

**WARFIELD DEVELOPMENT CORPORATION**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**DECEMBER 31, 2008**

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## INDEPENDENT ACCOUNTANTS' REPORT

August 24, 2009

Board of Directors  
Warfield Development Corporation

We have compiled the accompanying statement of net assets of the **Warfield Development Corporation** (a nonprofit entity, and a component unit of the Town of Sykesville, Maryland) as of December 31, 2008, and the related statements of revenues, expenses, and changes in fund net assets, and cash flows for the year then ended in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting information that is the representation of management in the form of financial statements. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them. However, we did become aware of the departure from accounting principles generally accepted in the United States of America that is described in the following paragraph.

The Corporation's management has declined to disclose its legal obligation, under a master ground lease agreement, to the Town of Sykesville, Maryland in relation to pollution remediation obligations applicable to the Town under Governmental Accounting Standards Board Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*. The omission of that information is a departure from accounting principles generally accepted in the United States of America. The Corporation has informed us that the effect on the financial statements of this departure has not been determined.

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WARFIELD DEVELOPMENT CORPORATION

STATEMENT OF NET ASSETS

DECEMBER 31, 2008

	Warfield Complex Fund
<b>ASSETS</b>	
<b>CURRENT ASSETS</b>	
Cash and Cash Equivalents	
Unrestricted	\$ 94,523
Restricted	45,418
<b>TOTAL CURRENT ASSETS</b>	<u>139,941</u>
<b>NON-CURRENT ASSETS</b>	
Buildings and Improvements	2,821,203
Infrastructure	202,526
	<u>3,023,729</u>
Less: Accumulated Depreciation	175,886
	<u>2,847,843</u>
Construction in Progress	1,036,427
<b>TOTAL NON-CURRENT ASSETS</b>	<u>3,884,270</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 4,024,211</u></u>
<b>LIABILITIES AND NET ASSETS</b>	
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES</b>	
Accounts Payable	\$ 66,616
Accrued Interest Payable	142,637
Due to Primary Government	48,416
Current Portion of Notes Payable	274,225
Payable from Restricted Assets	
Accounts Payable	45,418
<b>TOTAL CURRENT LIABILITIES</b>	<u>577,312</u>
<b>NON-CURRENT LIABILITIES</b>	
Notes Payable	4,707,187
Due to Primary Government	105,467
<b>TOTAL NON-CURRENT LIABILITIES</b>	<u>4,812,654</u>
<b>TOTAL LIABILITIES</b>	<u>5,389,966</u>
<b>NET ASSETS</b>	
Investment in Capital Assets (Net of Related Debt)	962,950
Unrestricted	(2,328,705)
<b>TOTAL NET ASSETS</b>	<u>(1,365,755)</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 4,024,211</u></u>

See Accountants' Report and Accompanying Notes

**WARFIELD DEVELOPMENT CORPORATION**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	Warfield Complex Fund
<b>OPERATING REVENUES</b>	
Charges for Services	\$ 58,922
<b>TOTAL OPERATING REVENUES</b>	<b>58,922</b>
<b>OPERATING EXPENSES</b>	
Administrative and General	1,154
Depreciation	77,477
Professional Services	28,708
Property Services	36,737
<b>TOTAL OPERATING EXPENSES</b>	<b>144,076</b>
<b>OPERATING LOSS</b>	<b>(85,154)</b>
<b>NON-OPERATING EXPENSES</b>	
Interest Expense	162,590
<b>TOTAL NON-OPERATING EXPENSES</b>	<b>162,590</b>
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	<b>(247,744)</b>
Capital Contributions from Other Governments	377,080
Capital Contributions to Primary Government	(89,247)
<b>CHANGES IN NET ASSETS</b>	<b>40,089</b>
Net Assets - Beginning of Year, as restated	(1,405,844)
<b>NET ASSETS - END OF YEAR</b>	<b>\$ (1,365,755)</b>

See Accountants' Report and Accompanying Notes

**WARFIELD DEVELOPMENT CORPORATION**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>Warfield Complex Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Inflows:	
Cash Received from Tenants	\$ 74,922
Outflows:	
Cash Payments to Suppliers for Services and Goods	66,118
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>8,804</b>
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Inflows:	
Proceeds from Debt Financing	363,656
Capital Contributions from Other Governments	377,080
	<u>740,736</u>
Outflows:	
Acquisition of Capital Assets	507,921
Interest Paid on Long-Term Debt	84,272
Capital Contributions to Primary Government	89,247
	<u>681,440</u>
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>59,296</b>
 <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	 68,100
Cash and Cash Equivalents - Beginning of Year	71,841
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b><u><u>\$ 139,941</u></u></b>

See Accountants' Report and Accompanying Notes

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**

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

The Warfield Development Corporation (Corporation) was incorporated in January of 2002. The Corporation is a 501(c)(3) nonprofit organization dedicated to the development and implementation of long-range strategies to support, maintain and enhance the Town of Sykesville, Maryland's economy, promote and foster rehabilitation and private development within the Town, and preserve and enhance the historical and cultural environment of the Town as authorized by its Articles of Incorporation.

The Corporation is a component unit of the Town of Sykesville, Maryland and a governmental nonprofit organization because five of nine authorized board member positions (a controlling majority) are appointed and/or occupied by the Town Mayor and members of the Town Council.

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable), that does not conflict with or contradict GASB pronouncements.

In evaluating how to define the Corporation for financial reporting purposes, management has considered all potential component units. The basis for determining component units is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Corporation is able to exercise oversight responsibilities. Based upon the application of this criteria, there are no separate component units of the Corporation.

*Basic Financial Statements - Fund Financial Statements*

The financial transactions of the Corporation's operations are reported in the Warfield Complex Fund. This fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, reserves, fund equity, revenues, and expenses. The Warfield Complex Fund is classified as a proprietary fund.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

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

*Proprietary Funds*

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations.

The principal operating revenue for the Warfield Complex Fund is charges for rental service provided to residents within the Warfield Complex. Operating expenses include professional service, property services, administrative and general costs, and depreciation on capital assets. All revenues or expenses not meeting this definition are reported as non-operating revenues and expenses.

The Warfield Complex Fund is classified as an enterprise fund. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges, or (c) establishes fees and charges based on a pricing policy designed to recover similar costs.

*Basis of Accounting*

The Corporation's 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. Grants and similar items are recognized as revenue as soon as all eligible requirements imposed by the provider have been met.

*Cash and Cash Equivalents*

For purposes of the statement of cash flows, the Corporation considers all short-term debt securities purchased with an original 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.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

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

*Property and Equipment*

Additions are recorded at cost or, if contributed property, at their estimated fair value at the time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. Depreciation has been calculated using the straight-line method over thirty-nine years for buildings and improvements and forty years for infrastructure.

*Net Assets*

In the financial statements, net assets are classified in the following categories:

*Investment in Capital Assets, Net of Related Debt* - This category groups all capital assets, including infrastructure, into a component of net assets. Accumulated depreciation and the outstanding balance of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

*Restricted Net Assets* - This category presents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* - This category represents the net assets of the Corporation, which are not restricted for any project or other purpose. However, these funds may be designated for specific projects or purposes in the fund financial statements.

*Inter-Entity Activity*

Flows of cash from the Corporation to the Town of Sykesville, the Corporation's primary government, without a requirement for repayment are reported as capital contributions to primary government in the Warfield Complex Fund. Balances owed to the Town are classified as due to primary government.

*Estimates*

Management of the Corporation 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 and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 2. Cash**

<u>Type</u>	<u>Carrying Value</u>
Deposits	
Demand Deposits	\$139,941
Total Deposits	<u>\$139,941</u>
Reconciliation to Statement of Net Assets:	
Current:	
Cash and Cash Equivalents	
Unrestricted	\$ 94,823
Restricted	<u>45,118</u>
	<u>\$139,941</u>

Restricted cash as of December 31, 2008 consists of the following: \$45,418 received from another governmental agency restricted for payment of approved construction costs, which have not yet been remitted.

*Custodial Credit Risk*

Deposits in a financial institution, reported as cash, had a bank balance of \$153,689 at December 31, 2008, which was fully insured by Federal Depository Insurance Coverage.

*Interest Rate Risk*

The Corporation has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. There were no investments held at December 31, 2008.

*Credit Risk*

The Corporation has no formal investment policy that limits the types of instruments eligible for investments.

*Concentration of Investment Credit Risk*

The Corporation places no limit on the amount it may invest in any one issuer. At December 31, 2008, the Corporation had no concentration of credit risk.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 3. Capital Assets**

Capital asset activity for the year ended December 31, 2008 was as follows:

	Balance January 1, <u>2008</u>	<u>Increases</u>	Balance December 31, <u>2008</u>
Non-Depreciable Assets:			
Construction in Progress	\$ 740,664	\$295,763	\$1,036,427
Depreciable Assets:			
Buildings and Improvements	2,821,203	-	2,821,203
Infrastructure	<u>202,526</u>	<u>-</u>	<u>202,526</u>
Total Depreciable Assets	<u>3,023,729</u>	<u>-</u>	<u>3,023,729</u>
Total Capital Assets	<u>3,764,393</u>	<u>295,763</u>	<u>4,060,156</u>
Accumulated Depreciation:			
Buildings and Improvements	93,346	72,414	165,760
Infrastructure	<u>5,063</u>	<u>5,063</u>	<u>10,126</u>
	<u>98,409</u>	<u>77,477</u>	<u>175,886</u>
Total Capital Assets, Net	<u>\$3,665,984</u>	<u>\$218,286</u>	<u>\$3,884,270</u>

**Note 4. Long-Term Debt**

All long-term debt of the Corporation is payable based on net income and net proceeds generated, which is defined in agreements with the respective agencies. All payments are due annually on April 30<sup>th</sup>, and any unpaid principal and interest due after that date is added to the outstanding principal. Long-term debt as of December 31, 2008 consists of the following:

\$4,000,000 Department of Business and Economic Development (DBED) Loan due in annual principal payments plus interest paid annually at a fixed rate of three percent. The loan matures in December 2025, and the outstanding portion of the loan will be forgiven by the agency. The loan is secured by a first lien Deed of Trust on the Town of Sykesville's fee simple interest in the Warfield Complex property.	\$3,849,568
\$1,097,680 Carroll County (CC) Trust Fund Loan due in annual principal payments plus interest paid annually at a fixed rate of three percent, with all outstanding principal and interest due in April 2030. The loan is secured by a second lien Deed of Trust on the Town of Sykesville's fee simple interest in the Warfield Complex property.	1,131,844
\$99,790 Town of Sykesville Loan due in annual principal payments plus interest paid annually at a fixed rate of three percent, with all outstanding principal and interest due in April 2033.	<u>109,861</u>
Total Long-Term Debt	<u>\$5,091,273</u>

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 4. Long-Term Debt - continued**

The following is a summary of changes in long-term debt for the year ended December 31, 2008.

<u>Type of Debt</u>	<u>Balance January 1, 2008, as restated</u>	<u>Additions</u>	<u>Balance December 31, 2008</u>	<u>Due Within One Year</u>
Notes Payable				
DBED Loan	\$3,550,112	\$299,456	\$3,849,568	\$222,778
CC Trust Fund Loan	<u>1,067,644</u>	<u>64,200</u>	<u>1,131,844</u>	<u>51,447</u>
Total Notes Payable	<u>4,617,756</u>	<u>363,656</u>	<u>4,981,412</u>	<u>274,225</u>
Due to Primary Government	.....99,790	...10,071	...109,861	....4,394
Total Long-Term Debt	<u>\$4,717,546</u>	<u>\$373,727</u>	<u>\$5,091,273</u>	<u>\$278,619</u>

Principal and interest maturities for long-term debt are as follows, assuming net income and net proceeds requirements are met:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 278,619	\$ 157,551
2010	278,619	149,193
2011	278,619	140,833
2012	278,619	132,475
2013	278,619	124,118
2014-2018	1,393,095	495,205
2019-2023	1,393,095	286,240
2024-2028	787,103	83,959
2029-2033	<u>124,885</u>	<u>6,608</u>
	<u>\$5,091,273</u>	<u>\$1,576,182</u>

**Note 5. Lease Agreements**

The Corporation entered into several lease agreements for commercial real estate in the Warfield Complex. Total rental income recognized for the year ended December 31, 2008, including common area charges, was \$58,922.

Total future minimum annual rental income is anticipated as follows:

2009	\$ 52,890
2010	53,979
2011	55,099
2012	50,682
2013	34,990
Thereafter	<u>1,801,341</u>
Total	<u>\$2,048,981</u>

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 5. Lease Agreements - continued**

The leases have varying terms from five to 45 years, and annual escalators from 1.5% to 3% annually, based on the agreement anniversary dates. One of the lease agreements has a tenant-optional five year extension.

**Note 6. Reconciliation of Operating Loss to Net Cash Provided by Operating Activities**

Operating Loss	\$(85,154)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:	
Depreciation	77,477
Decrease In:	
Accounts Receivable	41,000
Increase (Decrease) In:	
Accounts Payable	481
Deferred Revenue	<u>(25,000)</u>
Net Cash Provided by Operating Activities	<u>\$ 8,804</u>

**Note 7. Town of Sykesville, Maryland Transactions and Agreements**

As discussed in Note 1, the Corporation is a component unit of the Town of Sykesville, Maryland (Town). The Town serves as a subrecipient for the Corporation for various funding sources relating to the redevelopment of the Warfield Complex. In January 2005, the Town entered into a 95-year master ground lease with the Corporation for the Warfield Complex for re-development and preservation of a historic nature, which will expire in December 2099. Rental payments due under the lease are contingent upon cash flow, as defined by the agreement, generated by the operation of the complex as follows: 100% of net cash flows after 75% of gross cash flows have been distributed to the Maryland Department of Health and Mental Hygiene, for benefit of the Community Trust Fund, up to the fund reaching \$1,000,000, after which point the Town will receive 50% of gross cash flows generated from the operation of the complex. For the year ended December 31, 2008, no rental payments were made under this agreement.

Upon incorporation and formal organization in 2005, the Corporation began to directly receive the funding sources. As part of the subrecipient capacity, the Town advanced funds to cover architectural, engineering, legal, and development costs for the complex and is due \$99,790 from the Corporation as of December 31, 2008.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 7. Town of Sykesville, Maryland Transactions and Agreements - continued**

In February 2005, the Corporation entered into a repayment agreement with the Town for the advanced funds, with payment due in annual principal installments plus interest at a fixed rate of three percent per annum on April 30<sup>th</sup>, and any unpaid

principal and interest due after that date is added to the outstanding principal. The loan matures in April 2033, with all outstanding principal and interest due and payable at that time. The note is payable based on net income and net proceeds generated, which is defined in the agreement. Future maturities for the note have been included in Note 4.

In addition, the Town, from time to time, serves as the primary vendor for Warfield Complex activities, and amounts incurred on behalf of the Corporation of \$44,022 as of December 31, 2008 are due on demand. There are no stated interest-terms on these inter-entity loans, and no amounts are anticipated to extend beyond one year.

Included in the funding sources for the re-development is a \$4,000,000 loan from the Department of Business and Economic Development (DBED) to the Corporation, which includes designation of budgeted funds related to the relocation of the MD-851/MD-32 intersection. The Corporation is solely responsible for the repayment of the loan based on an agreement between the DBED and the Corporation. For the year ended December 31, 2008, the Corporation advanced \$89,247 from disbursement requests to the DBED to the Town, which have been reported as capital contributions to primary government in the Corporation's financial statements.

In February 2005, the Town entered into a promissory note with the Corporation, which was approved by the Carroll County Commissioners, for joint promise to pay the maturing principal and interest on a County Trust Fund loan of up to \$1,097,680 for the relocation of the MD-851/MD-32 intersection, \$1,067,644 of which has been disbursed as of December 31, 2008. The loan bears a simple interest rate of 3% per annum, which will accrue on the principal balance outstanding beginning on February 2005 and is due annually on April 30<sup>th</sup>. Payments are due and payable on an annual basis with the final maturity being on or before April 30, 2030.

The promissory note subsequently assigns the responsibility of repayment on the debt to the Corporation based on the County Deed of Trust, and that neither the Corporation nor DBED are able to seek any judgment for a deficiency of repayment against the Town. No disbursements were made during the year ended December 31, 2008.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 8. Concentration of Credit Risk**

The Corporation provides services within the Warfield Complex in Carroll County, Maryland. Credit is granted to the residents of the Warfield Complex for rents.

**Note 9. Risk Management**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to directors; and natural disasters. The Corporation purchases commercial insurance coverage for these types of losses, including accident insurance. Settled claims for the Corporation resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 10. Commitments and Contingencies**

In the normal course of operations, the Corporation receives grant funds from various state agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement, which may arise as the result of the audits, is not believed to be material.

**Note 11. Environmental Concerns**

The Warfield Complex buildings contain asbestos, and the estimated cost of asbestos abatement based on a study performed in 1995 was \$370,200. No subsequent studies have been performed. If contamination occurred, the Town of Sykesville, Maryland and/or the Corporation could become liable for the cost of abatement; however, it is improbable that such an event would occur, since the affected buildings are uninhabited and secured. Management has not measured the impact of implementation of GASB Statement 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* on its financial statements, which addresses recognition of pollution remediation liabilities.

**Note 12. Deficit Net Assets**

The deficit in net assets results from the excess outstanding debt not related to capital assets over available current resources. All long-term debt of the Corporation is payable based on net income and net proceeds generated, as further disclosed in Note 4.

**WARFIELD DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS - continued**

**Note 13. Prior Period Adjustment**

During the year ended December 31, 2008, the following changes were made to the January 1, 2008 Warfield Complex Fund net assets balance:

Net Assets as of January 1, 2008, as Originally Stated	\$(1,023,247)
Decrease due to County budget adjustment, proceeds previously recognized as a capital contribution from other governments are now expected to be repaid and are included in the loan balance	<u>(382,597)</u>
Net Assets as of January 1, 2008, as Restated	<u><u>\$(1,405,844)</u></u>