of July 1, 2018. The Town is expected receive a credit of \$237,369 from the Plan to transfer these employees, which will be amortized in level installments over a 25-year term.

**REQUIRED SUPPLEMENTARY INFORMATION**

TOWN OF SYKESVILLE, MARYLAND

Schedule "1"

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2018

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
<b>REVENUES</b>				
Taxes	\$ 2,142,509	\$ 2,162,326	\$ 2,138,915	\$ (23,411)
Intergovernmental	468,628	590,525	568,839	(21,686)
Charges for Services	161,130	161,130	173,654	12,524
Licenses and Permits	68,886	68,886	72,375	3,489
Fines and Forfeitures	300	300	3,415	3,115
Interest Income and Rents	60,565	61,365	71,506	10,141
Miscellaneous	6,350	36,246	43,626	7,380
<b>TOTAL REVENUES</b>	<b>2,908,368</b>	<b>3,080,778</b>	<b>3,072,330</b>	<b>(8,448)</b>
<b>EXPENDITURES</b>				
General Government	535,646	676,873	635,811	41,062
Public Safety	524,869	537,269	518,474	18,795
Public Works	715,225	714,283	569,672	144,611
Recreation and Parks	106,303	106,803	163,314	(56,511)
Post Office	166,335	167,135	175,155	(8,020)
Historic Buildings	56,474	56,474	52,001	4,473
Miscellaneous	494,592	446,769	443,625	3,144
Debt Service	165,920	638,332	638,331	1
Capital Outlays	160,988	271,982	231,643	40,339
<b>TOTAL EXPENDITURES</b>	<b>2,926,352</b>	<b>3,615,920</b>	<b>3,428,026</b>	<b>187,894</b>
<b>DEFICIENCY OF REVENUES OVER EXPENDITURES</b>	<b>(17,984)</b>	<b>(535,142)</b>	<b>(355,696)</b>	<b>179,446</b>
<b>OTHER FINANCING SOURCES</b>				
Proceeds from Sale of Capital Assets	-	-	14,432	14,432
Insurance Proceeds	-	3,331	4,243	912
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>-</b>	<b>3,331</b>	<b>18,675</b>	<b>15,344</b>
<b>SPECIAL ITEM</b>				
Net Proceeds from Sale of Warfield Complex	-	-	2,657,442	2,657,442
<b>TOTAL SPECIAL ITEM</b>	<b>-</b>	<b>-</b>	<b>2,657,442</b>	<b>2,657,442</b>
<b>NET CHANGES IN FUND BALANCE</b>	<b>(17,984)</b>	<b>(531,811)</b>	<b>2,320,421</b>	<b>2,852,232</b>
Fund Balance - Beginning of Year	3,233,524	3,233,524	3,233,524	-
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 3,215,540</b>	<b>\$ 2,701,713</b>	<b>\$ 5,553,945</b>	<b>\$ 2,852,232</b>

## TOWN OF SYKESVILLE, MARYLAND

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

## MARYLAND STATE RETIREMENT AND PENSION SYSTEM

## LAST 4 FISCAL YEARS \*

## UNAUDITED

	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0019%	0.0020%	0.0016%	0.0015%
Town's proportionate share of the net pension liability	\$ 403,985	\$ 468,417	\$ 334,226	\$ 258,150
Town's covered payroll	\$ 819,511	\$ 773,514	\$ 656,619	\$ 675,734
Town's proportionate share of the net pension liability as a percentage of its covered payroll	49.30%	60.56%	50.90%	38.20%
Plan fiduciary net position as a percentage of the total pension liability	69.38%	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 expectation of mortality rates was based on RP-2014 Mortality Tables rather than the RP-2010 Mortality Tables, respectively, used to determine amounts reported prior to 2016. For amounts reported in 2018, the investment return assumption was 7.50% and the inflation assumption was 2.65%, rather than the 7.55% and 2.70%, respectively, used to determine amounts reported in 2017 and 2016, and 7.65% and 2.90% used to determine amounts reported prior to 2016.

**TOWN OF SYKESVILLE, MARYLAND**  
**SCHEDULE OF TOWN CONTRIBUTIONS**  
**MARYLAND STATE RETIREMENT AND PENSION SYSTEM**  
**LAST 4 FISCAL YEARS**  
**UNAUDITED**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 42,980	\$ 38,025	\$ 38,676	\$ 40,903
Contributions in relation to the contractually required contribution	<u>(42,980)</u>	<u>(38,025)</u>	<u>(38,676)</u>	<u>(40,903)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 854,472	\$ 819,511	\$ 773,514	\$ 656,619
Contributions as a percentage of covered payroll	5.0%	4.6%	5.0%	6.2%

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