



TOWN OF SYKESVILLE, MARYLAND

YEAR ENDED JUNE 30, 2020



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

TOWN OF SYKESVILLE, MARYLAND

YEAR ENDED JUNE 30, 2020

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Sykesville, Maryland (the Town), as of and for the year ended June 30, 2020 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

The Town's 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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town of Sykesville, Maryland, as of June 30, 2020, and the respective changes in financial position 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, 52, 53, and 54, 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 Steidan & Fritz

Westminster, Maryland
January 12, 2021

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 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, 2020. 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 \$14,175,226.
2. Total net assets increased by \$1,406,794 mainly related to a capital asset contribution of \$1,499,004 from the County for a stormwater management facility.
3. As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$6,291,314, an increase of \$188,570 in comparison to the prior year balance of \$6,102,744.
4. The unassigned portion of the above \$6,291,314 equals \$2,231,399. The Town maintains a fund balance policy that establishes a stabilization reserve to protect the Town against significant unanticipated budget shortfalls. A stabilization reserve of \$1,000,000 has currently been established leaving \$1,231,399 as the true unassigned fund balance.
5. The Town amended its capital reserve policy to tie directly back to the adopted Capital Improvement Plan. The purpose of this reserve is to have guaranteed funds available for capital projects or one-time purchases greater than \$10,000, to provide funds for planned and anticipated projects, and to allow for completion of projects in a timely manner that is not dependent on the Town's cash flow. As of the June 30, 2020, a capital reserve of \$648,700 has been assigned of which, \$276,000 has been reserved for FY21.
6. A new reserve account was established, which is dedicated for street repaving efforts, in an amount of \$250,000. The Town has an annual repaving expense that is covered from Highway User Revenues; however, this revenue account is a regular topic on a state level for potential reallocation. This reserve account is to ensure that future repaving efforts will not be immediately impacted if Highway User Funds are reduced or eliminated in the future.
7. During FY19, the Town was awarded a grant from the Department of Natural Resources - Program Open Space for FY19 for new playground equipment at Cooper Park. Due to COVID-19, these funds were not used during FY20 but reallocated to FY21 in which the project is scheduled to be completed.
8. During FY19, the Town was awarded a \$150,000 grant from the Department of Natural Resources - Community Parks and Playgrounds for the new construction of a Splash Pad in Cooper Park. Similar to #7 above, the project has been deferred to FY21.
9. During FY19, the Town was awarded a \$25,000 grant under the Maryland Energy Administration's Smart Energy Communities Grant Program. This project was started in late FY20 but not completed until early FY21 with \$12,695 spent in FY 20 and the remainder spent in FY 21. The grant award was received in FY21. This project related to replacing the Town's street lights and facility lights with more energy efficient lightings.

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 UNAUDITED

FINANCIAL HIGHLIGHTS (continued)

10. The Town joined the Maryland State Retirement Pension system effective July 1, 2014. In FY20, the Town reported a liability of \$491,720 as its proportionate share of the net pension liability. The system is divided into two separate defined pension plans (Employees and Law Enforcement Officers - LEOPS). The Town's FY20 contributions to the Employees plan were \$32,852 (5.85% of covered payroll) and the Town's FY20 contributions to the LEOPS's plan were \$47,221 (32.22% of covered payroll less a special credit of \$31,016). See Notes to Basic Financial Statements #12 titled "*Pension plans*" for a more detailed discussion of the plans.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

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

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 UNAUDITED

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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

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

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

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

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

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020
UNAUDITED

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$14,175,226 at the close of FY20.

By far the largest portion of the Town's net assets (58%) reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Our following analysis focuses on the net assets and changes in net assets of the Town's governmental activities:

**CONDENSED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2020 AND 2019**

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
ASSETS				
Current and Other Assets	\$ 6,714,179	\$ 6,281,708	\$ 6,714,179	\$ 6,281,708
Capital Assets, Net	<u>8,552,289</u>	<u>7,442,051</u>	<u>8,552,289</u>	<u>7,442,051</u>
TOTAL ASSETS	<u>15,266,468</u>	<u>13,723,759</u>	<u>15,266,468</u>	<u>13,723,759</u>
Deferred Outflows				
From Pensions	<u>207,521</u>	<u>172,437</u>	<u>207,521</u>	<u>172,437</u>
LIABILITIES				
Other Liabilities	466,576	266,283	466,576	266,283
Long Term Debt	<u>777,771</u>	<u>811,944</u>	<u>777,771</u>	<u>811,944</u>
TOTAL LIABILITIES	<u>1,244,347</u>	<u>1,078,227</u>	<u>1,244,347</u>	<u>1,078,227</u>
Deferred Inflows				
From Pensions	<u>54,416</u>	<u>49,537</u>	<u>54,416</u>	<u>49,537</u>
NET ASSETS				
Invested In Capital Assets, Net of Related Debt	8,275,138	7,078,629	8,275,138	7,078,629
Restricted	1,575,899	1,569,402	1,575,899	1,569,402
Unrestricted	<u>4,324,189</u>	<u>4,120,401</u>	<u>4,324,189</u>	<u>4,120,401</u>
TOTAL NET ASSETS	<u>\$14,175,226</u>	<u>\$12,768,432</u>	<u>\$14,175,226</u>	<u>\$12,768,432</u>

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020
UNAUDITED

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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.

**CONDENSED STATEMENT OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019**

	Governmental Activities		Total Government	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
REVENUES				
Program Revenues				
Charges for Services	\$183,044	\$234,072	\$183,044	\$234,072
Operating Grants and Contributions	353,369	234,933	353,369	234,933
Capital Grants and Contributions	1,521,081	126,468	1,521,081	126,468
General Revenues				
Income Taxes	974,966	866,802	974,966	866,802
Real Estate Taxes	1,476,124	1,501,374	1,476,124	1,501,374
Personal Property Taxes	48,362	52,289	48,362	52,289
Other Taxes	486	497	486	497
Non-Restricted Grants/Contributions	339,842	448,407	339,842	448,407
Impact Fees	22,791	55,044	22,791	55,044
Interest	71,910	77,624	71,910	77,624
Miscellaneous	2,045	8,402	2,045	8,402
TOTAL REVENUES	<u>4,994,020</u>	<u>3,605,912</u>	<u>4,994,020</u>	<u>3,605,912</u>
PROGRAM EXPENSES				
General Government	938,142	830,727	938,142	830,727
Public Safety	902,895	805,653	902,895	805,653
Public Works	1,229,777	1,257,280	1,229,777	1,257,280
Recreation and Parks	293,929	289,182	293,929	289,182
Post Office	148,404	168,764	148,404	168,764
Historic Buildings	62,553	62,556	62,553	62,556
Interest on Long-Term Debt	11,526	15,212	11,526	15,212
TOTAL PROGRAM EXPENSES	<u>3,587,226</u>	<u>3,429,374</u>	<u>3,587,226</u>	<u>3,429,374</u>
CHANGE IN NET ASSETS	<u>\$1,406,794</u>	<u>\$176,538</u>	<u>\$1,406,794</u>	<u>\$176,538</u>

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 UNAUDITED

GENERAL FUND BUDGETARY HIGHLIGHTS

The original budget for the Town was amended several times during the year as approved by Council. Budgeted expenditures were ultimately lowered \$152,144 to offset lower than expected revenue.

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

- State income tax collections were impacted by the COVID-19 pandemic resulting in uncertainty as to the amount and timing of collections. Budgeted amounts were decreased in anticipation of lower-than expected collections. Ultimately, the Town received higher than expected revenues in this category, but the collections were not received until after the close of FY20 and, thus, unable to modify the budget.
- Several grant projects were amended due to actual grant funds awarded. Most of the larger projects (Splash Pad, Millard Cooper Park Playground, etc.) though were ultimately delayed until FY21.
- Miscellaneous expense – Health insurance costs were \$77,316 lower than expected due to a rebate received from the insurance pool as a result of better-than expected performance of the pool.
- Capital outlay was under budget by \$429,688 due to a number of parks and recreation projects being deferred to FY21.

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

- Intergovernmental Revenues – These revenues were increased in anticipation of various projects being completed during FY20 that were not included in the original budget, and Highway User Revenues were reduced by \$21,560. Travel was significantly impacted by COVID-19 with shutdown requirements and quarantine mandates. The resulting revenues generated from gasoline taxes were lower than estimated pre-COVID projections.
- Charges for Services – Anticipated receipts from Impact Fees were reduced due to a slower than expected new construction environment. These reductions were temporary as new construction has returned to expected levels in FY21.
- Public Safety – There was an unexpected increase in vehicle maintenance and additional payroll.
- Public Works – Due to a milder winter there was less need for snow removal and fewer road improvements were performed than originally planned.
- Capital Outlays – Funds in this category were allocated for the construction of the Millard Cooper Park Splash Pad and Playground as well as stormwater improvements along Springfield Avenue. The stormwater improvements were delayed indefinitely, and the Splash Pad and Playground will be completed in FY21.

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2020 UNAUDITED

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The Town's investment in capital assets for its governmental activities as of June 30, 2020, amounted to \$8,552,289 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, park facilities, historic buildings, infrastructure, leasehold improvements at the South Branch Park and parking lots. The total net increase in the Town's investment in capital assets for the current fiscal year was \$1,110,238, which was a result of a capital contribution from Carroll County for the Shannon Run Stormwater mitigation project completed June 2020 in the amount of \$1,499,004 (See Note 11 included in Notes to Basic Financial Statements). Also, there were additional net capital purchases of \$175,064 less FY20 annual depreciation of (\$745,678).

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, 2020:

	Governmental <u>Activities</u>	<u>Total</u>
General Obligation Bonds	\$277,151	\$277,151
Total Debt	<u>\$277,151</u>	<u>\$277,151</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The following factors were considered in preparing the Town's budget for the 2021 fiscal year:

- COVID-19 has made forecasting future revenues difficult, but the Town has been and continues to be conservative in regards to our revenue projections.
- The property tax rates remained unchanged, and the projected revenue from real and business personal property taxes were based on \$0.33 and \$0.875, respectively, per \$100 of assessed value.
- Due to potential effects of COVID-19, income tax projections for FY21 were estimated lower than the five-year running average of \$655,640.
- The Fiscal Year 2021 Budget includes revenues derived from duplicated services provided by the Town related to State Aid Police Protection and a Town-County Agreement. These categories were increased slightly from their FY20 levels for a combined projected income of \$310,343.
- The State of Maryland submits estimates to the municipalities, and for FY21, the Town is scheduled to receive \$192,032 from the Highway User Fund. Although the budget includes this amount, this revenue category could be impacted by the COVID-19 restrictions. Use of these revenues will be limited to critical road projects in FY21, as shortfalls could be seen up to 50%.
- In FY15, 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 20 was \$40,002. The Town's required contribution for FY21 will be \$40,002. These funds will help to pay for upgrades to the Shannon Run and Lexington Run Storm Water Management Facilities. (See Notes to Basic Financial Statements - Note 11)

TOWN OF SYKESVILLE, MARYLAND

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020
UNAUDITED

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Treasurer at: Town of Sykesville, 7547 Main Street, Sykesville, MD 21784

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2020

	<u>Governmental activities</u>
Assets:	
Current assets:	
Cash and cash equivalents:	
Unrestricted	\$ 2,353,923
Restricted	60,813
Cash with escrow agent, restricted	1,130,346
Certificates of deposit	1,218,506
Accounts receivable	41,519
Taxes receivable	287,940
Grants receivable	57,957
Due from other governments	53,443
Accrued interest receivable	50,004
Prepaid expenses	41,100
Current portion of notes receivable	984,078
	<u>6,279,629</u>
Total current assets	6,279,629
Non-current assets:	
Cash and cash equivalents, restricted	420,803
Notes receivable	13,747
Property and equipment:	
Construction in progress	33,677
Land	1,407,171
Buildings and improvements	3,711,474
Equipment	1,592,458
Infrastructure	12,604,017
Vehicles	1,142,610
	<u>20,491,407</u>
Less accumulated depreciation	11,939,118
	<u>8,552,289</u>
Net property and equipment	<u>8,552,289</u>
Total non-current assets	8,986,839
Total assets	15,266,468
Deferred outflows of resources, deferred amounts from pensions	207,521
	<u>207,521</u>
Total assets and deferred outflows of resources	<u>\$ 15,473,989</u>

See notes to financial statements.

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF NET POSITION
JUNE 30, 2020

	<u>Governmental activities</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued expenses	\$ 247,212
Accrued payroll and related benefits	62,304
Accrued Compensated Absences	4,810
Unearned revenues	26,931
Current portion of bonds payable	89,256
Payable from restricted assets:	
Amounts held in escrow	<u>36,063</u>
Total current liabilities	<u>466,576</u>
Non-current liabilities:	
Accrued compensated absences	98,156
Bonds payable	187,895
Net pension liability	<u>491,720</u>
Total non-current liabilities	<u>777,771</u>
Total liabilities	<u>1,244,347</u>
Deferred inflows of resources, deferred amounts from pensions	<u>54,416</u>
Net position:	
Net investment in capital assets	8,275,138
Restricted	1,575,899
Unrestricted	<u>4,324,189</u>
Total net position	<u>14,175,226</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 15,473,989</u>

See notes to financial statements.

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

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	
					Governmental activities	Total
Primary government:						
Governmental activities:						
General government	\$ 938,142	\$ 32,517	\$ 80,297		\$ (825,328)	\$ (825,328)
Public safety	902,895	1,570	72,100		(829,225)	(829,225)
Public works	1,229,777	32,190	181,094	\$ 1,499,004	482,511	482,511
Recreation and parks	293,929	1,775	416	22,077	(269,661)	(269,661)
Post office	148,404	113,188	1,613		(33,603)	(33,603)
Historic buildings	62,553	1,804	17,849		(42,900)	(42,900)
Interest on long-term debt	11,526				(11,526)	(11,526)
Total primary government	\$ 3,587,226	\$ 183,044	\$ 353,369	\$ 1,521,081	(1,529,732)	(1,529,732)
General revenues:						
Taxes:						
Income					974,966	974,966
Real estate					1,476,124	1,476,124
Personal property					48,362	48,362
Other					486	486
Impact fees					22,791	22,791
Grants, contributions and cable franchise fees not restricted for specific programs					339,842	339,842
Interest income					71,910	71,910
Miscellaneous					2,045	2,045
Total general revenues					2,936,526	2,936,526
Changes in net position					1,406,794	1,406,794
Net position:						
Beginning of year					12,768,432	12,768,432
End of year					\$ 14,175,226	\$ 14,175,226

See notes to financial statements.

TOWN OF SYKESVILLE, MARYLAND

BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020

	General fund	Total governmental funds
Assets:		
Cash and cash equivalents:		
Unrestricted	\$ 2,353,923	\$ 2,353,923
Restricted	481,616	481,616
Cash with escrow agent, restricted	1,130,346	1,130,346
Certificates of deposit	1,218,506	1,218,506
Accounts receivable	41,519	41,519
Taxes receivable	287,940	287,940
Grants receivable	57,957	57,957
Accrued interest receivable	50,004	50,004
Due from other governments	53,443	53,443
Prepaid expenses	41,100	41,100
Notes receivable	997,825	997,825
	\$ 6,714,179	\$ 6,714,179
Total assets	\$ 6,714,179	\$ 6,714,179
Liabilities:		
Accounts payable and accrued expenses	\$ 247,212	\$ 247,212
Accrued payroll and related benefits	62,304	62,304
Accrued Compensated Absences	4,810	4,810
Unearned revenues	26,931	26,931
Payable from restricted assets, amounts held in escrow	36,063	36,063
	377,320	377,320
Total liabilities	377,320	377,320
Deferred inflows of resources, unavailable grant revenue	45,545	45,545
Fund balances:		
Nonspendable	1,038,925	1,038,925
Restricted	1,575,899	1,575,899
Assigned	1,445,091	1,445,091
Unassigned	2,231,399	2,231,399
	6,291,314	6,291,314
Total fund balances	6,291,314	6,291,314
Total liabilities, deferred inflows of resources and fund balances	\$ 6,714,179	\$ 6,714,179

See notes to financial statements.

TOWN OF SYKESVILLE, MARYLAND

RECONCILIATION OF THE BALANCE SHEET –
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

Total fund balances, governmental funds	\$ 6,291,314
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.	(338,615)
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	8,552,289
Certain receivables are offset by unavailable revenue in the governmental funds since they are not available to pay for current period expenditures. This is the amount of deferred inflows of resources related to these receivables.	45,545
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.	(98,156)
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>(277,151)</u>
Net position of governmental activities	<u><u>\$ 14,175,226</u></u>

See notes to financial statements.

TOWN OF SYKESVILLE, MARYLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
JUNE 30, 2020

	General fund	Total governmental funds
Revenues:		
Taxes	\$ 2,499,938	\$ 2,499,938
Intergovernmental	595,529	595,529
Charges for services	160,158	160,158
Licenses and permits	81,436	81,436
Fines and forfeitures	1,570	1,570
Interest income and rents	106,386	106,386
Miscellaneous	4,454	4,454
	3,449,471	3,449,471
Total revenues		
Expenditures:		
General government	728,393	728,393
Public safety	611,069	611,069
Public works	602,197	602,197
Recreation and parks	199,286	199,286
Post office	148,417	148,417
Historic buildings	49,402	49,402
Miscellaneous	466,380	466,380
Debt service:		
Principal	86,271	86,271
Interest	12,574	12,574
Capital outlays	356,912	356,912
	3,260,901	3,260,901
Total expenditures		
	188,570	188,570
Net changes in fund balances		
Fund balances:		
Beginning of year	6,102,744	6,102,744
	\$ 6,291,314	\$ 6,291,314
End of year		

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
JUNE 30, 2020

Net changes in fund balances, total governmental funds **\$ 188,570**

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.

Capital outlays	356,912
Depreciation expense	(745,678)

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. 86,271

In the statement of activities, revenues are recognized when they are earned and received. In the governmental funds, revenues are recognized as income if they are available to satisfy current obligations. This is the amount of the change in deferred inflows of resources in the governmental funds which is recognized as revenue in the statement of activities 45,545

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. 1,499,004

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	(15,596)
Accrued interest payable	1,048
Net pension liability and related deferred inflows and outflows	(9,282)

Changes in net position of governmental activities **\$ 1,406,794**

See notes to financial statements.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and 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: general administrative services, public safety, highways and streets, sanitation, health and social services, public improvements, planning and zoning, recreation and parks, post office and historic buildings.

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, there are no separate component units of the Town.

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.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Basic financial statements, government-wide statements:

The government-wide statement of activities reports both the gross and net cost per functional category (public safety, public works, etc.), which are otherwise being supported by general government revenues (property and income taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants and contributions. The program revenues must be directly associated with the function. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other general revenues not restricted to specific program functions are reported instead as general revenues.

The net costs (by function) are normally covered by general revenue (property and income taxes, intergovernmental revenues, interest income, etc.). The Town does not allocate indirect costs.

This government-wide focus is on the sustainability of the Town as an entity and on the change in the Town's net position resulting from the current year's activities.

Basic financial statements, fund financial statements:

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

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

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Basic financial statements, fund financial statements:

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 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.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Basis of accounting:

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 YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

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 YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Accrued compensated absences:

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 YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

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 YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

Net position and fund balances:

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 2020, the arrangement was amended to require a minimum stabilization reserve amount of \$1,000,000. 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 requirement are to include a financial plan to restore the reserve to the minimum level. As of June 30, 2020, the stabilization balance (reported as a component of unassigned fund balance in the General Fund) was \$1,000,000. The Town has remained in compliance with this policy since established.

Budgets and budgetary analysis:

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

Once a budget is approved, it can be amended by the Mayor and Town Council with reasonable discretion. Several budget amendments were approved during the year ended June 30, 2020. Both original and final budgets of the General Fund have been included in the presentation of the Town's required supplementary information.

Estimates:

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets, 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.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

1. Nature of business and summary of significant accounting policies (continued):

New GASB pronouncements:

The GASB issued a pronouncement prior to the year ended June 30, 2020 that may impact future financial presentations. Management has not currently determined what, if any, impact implementation of the following Statement may have on the financial statements of the Town:

GASB Statement No. 87, Leases, will be effective for the Town as of July 1, 2021. 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.

2. Deposits:

The deposits held as of June 30, 2020 were as follows:

<u>Type</u>	<u>Interest rate</u>	<u>Maturities</u>	<u>Carrying value</u>
Cash on hand			\$ 650
Demand deposits	0.00% - 2.35%		3,965,235
Certificates of deposit	0.35% - 2.50%	9/25/2020 - 11/27/2020	1,218,506
			<u>\$ 5,184,391</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

2. Deposits (continued):

Reconciliation to statement of net position:

Current assets:

Cash and cash equivalents:

Unrestricted

\$ 2,353,923

Restricted

60,813

Total cash and cash equivalents

2,414,736

Cash with escrow agent, restricted

1,130,346

Certificates of deposit

1,218,506

Total current assets

4,763,588

Non-current assets, cash and cash equivalents, restricted

420,803

Total current and non-current assets

\$ 5,184,391

Restricted cash and cash equivalents and cash with escrow agent as of June 30, 2020 are comprised as follows:

Gate House contribution

\$ 195,553

Public project funds

250,000

Planning and zoning escrow and other deposits

36,063

Warfield Complex renovation escrow

1,130,346

\$ 1,611,962

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

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

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

2. Deposits (continued):

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 \$5,219,396 as of June 30, 2020, \$3,755,032 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, 2020, the Town had no concentration of credit risk.

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 Warfield Complex. This is presented as cash with escrow agent - restricted on the Town's financial statements. As principal payments are made on the \$1,000,000 note (see Note 4), these principal payments are deposited into this escrow account. 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.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

3. Escrow agreement and gain contingency (continued):

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 4) 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.

As of June 30, 2020, the ending balance in the three escrows was \$1,501,701, which includes principal payments received from the \$1,000,000 note (see Note 4), withdrawals from the developer for work performed on the project and interest earned on the escrow accounts.

4. 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. As of June 30, 2020, the balance owed on the note is \$18,510.

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 were due in full on June 26, 2020. The Town has sent the purchaser a notice of default on the note. As of June 30, 2020, the balance owed by the developer on the note is \$979,315. The principal payments are expected to be paid as the related parcels and condominium units are sold by the purchaser. Total principal payments made during the year ended June 30, 2020 were \$20,685.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

4. Notes receivable (continued):

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

<u>Year ending June 30,</u>	<u>Governmental activities</u>
2021	\$ 984,078
2022	4,631
2023	4,868
2024	<u>4,248</u>
	<u>\$ 997,825</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

5. Capital assets and depreciation:

A summary of governmental activities is as follows:

	Balance July 1, 2019	Increases	Decreases	Transferred to active status	Balance June 30, 2020
Capital assets:					
Non-depreciable assets:					
Construction in progress	\$ 154,023	\$ 21,500		\$ (141,846)	\$ 33,677
Land	1,407,171				1,407,171
Total non-depreciable assets	1,561,194	21,500		(141,846)	1,440,848
Depreciable assets:					
Buildings and improvements	3,654,209	57,265			3,711,474
Equipment	1,588,697	5,100	\$ 1,339		1,592,458
Infrastructure	10,923,165	1,539,006		141,846	12,604,017
Vehicles	909,565	233,045			1,142,610
Total depreciable assets	17,075,636	1,834,416	1,339	141,846	19,050,559
Total capital assets	18,636,830	1,855,916	1,339	-	20,491,407
Accumulated depreciation:					
Buildings and improvements	2,428,550	117,726			2,546,276
Equipment	1,071,233	46,947	1,339		1,116,841
Infrastructure	6,927,499	526,921			7,454,420
Vehicles	767,497	54,084			821,581
Total accumulated depreciation	11,194,779	745,678	1,339		11,939,118
Total capital assets, net	\$ 7,442,051	\$ 1,110,238	\$ -	\$ -	\$ 8,552,289

The construction in progress in governmental activities as of June 30, 2020 consists of \$21,500 for a deposit on construction of Cooper Park Playground and \$12,177 for costs attributable to sidewalk/ramp construction.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

5. Capital assets and depreciation (continued):

Depreciation expense, calculated using the straight-line method, for the year ended June 30, 2020 was charged to the governmental activities functions as follows:

General government	\$ 64,743
Public safety	52,802
Public works	557,840
Recreation and parks	57,142
Historic buildings	13,151
	\$ 745,678

6. Non-current liabilities other than net pension liability:

Bonds payable as of June 30, 2020 consists of the following for governmental activities:

2008 General Obligation Bonds, due in remaining annual principal installments ranging from \$89,256 to \$95,550 through June 2023, 3.46% annual interest rate, secured by the credit and taxing power of the Town	\$ 277,151
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The following is a summary of changes in non-current liabilities, excluding net pension liability, for governmental activities for the year ended June 30, 2020:

Type of liability	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Due within one year
Bonds payable					
2008 general obligation bonds	\$ 363,422		\$ 86,271	\$ 277,151	\$ 89,256
Accrued compensated absences	82,560	\$ 20,406		102,966	4,810
Total non-current liabilities excluding net pension liability	\$ 445,982	\$ 20,406	\$ 86,271	\$ 380,117	\$ 94,066

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, 2020 was \$12,574, all of which was expensed.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

6. Non-current liabilities other than net pension liability (continued):

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

Year ending June 30,	<u>Governmental activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 89,256	\$ 9,589
2022	92,345	6,501
2023	<u>95,550</u>	<u>3,306</u>
Total	<u>\$ 277,151</u>	<u>\$ 19,396</u>

7. 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, 2020 were \$0.33 and \$0.875, respectively, per \$100 assessed property value.

8. Net position and fund balances:

The following is a summary of General Fund nonspendable fund balance as of June 30, 2020:

Prepaid expenses	\$ 41,100
Notes receivable	<u>997,825</u>
	<u>\$ 1,038,925</u>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

8. Net position and fund balances (continued):

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, 2020:

Gate House Museum	\$ 195,553
Public project funds	250,000
Warfield Complex renovation escrow	<u>1,130,346</u>
	<u>\$ 1,575,899</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).

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

8. Net position and fund balances (continued):

The following is a summary of General Fund assigned fund balance as of June 30, 2020:

Baldwin's Lot Concrete Islands	\$ 15,000
Capital reserve	648,700
Gate House Museum	11,828
Health insurance	99,984
Historic commission	2,987
Impact fees	176,440
Linear trail equipment removal/repair	10,000
Little Sykes:	
Railroad	14,393
Building maintenance	3,500
Oklahoma Avenue improvements	6,905
Parking impact fees	24,022
Parks and recreation	8,741
Police auxiliary	3,716
Public works shed exterior lighting	4,200
Repaving Reserve	250,000
Salt barn roof	5,800
Springfield Avenue sidewalk	1,535
Town House:	
Exterior maintenance	18,000
Plaza master plan	5,000
Website	3,768
Windows	9,000
Unemployment reserve	18,572
Warfield Complex	103,000
	<u>103,000</u>
	<u>\$ 1,445,091</u>

The capital reserve assigned fund balance was established by the Town to have guaranteed funds available for capital projects, to provide funds for planned and anticipated projects, and to allow for completion of projects in a timely manner that is not dependent on annual Town cash flow. The balance is set at the amount required under the most recently approved Town capital improvements plan, less grants, bonds and other funding mechanisms. The repaving reserved assigned fund balance was established by the Town to have guaranteed funds available for needed road repaving projects and to supplement highway user revenues received from the State.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

9. South Branch Park Cooperative agreement and lease:

On December 14, 2006, the Town entered into an agreement with Howard County, Maryland, (the County). The County owns 9.578 acres of land presently improved with 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, 2020 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.

10. 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.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

10. Water tower agreement (continued):

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, 2020, the water tower has not been demolished, and the purchaser did not have any cell tower rental agreements in place.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

11. Cost-sharing stormwater mitigation project with Carroll County:

Under Federal court order, the Environmental Protection Agency was ordered to implement a Chesapeake Bay clean up. The State of Maryland established a stormwater management fee program to fund projects to direct nitrogen away from streams that feed into the Chesapeake Bay. This program is implemented through a National Pollutant Discharge Elimination System (NPDES) permit for Carroll County, Maryland (the County). In October 2014, the Town, along with seven other municipalities, entered into a cost-sharing of stormwater mitigation project with the County to comply with NPDES requirements. The annual amount for each municipality was calculated based on \$25,000 per impervious acre based on the total number of impervious acres which are required to be restored/mitigated by the permit over the five-year period of this project. From the Town's share of this project, the Town is required to pay 20%, and the County will cover the remaining 80%. For the year ended June 30, 2020, the Town's portion of these costs were \$40,002. Over the five-year term of the agreement, the Town paid a total of \$181,848. These funds went toward the design and construction of a stormwater management facility. The facility was completed in the current year, so the amount paid was transferred from construction in progress to infrastructure, and a capital contribution from the County was recognized in the amount of \$1,499,004 in fiscal year 2020 for the County's contribution to the project. The County and municipalities agreed to continue the current agreement by extending for one additional year, while working towards the issuance of the Fifth Generation Permit. As such, the Town made their next committed payment under this agreement subsequent to year end in the amount of \$40,002.

12. 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/2019-srps-cafr-web.pdf>

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

General information about the pension plans:

Employees' pension system:

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.

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 two-thirds (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, 2020 was 5.85% 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 \$32,852 for the year ended June 30, 2020.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

General Information about the pension plans:

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 cost-sharing multiple-employer defined benefit pension plan administered by the Agency. 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 received a credit of \$373,125 from the LEOPS Plan to transfer these employees, which is being 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/2019-srps-cafr-web.pdf>

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 two-thirds (66.7%) of AFC. Allowances may not exceed the members' AFC.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

General information about the pension plans:

Law Enforcement Officers' Pension System (LEOPS):

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. The Town's required contribution rate for the year ended June 30, 2020 was 32.22% of covered payroll, less amortization of the new entrant credit of \$31,016, 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 \$47,221 for the year ended June 30, 2020.

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

As of June 30, 2020, the Town reported a liability of \$491,720 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2019, the Town's proportion was 0.0024%, which was an increase of 0.0002% from its proportion measured as of June 30, 2018.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

For the year ended June 30, 2020, the Town recognized pension expense of \$89,355. As of June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience		\$ 28,920
Changes of assumptions	\$ 6,319	13,382
Net difference between projected and actual earnings on pension plan investments	10,237	
Changes in Town's proportionate share of contributions	110,892	12,114
Town contributions subsequent to the measurement date	80,073	
 Total	 \$ 207,521	 \$ 54,416

\$80,073 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, 2021. 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:

2021	\$ 32,459
2022	13,202
2023	9,730
2024	14,377
2025	3,264
	\$ 73,032

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

The System allocates employer liabilities, deferred outflows of resources and deferred inflows of resources based on payroll expenses from the year ended June 30, 2018. Since the Town's police officers did not transfer into LEOPS until July 1, 2018, no liabilities, deferred outflows of resources or deferred inflows of resources related to LEOPS have been recorded as of June 30, 2020. The amounts will be recorded as of June 30, 2021 and will be amortized into pension expense over the average expected remaining service lives of all employees that are provided with benefits through the pension plan (active and inactive employees).

Actuarial assumptions - The total pension liability in the June 30, 2019 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 8.35%, including wage inflation
Investment rate of return	7.40%, net of pension plan investment expense, including inflation
Mortality	Fully generational - Pub-2010/MP2018

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study of the System for the period 2014-2018 after the completion of the June 30, 2018 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, 2019.

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.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

The target allocations and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Public equity	37%	6.3%
Private equity	13%	7.5%
Rate sensitive	19%	1.3%
Credit opportunity	9%	3.9%
Real assets	14%	4.5%
Absolute return	8%	3.0%
	100%	

Discount rate - A single discount rate of 7.40% 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 7.40%. 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, 2018 valuation was 7.45%.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2020

12. Pension plans (continued):

Pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources related to pensions:

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 7.40%, as well as what the Plan's net pension liability would be if it were calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher:

	1% decrease (6.40%)	Current discount rate (7.40%)	1% increase (8.40%)
Town's proportionate share of the net pension liability	\$ 711,716	\$ 491,720	\$ 308,492

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

13. 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 three and one active participants, respectively, as of June 30, 2020.

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 up to the lesser of \$19,500, and up to an additional \$6,500 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, 2020.

The 401(a) plan, effective July 1, 2005, permits the Town to contribute 5% to 10% of eligible employees' salary to a maximum of \$57,000 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 \$8,801 to the 401(a) plan for the year ended June 30, 2020.

All amounts of compensation deferred under the plans and all income attributable to those amounts are held in trust for the exclusive benefit of participants and their beneficiaries. The assets will not be diverted to any other purpose. The plan administrator, Nationwide Retirement Solutions, is the trustee of the investments.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

14. Risk management:

The Town is exposed to various risks of loss related to torts; theft of, or damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Town self-insures against risks of loss in relation to unemployment compensation, as determined and required by the State, and maintains assigned funds for potential claim settlements. The Town purchases commercial insurance for workers' compensation loss risks. The Town is a member in the Local Government Insurance Trust (LGIT), a public entity risk pool that is owned and directed by local governments (participants) that subscribe to its insurance coverages. LGIT provides the Town's general, automobile, employee, health, police, and public officials' legal liability insurance coverage. The LGIT is managed by a Board of Trustees and a contract administration company. The trustees are elected by a majority vote of the participants with each participant having one vote. The Town does not exercise any control over the LGIT's operations. The maximum coverage under the liability pool of the LGIT is \$1,000,000 per claim. The Town also participates in an excess liability pool which has maximum coverage of \$2,000,000.

Premiums are charged to the Town, with no provision made for claim liability in addition to premiums, unless an assessment is made by the Trust. There have been no assessments during the year ended June 30, 2020, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

15. 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, 2020, 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.

Downtown Sykesville Connection, Inc. (a nonprofit organization) (the Connection) entered into a memorandum of understanding (MOU) with the Town in June 2019 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 July 1, 2019 through June 30, 2021. The Connection is responsible for administering the Sykesville Main Street Program. For the year ended June 30, 2020, the Town contributed \$50,000 to the Connection.

During February 2020, the Town's Council approved contributing \$50,000 to Howard County, Maryland, for the construction of a parking lot and other improvements at South Branch Park, which is a Howard County owned park. No payments have been made on this agreement through June 30, 2020.

TOWN OF SYKESVILLE, MARYLAND

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2020

15. Other commitments and contingencies (continued):

The Town entered into several agreements with contractors for capital projects during the fiscal year which remain outstanding at June 30, 2020. These agreements included \$240,000 for the Millard Cooper Park Splash Pad Project, all of which is outstanding at June 30, 2020, and \$99,913 for the Millard Cooper Park Playground Equipment, \$78,413 of which is outstanding at June 30, 2020.

In December 2019, a novel strain of coronavirus (COVID-19) was reported to have surfaced in China. The World Health Organization (WHO) has declared COVID-19 to constitute a “Public Health Emergency of International Concern” and characterized COVID-19 as a pandemic. The U.S. government has also implemented enhanced screenings, quarantine requirements and travel restrictions in connection with the COVID-19 outbreak. The spread of this virus has the potential to cause business disruption to the Town’s tax base, due to state government-imposed shutdowns of businesses and other results of the virus. While the Town expects this matter may negatively impact its results, the extent of the impact of COVID-19 on the Town’s operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of COVID-19 on overall economic trends, all of which are highly uncertain and cannot be predicted.

16. 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.

17. Subsequent events:

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through January 12, 2021, the date the financial statements were available to be issued.

TOWN OF SYKESVILLE, MARYLAND

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)

YEAR ENDED JUNE 30, 2020

(See independent auditor's report)

	Original budget	Final budget	Actual	Variance
Revenues:				
Taxes	\$ 2,162,762	\$ 2,160,762	\$ 2,499,938	\$ 339,176
Intergovernmental	757,982	830,196	595,529	(234,667)
Charges for services	255,530	182,299	160,158	(22,141)
Licenses and permits	77,034	67,214	81,436	14,222
Fines and forfeitures	1,500	1,600	1,570	(30)
Interest income and rents	80,913	100,413	106,386	5,973
Miscellaneous	7,272	4,941	4,454	(487)
Total revenues	3,342,993	3,347,425	3,449,471	102,046
Expenditures:				
General government	739,498	746,707	728,393	18,314
Public safety	590,960	618,406	611,069	7,337
Public works	667,750	631,156	602,197	28,959
Recreation and parks	223,647	207,808	199,286	8,522
Post office	178,750	180,700	148,417	32,283
Historic buildings	57,272	59,987	49,402	10,585
Miscellaneous	571,637	572,947	466,380	106,567
Debt service	98,846	98,846	98,845	1
Capital outlays	926,941	786,600	356,912	429,688
Total expenditures	4,055,301	3,903,157	3,260,901	642,256
Net changes in fund balance	(712,308)	(555,732)	188,570	744,302
Fund balance:				
Beginning of year	6,102,744	6,102,744	6,102,744	-
End of year	\$ 5,390,436	\$ 5,547,012	\$ 6,291,314	\$ 744,302

TOWN OF SYKESVILLE, MARYLAND

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
MARYLAND STATE RETIREMENT AND PENSION SYSTEM
LAST SIX FISCAL YEARS *
(UNAUDITED)

	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0024%	0.0022%	0.0019%	0.0020%	0.0016%	0.0015%
Town's proportionate share of the net pension liability	\$ 491,720	\$ 452,233	\$ 403,985	\$ 468,417	\$ 334,226	\$ 258,150
Town's covered payroll	\$ 894,995	\$ 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	54.94%	52.93%	49.30%	60.56%	50.90%	38.20%
Plan fiduciary net position as a percentage of the total pension liability	72.34%	71.18%	69.38%	65.79%	68.78%	71.87%

* The amounts presented were determined as of the end of the prior fiscal year.
The Town joined and started contributions to the Maryland State Retirement and Pension System on July 1, 2014.

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.

	2020	2019	2018	2017	2016	2015
Mortality table	Pub-2010/MP2018	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment return	7.40%	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.60%	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 SIX FISCAL YEARS
(UNAUDITED)

Year	Contractually required contribution	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Town's covered payroll	Contributions as a percentage of covered payroll
2020	\$ 80,073	\$ (80,073)		\$ 804,401	10.0%
2019	48,956	(48,956)		894,995	5.5%
2018	42,980	(42,980)		854,472	5.0%
2017	38,025	(38,025)		819,511	4.6%
2016	38,676	(38,676)		773,514	5.0%
2015	40,903	(40,903)		656,619	6.2%

Notes to schedule:

The Town joined and started contributions to the Maryland State Retirement and Pension System on July 1, 2014.

The Town began contributing to the Law Enforcement Officers' Pension System for uniformed police officers in fiscal year 2020.