



TOWN OF SYKESVILLE, MARYLAND

BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2019



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

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INDEPENDENT AUDITORS' REPORT

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, the discretely presented component unit, and each major fund of the Town of Sykesville, Maryland (the "Town"), as of and for the year ended June 30, 2019 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 did not audit the financial statements of Warfield Development Corporation, the Town's discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts included for Warfield Development Corporation, is based solely on the report of the other auditors. 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 auditors consider 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.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, and each major fund of the Town of Sykesville, Maryland, as of June 30, 2019, 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 3 through 14, 50, 51, and 52, 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.

Brown Schultz Steidman & Fritz

Westminster, Maryland
October 21, 2019

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
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, 2019. 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 \$12,768,432.
2. The Town's total net assets increased by \$176,538.
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 20% 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 19, the Capital Reserve was replenished a total of \$6,800 for funds used during FY18 (\$6,800 for a HVAC unit for the 2nd floor of the Town House). Also during FY19, a total of \$123,899 was borrowed from the Capital Reserve (\$40,020 for the purchase of a 2005 International Dump Truck and \$83,879 for the purchase of Burkett Park Playground equipment). This \$123,899 is to be replenished during FY20. Lastly, \$40,000 was transferred to the Capital Reserve to be used towards sidewalks. The balance of the Capital Reserve as of June 30, 2019 is \$218,101. This amount includes a total of \$92,000 towards future sidewalks.

TOWN OF SYKESVILLE, MARYLAND
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6. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6,102,744, an increase of \$548,799 in comparison to the prior year balance of \$5,553,945. Approximately 45% or \$2,758,083 of this total amount constitutes unassigned fund balance; \$2,526,209 of which relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$523,941 of the available cash balance for spending.
7. During FY18, the Town was awarded an \$18,000 grant from the Maryland Heritage Area Authority. These funds will be used for structural improvements at the Gate House Museum. Engineering services totaling \$2,750 were completed during FY19. The balance of this grant will be used during FY20 for engineering services and structural improvements at the Gate House Museum.
8. During FY18, the Town was awarded a \$50,000 grant under the Department of Housing and Community Development's Community Legacy Program for FY18. These funds will be used for façade improvements. During FY19, façade improvements of \$18,215 were completed. The remaining balance of \$31,785 for façade improvements should be completed during FY20.
9. During FY19, the Town was awarded a \$75,000 grant under the Department of Housing and Community Development's Community Legacy Program for FY19. These funds were used during FY19 for new playground equipment at Burkett Park.
10. During FY19, the Town was awarded a federal USDA grant in the amount of \$30,000 under the Rural Business Development Program. During FY19, the Town began using these funds for an engineering study to connect Town neighborhoods to downtown Main Street. The engineering study is expected to be completed during FY20.
11. During FY19, the Town was awarded a grant from the Department of Natural Resources - Program Open Space for FY19. These funds will be used during FY20 for new playground equipment at Cooper Park and a sign at Carrie Dorsey Park.
12. During FY19, the Town was awarded a \$150,000 grant from the Department of Natural Resources – Community Parks and Playgrounds for FY20. These funds will be used during FY20 for construction of a new Splash Pad at Cooper Park.
13. During FY19, the Town was awarded a \$25,000 grant under the Maryland Energy Administration's Smart Energy Communities Grant Program. These funds will be used during FY20 to replace Town street lights with more energy efficient lights.

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14. During FY19, the Sykesville Police Department was awarded a \$1,000 grant for Community Events. These funds were used during FY19 for the community outreach event known as National Night Out.
15. The Town was previously awarded a grant for Safe Routes to School. During FY19, \$12,412 was spent on engineering and title work in relation to this project.
16. The Town joined the Maryland State Retirement Pension system effective July 1, 2014. In FY19, the Town reported a liability of \$452,233 as its proportionate share of the net pension liability for FY19.
17. 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 in June of 2018. During FY19, the related entity known as Warfield Development Corporation ceased operations and paid off notes payable it owed to the Town.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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.

The government-wide financial statements include not only the Town itself (known as the *primary government*), but also legally separate entities for which the Town is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Town's sole component unit is Warfield Development Corporation. The analysis included in this Management's Discussion and Analysis excludes amounts from the component unit of the Town.

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

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

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019
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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 \$12,768,432 at the close of the most recent fiscal year.

By far the largest portion of the Town's net assets (55%) reflects its investment in capital assets (e.g., land, buildings, equipment, and construction in progress); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot

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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, 2019 AND 2018

	Governmental Activities		Total Government	
	2019	2018	2019	2018
ASSETS				
Current and Other Assets	\$ 6,281,708	\$ 5,766,085	\$ 6,281,708	\$ 5,766,085
Capital Assets, Net	<u>7,442,051</u>	<u>7,865,037</u>	<u>7,442,051</u>	<u>7,865,037</u>
TOTAL ASSETS	13,723,759	13,631,122	13,723,759	13,631,122
Deferred Outflows				
From Pensions	172,437	142,304	172,437	142,304
LIABILITIES				
Other Liabilities	266,283	296,814	266,283	296,814
Long Term Debt	<u>811,944</u>	<u>836,202</u>	<u>811,944</u>	<u>836,202</u>
TOTAL LIABILITIES	1,078,227	1,133,016	1,078,227	1,133,016
Deferred Inflows				
From Pensions	49,537	48,516	49,537	48,516
NET ASSETS				
Invested In Capital Assets,				
Net of Related Debt	7,078,629	7,418,229	7,078,629	7,418,229
Restricted	1,569,402	1,562,803	1,569,402	1,562,803
Unrestricted	<u>4,120,401</u>	<u>3,610,862</u>	<u>4,120,401</u>	<u>3,610,862</u>
TOTAL NET ASSETS	<u>\$12,768,432</u>	<u>\$12,591,894</u>	<u>\$12,768,432</u>	<u>\$12,591,894</u>

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

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

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CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018

	<u>Governmental Activities</u>		<u>Total Primary Government</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
REVENUES				
Program Revenues				
Charges for Services	\$234,072	\$238,149	\$234,072	\$238,149
Operating Grants and Contributions	234,933	200,121	234,933	200,121
Capital Grants and Contributions	126,468	101,161	126,468	101,161
General Revenues				
Income Taxes	866,802	649,094	866,802	649,094
Real Estate Taxes	1,501,374	1,443,341	1,501,374	1,443,341
Personal Property Taxes	52,289	45,938	52,289	45,938
Other Taxes	497	542	497	542
Non-Restricted Grants/Contributions	448,407	334,369	448,407	334,369
Impact Fees	55,044	00	55,044	00
Interest and Rents	77,624	20,950	77,624	20,950
Miscellaneous	8,402	38,665	8,402	38,665
TOTAL REVENUES	<u>\$3,605,912</u>	<u>\$3,072,330</u>	<u>\$3,605,912</u>	<u>\$3,072,330</u>
PROGRAM EXPENSES				
General Government	830,727	836,185	830,727	836,185
Public Safety	805,653	754,622	805,653	754,622
Public Works	1,257,280	1,175,581	1,257,280	1,175,581
Recreation and Parks	289,182	264,554	289,182	264,554
Post Office	168,764	175,155	168,764	175,155
Historic Buildings	62,556	282,901	62,556	282,901
Interest on Long-Term Debt	15,212	31,909	15,212	31,909
TOTAL PROGRAM EXPENSES	<u>3,429,374</u>	<u>3,520,907</u>	<u>3,429,374</u>	<u>3,520,907</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	<u>0</u>	<u>(448,577)</u>	<u>0</u>	<u>(448,577)</u>
Special Item: Loss on Sale of Warfield Complex	<u>0</u>	<u>(\$6,100,030)</u>	<u>0</u>	<u>(\$6,100,030)</u>
CHANGE IN NET ASSETS	<u>\$176,538</u>	<u>(\$6,548,607)</u>	<u>\$176,538</u>	<u>(\$6,548,607)</u>

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental activities. For the year ended June 30, 2019, governmental activities increased the Town's net assets by \$176,538. This was primarily due to an increase in income tax revenues and impact fees.

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 \$6,102,744, an increase of \$548,799 in comparison with the prior year. Approximately 45% or \$2,758,083 constitutes unassigned fund balance, of which \$2,526,209 relates to cash balances available for spending at the Town's discretion. The Stabilization Reserve constitutes \$523,941 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 90% 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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- Tax revenues received were higher than budgeted by \$242,257. This is primarily due to an increase in income tax received. Income taxes collected for FY19 were \$866,802 (\$675,000 was budgeted). Income taxes collected for FY18 were \$649,094.
- Charges for services were greater than budgeted by \$50,478. This is primarily due to impact fees collected in relation to the Parkside at Warfield project.
- Interest income and rents were higher than budgeted by \$58,650. This is primarily due to interest income on the Warfield note. It is also due to an increase in interest rates on Certificates of Deposit held by the Town.
- Miscellaneous revenue is greater than budgeted by \$82,434. This is primarily due to proceeds received from the dissolution of Warfield Development Corporation.
- Public Works expenditures are under budget by \$158,724, which is attributable to several factors. First, the Town was given credit for LED light conversions that took place in a prior year. This caused the actual street lighting costs to be under budget by approximately \$18,000. Also, vehicle and fuel expenses were approximately \$13,000 less than budgeted. Lastly, Public Works salaries of \$86,851 were reclassified to Recreation and Parks. This reclassification of salaries caused a budget overage variance on Recreation and Parks, and a budget underage variance on Public Works.
- Miscellaneous expenditures are under budget primarily due to a \$36,000 health insurance refund from the LGIT co-op health insurance plan.

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

- Intergovernmental Revenues – Several budget amendments were made to account for grant revenues that were not included in the original budget. First, budget amendments were made to account for façade grant revenues in the amount of \$18,215 received under the FY18 Community Legacy Grant. Second, budget amendments of \$75,000 were made to account for grant revenues used for the Burkett Park Playground under the FY19 Community Legacy Grant. Third, a \$12,412 budget amendment was made for grant revenues to be received under the Safe Routes to School Grant.

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- General Government – Several budget amendments were made to account for FY19 expenditures that were not approved in the original budget. These expenditures include \$18,215 of façade grant expenditures, a \$10,000 administrative consulting fee, and \$6,480 for the second and final actuarial study to transfer law enforcement officers to the LEOPS retirement plan. Budget amendments were also made to account for grant expenditures under the Safe Routes to School grant, an interior engineering drawing for 714 Sandosky Road, and to reclassify the originally approved \$10,000 for the Girls Shelter study.
- Capital Outlays – Budget amendments were made for the following purchases that were not included in the original FY19 budget: \$40,020 for the purchase of a dump truck and \$160,080 for the purchase of Burkett Park Playground equipment. Also, a total of \$93,350 of original approved capital outlay projects were not completed in FY19; the amounts approved for these projects were transferred to Assigned Fund Balances. Finally, several items that were included as Capital Outlays in the original budget were reclassified to the operating budget. These items totaling \$56,950 are detailed as follows: \$7,600 for radars (reclassified due to individual units costing less than \$5,000 Capital threshold), \$9,000 for a trailer/salt spreader (reclassified due to cost of \$2,500 for actual purchase), \$16,850 for sidewalks maintenance (reclassified due to non-capital), \$3,500 for painting of the weigh station (reclassified due to \$5,000 threshold), and \$10,000 for the Girls Shelter study (reclassified due to non-capital expenditure).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2019, amounted to \$7,442,051 (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 \$422,986, which was primarily a result of depreciation.

**TOWN OF SYKESVILLE, MARYLAND
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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, 2019:

	Governmental	
	<u>Activities</u>	<u>Total</u>
General Obligation Bonds	<u>363,422</u>	<u>363,422</u>
Total Debt	<u>\$363,422</u>	<u>\$363,422</u>

The Town's total debt decreased by 19% during the current fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The following factors were considered in preparing the Town's budget for the 2020 fiscal year:

- The tax rate was decreased from 0.35 per \$100 of assessed value to 0.33 per \$100 of assessed value.
- The Fiscal Year 2020 Budget includes a \$510,103 transfer from the prior year's fund balances, and a transfer of \$17,250 from the Gate House Restricted Fund.
- The Fiscal Year 2020 Budget includes projected real estate taxes of \$33,000 and projected impact fees of \$66,720 related to the construction of new townhomes at the Warfield Complex.
- The State of Maryland approved a one-time grant in FY19 for Highway User Revenue and the Town received \$113,014. In FY20, there is no one-time grant, and the Fiscal Year 2020 Budget reflects a total of \$184,060 in Highway User Revenues.
- During FY19, the Mayor and Town Council approved a new policy regarding future amounts spent on Capital Outlays. The new policy is detailed as follows: A minimum of 25% of projected Real Estate Tax Revenues will be designated for Capital Purchases / Improvements in the following fiscal year. For example, the Fiscal Year 2020 projected Real Estate Tax Revenues per the Carroll County tax rolls are \$1,468,948. Therefore, the designated minimum amount to be

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allotted for Capital Purchases / Improvements in Fiscal Year 2021 will be \$367,237.

- 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 19 was \$38,097. The Town's required contribution for FY 20 is \$40,002. These funds will help to pay for upgrades to the Shannon Run and Lexington Run Storm Water 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, Maryland 21784.

The separately issued financial statements for the period from January 1, 2018 to dissolution (December 27, 2018) for Warfield Development Corporation (component unit of the Town) can be obtained at the following address: Town of Sykesville, 7547 Main Street, Sykesville, Maryland 21784.

BASIC FINANCIAL STATEMENTS

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government	Component Unit
	Governmental Activities	Warfield Development Corporation
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents		
Unrestricted	\$ 1,798,156	\$ -
Restricted	82,209	-
Cash with Escrow Agent - Restricted	1,106,599	-
Certificates of Deposit	1,209,826	-
Accounts Receivable	25,176	-
Taxes Receivable	99,092	-
Grants Receivable	60,030	-
Due from Other Governments	22,361	-
Accrued Interest Receivable	27,329	-
Prepaid Expenses	41,783	-
Current Portion of Notes Receivable	1,004,191	-
TOTAL CURRENT ASSETS	5,476,752	-
NON-CURRENT ASSETS		
Cash and Cash Equivalents - Restricted	436,803	-
Certificates of Deposit	350,000	-
Notes Receivable	18,153	-
Property and Equipment		
Construction in Progress	154,023	-
Land	1,407,171	-
Buildings and Improvements	3,654,209	-
Equipment	1,588,697	-
Infrastructure	10,923,165	-
Vehicles	909,565	-
	18,636,830	-
Less: Accumulated Depreciation	11,194,779	-
Net Property and Equipment	7,442,051	-
TOTAL NON-CURRENT ASSETS	8,247,007	-
TOTAL ASSETS	13,723,759	-
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts from Pensions	172,437	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	172,437	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 13,896,196	\$ -

See Notes to Financial Statements

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION

JUNE 30, 2019

	Primary Government	Component Unit
	Governmental Activities	Warfield Development Corporation
LIABILITIES		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 78,881	\$ -
Accrued Interest Payable	1,048	-
Accrued Payroll and Related Benefits	41,760	-
Unearned Revenues	2,114	-
Current Portion of Bonds Payable	86,271	-
Payable from Restricted Assets		
Amounts Held in Escrow	56,209	-
TOTAL CURRENT LIABILITIES	266,283	-
NON-CURRENT LIABILITIES		
Accrued Compensated Absences	82,560	-
Bonds Payable	277,151	-
Net Pension Liability	452,233	-
TOTAL NON-CURRENT LIABILITIES	811,944	-
TOTAL LIABILITIES	1,078,227	-
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts from Pensions	49,537	-
TOTAL DEFERRED INFLOWS OF RESOURCES	49,537	-
NET POSITION		
Net Investment in Capital Assets	7,078,629	-
Restricted	1,569,402	-
Unrestricted	4,120,401	-
TOTAL NET POSITION	12,768,432	-
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 13,896,196	\$ -

See Notes to Financial Statements

TOWN OF SYKESVILLE, MARYLAND
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Unit
					Governmental Activities	Total	Warfield Development Corporation
PRIMARY GOVERNMENT							
Governmental Activities							
General Government	\$ 830,727	\$ 33,917	\$ 21,170	\$ -	\$ (775,640)	\$ (775,640)	\$ -
Public Safety	805,653	3,940	56,225	-	(745,488)	(745,488)	-
Public Works	1,257,280	50,258	150,966	-	(1,056,056)	(1,056,056)	-
Recreation and Parks	289,182	4,085	3,261	126,468	(155,368)	(155,368)	-
Post Office	168,764	133,530	-	-	(35,234)	(35,234)	-
Historic Buildings	62,556	8,342	3,311	-	(50,903)	(50,903)	-
Interest on Long-Term Debt	15,212	-	-	-	(15,212)	(15,212)	-
TOTAL PRIMARY GOVERNMENT	\$ 3,429,374	\$ 234,072	\$ 234,933	\$ 126,468	(2,833,901)	(2,833,901)	-
COMPONENT UNIT							
Historic Buildings	\$ 233,385	\$ 55,275	\$ -	\$ -	-	-	(178,110)
GENERAL REVENUES							
Taxes							
					866,802	866,802	-
					1,501,374	1,501,374	-
					52,289	52,289	-
					497	497	-
					55,044	55,044	-
Grants, Contributions, and Cable Franchise							
					448,407	448,407	-
					77,624	77,624	121
					8,402	8,402	-
TOTAL GENERAL REVENUES					3,010,439	3,010,439	121
SPECIAL ITEM							
					-	-	1,249,178
CHANGES IN NET POSITION							
					176,538	176,538	1,071,189
					12,591,894	12,591,894	(1,071,189)
NET POSITION - END OF YEAR					\$ 12,768,432	\$ 12,768,432	\$ -

See Notes to Financial Statements

TOWN OF SYKESVILLE, MARYLAND
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents		
Unrestricted	\$ 1,798,156	\$ 1,798,156
Restricted	519,012	519,012
Cash with Escrow Agent - Restricted	1,106,599	1,106,599
Certificates of Deposit	1,559,826	1,559,826
Accounts Receivable	25,176	25,176
Taxes Receivable	99,092	99,092
Grants Receivable	60,030	60,030
Accrued Interest Receivable	27,329	27,329
Due from Other Governments	22,361	22,361
Prepaid Expenses	41,783	41,783
Notes Receivable	1,022,344	1,022,344
TOTAL ASSETS	\$ 6,281,708	\$ 6,281,708
LIABILITIES		
Accounts Payable and Accrued Expenses	\$ 78,881	\$ 78,881
Accrued Payroll and Related Benefits	41,760	41,760
Unearned Revenues	2,114	2,114
Payable from Restricted Assets		
Amounts Held in Escrow	56,209	56,209
TOTAL LIABILITIES	178,964	178,964
FUND BALANCES		
Nonspendable	1,064,127	1,064,127
Restricted	1,569,402	1,569,402
Assigned	711,132	711,132
Unassigned	2,758,083	2,758,083
TOTAL FUND BALANCES	6,102,744	6,102,744
TOTAL LIABILITIES AND FUND BALANCES	\$ 6,281,708	\$ 6,281,708

See Notes to Financial Statements

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

JUNE 30, 2019

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 6,102,744
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 fund financial statements.	(329,333)
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	7,442,051
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.	(82,560)
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.	<u>(364,470)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 12,768,432</u></u>

See Notes to Financial Statements

TOWN OF SYKESVILLE, MARYLAND
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Total Governmental Funds
REVENUES		
Taxes	\$ 2,420,962	\$ 2,420,962
Intergovernmental	617,035	617,035
Charges for Services	218,828	218,828
Licenses and Permits	80,911	80,911
Fines and Forfeitures	3,940	3,940
Interest Income and Rents	123,518	123,518
Miscellaneous	125,718	125,718
TOTAL REVENUES	3,590,912	3,590,912
EXPENDITURES		
General Government	620,072	620,072
Public Safety	546,041	546,041
Public Works	610,205	610,205
Recreation and Parks	191,299	191,299
Post Office	168,634	168,634
Historic Buildings	51,620	51,620
Miscellaneous	461,250	461,250
Debt Service		
Principal	83,386	83,386
Interest	15,452	15,452
Capital Outlays	300,268	300,268
TOTAL EXPENDITURES	3,048,227	3,048,227
EXCESS OF REVENUES OVER EXPENDITURES	542,685	542,685
OTHER FINANCING SOURCES		
Proceeds from Sale of Capital Assets	3,334	3,334
Insurance Proceeds	2,780	2,780
TOTAL OTHER FINANCING SOURCES	6,114	6,114
NET CHANGES IN FUND BALANCES	548,799	548,799
Fund Balances - Beginning of Year	5,553,945	5,553,945
FUND BALANCES - END OF YEAR	\$ 6,102,744	\$ 6,102,744

See Notes to Financial Statements

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, 2019

NET CHANGES IN FUND BALANCES -
TOTAL GOVERNMENTAL FUNDS **\$ 548,799**

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	300,268
Less: Depreciation Expense	(738,254)

Repayments of bond and loan principal are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	83,386
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Capital asset contributions are revenues in the statement of activities, but do not provide current financial resources and are not reported as revenue in the fund financial statements.	15,000
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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	(13,765)
Accrued Interest Payable	240
Net Pension Liability and related Deferred Inflows and Outflows	(19,136)

CHANGES IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ 176,538
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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 a major discretely presented component unit of the Town:

Warfield Development Corporation (WDC) - WDC was a 501(c)(3) legally separate organization incorporated for the purpose of promoting economic development of the Warfield Complex, a historic site containing 12 historic buildings. The Warfield Complex was sold on June 26, 2018 to an unrelated party. WDC dissolved as of December 27, 2018 following the liquidation of operations. WDC is a component unit of the Town because five of nine authorized board member positions were appointed and/or occupied by the Mayor and members of the Town Council. Financial presentations of the component unit are included in the Town’s government-wide financial statements and selected disclosures are also presented. The audited financial statements for the period from January 1, 2018 to dissolution (December 27, 2018) 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 Pronouncement Adopted

The following summarizes a GASB Statement implemented by the Town during the year ended June 30, 2019 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements - 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. The provisions of this Statement were effective for periods beginning after June 15, 2018, and were implemented by the Town as of July 1, 2018, with no effect on financial statements presentation and disclosure.

Basic Financial Statements - Government-Wide Statements

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

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

The government-wide statement of activities reports both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property and income taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function. Program revenues include (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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. 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.

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

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

If, however, an employee retires directly through the Maryland State Retirement and Pension 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. Compensatory 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 compensatory 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.

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.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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

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

Assigned - 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 - This category represents amounts that are available for any purpose.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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.

The Town has a fund balance policy for a stabilization arrangement. In 2019, the arrangement was amended to require at least 20% of the average actual General Fund audited expenditures, excluding capital outlays, for the preceding five years for which the audit is available (up from 12%). 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 20% 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, 2019, the stabilization balance (reported as a component of unassigned fund balance in the General Fund) was \$523,941. The Town has remained in compliance with this policy since established.

In March 2019, the Town approved a fund balance policy that established a program to designate funds to be used for capital purchases and improvements. The policy requires that 25% of the projected real estate tax revenues, as determined on the annual tax roll from the County, are designated for capital purchases and improvements in the following fiscal year. This policy will become effective as of July 1, 2019.

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, 2019. 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.

New GASB Pronouncements

The GASB issued several pronouncements prior to the year ended June 30, 2019 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. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, will be effective for the Town as of July 1, 2019. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Management expects that implementation will have no effect on the financial statements presentation or disclosure.

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for the Town as of July 1, 2021. The objective of this Statement is to better meet the informational needs of financial statement users by enhancing the comparability and consistency of conduit debt obligation reporting and reporting of related transactions and other events. Management expects that implementation will have no effect on the financial statements presentation or disclosure.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 2. Deposits

The deposits held as of June 30, 2019 were as follows:

<u>Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Carrying Value</u>
Cash on Hand			\$ 650
Demand Deposits	-0% - 0.55%		3,423,117
Certificates of Deposit	2.47% - 2.75%	9/14/2019 - 9/28/2020	<u>1,559,826</u>
			<u>\$ 4,983,593</u>

Reconciliation to Statement of Net Position:

Current Assets		
Cash and Cash Equivalents		
Unrestricted		\$ 1,798,156
Restricted		<u>82,209</u>
Total Cash and Cash Equivalents		...1,880,365
Cash with Escrow Agent - Restricted		...1,106,599
Certificates of Deposit		<u>1,209,826</u>
Total Current Assets		...4,196,790
Non-Current Assets		
Cash and Cash Equivalents - Restricted	436,803
Certificates of Deposit		<u>350,000</u>
Total Non-Current Assets	786,803
Total Current and Non-Current Assets		<u>\$ 4,983,593</u>

Restricted cash and cash equivalents and cash with escrow agent as of June 30, 2019 are comprised as follows:

Gate House Contribution	\$ 212,803
Public Project Funds	250,000
Planning and Zoning Escrow and Other Deposits	56,209
Warfield Complex Renovation Escrow	<u>1,106,599</u>
	<u>\$ 1,625,611</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

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, cash with escrow agent, and certificates of deposit, had a bank balance of \$5,128,388 as of June 30, 2019, \$3,664,147 of which was exposed to custodial credit risk and uninsured. This amount was fully collateralized by securities pledged and held by financial institutions, 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.

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, 2019, the Town had no concentration of credit risk.

Note 3. Escrow Agreement and Gain Contingency

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

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Warfield Complex. This is presented as Cash with Escrow Agent - Restricted on the Town's financial statements. 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). The Parcel D Escrow Fund II and Buildings F and W Escrow Fund are not presented in the Town's financial statements because they are the purchaser's funds.

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.

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 5) 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.

For the year ended June 30, 2019, \$238,658 was withdrawn from the escrows based on the Town's approval of the purchaser's eligible work, leaving an ending balance in the three escrows of \$1,561,342.

Note 4. Warfield Development Corporation - Special Item

On June 26, 2018, the Warfield Complex property was sold. The sale proceeds were allocated between the Town and Warfield Development Corporation (WDC), the major discretely presented component unit of the Town. The Town recognized its portion of the sale in the financial statements as of and for the year ended June 30, 2018. After the sale of the property, the Board of Directors dissolved the entity, at which time WDC transferred the remaining \$176,643 of cash to the Town to pay off accrued interest and professional fees and give a contribution of \$106,973.

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Special items are significant transactions that are either unusual or infrequent and within the control of management. The Warfield Complex sale fits the special item criteria outlined above. The table below summarizes the calculation of WDC's gain on the sale of the Warfield Complex:

Gain on Sale of Warfield Complex	
Sales Proceeds	\$ 5,029,435
Less: Expense of Sale	4,860
Less: Capital Assets sold, net of accumulated depreciation	<u>3,775,397</u>
Total Gain on Sale of Warfield Complex	<u>\$ 1,249,178</u>

Note 5. 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 and 2.37% from June 26, 2019 through June 26, 2020. 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>
2020	\$ 1,004,191
2021	4,406
2022	4,631
2023	4,868
2024	<u>4,248</u>
	<u>\$ 1,022,344</u>

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Note 6. Capital Assets and Depreciation

A summary of governmental activities is as follows:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital Assets				
Non-Depreciable Assets				
Construction in Progress	\$ 103,749	\$ 50,274	\$ -	\$ 154,023
Land	<u>1,407,171</u>	<u>-</u>	<u>-</u>	<u>1,407,171</u>
Total Non-Depreciable Assets	<u>1,510,920</u>	<u>50,274</u>	<u>-</u>	<u>1,561,194</u>
Depreciable Assets				
Buildings and Improvements	3,639,209	15,000	-	3,654,209
Equipment	1,431,628	160,079	3,010	1,588,697
Infrastructure	10,923,165	-	-	10,923,165
Vehicles	<u>847,353</u>	<u>89,915</u>	<u>27,703</u>	<u>909,565</u>
Total Depreciable Assets	<u>16,841,355</u>	<u>264,994</u>	<u>30,713</u>	<u>17,075,636</u>
Total Capital Assets	<u>18,352,275</u>	<u>315,268</u>	<u>30,713</u>	<u>18,636,830</u>
Accumulated Depreciation				
Buildings and Improvements	2,305,683	122,867	-	2,428,550
Equipment	1,035,629	38,614	3,010	1,071,233
Infrastructure	6,400,573	526,926	-	6,927,499
Vehicles	<u>745,353</u>	<u>49,847</u>	<u>27,703</u>	<u>767,497</u>
Total Accumulated Depreciation	<u>10,487,238</u>	<u>738,254</u>	<u>30,713</u>	<u>11,194,779</u>
Total Capital Assets, Net	<u>\$ 7,865,037</u>	<u>\$ (422,986)</u>	<u>\$ -</u>	<u>\$ 7,442,051</u>

The construction in progress in governmental activities as of June 30, 2019 consists of \$141,846 of accumulated costs attributable to the cost-sharing stormwater mitigation project with Carroll County (see Note 12) and \$12,177 for costs attributable to sidewalk/ramp construction.

Depreciation expense, calculated using the straight-line method, for the year ended June 30, 2019 was charged to the governmental activities functions as follows:

General Government	\$ 62,912
Public Safety	46,879
Public Works	559,429
Recreation and Parks	58,098
Historic Buildings	<u>10,936</u>
	<u>\$ 738,254</u>

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Note 7. Non-Current Liabilities Other than Net Pension Liability

Bonds Payable as of June 30, 2019 consists of the following for governmental activities:

2008 General Obligation Bonds; due in remaining annual principal installments ranging from \$86,271 to \$95,540 through June 2023; 3.46% annual interest rate; secured by the credit and taxing power of the Town \$ 363,422

The following is a summary of changes in non-current liabilities, excluding net pension liability, for governmental activities for the year ended June 30, 2019:

<u>Type of Liability</u>	Balance July 1, 2018	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 2019	Due Within One Year
Bonds Payable					
2008 General Obligation Bonds	\$ 446,808	\$ -	\$ 83,386	\$ 363,422	\$ 86,271
Accrued Compensated Absences	<u>68,795</u>	<u>13,765</u>	<u>-</u>	<u>82,560</u>	<u>-</u>
Total Non-Current Liabilities					
Excluding Net Pension Liability	<u>\$ 515,603</u>	<u>\$ 13,765</u>	<u>\$ 83,386</u>	<u>\$ 445,982</u>	<u>\$ 86,271</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, 2019 was \$15,452, all of which was expensed.

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

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
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>\$ 363,422</u>	<u>\$ 31,970</u>

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Note 8. 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 1st on the assessed value listed as of the same date for all real property located in the Town. From the effective date of the budget, the amount stated thereon as the amount to be raised by the property tax shall constitute a determination of the amount of the tax levy in the corresponding tax year. Taxes shall be due and payable on July 1st in the year for which they are levied and shall be overdue and in arrears on October 1st, 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, 2019 were \$0.35 and \$0.875, respectively, per \$100 assessed property value.

Note 9. Net Position and Fund Balances

The following is a summary of General Fund nonspendable fund balance as of June 30, 2019:

Notes Receivable	\$ 1,022,344
Prepaid Expenses	<u>41,783</u>
	<u>\$ 1,064,127</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, 2019:

Gate House Museum	\$ 212,803
Public Project Funds	250,000
Warfield Complex Renovation Escrow	<u>1,106,599</u>
	<u>\$ 1,569,402</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.

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 Note 3).

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The following is a summary of General Fund assigned fund balance as of June 30, 2019:

Baldwin's Lot Concrete Islands	\$ 15,000
Capital Reserve	218,101
Gate House Museum	13,357
Health Insurance	35,984
Historic Commission	2,822
Impact Fees	167,381
Linear Trail Equipment Removal/Repair	10,000
Little Sykes Railroad	13,455
Little Sykes Building Maintenance	3,500
Oklahoma Avenue Improvements	6,905
Parking Impact Fees	24,004
Parks and Recreation	8,737
Police Auxiliary	3,715
Public Works Shed Exterior Lighting	4,200
Salt Barn Roof	5,800
Sidewalks Maintenance	16,850
Springfield Avenue Sidewalk	1,535
Town House Exterior Maintenance	18,000
Town House Plaza Master Plan	5,000
Town House Security	2,460
Town House Website	3,768
Town House Windows	9,000
Unemployment Reserve	18,558
Warfield Complex	<u>103,000</u>
	<u>\$ 711,132</u>

The capital reserve assigned fund balance was established by the Town to have guaranteed funds available for capital projects. A minimum balance of \$250,000 is to be maintained and any uses of the reserve below this minimum threshold require a financial plan to restore the balance within the next fiscal year. As of June 30, 2019, the reserve balance is below the minimum threshold, but is budgeted to be restored in the next fiscal year.

TOWN OF SYKESVILLE, MARYLAND
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Note 10. 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 revenue from the Property’s operation as follows: 70% to the Town and 30% to the County. The related lease expense for the year ended June 30, 2019 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 costs of construction and rehabilitation incurred if deemed acceptable by the County.

Note 11. 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 30 years after the cell tower construction completion date.

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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).

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, 2019, the water tower has not been demolished, and the purchaser did not have any cell tower rental agreements in place.

Note 12. 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

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pay 20%, and the County will cover the remaining 80%. For the year ended June 30, 2019, the Town's portion of these costs was \$38,097, which is included as construction in progress as further disclosed in Note 6. An additional 5% increase will be applied annually to these estimated costs per the agreement.

The expected future cost the Town will be covering for this project is \$40,002 for the year ending June 30, 2020.

Note 13. Pension Plans

The Town is a participating employer in the Maryland State Retirement and Pension System (the "System") - Employees' Pension System and the Maryland State Retirement and Pension System - Law Enforcement Officers' Pension System. Both are defined benefit pension plans (the "Plan").

General Information about the Pension Plans

Employees' Pension System

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, 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:

https://sra.maryland.gov/sites/main/files/file-attachments/srps-cafr_2018-web.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 ordinary disability pension allowances upon completing five years of eligibility service. Ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

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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 member's accumulated contributions and $\frac{2}{3}$ (66.7%) of their AFC.

To be eligible for death benefits, the member must have either accumulated one year of eligibility service prior to the date of death or died in the line of duty. Death benefits equal the member's annual earnable compensation on the date of death plus accumulated contributions and interest. Under certain circumstances, surviving spouses who were named sole primary beneficiaries may elect to receive either the aforementioned lump sum payment, or a monthly allowance.

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, 2019 was 5.47% 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 \$48,956 for the year ended June 30, 2019.

Law Enforcement Officers' Pension System (LEOPS)

Plan Description - 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 "LEOPS Plan"). All sworn police officers of the Town currently participating in the Employees' Pension System were transferred to the LEOPS Plan as of July 1, 2018. The Town is expected to receive a credit of approximately \$359,957 from the LEOPS Plan to transfer these employees, which will be amortized in level installments over a 25-year term.

Law enforcement officers 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 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:

https://sra.maryland.gov/sites/main/files/file-attachments/srps-cafr_2018-web.pdf

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Benefits Provided - The LEOPS Plan provides retirement, disability, and death benefits. Retirement benefits equal 2.3% of average final compensation (AFC) for the first 30 years of creditable service, plus 1.0% of AFC for each additional year. Full service pension allowances equal 2.0% of AFC for the five highest consecutive years as an employee, up to a maximum benefit of 65% of AFC (32.5 years of credit). LEOPS Plan members are eligible for full service retirement allowances upon attaining age 50 or upon accumulating 25 years of eligibility service regardless of age. Allowances for members who fail to make all required contributions are reduced by the actuarial equivalent of the total unpaid contributions plus interest to the date of retirement. LEOPS Plan members are not eligible for early service retirement allowances.

LEOPS Plan members are eligible for ordinary disability retirement allowances upon completing five years of eligibility service. Ordinary disability retirement allowances for LEOPS Plan members are subject to retirement plan provisions equal the greater of the normal service retirement allowance or 25% of AFC. Ordinary disability retirement allowances for LEOPS Plan members subject to pension plan provisions equal the full service pension allowance if the member is at least age 50 on the date of retirement. Otherwise, the allowances equal full service pension allowances computed as though the member had continued to work until age 50 without any change in the rate of earnable compensation.

LEOPS Plan members 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 allowances equal the sum of an annuity determined as the actuarial value of the members' accumulated contributions, and $\frac{2}{3}$ (66.7%) of AFC. Allowances may not exceed the members' AFC.

LEOPS Plan members accumulating at least one but less than two years of eligibility service are eligible for ordinary death benefits equaling the members' annual earnable compensation at the time of death plus accumulated contributions. To be eligible for special death benefits, LEOPS Plan members in service must have accumulated at least two years of eligibility service prior to the date of death or died in the line of duty. The special death benefit provided upon death for LEOPS Plan members in service equals 50% of the applicable ordinary disability allowance.

Contributions - LEOPS Plan 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. For the year ended June 30, 2019, the Town was not required to contribute to the LEOPS Plan as contributions are based on the prior fiscal year's covered payroll. The Town is expected to make its first LEOPS Plan employer contribution in December 2019.

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

As of June 30, 2019, the Town reported a liability of \$452,233 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018, the Town's proportion was 0.0022%, which was an increase of 0.0003% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$68,092. As of June 30, 2019, 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	\$ -	\$ 33,064
Changes of assumptions	10,758	-
Net difference between projected and actual earnings on pension plan investments	13,927	-
Changes in Town's proportionate share of contributions	98,796	16,473
Town contributions subsequent to the measurement date	<u>48,956</u>	<u>-</u>
Total	<u>\$ 172,437</u>	<u>\$ 49,537</u>

\$48,956 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 ending June 30, 2020. 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:

2020	\$ 33,429
2021	25,146
2022	5,889
2023	2,417
2024	<u>7,063</u>
	<u>\$ 73,944</u>

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No liabilities, deferred outflows of resources, or deferred inflows, or expense has been reported related to the LEOPS Plan as of and for the year ended June 30, 2019 due to the measurement date occurring before the Town joined the LEOPS Plan.

Actuarial Assumptions - The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60% general, 3.10% wage
Salary Increases	3.10% to 9.10%, including wage inflation
Investment Rate of Return	7.45%, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Mortality Tables with generational mortality projections using scale MP-2014 (two-dimensional) mortality improvement scale.

The actuarial assumptions used in the June 30, 2018 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, 2018 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	37%	5.80%
Private Equity	13%	6.70%
Rate Sensitive	19%	1.10%
Credit Opportunity	9%	3.60%
Real Assets	14%	4.80%
Absolute Return	<u>8%</u>	3.20%
	<u>100%</u>	

Discount Rate - A single discount rate of 7.45% 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 7.45%. 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, 2017 valuation was 7.50%.

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 7.45%, as well as what the Plan's net pension liability would be if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher:

<u>Asset Class</u>	<u>1% Decrease to 6.45%</u>	<u>Current Discount Rate (7.45%)</u>	<u>1% Increase to 8.45%</u>
Town's Proportionate Share of the Net Pension Liability	\$ 651,372	\$ 452,234	\$ 286,964

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

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 14. 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 3 and 1 active participants, respectively, as of June 30, 2019.

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 \$19,000, and up to an additional \$6,000 catch-up for employees age 50 or over, or 100% of their includable salaries over the plan year. No Town contributions were made to the 457(b) plan for the year ended June 30, 2019.

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 5% 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 \$10,870 to the 401(a) plan for the year ended June 30, 2019.

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 15. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town self-insures against risks of loss in relation to unemployment compensation, as determined and required by the State, and maintains assigned funds for potential claim settlements. The Town purchases commercial insurance for workers' compensation loss risks. The Town is a member in the Local Government Insurance Trust (LGIT), a public entity risk pool that is owned and directed by local governments (participants) that subscribe to its insurance coverages. LGIT provides the Town's general, automobile, employee, health, police, and public officials' legal liability insurance coverage. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The Town does not exercise any control over the LGIT's operations. The maximum coverage under the liability pool of the

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

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, 2019, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

Note 16. 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, 2019, 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 elected to reduce future income tax appropriations over 20 quarterly reductions, from May 2021 through February 2026.

Downtown Sykesville Connection, Inc. (a nonprofit organization) (the “Connection”) entered into a memorandum of understanding (“MOU”) with the Town in October 2017 that among other items, provides that the Town intends to provide the Connection with an annual allocation of at least \$50,000, subject to annual Council budget approval. The term of the MOU is November 1, 2017 through June 30, 2019. The Connection is responsible for administering the Sykesville Main Street Program. For the year ended June 30, 2019, the Town contributed \$57,500 to the Connection.

In June 2019, the Town entered into a new MOU with the Connection for the term of July 1, 2019 through June 30, 2021 providing that the Town intends to provide the Connection with an annual allocation of at least \$50,000.

TOWN OF SYKESVILLE, MARYLAND
NOTES TO BASIC FINANCIAL STATEMENTS

Note 17. Concentrations and Economic Dependencies

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

Note 18. Subsequent Events

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through October 21, 2019, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SYKESVILLE, MARYLAND

Schedule "1"

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

UNAUDITED

	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 2,178,705	\$ 2,178,705	\$ 2,420,962	\$ 242,257
Intergovernmental	486,648	598,226	617,035	18,809
Charges for Services	168,350	168,350	218,828	50,478
Licenses and Permits	72,464	72,464	80,911	8,447
Fines and Forfeitures	1,000	1,000	3,940	2,940
Interest Income and Rents	64,868	64,868	123,518	58,650
Miscellaneous	6,300	43,284	125,718	82,434
TOTAL REVENUES	2,978,335	3,126,897	3,590,912	464,015
EXPENDITURES				
General Government	573,945	643,964	620,072	23,892
Public Safety	524,500	549,414	546,041	3,373
Public Works	763,429	768,929	610,205	158,724
Recreation and Parks	109,780	130,880	191,299	(60,419)
Post Office	177,635	178,745	168,634	10,111
Historic Buildings	58,694	58,694	51,620	7,074
Miscellaneous	523,327	526,227	461,250	64,977
Debt Service	98,846	98,846	98,838	8
Capital Outlays	233,247	302,328	300,268	2,060
TOTAL EXPENDITURES	3,063,403	3,258,027	3,048,227	209,800
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(85,068)	(131,130)	542,685	673,815
OTHER FINANCING SOURCES				
Proceeds from Sale of Capital Assets	-	-	3,334	3,334
Insurance Proceeds	-	-	2,780	2,780
TOTAL OTHER FINANCING SOURCES	-	-	6,114	6,114
NET CHANGES IN FUND BALANCE	(85,068)	(131,130)	548,799	679,929
Fund Balance - Beginning of Year	5,553,945	5,553,945	5,553,945	-
FUND BALANCE - END OF YEAR	\$5,468,877	\$5,422,815	\$6,102,744	\$ 679,929

TOWN OF SYKESVILLE, MARYLAND

Schedule "2"

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

MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LAST 5 FISCAL YEARS *

UNAUDITED

	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0022%	0.0019%	0.0020%	0.0016%	0.0015%
Town's proportionate share of the net pension liability	\$ 452,233	\$ 403,985	\$ 468,417	\$ 334,226	\$ 258,150
Town's covered payroll	\$ 854,472	\$ 819,511	\$ 773,514	\$ 656,619	\$ 675,734
Town's proportionate share of the net pension liability as a percentage of its covered payroll	52.93%	49.30%	60.56%	50.90%	38.20%
Plan fiduciary net position as a percentage of the total pension liability	71.18%	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 - In addition to the significant assumptions and noted changes listed below, in 2016 adjustments were also made to COLA, withdrawal and disability rates, and rates of salary increases.

	2019	2018	2017	2016	2015
Mortality Table	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment Return	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.60%	2.65%	2.70%	2.70%	2.90%

TOWN OF SYKESVILLE, MARYLAND
SCHEDULE OF TOWN CONTRIBUTIONS
MARYLAND STATE RETIREMENT AND PENSION SYSTEM

LAST 5 FISCAL YEARS

UNAUDITED

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 48,956	\$ 42,980	\$ 38,025	\$ 38,676	\$ 40,903
Contributions in relation to the contractually required contribution	<u>(48,956)</u>	<u>(42,980)</u>	<u>(38,025)</u>	<u>(38,676)</u>	<u>(40,903)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
Town's covered payroll	\$ 894,995	\$ 854,472	\$ 819,511	\$ 773,514	\$ 656,619
Contributions as a percentage of covered payroll	5.5%	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.