



**TOWN OF SYKESVILLE, MARYLAND**

**YEAR ENDED JUNE 30, 2021**



CERTIFIED PUBLIC ACCOUNTANTS & BUSINESS ADVISORS

A Professional Corporation

# ***TOWN OF SYKESVILLE, MARYLAND***

YEAR ENDED JUNE 30, 2021

## TABLE OF CONTENTS

	Page
Independent auditor's report	1-2
Management's discussion and analysis (unaudited)	3-11
Basic financial statements:	
Government-wide financial statements	
Statement of net position	12-13
Statement of activities	14
Fund financial statements:	
Balance sheet - governmental funds	15
Reconciliation of the balance sheet - governmental funds to the statement of net position	16
Statement of revenues, expenditures and changes in fund balances - governmental funds	17
Reconciliation of the statement of revenues, expenditures and changes in fund balances - governmental funds to the statement of activities	18
Notes to basic financial statements	19-47
Required supplementary information:	
Budgetary comparison schedule - general fund (unaudited)	48
Schedule of the Town's proportionate share of the net pension liability (unaudited)	49
Schedule of Town contributions (unaudited)	50



## 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, 2021 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, 2021, 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 11, 48, 49 and 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Brown Schultz Steindam's Fritz*

Westminster, Maryland  
January 24, 2022

## ***TOWN OF SYKESVILLE, MARYLAND***

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 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, 2021. 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 \$14,112,310 (total net position).
2. The total net position slightly decreased \$62,916 compared to FY20.
3. As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$6,149,241, a net decrease in fund balances of \$142,073 in comparison to the prior year balance of \$6,291,314. This decrease is mainly due to the use of funds related to paying the general obligation bonds (\$189,806) off early.
4. The unassigned portion of the above \$6,149,241 has increased to \$2,706,442 compared to \$2,231,399 FY20. The Town maintains a fund balance policy that establishes a stabilization reserve (\$1,000,000) to protect the Town against significant unanticipated budget shortfalls; therefore, the net unassigned balance is \$1,706,442 as of June 30, 2021.
5. The Town's capital reserve policy ties 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, 2021, a capital reserve of \$438,281 has been assigned of which, \$335,500 has been reserved for FY22.
6. The Town also has a repaving reserve, 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 \$89,298 grant from the Department of Natural Resources - Program Open Space 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 was 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 was deferred to FY21 and completed.
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 \$12,695.08 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 (LED).

## **TOWN OF SYKESVILLE, MARYLAND**

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 UNAUDITED

#### **FINANCIAL HIGHLIGHTS (continued)**

10. The Town joined the Maryland State Retirement Pension system effective July 1, 2014. As of June 30, 2021, the Town reported a liability of \$844,080 as its proportionate share of the net pension liability. This is a \$352,360 increase from last years' liability of \$491,720 due to the inception of recording the LEOPS liability in the financial statements. The system is divided into two separate defined pension plans (Employees and Law Enforcement Officers - "LEOPS"). The Town's FY21 contributions to the Employees plan were \$46,624 (6.71% of covered payroll) and the Town's FY21 net contributions to the LEOPS's plan were \$78,889 (\$109,905 - 34.93% of covered payroll, less a special credit of \$31,016). See *Notes to Basic Financial Statements #11 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, 2021 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, 2021  
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 \$14,112,310 at the close of FY21.

By far the largest portion of the Town's net assets (59%) reflects its investment in capital assets (e.g., land, buildings, equipment and construction in progress), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not 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. The following analysis focuses on the net assets and changes in net assets of the Town's governmental activities:

**CONDENSED STATEMENTS OF NET ASSETS  
AS OF JUNE 30, 2021 AND 2020**

	<u>Governmental Activities</u>		<u>Total Government</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>				
Current and Other Assets	\$ 6,453,512	\$ 6,714,179	\$ 6,453,512	\$ 6,714,179
Capital Assets, Net	<u>8,351,356</u>	<u>8,552,289</u>	<u>8,351,356</u>	<u>8,552,289</u>
<b>TOTAL ASSETS</b>	<b><u>14,804,868</u></b>	<b><u>15,266,468</u></b>	<b><u>14,804,868</u></b>	<b><u>15,266,468</u></b>
<b>Deferred Outflows</b>				
<b>From Pensions</b>	<b><u>643,442</u></b>	<b><u>207,521</u></b>	<b><u>643,442</u></b>	<b><u>207,521</u></b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>15,448,310</u></b>	<b><u>15,473,989</u></b>	<b><u>15,448,310</u></b>	<b><u>15,473,989</u></b>
<b>LIABILITIES</b>				
Other Liabilities	214,658	466,576	214,658	466,576
Long Term Debt	<u>936,562</u>	<u>777,771</u>	<u>936,562</u>	<u>777,771</u>
<b>TOTAL LIABILITIES</b>	<b><u>1,151,220</u></b>	<b><u>1,244,347</u></b>	<b><u>1,151,220</u></b>	<b><u>1,244,347</u></b>
<b>Deferred Inflows</b>				
<b>From Pensions</b>	<b><u>184,780</u></b>	<b><u>54,416</u></b>	<b><u>184,780</u></b>	<b><u>54,416</u></b>
<b>NET ASSETS</b>				
Invested In Capital Assets, Net of Related Debt	8,351,356	8,275,138	8,351,356	8,275,138
Restricted	2,457,439	1,575,899	2,457,439	1,575,899
Unrestricted	<u>3,303,515</u>	<u>4,324,189</u>	<u>3,303,515</u>	<u>4,324,189</u>
<b>TOTAL NET ASSETS</b>	<b><u>\$14,112,310</u></b>	<b><u>\$14,175,226</u></b>	<b><u>\$14,112,310</u></b>	<b><u>\$14,175,226</u></b>



**TOWN OF SYKESVILLE, MARYLAND**

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2021  
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.

**CHANGES IN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2021 AND 2020**

	<u>Governmental Activities</u>		<u>Total Government</u>	
	2021	2020	2021	2020
<b>REVENUES</b>				
<b>Program Revenues</b>				
Charges for Services	\$204,092	\$183,044	\$204,092	\$183,044
Operating Grants and Contributions	285,662	353,369	285,662	353,369
Capital Grants and Contributions	295,377	1,521,081	295,377	1,521,081
<b>General Revenues</b>				
Income Taxes	1,045,142	974,966	1,045,142	974,966
Real Estate Taxes	1,548,455	1,476,124	1,548,455	1,476,124
Personal Property Taxes	40,373	48,362	40,373	48,362
Other Taxes	496	486	496	486
Non-Restricted Grants/Contributions	329,839	339,842	329,839	339,842
Impact Fees	71,724	22,791	71,724	22,791
Interest	11,942	71,910	11,942	71,910
Miscellaneous	1,210	2,045	1,210	2,045
<b>TOTAL REVENUES</b>	<b><u>\$3,834,312</u></b>	<b><u>\$4,994,020</u></b>	<b><u>\$3,834,312</u></b>	<b><u>\$4,994,020</u></b>
<b>PROGRAM EXPENSES</b>				
General Government	879,436	938,142	879,436	938,142
Public Safety	980,944	902,895	980,944	902,895
Public Works	1,420,026	1,229,777	1,420,026	1,229,777
Recreation and Parks	369,738	293,929	369,738	293,929
Post Office	150,724	148,404	150,724	148,404
Historic Buildings	84,859	62,553	84,859	62,553
Interest on Long-Term Debt	11,501	11,526	11,501	11,526
<b>TOTAL PROGRAM EXPENSES</b>	<b><u>3,897,228</u></b>	<b><u>3,587,226</u></b>	<b><u>3,897,228</u></b>	<b><u>3,587,226</u></b>
<b>CHANGE IN NET ASSETS</b>	<b><u>\$ (62,916)</u></b>	<b><u>\$1,406,794</u></b>	<b><u>\$ (62,916)</u></b>	<b><u>\$1,406,794</u></b>

## ***TOWN OF SYKESVILLE, MARYLAND***

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 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 increased by \$730,612 to cover the costs (\$390,000) of various park projects (Splash Pad, Millard Cooper Park Playground Equipment, etc.) that were deferred from FY20 after original budget had been created as well as the decision (March 2021) to pay off (\$190,000) the Governmental Obligation Bonds that were due in 2023. The remaining increase related to smaller projects (Council Room upgrade, Town Master Plan increase, Girls Shelter Demo, Sykesville Station repairs, Gatehouse Kitchen, etc.) which were decided on after the inception of the original budget.

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

- Intergovernmental Revenues (\$363,262 increase) – Grant revenues were increased in relation to various projects being completed during FY21 that were deferred from FY20. The projects, such as the Splash Pad & Playground equipment purchases, were not included in the original budget since they were scheduled for FY20.
- Interest income and rents (\$46,000 decrease) – Interest income related to the Warfield note was decreased due to collectability doubt. The budget for rents was also reduced due to new lease terms for Sykesville Station (new owners of Baldwin Station location).
- General Government Expenditures (\$67,300 increase) – Increased the original budget in Townhouse building maintenance for virtual meeting upgrades as well as an increase in Town Master plan expense for completion of the project contract that was deferred from FY20.
- Historic buildings (\$26,000 increase) – Increased the budget due to added expenditures for new tenant (Sykesville Station) repairs and kitchen upgrade to the Gatehouse.
- Miscellaneous (\$59,896 decrease) – Decrease the original budget for Workers' compensation insurance due to favorable job reclassifications. Decreased the Health Insurance budget due to the final rebate determination not known at the inception of the original budget. These decreases were offset by the increase in LEOPS retirement plan expense due to a higher than anticipated employer contribution rate.
- Debt Service (\$189,806 increase) – Paid off the remaining balance on the General Obligation bonds due in 2023.
- Capital Outlays – After the initial budget was created, several capital projects scheduled for FY20 were deferred until FY21. They included expense allocated for the construction of the Millard Cooper Park Splash Pad, purchase of new playground equipment for the park as well as shared costs in the construction of a parking lot for South Branch Park. The budget was also increased due to additional costs identified for the Linear Trail project. Unfortunately, this project was delayed and scheduled for completion in FY22.

## **TOWN OF SYKESVILLE, MARYLAND**

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 UNAUDITED

#### **GENERAL FUND BUDGETARY HIGHLIGHTS (continued)**

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

- Taxes revenue (\$397,528 over budget) – The on-going COVID-19 pandemic is still causing uncertainties in terms of amounts and timing of collections regarding several major revenue sources. State income tax collections again were conservatively projected in anticipation of lower revenue compared to FY20. Ultimately, similar to the prior year, the Town received higher than expected revenues in this category but the collections were not received until after the close of FY21 and, thus, unable to modify the budget.
- Intergovernmental revenue (\$154,750 under budget) – Grant revenue was anticipated to be higher but several grant projects were delayed until FY22 such as the Linear Trail improvement grant as well as the community legacy (façade on Main Street) grant.
- Salary expense (General government, Public Safety, Post office) was \$50K lower than budget due to several positions remaining unfilled as of June 30, 2021 as well as reduced hours for the Post office staff.
- Recreation and parks (\$24,318 under budget) – Property maintenance and corresponding supply expense was lower than expected.
- Historic buildings (\$20,633 under budget) – Repairs on Gatehouse were postponed until FY22.
- Miscellaneous expense (\$23,598 under budget) – Health insurance costs were lower than expected due to a rebate again received from the insurance pool as a result of better-than expected performance of the pool.
- Capital outlay (\$189,361 under budget) - Several projects were deferred to FY22 (Linear Trail, Townhouse repairs, New garage doors / new hydraulic system for 2005 trash truck (Public works)).

#### **CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital assets.* The Town's investment in capital assets for its governmental activities as of June 30, 2021, amounted to \$8,351,356 (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery and equipment, park facilities, historic buildings, infrastructure, leasehold improvements at the South Branch Park and parking lots. The total net decrease in the Town's investment in capital assets for the current fiscal year was \$200,933. The decrease consisted of additional net capital purchases of \$633,667 less FY21 annual depreciation of (\$834,600).

Additional information on the Town's capital assets can be found in the financial statements and related notes (See Note 5.).

## **TOWN OF SYKESVILLE, MARYLAND**

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2021 UNAUDITED

#### **CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

*Debt.* The following summarizes the Town's outstanding debt as of June 30, 2021:

	Governmental <u>Activities</u>	<u>Total</u>
General Obligation Bonds	<u>- 0 -</u>	<u>- 0 -</u>
Total Debt	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>

Note: With Council's approval, the bonds were paid off on April 30, 2021.

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

The following factors were considered in preparing the Town's budget for the 2022 fiscal year:

- COVID-19 continues to make 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. Revenues were increased slightly due to an increase in overall property assessed values.
- State Income Tax Revenue projections were increased by 12% but still conservatively lower than the three-year running average of \$830,000.
- Revenue related to licenses and permits was decreased compared to FY21 as impact fees related to the Warfield construction of townhomes will trail off due to completion of the project.
- The Fiscal Year 2022 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 FY21 levels for a combined projected income of \$317,400.
- The State of Maryland submits estimates to the municipalities, and for FY21, the Town is scheduled to receive \$178,839 from the Highway User Fund. Although the budget includes this amount, this revenue category still could be impacted by the COVID-19 restrictions. Use of these revenues will continue to be limited to critical road projects in FY22 as shortfalls are potentially possible.
- 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. Although this agreement expired June 30, 2020, it has been extended until June 30, 2029. The Town's required annual contribution for FY 21 was \$40,002. The Town's estimated contribution for FY 22 will be \$33,030. 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 10).
- Grants – The Town will be applying for grants in FY22 but currently these grants are unknown; therefore, no revenue is projected in this category.
- In FY22, the Town is proposing the use of \$335,500 of its Capital Fund Balance to offset various capital purchases related to Public Safety, Public Works and Parks.

***TOWN OF SYKESVILLE, MARYLAND***

MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2021  
UNAUDITED

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS (continued)**

Not shown in the budget are funds to be received from the American Rescue Plan Act (ARPA) which the Town is estimated to receive approximately \$3,300,000. No expenditures have been identified by Council as of yet but the terms of the Act is that the funds need to be spent over the next several fiscal years. In addition, the Town has not included in the budget the use of the \$750,000 Strategic Demolition Grant that has been awarded through the Maryland Department of Housing and Community Development for the Warfield Project. Once details are confirmed, the appropriate revenue/expenditure amounts will be added to the budget.

**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, 2021

	<u>Governmental activities</u>
<b>Assets:</b>	
<b>Current assets:</b>	
Cash and cash equivalents:	
Unrestricted	\$ 2,819,788
Restricted	46,741
Cash with escrow agent, restricted	1,130,460
Certificates of deposit	620,934
Investments, unrestricted	101,175
Accounts receivable	24,287
Taxes receivable	193,771
Grants receivable	66,128
Due from other governments	83,475
Prepaid expenses	40,257
Current portion of notes receivable	987,216
	<hr/>
<b>Total current assets</b>	<b>6,114,232</b>
	<hr/>
<b>Non-current assets:</b>	
Cash and cash equivalents, restricted	330,164
Notes receivable	9,116
	<hr/>
Property and equipment:	
Construction in progress	21,752
Land	1,407,171
Buildings and improvements	3,415,660
Equipment	2,047,464
Infrastructure	12,604,017
Vehicles	1,292,912
	<hr/>
	20,788,976
Less accumulated depreciation	12,437,620
	<hr/>
Net property and equipment	8,351,356
	<hr/>
<b>Total non-current assets</b>	<b>8,690,636</b>
	<hr/>
<b>Total assets</b>	<b>14,804,868</b>
	<hr/>
Deferred outflows of resources, deferred amounts from pensions	643,442
	<hr/>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 15,448,310</b>
	<hr/>

See notes to financial statements.

**TOWN OF SYKESVILLE, MARYLAND**

STATEMENT OF NET POSITION  
JUNE 30, 2021

	<u>Governmental activities</u>
<b>Liabilities:</b>	
<b>Current liabilities:</b>	
Accounts payable and accrued expenses	\$ 126,967
Due to other governments	12,587
Accrued payroll and related benefits	43,909
Accrued compensated absences	1,954
Payable from restricted assets, amounts held in escrow	<u>29,241</u>
<b>Total current liabilities</b>	<b><u>214,658</u></b>
<b>Non-current liabilities:</b>	
Accrued compensated absences	92,482
Net pension liability	<u>844,080</u>
<b>Total non-current liabilities</b>	<b><u>936,562</u></b>
<b>Total liabilities</b>	<b>1,151,220</b>
Deferred inflows of resources, deferred amounts from pensions	<u>184,780</u>
<b>Total liabilities and deferred inflows of resources</b>	<b><u>1,336,000</u></b>
<b>Net position:</b>	
Net investment in capital assets	8,351,356
Restricted	2,457,439
Unrestricted	<u>3,303,515</u>
<b>Total net position</b>	<b><u>14,112,310</u></b>
<b>Total liabilities, deferred inflows of resources and     net position</b>	<b><u>\$ 15,448,310</u></b>

See notes to financial statements.

**TOWN OF SYKESVILLE, MARYLAND**

STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2021

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
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 879,436	\$ 26,361	\$ 26,931		\$ (826,144)	\$ (826,144)
Public safety	980,944	2,175	68,212		(910,557)	(910,557)
Public works	1,420,026	53,872	187,278		(1,178,876)	(1,178,876)
Recreation and parks	369,738	2,705	1,263	\$ 295,377	(70,393)	(70,393)
Post office	150,724	118,684			(32,040)	(32,040)
Historic buildings	84,859	295	1,978		(82,586)	(82,586)
Interest on long-term debt	11,501				(11,501)	(11,501)
<b>Total primary government</b>	<b>\$ 3,897,228</b>	<b>\$ 204,092</b>	<b>\$ 285,662</b>	<b>\$ 295,377</b>	<b>(3,112,097)</b>	<b>(3,112,097)</b>
<b>General revenues:</b>						
Taxes:						
Income					1,045,142	1,045,142
Real estate					1,548,455	1,548,455
Personal property					40,373	40,373
Other					496	496
Impact fees					71,724	71,724
Grants, contributions and cable franchise fees not restricted for specific programs					329,839	329,839
Interest income					11,942	11,942
Miscellaneous					1,210	1,210
<b>Total general revenues</b>					<b>3,049,181</b>	<b>3,049,181</b>
<b>Changes in net position</b>					<b>(62,916)</b>	<b>(62,916)</b>
<b>Net position:</b>						
Beginning of year					14,175,226	14,175,226
<b>End of year</b>					<b>\$ 14,112,310</b>	<b>\$ 14,112,310</b>

See notes to financial statements.



**TOWN OF SYKESVILLE, MARYLAND**

BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2021

	<u>General fund</u>	<u>Total governmental funds</u>
<b>Assets:</b>		
Cash and cash equivalents:		
Unrestricted	\$ 2,819,788	\$ 2,819,788
Restricted	376,905	376,905
Cash with escrow agent, restricted	1,130,460	1,130,460
Certificates of deposit	620,934	620,934
Investments, unrestricted	101,175	101,175
Accounts receivable	24,287	24,287
Taxes receivable	193,771	193,771
Grants receivable	66,128	66,128
Due from other governments	83,475	83,475
Prepaid expenses	40,257	40,257
Notes receivable	996,332	996,332
	<hr/>	<hr/>
<b>Total assets</b>	<b>\$ 6,453,512</b>	<b>\$ 6,453,512</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 126,967	\$ 126,967
Accrued payroll and related benefits	43,909	43,909
Due to other governments	12,587	12,587
Payable from restricted assets, amounts held in escrow	29,241	29,241
	<hr/>	<hr/>
<b>Total liabilities</b>	<b>212,704</b>	<b>212,704</b>
	<hr/>	<hr/>
<b>Deferred inflows of resources, unavailable revenue</b>	<b>91,567</b>	<b>91,567</b>
	<hr/>	<hr/>
<b>Fund balances:</b>		
Nonspendable	57,274	57,274
Restricted	2,457,439	2,457,439
Assigned	928,086	928,086
Unassigned	2,706,442	2,706,442
	<hr/>	<hr/>
<b>Total fund balances</b>	<b>6,149,241</b>	<b>6,149,241</b>
	<hr/>	<hr/>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 6,453,512</b>	<b>\$ 6,453,512</b>
	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

**TOWN OF SYKESVILLE, MARYLAND**

RECONCILIATION OF THE BALANCE SHEET –  
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION  
JUNE 30, 2021

<b>Total fund balances, governmental funds</b>	<b>\$ 6,149,241</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension liability and related deferred amounts in governmental activities are not current financial resources and, therefore, are not reported in the fund financial statements.	(385,418)
Capital assets used in governmental activities are not available financial resources and, therefore, are not reported in the fund financial statements.	8,351,356
Revenues are recognized in the period for which earned rather than when "available." A portion of revenues are not an available financial resources and, therefore, are not reported in the fund financial statements.	91,567
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.	<u>(94,436)</u>
<b>Net position of governmental activities</b>	<b><u><u>\$ 14,112,310</u></u></b>

See notes to financial statements.

**TOWN OF SYKESVILLE, MARYLAND**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2021

	General fund	Total governmental funds
<b>Revenues:</b>		
Taxes	\$ 2,634,466	\$ 2,634,466
Intergovernmental	791,387	791,387
Charges for services	224,870	224,870
Licenses and permits	93,138	93,138
Fines and forfeitures	2,175	2,175
Interest income and rents	37,803	37,803
Miscellaneous	4,451	4,451
	<b>3,788,290</b>	<b>3,788,290</b>
<b>Expenditures:</b>		
General government	673,364	673,364
Public safety	613,614	613,614
Public works	703,261	703,261
Recreation and parks	271,082	271,082
Post office	150,578	150,578
Historic buildings	66,867	66,867
Miscellaneous	519,746	519,746
Debt service:		
Principal	277,151	277,151
Interest	11,501	11,501
Capital outlays	644,699	644,699
	<b>3,931,863</b>	<b>3,931,863</b>
<b>Total revenues</b>	<b>3,788,290</b>	<b>3,788,290</b>
<b>Deficiency of revenues over expenditures</b>	<b>(143,573)</b>	<b>(143,573)</b>
<b>Other financing sources, proceeds from sale of capital assets</b>	<b>1,500</b>	<b>1,500</b>
<b>Net changes in fund balances</b>	<b>(142,073)</b>	<b>(142,073)</b>
<b>Fund balances:</b>		
Beginning of year	6,291,314	6,291,314
<b>End of year</b>	<b>\$ 6,149,241</b>	<b>\$ 6,149,241</b>

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  
YEAR ENDED JUNE 30, 2021

**Net changes in fund balances, total governmental funds** **\$ (142,073)**

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	644,699
Depreciation expense	(834,600)

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. 277,151

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. 46,022

In the statement of activities, only the loss on the disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the disposals increase financial resources. Thus the change in net position differs from the change in fund balance by the net book value of the capital assets disposed. (11,032)

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	3,720
Net pension liability and related deferred inflows and outflows	(46,803)

**Changes in net position of governmental activities** **\$ (62,916)**

See notes to financial statements.

## **TOWN OF SYKESVILLE, MARYLAND**

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **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, 2021

#### **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, 2021

#### **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, 2021

**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.

*Investments:*

Investments in mutual funds with readily determinable market values are valued at their market values, which is the fair value based on quoted market prices, when available, or market prices provided by recognized broker-dealers.

*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, 2021

#### **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, 2021

#### **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, 2021

#### **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, 2021

#### **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 that requires 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, 2021, 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, 2021. 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, 2021

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

##### *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, 2021 were \$0.33 and \$0.875, respectively, per \$100 assessed property value.

##### *Adoption of new GASB pronouncements:*

The following summarizes GASB statements implemented by the Town during the year ended June 30, 2021 and the relating effects on the financial statements presentation and disclosure, as applicable:

GASB Statement No. 84, *Fiduciary Activities*. The requirements of this Statement will enhance consistency and comparability by 1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and 2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability will enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The provisions of this statement were implemented by the Town as of July 1, 2020, with no effect on the financial statements presentation or disclosure.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457-Deferred Compensation Plans - an Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The objectives of this Statement are to 1) increase consistency of financial reporting of defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans and other employee benefit plans, while mitigating the costs associated with reporting those plans, and 2) enhance the relevance, consistency and comparability of the information related to Internal Revenue Code Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans, and investment information for all Section 457 plans. The provisions of this Statement were early implemented by the Town as of July 1, 2020, with no effect on the financial statements presentation disclosure.

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**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, 2021 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 and investments:**

The deposits held as of June 30, 2021 were as follows:

<u>Type</u>	<u>Rating/Interest rate</u>	<u>Maturities</u>	<u>Carrying value</u>
Cash on hand			\$ 750
Demand deposits	0.00% - 0.01%		4,326,403
Certificates of deposit	0.20%	10/14/2021 - 11/27/2021	620,934
			<u>\$ 4,948,087</u>

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**2. Deposits and investments (continued):**

Reconciliation to statement of net position:

Current assets:

Cash and cash equivalents:

Unrestricted	\$ 2,819,788
Restricted	<u>46,741</u>

Total cash and cash equivalents	2,866,529
---------------------------------	-----------

Cash with escrow agent, restricted	1,130,460
------------------------------------	-----------

Certificates of deposit	<u>620,934</u>
-------------------------	----------------

Total current assets	4,617,923
----------------------	-----------

Non-current assets, cash and cash equivalents, restricted	<u>330,164</u>
---	----------------

Total current and non-current assets	<u><u>\$ 4,948,087</u></u>
--------------------------------------	----------------------------

Restricted cash and cash equivalents and cash with escrow agent as of June 30, 2021 are comprised as follows:

Gate House contribution	\$ 163,279
Public project funds	184,385
Other deposits	29,241
Warfield Complex renovation escrow	<u>1,130,460</u>
	<u><u>\$ 1,507,365</u></u>

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

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

## **TOWN OF SYKESVILLE, MARYLAND**

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **2. Deposits and investments (continued):**

As of June 30, 2021 the Town was invested in a mutual fund which does not meet the definition of a money market mutual fund and therefore was out of compliance with their investment policy. The investment was unrated and had an average maturity of less than a year. Subsequent to year-end, the mutual fund was liquidated and placed in a holding that complies with the investment policy.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs and Level 3 inputs are significant unobservable inputs. The Town's investment in the Putnam Ultra Short Duration Income Fund of \$101,175 is valued using quoted prices in active markets for identical assets (Level 1). The Town has no investments categorized as Level 2 or Level 3.

#### *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 \$5,001,626 as of June 30, 2021, \$3,636,939 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.

Deposits in a financial institution, reported as investments, had a bank balance of \$101,175 as of June 30, 2021, all of which is insured.

#### *Interest rate and credit risk:*

The Town's formal investment policy limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates as follows: the Town will attempt to match its investments with anticipated cash flow requirements and unmatched investments are to be limited to securities maturing up to three years from the date of purchase. In addition, reserve funds may be invested in securities maturing up to five years from date of purchase if such maturity is made to precede or coincide with the expected need for funds and appropriate management approval.

The Town's formal investment policy limits investment credit risk to the highest possible rating from at least one statistical rating organization designated by the Securities and Exchange Commission (SEC) for money market mutual funds instruments.



## **TOWN OF SYKESVILLE, MARYLAND**

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **2. Deposits and investments (continued):**

##### *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, 2021, 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.

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 (this deadline was not met), 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, 2021, the ending balance in the three escrows was \$1,434,186, 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. Certified work done on parcel D as of June 30, 2021 was \$27,566.

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**4. Notes receivable:**

The Town has a note agreement with 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 the restaurant. 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, 2021, the balance owed on the note is \$17,017.

In June 2018, the Town entered into a note agreement with the purchaser of the Warfield Complex for \$1,000,000. 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, 2021, the balance owed by the developer on the note is \$979,315, plus accrued interest of \$89,524. The principal payments are expected to be paid as the related parcels and condominium units are sold by the purchaser. No principal payments were made during the year ended June 30, 2021. The Town has recorded an allowance against the accrued interest due to collectability concerns. Interest is accruing at a rate of 4.37%.

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

<u>Year ending June 30,</u>	<u>Governmental activities</u>
2022	\$ 987,216
2023	4,868
2024	4,248
	<u>\$ 996,332</u>

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**5. Capital assets and depreciation:**

A summary of governmental activities is as follows:

	Balance July 1, 2020	Increases	Decreases	Transferred to active status	Balance June 30, 2021
Capital assets:					
Non-depreciable assets:					
Construction in progress	\$ 33,677	\$ 9,575		\$ (21,500)	\$ 21,752
Land	1,407,171				1,407,171
Total non-depreciable assets	1,440,848	9,575		(21,500)	1,428,923
Depreciable assets:					
Buildings and improvements	3,711,474	12,500	\$ 308,314		3,415,660
Equipment	1,592,458	441,979	8,473	21,500	2,047,464
Infrastructure	12,604,017				12,604,017
Vehicles	1,142,610	180,645	30,343		1,292,912
Total depreciable assets	19,050,559	635,124	347,130	21,500	19,360,053
Total capital assets	20,491,407	644,699	347,130	-	20,788,976
Accumulated depreciation:					
Buildings and improvements	2,546,276	121,658	298,032		2,369,902
Equipment	1,116,841	60,337	8,473		1,168,705
Infrastructure	7,454,420	559,390			8,013,810
Vehicles	821,581	93,215	29,593		885,203
Total accumulated depreciation	11,939,118	834,600	336,098		12,437,620
Total capital assets, net	\$ 8,552,289	\$ (189,901)	\$ 11,032	\$ -	\$ 8,351,356

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**5. Capital assets and depreciation (continued):**

Depreciation expense, calculated using the straight-line method, for the year ended June 30, 2021 was charged to the governmental activities functions as follows:

General government	\$ 54,305
Public safety	69,082
Public works	633,650
Recreation and parks	59,571
Historic buildings	<u>17,992</u>
	<u><u>\$ 834,600</u></u>

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

As of June 30, 2021, the Town had paid off the balance of its 2008 General Obligation bonds.

The following is a summary of changes in non-current liabilities, excluding net pension liability, for governmental activities for the year ended June 30, 2021:

Type of liability	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Due within one year
Bonds payable					
2008 general obligation bonds	\$ 277,151		\$ 277,151	\$ -	\$ -
Accrued compensated absences	<u>102,966</u>		<u>8,530</u>	<u>94,436</u>	<u>1,954</u>
Total non-current liabilities excluding net pension liability	<u><u>\$ 380,117</u></u>		<u><u>\$ 285,681</u></u>	<u><u>\$ 94,436</u></u>	<u><u>\$ 1,954</u></u>

Liabilities in governmental activities are liquidated from general revenues in the General Fund.

Interest and related costs incurred for governmental activities for the year ended June 30, 2021 was \$11,501, all of which was expensed.

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**7. Net position and fund balances:**

The following is a summary of General Fund nonspendable fund balance as of June 30, 2021:

Prepaid expenses	\$ 40,257
Notes receivable	<u>17,017</u>
	<u>\$ 57,274</u>

The following is a summary of restricted net position in the governmental activities and restricted fund balance in the General Fund as of June 30, 2021:

Gate House Museum	\$ 163,279
Public project funds	184,385
Note receivable - Warfield Purchaser	979,315
Warfield Complex renovation escrow	<u>1,130,460</u>
	<u>\$ 2,457,439</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.

Note receivable - Warfield Purchaser - Outstanding balance on note from Warfield purchaser. The balance of which, once received, will be added to the Warfield Complex renovation escrow.

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, 2021

**7. Net position and fund balances (continued):**

The following is a summary of General Fund assigned fund balance as of June 30, 2021:

Capital reserve	\$ 438,281
Gate House Museum	7,500
Impact fees	203,283
Parking impact fees	24,022
Repaving Reserve	250,000
Town House - Exterior Maintenance	<u>5,000</u>
	<u>\$ 928,086</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.

**8. South Branch Park Cooperative agreement and lease:**

On December 14, 2006, the Town entered into an agreement with Howard County, Maryland, (the County). The County owns 9.578 acres of land presently improved with 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, 2021 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.

## ***TOWN OF SYKESVILLE, MARYLAND***

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **8. South Branch Park Cooperative agreement and lease (continued):**

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.

#### **9. 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.

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.

## ***TOWN OF SYKESVILLE, MARYLAND***

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **9. Water tower agreement (continued):**

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, 2021, the water tower has not been demolished, and the purchaser did not have any cell tower rental agreements in place.

#### **10. Cost-sharing stormwater mitigation project with Carroll County:**

Under Federal court order, the Environmental Protection Agency was ordered to implement a Chesapeake Bay clean up. The State of Maryland established a 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%. The five-year agreement expired as of June 30, 2020, and all parties agreed to continue the agreement terms through annual extensions until they finalize the Fifth Generation Permit. The Town's portion for these costs for the year ended June 30, 2021 was \$40,002. Subsequent to year end, an agreement was signed requiring annual payments through the fiscal year ending June 30, 2029. See further details in Note 15.

#### **11. 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).



## **TOWN OF SYKESVILLE, MARYLAND**

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **11. Pension plans (continued):**

*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/2020\\_msrrps\\_cafr-web\\_final.pdf](https://sra.maryland.gov/sites/main/files/file-attachments/2020_msrrps_cafr-web_final.pdf)

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

Employees are eligible for ordinary disability pension allowances upon completing five years of eligibility service. Ordinary disability pension allowances equal the full service pension allowances if the members are at least age 62 on the date of retirement. Otherwise, the allowances equal the full service pension allowances computed as though the members had continued to accrue service credits until age 62 without any change in the rate of earnable compensation.

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.

## **TOWN OF SYKESVILLE, MARYLAND**

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **11. Pension plans (continued):**

*General information about the pension plans:*

Employees' pension system:

**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, 2021 was 6.71% 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 \$46,624 for the year ended June 30, 2021.

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/2020\\_msrrps\\_cafr-web\\_final.pdf](https://sra.maryland.gov/sites/main/files/file-attachments/2020_msrrps_cafr-web_final.pdf)

**Benefits provided** - The LEOPS Plan provides retirement, disability and death benefits. 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.

## **TOWN OF SYKESVILLE, MARYLAND**

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **11. Pension plans (continued):**

*General information about the pension plans:*

##### Law Enforcement Officers' Pension System (LEOPS):

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.

LEOPS Plan members accumulating at least one year 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 members in service, but not in performance of duty equals 50% of the applicable ordinary disability allowance. The special death benefit provided upon death in the performance of duty equals 66.67% 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, 2021 was 34.93% 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 \$78,889 for the year ended June 30, 2021.

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**11. Pension plans (continued):**

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

As of June 30, 2021, the Town reported a liability of \$844,080 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Town's proportion was 0.0037%, which was an increase of 0.0014% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$120,019. As of June 30, 2021, 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		\$ 20,326
Changes of assumptions	\$ 2,329	10,524
Net difference between projected and actual earnings on pension plan investments	63,434	
Changes in Town's proportionate share of contributions	452,166	153,930
Town contributions subsequent to the measurement date	125,513	
 Total	 \$ 643,442	 \$ 184,780

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**11. Pension plans (continued):**

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

\$125,513 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, 2022. 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:

2022	\$ 79,893
2023	76,421
2024	81,068
2025	112,209
2026	<u>(16,442)</u>
	<u>\$ 333,149</u>

Actuarial assumptions - The total pension liability in the June 30, 2020 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 11.60%, 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, 2020 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, 2021

**11. 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:

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Public equity	37%	5.2%
Private equity	13%	6.5%
Rate sensitive	19%	-0.3%
Credit opportunity	9%	2.8%
Real assets	14%	4.3%
Absolute return	<u>8%</u>	1.8%
	<u>100%</u>	

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.

**TOWN OF SYKESVILLE, MARYLAND**

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2021

**11. 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	\$ 1,201,683	\$ 844,080	\$ 546,228

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

**12. Deferred compensation plans:**

The Town, in accordance with Town Council approval, has two deferred compensation plans created in accordance with Internal Revenue Code Sections 457(b) and 401(a), respectively. 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, 2021.

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, 2021.

The 401(a) plan, effective July 1, 2005, permits the Town to contribute 5% to 10% of eligible employees' salary to a maximum of \$58,000 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 \$8,911 to the 401(a) plan for the year ended June 30, 2021.

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, 2021

#### **13. Risk management:**

The Town is exposed to various risks of loss related to torts; theft of, or damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Town self-insures against risks of loss in relation to unemployment compensation, as determined and required by the State. 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, 2021, and the amount of settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

#### **14. 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, 2021, 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 July 2021 that among other items, provides that the Town will provide the Connection with a minimum of \$50,000 of funding for the year ended June 30, 2022.



## ***TOWN OF SYKESVILLE, MARYLAND***

### NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2021

#### **14. Other commitments and contingencies (continued):**

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.

#### **15. Subsequent events:**

On October 7, 2021 the Town, along with seven other municipalities, entered into a memorandum of agreement for cost-sharing stormwater mitigation projects within the County. Under the agreement, the Town is required to contribute an annual amount to the project beginning in the fiscal year ending June 30, 2022 through the fiscal year ending June 30, 2029. The agreed upon annual amounts range from \$23,037 through \$32,415, totaling \$196,946 under the entire agreement.

In preparing these financial statements, the Town has evaluated events and transactions for potential recognition or disclosure through January 24, 2022, the date the financial statements were available to be issued.

**TOWN OF SYKESVILLE, MARYLAND**

BUDGETARY COMPARISON SCHEDULE - GENERAL FUND (UNAUDITED)

YEAR ENDED JUNE 30, 2021

(See independent auditor's report)

	Original budget	Final budget	Actual	Variance
<b>Revenues:</b>				
Taxes	\$ 2,212,582	\$ 2,236,938	\$ 2,634,466	\$ 397,528
Intergovernmental	582,875	946,137	791,387	(154,750)
Charges for services	212,260	220,604	224,870	4,266
Licenses and permits	72,374	79,374	93,138	13,764
Fines and forfeitures	1,500	1,500	2,175	675
Interest income and rents	113,200	67,200	37,803	(29,397)
Miscellaneous	8,050	6,050	4,451	(1,599)
<b>Total revenues</b>	<b>3,202,841</b>	<b>3,557,803</b>	<b>3,788,290</b>	<b>230,487</b>
<b>Expenditures:</b>				
General government	704,662	771,962	673,364	98,598
Public safety	603,400	629,275	613,614	15,661
Public works	684,482	681,949	703,261	(21,312)
Recreation and parks	270,200	295,400	271,082	24,318
Post office	193,900	195,400	150,578	44,822
Historic buildings	61,500	87,500	66,867	20,633
Miscellaneous	603,240	543,344	519,746	23,598
Debt service	98,847	288,653	288,652	1
Capital outlays	376,700	834,060	644,699	189,361
<b>Total expenditures</b>	<b>3,596,931</b>	<b>4,327,543</b>	<b>3,931,863</b>	<b>395,680</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(394,090)</b>	<b>(769,740)</b>	<b>(143,573)</b>	<b>626,167</b>
<b>Other financing sources, proceeds from sale of capital assets</b>	<b>-</b>	<b>1,500</b>	<b>1,500</b>	<b>-</b>
<b>Net changes in fund balance</b>	<b>(394,090)</b>	<b>(768,240)</b>	<b>(142,073)</b>	<b>626,167</b>
<b>Fund balance:</b>				
Beginning of year	6,291,314	6,291,314	6,291,314	-
<b>End of year</b>	<b>\$ 5,897,224</b>	<b>\$ 5,523,074</b>	<b>\$ 6,149,241</b>	<b>\$ 626,167</b>

**TOWN OF SYKESVILLE, MARYLAND**

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

	2021	2020	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	0.0037%	0.0024%	0.0022%	0.0019%	0.0020%	0.0016%	0.0015%
Town's proportionate share of the net pension liability	\$ 844,080	\$ 491,720	\$ 452,233	\$ 403,985	\$ 468,417	\$ 334,226	\$ 258,150
Town's covered payroll	\$ 1,009,501	\$ 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	83.61%	54.94%	52.93%	49.30%	60.56%	50.90%	38.20%
Plan fiduciary net position as a percentage of the total pension liability	70.72%	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.

	2021	2020	2019	2018	2017	2016	2015
Mortality table	Pub- 2010/MP2018	Pub- 2010/MP2018	RP-2014	RP-2014	RP-2014	RP-2014	RP-2010
Investment return	7.40%	7.40%	7.45%	7.50%	7.55%	7.55%	7.65%
Inflation	2.60%	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 SEVEN 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
2021	\$ 125,513	\$ (125,513)		\$ 1,009,501	12.4%
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.