

October 21, 2013



REGULAR SESSION #19

TOWN OF OCEAN CITY, MARYLAND  
301 N. BALTIMORE AVENUE, OCEAN CITY, MARYLAND 21842

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THE HONORABLE MAYOR AND CITY COUNCIL PRESIDING

MAYOR RICHARD W. MEEHAN

COUNCIL PRESIDENT LLOYD MARTIN  
COUNCIL SECRETARY MARY KNIGHT

MARGARET PILLAS  
DOUGLAS CYMEK  
BRENT ASHLEY  
DENNIS DARE  
JOSEPH MITRECIC

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ATTENDANCE

Mayor Rick Meehan, Council President Lloyd Martin, Council Secretary Mary Knight, Council Members Doug Cymek, Brent Ashley, Dennis Dare, Margaret Pillas and Joe Mitrecic, City Solicitor Guy Ayres, Finance Director Martha Bennett, Public Works Director Hal Adkins, Planning and Community Development Director Matt Margotta, Zoning Administrator Blaine Smith, Special Events Director Frank Miller, Tourism Director Donna Abbott, City Clerk Kelly Allmond, Members of the Press and Interested Parties.

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CALL TO ORDER

Council President Lloyd Martin called the meeting to order at 5:30 p.m., in the Council Chambers of City Hall located at 301 North Baltimore Avenue in Ocean City, Maryland; then, **Council Member Joe Mitrecic moved to consult with counsel to obtain legal advice, and, discuss the appointment, employment, assignment, promotion, discipline, demotion, compensation, removal, resignation or performance evaluation or any matter affecting one or more appointees, employees or officials over whom it has jurisdiction; seconded by Council Secretary Knight. The vote was 6-0 with Council Member Cymek absent.**

Council President Lloyd Martin reopened the meeting at 6:00 p.m.

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PRAYER AND PLEDGE

Council Secretary Mary Knight led the prayer and Pledge of Allegiance.

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REPORT ON CLOSED SESSION - MONDAY, OCTOBER 21, 2013 - 5:30 - 6:00 P.M.

Council President Martin reported that legal and personnel matters were discussed in closed session. Persons present were: Mayor Rick Meehan, Council President Lloyd Martin, Council Secretary Mary Knight, Council Members Doug Cymek, Brent Ashley, Dennis Dare, Margaret Pillas and Joe Mitrecic, City Solicitor Guy Ayres, Finance Director Martha Bennett, Graylin Smith and Chris Lehman of SB & Co., and Executive Office Associate Diana Chavis. The vote to close the meeting was unanimous.

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APPROVAL OF MINUTES

The following Minutes were approved as presented:

- A. Regular Session #18 dated October 7, 2013
- B. Work Session dated October 15, 2013

## **ITEMS PRESENTED BY THE MAYOR AND CITY COUNCIL**

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- A. Presentation of Key to the City to Thomas Singman in Recognition of his Years of Service on the Planning and Zoning Commission
- B. Standing Committee Reports
- Council Member Doug Cymek reported on the Police Commission Meeting held on October 11, 2013 (see Attachment A)
  - Council Secretary Mary Knight reported on the Tourism Meeting held on October 11, 2013 (see Attachment B)  
**Council Member Brent Ashley moved to accept the Tourism Commission's recommendation to draft an RFP for the development of a strategic plan for Tourism; seconded by Council Member Pillas. The vote was unanimous.**
  - Council Member Joe Mitrecic reported on the Recreation & Parks Meeting held on October 15, 2013 (see Attachment C)
    - **Council Secretary Mary Knight moved to accept the Committee's recommendation to allow little league baseball and fast pitch softball tournaments at Northside Park; seconded by Council Member Pillas. The vote was unanimous.**
    - **Council Member Brent Ashley moved to accept the committee's recommendation to approve the draft policy and procedure for the Caroline Street Boardwalk Stage; seconded by Council Secretary Knight. The vote was unanimous.**
    - **Council Secretary Mary Knight moved to accept the committee's recommendation to proceed with soliciting RFPs for Kayak Rental Concessions at Northside Park; seconded by Council Member Pillas. The vote was unanimous.**

## **CONSENT AGENDA**

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- A. Request Approval to Sole Source Purchase Replacement Fire Turnout Gear
- B. Bid Award Recommendation for Chemicals
- C. Request Approval to Solicit Bids for South End Beach Parcel Franchises

**Council Member Joe Mitrecic moved to approve Items A, B and C as presented; seconded by Council Member Ashley. The vote was unanimous.**

## **MISCELLENEOUS REPORTS AND PRESENTATIONS**

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- A. Announcement of Special Meeting on the Patient Protection and Affordable Care Act presented by Chris Norris, OC AARP President
- B. Report from Independent Auditor presented by Graylin Smith of SB & Company LLC (see Attachment D)
- C. Presentation of the FY13 Comprehensive Annual Financial Report presented by Finance Administrator (see Attachment E)

## **ITEMS REFERRED TO AND PRESENTATIONS FROM THE CITY SOLICITOR**

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First Reading – **Ordinance 2013-14** to Amend Chapter 110 Entitled Zoning (revises language to clarify parking space requirements for restaurant use within shopping centers) **Council Member Joe Mitrecic moved to approve the First Reading of Ordinance 2013-14; seconded by Council Secretary Knight. The vote was unanimous.**

**COMMENTS FROM THE PUBLIC**

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- Tony Christ requested clarification to SB & Company's statement about the preparation of the financial statements. Graylin Smith of SB & Company said the financial statements presented to them were deemed proper. Secondly, Mr. Christ asked Finance Director Martha Bennett why the depreciable value of Capital Assets grew since 2012. Finance Director Martha Bennett advised that since 2012, the Town has acquired new assets.
- Dan Wills invited the Council and forum to attend his parents' theater presentation of "Presidents and Their First Ladies, dramatically speaking" event, Tuesday, Oct. 29 through Saturday, Nov. 2 at the OC Jamboree Club in Ocean Pines to benefit the Wounded Warrior Project.
- Rachel Fiorello asked the Council to act on Council Member Pillas' request to mark beach front properties so that beach patrons can identify their location in an emergency. Public Works Director Hal Adkins advised that he look into the matter.

**COMMENTS FROM THE CITY MANAGER**

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City Manager David Recor advise that he update the Council on items scheduled for discussion in the October 29, 2013 Work Session.

**COMMENTS FROM THE MAYOR AND CITY COUNCIL**

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None

**ADJOURN**

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**Council Member Margaret Pillas moved to adjourn at 8:15 p.m.; seconded by Council Member Mitrecic. The vote was unanimous.**

*Approved by the MCC  
on November 4, 2013  
Kelly J Almond*

# **POLICE COMMISSION MEETING MINUTES**

## **OPEN SESSION**

October 11, 2013 9:00 a.m.

PRESENT: Mayor Richard Meehan, Council President Lloyd Martin, Commission Chairperson Doug Cymek, City Manager David Recor, Council Member Dennis Dare, Chief Ross Buzzuro, Director of Emergency Services Joe Theobald, Captain Kevin Kirstein, Captain Michael Colbert, Captain Gregory Guiton, Lt. Scott Harner

ABSENT: City Solicitor Guy Ayres

1. Call to Order 9:03 a.m.
2. The September 9, 2013 Minutes unanimously approved as written.
3. Chief Buzzuro reviewed the September Crime Statistics. There has been an increase in officer-initiated Calls for Service from September 2012 – almost 26% increase. Chief Buzzuro reviewed the week-by-week statistics report that shows decreases almost across the board in all crimes. Chief Buzzuro stated this report listing the Part 1 (major) crimes would reflect emerging patterns should they occur. It will greatly assist the department in strategically deploying officers. The Part 1 crimes, which are your most serious crimes, are down close to 300 as compared to year to date in 2012.
4. Chief Buzzuro reviewed the H20I statistics comparing 2010 through 2013. Arrests were significantly up this year. Traffic citations in 2010 – 256, 2011 – 288, 2012 – 478, and in 2013 – 868. Good job was done by all patrol officers. H20I is again scheduled for the weekend after Sunfest in 2014. It was suggested that Captain Colbert brief Chief Buzzuro on what was learned from our visit to Myrtle Beach a few years back and how they solved their motor vehicle problems during their Bike Week. Chief Buzzuro believes we need a holistic approach to this event and utilize all affected agencies to maximize our effectiveness. We need to involve property owners, the zoning department and other businesses in Ocean City that help to either sponsor or invite H20I members to use their facilities. This event is not a sanctioned Ocean City event, there are no special event permits given to use the inlet lot or the convention center. There are empty private parking lots in town that also seem to draw attendees. Trash along the highway became a serious problem during the recent event because of the amount of people gathering in the parking lots.
5. Hotels were full for H20I and restaurants did well. We need to work together with the sponsors, property owners and make this work for all. Councilman Dare suggested we must make this event better as the Town owes it to the residents.

Lt. Scott Harner was asked to look into other locations where H20I events are now held. Lt. Harner has been in touch with the local organizer and he is willing to use social media to get out our messages, such as our Walk Smart Campaign and the Drive Smart Campaign to attendees. He seems very engaged to work with us to make this event better for all.

Mayor Meehan mentioned that since this is a non-permitted event, they could not use public property – out of respect for all other residents and visitors to Ocean City.

6. Update on Highway Safety – Lt. Harner spoke of how well the Walk Smart and Drive Smart Campaigns have been for Ocean City. All pedestrian and bike collisions are down. State Highway funding will be made available again to Ocean City next year to continue this work. Lt. Harner informed the Council that Assistant District Engineer for the State Highway Association, Ken Cimino will be leaving the agency by the end of this year and Dallas Baker will be taking over that position. The State of Delaware visited Ocean City to learn from OCPD and how they can incorporate it into their program. Towson University wants to use our Walk Smart program. This shows that our campaign has been so successful that others want to incorporate it. Captain Kirstein mentioned that this is a true success story as it was shared at a nationwide conference held in California.
7. Lt. Harner introduced a proposal for a new seat belt ordinance. This local ordinance would cover passengers in unenclosed areas of motor vehicles, i.e., in the bed of a pick-up truck. Anne Arundel has this same ordinance. The Police Commission agrees this is being proactive to keep our citizens safe. A motion was made by Dennis Dare and Seconded by Lloyd Martin to have Lt. Harner send the proposed ordinance to City Solicitor, Guy Ayres for his legal review and comments and then return to the November Police Commission meeting with Mr. Ayres report.
8. Chief Buzzuro updated the Commission on ECD/Taser use in September. There were eight events, with one deployment. This report shows that with each incident, all suspects became immediately compliant with no injuries to subjects and/or officers. Captain Kirstein stated that officer assaults have plummeted since using ECD/Tasers. The one deployment in September was a violent confrontation but with the use of the ECD/Taser, there were no injuries. The extensive training of our officers has obviously influenced their discretion as to when to display or deploy the ECD/Taser.
9. At this time, all Police Officers and PFCs assigned to the Patrol Division are outfitted with an ECD/Taser. We still need approximately 25-30 additional to outfit all Sergeants and Corporals as well. Chief Buzzuro said that with each graduating class, all new officers would be issued an ECD/Taser. We have applied for grant money and are waiting to hear if we will receive the grant for 10 additional ECD/Tasers. We have also received monetary donations to assist with the purchase of ECD/Tasers from local individuals and organizations.

Mayor Meehan congratulated the Ocean City Police Department ECD/Taser Program for being properly run and for providing the proper training in the use of the ECD/Taser to all of its officers.

Meeting Adjourned 10:00 a.m.

The next meeting of the Police Commission will be held on Friday, November 8, 2013 at 9:00 AM at the Public Safety Building, 6501 Coastal Highway, Ocean City, MD 21842

## ATTACHMENT B

### Tourism Commission Meeting Minutes October 11, 2013

The following individuals were in attendance:

Commission Members – Tourism Commission Chair and Council Secretary Mary Knight, Mayor Rick Meehan, Councilman Dennis Dare, Councilman Joe Mitrecic, Buck Mann, Chamber of Commerce; Todd Ferrante, OCDC; and Michael James, EDC. Staff members present were David Recor, City Manager; Donna Abbott, Tourism Director; Larry Noccolino, Convention Center Director; Lisa Osman, Tourism Department; Frank Miller, Special Events. Also present were Melanie Pursel, Chamber of Commerce; Susan Jones, HMRA; Greg Shockley, MTDB; Andy Malis and Alison Fiorelli, MGH. Media representatives present were Zach Hoopes, Ocean City Today, and Joanne Shriner, Maryland Coast Dispatch.

Mary Knight called the meeting to order at 3 p.m. She announced that we would go into a closed session at the end of the meeting to discuss next year's campaign strategies, which are proprietary at this time.

#### Approval of Minutes for the September meeting

Minutes of the September 9 meeting were approved.

#### Banner Ads / Enhanced Listings on ococean.com

Donna Abbott announced that MGH was in attendance to present the proposed ococean enhanced listings design for CVB members, which will be made possible as the website is moved to a new content management system. The new CMS is currently in testing and will be made available soon. Following discussion with Susan and Melanie regarding a previously discussed concept to offer a tiered membership structure to CVB members as an opportunity to pay an additional fee for enhanced or premium listings on ococean, Donna reported back that both HMRA and Chamber boards were opposed to a tiered structure and the Tourism Commission agreed not to seek a survey to determine interest. The enhanced listings design brought forth at the meeting could be made available to all CVB members, allowing them the opportunity to add photo and video content to their listings along with other content.

Alison Fiorelli also presented a potential layout of the website with banner ads. Susan Jones stated that the HMRA Board is not in favor of the banner ads. They think that the ads make the website look cluttered, and that it would be unfair to the members. Todd Ferrante stated that he likes the website and the banner ad potential. He does not think it makes the website look cluttered and said that the ads would generate revenue. Andy Malis said he thought the banner ads could be offered to major sponsors of town special events as part of a sponsorship package.

Donna reiterated that we have two topics: banner ads and enhanced listings. Melanie Pursel asked where the monies would go from the banner ads. The Mayor and Mary Knight both stated that the monies would go back into the Tourism budget for marketing.

Melanie explained that the Chamber has a standard membership and an upgraded membership. The upgraded membership offers members the opportunity to add videos and Google maps for an additional cost. Susan and Melanie will report back to their respective boards about the banner ad potential. The Tourism Commission recommended enhanced listings be offered to all CVB members at no additional cost and remanded to the Mayor and Council.

#### Strategic Plan

Donna asked the Tourism Commission for input on the focus of a strategic plan for tourism as that will determine the cost of such a plan. The Mayor suggested that we review the state's strategic plan to use as a guide. David Recor stated that we need to identify the stakeholders and get an RFP together. The Mayor stated that most of the stakeholders were here in the room. Tourism Commission voted to go to RFP and remanded to the Mayor and Council.

#### Updates from other Departments & Organizations

Susan Jones, HMRA, announced that there will be a ribbon cutting for HMRA's new office on 57<sup>th</sup> Street being held on Tuesday, October 15, from 4-5 p.m. She collected zip codes from her members and most were from Maryland. The Mayor stated that we need to maximize our efforts and open Restaurant Week to all OC restaurants in the future, as only 17 restaurants are participating in the Fall Restaurant Week.

Michael James, EDC, announced that there will be a supervisory program being offered to grads to become hotel managers for a three-month period from UMES.

Frank Miller, Special Events, stated that Recreation and Parks is busy setting up for Winterfest.

Todd Ferrante, OCDC, stated that he just completed grant writing for the state. Their golf tournament, a major fund-raising event for OCDC, went well.

Melanie Pursel stated that the Chamber's crab feast was very successful. She announced that Trevor Jones from Wor-Wic Community College is planning a grant for training in the hospitality industry. The Chamber is busy working on the next vacation guide publication.

Larry Noccolino announced that the Convention Center will host Starpower on July 5-10, 2014. He also announced that he is looking into a Dine Around or Pub Crawl, which will offer discounts/specials to conference attendees when they show their conference badge.

Donna announced that the August Metrics Report is complete and available on ococean.

Regular meeting was adjourned and closed session began.

The next meeting will be held on Wednesday, December 4 at 3 p.m. in Room 214 at the Convention Center.

1. Call to Order: The meeting was called to order at 4:00 P.M. at Northside Park. Present were Joe Mitrecic, Lloyd Martin, Dennis Dare, Tom Shuster, Frank Miller, Susan Petito, Lisa Mitchell and David Recor. Guests included Robert “Moose” Holland, Joanne Shriner and Zach Hoopes.
2. Approval of Minutes: The minutes of September 10, 2013 were approved as presented.
3. Proposed Baseball Tournament at NSP: Tom Shuster introduced Robert “Moose” Holland to present a proposal for youth baseball and girls fast pitch softball tournaments at NSP for 2014. Moose provided a proposed schedule for boys baseball starting mid-April and continuing with softball including girls fast pitch softball thru October at NSP. Moose would move his events to Worcester County fields in November. Moose will purchase the portable fencing and mounds needed to expand into boys baseball and girls fast pitch softball. The committee supports the expansion into baseball and fast pitch softball and agreed to recommend the proposal to the Council for consideration.
4. Caroline Street Boardwalk Stage: The committee provided feedback to staff on the Boardwalk Stage procedure provided for review at the September meeting. The committee requested the draft be sent to the City Solicitor before referral to the Council for approval.
5. 2015 Town Sponsored Special Events Schedule: Tom provided the draft Special Events Schedule for 2015. The committee has asked staff to investigate the Springfest dates in consideration of Mother’s Day and report back at the November meeting.
6. Private Special Events: Lisa Mitchell provided an update on the Frisbee on the Beach event, which now plans to re-schedule to August 2 – 3, 2014.

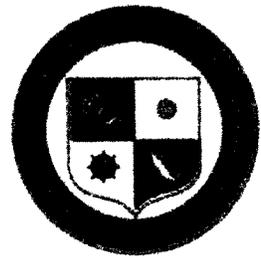
Lisa also provided an update for the Pigs on the Beach Boardwalk Parade for 2015 that would fall on the Saturday of Sunfest weekend.

The committee also discussed the Corvette Boardwalk Parade.

Frank Miller provided a report on Sunfest Vendors and a recommendation for changing vendor hours starting with Springfest 2014. The committee will schedule this for discussion before the Council.

7. Kayak Rental Concessions: Motioned by Lloyd Martin, seconded by Dennis Dare to go into closed session to discuss a possible Kayak Rental Concession at NSP. Motion carried. The committee returned to open session. The committee will recommend the Kayak Rental Concession RFP to the Council.
8. Next Meeting: The next meeting was scheduled for Tuesday, November 12<sup>th</sup> at 4:00 p.m. at Northside Park.
9. The meeting was adjourned at 5:52 PM

ATTACHMENT D



TOWN OF OCEAN CITY, MARYLAND  
COMMUNICATIONS WITH THOSE CHARGED  
WITH GOVERNANCE  
FOR THE YEAR ENDED JUNE 30, 2013  
OCTOBER 21, 2013

# Scope of Services



EXPERIENCE • QUALITY • CLIENT SERVICE

- Audit of the June 30, 2013, financial statements
- Performance of the OMB Circular A-133 Single Audit - Opinions:  
Unmodified
- Convention Center Report
- Reviewed Uniform Financial Report
- Review of Data Collection Form
- Available for year-round consultation

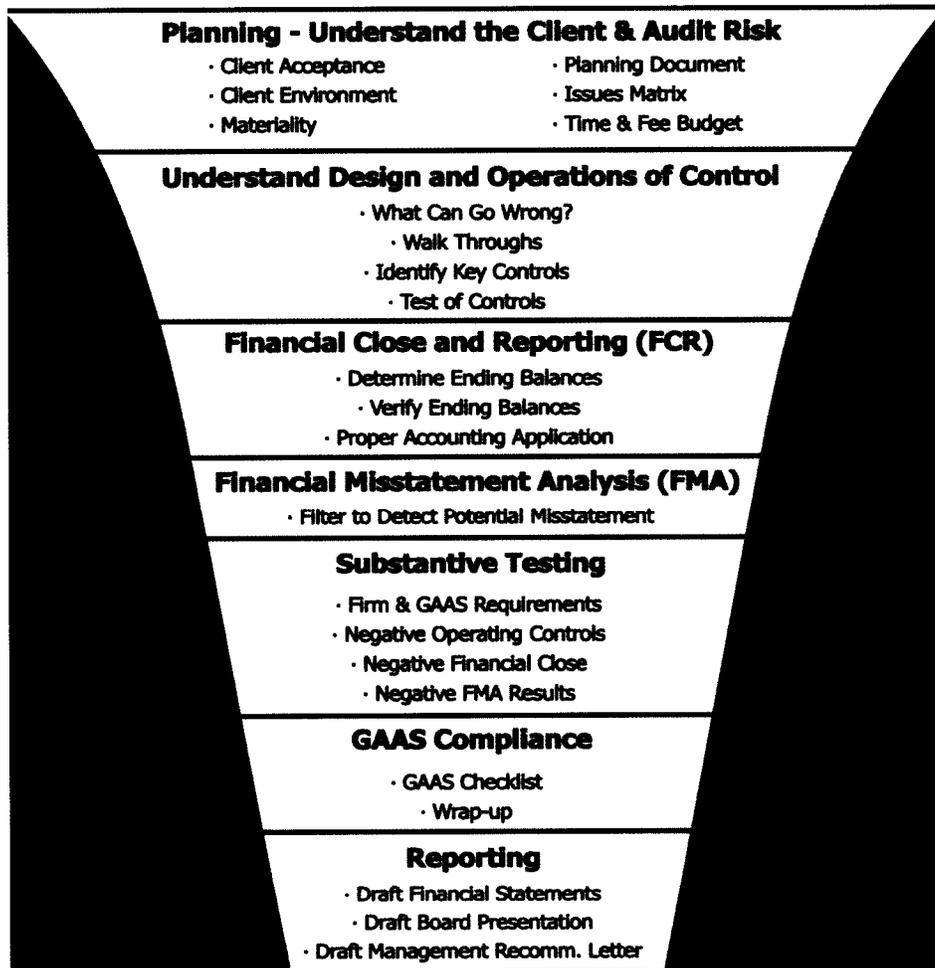


# SBC Risk-Based Audit Approach

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## Risk-based Audit Approach



### Focus During this Stage

- Identifying internal, external, and financial statements risks
- Develop audit plans
- Evaluate your controls and processes
- Test your key controls
- Evaluate your processes to report correct amounts
- Evaluate reporting policies
- Review financial statements for misstatements
- Verify selected account balances
- Obtain third-party verification
- Professional standards requirements
- Obtain representation
- Evaluate results of audit procedures
- Communicate results and prepare reports to issue



# Single Audit Results



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## Major Programs Tested

<u>Major Program</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Urban Mass Transportation Capital and Operating Assistance Grants	20.509	\$ 1,360,106
Disaster Grants- Public Assistance (Presidentially Declared Disasters)	97.036	678,418
Total tested		<u>2,038,524</u>
Total Federal awards		<u>\$ 3,664,348</u>
Percentage tested		56%

Single Audit Opinion: Unmodified

- No material weakness
- Considered low risk auditee



# Key Changes to Accounting for Pensions (GASB 67 and 68)

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## 1. Employer Liability

### ➤ Current

Annual required contribution (ARC)

Less: actual contributions

Net pension obligation (NPO)

### ➤ New

Total pension liability (TPL)

Less: Fiduciary net position (FNP)

Net pension liability (NPL)

## 2. Actuarial Method

### ➤ Current guidance

- Whatever actuarial method is used for funding
  - 6 acceptable methods
  - Must be applied within parameters defined by GASB

### ➤ New guidance

- No tie to actuarial method used for funding
- All employers will use the entry age method for accounting and financial reporting purposes (with service cost determined as a percentage of pay)



# Key Changes to Accounting for Pensions (GASB 67 and 68)

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(continued)

## 3. Discount Rate

### ➤ Current guidance

- Estimated long term investment yield for the plan, with consideration given to the nature and mix of current and expected plan investments

### ➤ New guidance

- Modification necessary if it is expected that FNP will *not* be sufficient to pay benefits to active employees and retirees
- Single blended rate equivalent to the combined effect of using the following rates:
  - For projected cash flows up to the point the FNP will be sufficient
  - For projected cash flows beyond that point, a yield or index rate on tax-exempt 20-year, Aa or higher rated municipal bonds

## 4. Employer Liability (cost-sharing)

### ➤ Current guidance

- Liability only if employer contribution is less than the contractually required amount

### ➤ New guidance

- Liability equal employer's proportionate share of total pension expense of all participating employers



# Key Changes to Accounting for Pensions (GASB 67 and 68)

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(continued)

## 5. Amortization

### ➤ Background

- Circumstances that could affect the net pension liability (NPL)
  - Changes in benefit terms
  - Changes in economic and demographic assumptions
  - Differences between economic and demographic assumptions and actual experience (other than investment returns)
  - Differences between expected and actual investments returns

### ➤ Current guidance

- Effect amortized over a period not to exceed 30 years

### ➤ New guidance

- Effect to be amortized over a much shorter period
  - Different periods, depending on the circumstances



# Regulatory Requirements and Standards for Local Government Audits

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## Audit Authority and Guidelines

- AICPA has authority for standards for all audits in the United States
- GAO has authority and established additional standards for entities receiving material Federal funds
- OMB establishes compliance for testing related to compliance with Federal grant dollars
- PCAOB supplemental requirements for audit of public companies
- Our audits comply with these guidelines

## Accounting and Reporting Authority and Standards for Financial Statements

- AICPA is the authoritative body to set standards for reporting and accounting
- AICPA has authority over:
  - FASB – commercial reporting
  - FASAB – Federal government entities
  - GASB – state and local governments
  - SEC – supplemental requirements for public companies



# Regulatory Requirements and Standards for Local Government Audits



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*(continued)*

## **GASB Requirements for State and Local Governments**

- Board consists of seasoned industry leaders and relevant members
- Establish a conceptual framework to ensure financial statements are useful for the various users
- Consistently looking at recommendations to ensure they are prescribing the best disclosures

## **Understanding the State and Local Financial Statement Requirements**

- Conceptual framework
- Reporting structure
- Financial statement and footnotes combined reports the financial position and operating results of the entity and one without the other is incorrect reporting



# Regulatory Requirements and Standards for Local Government Audits

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*(continued)*

## Governments in Maryland

- Also governed by:
  - State of Maryland Uniform Financial Reporting
  - Annotated code of Maryland
  - Must follow the GFOA program for meaningful reporting to the public

## Summary of Maryland

- State very involved in good financial reporting practices
- State is leader in the country
- State requires governments to follow standards and not follow purely on suggestions that do not focus on the due diligence and standards



# Required Communications



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## 1. Auditor's Responsibilities Under Generally Accepted Auditing Standards (GAAS)

The financial statements are the responsibility of management. Our audit was designed in accordance with auditing standards generally accepted in the United States of America, and provide for reasonable, rather than absolute, assurance that the financial statements are free of material misstatement.

## 2. Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by management are described in the notes to the financial statements.

## 3. Auditor's Judgments About the Quality of Accounting Principles

We discuss our judgments about the quality, not just the acceptability, of accounting principles selected by management, the consistency of their application, and the clarity and completeness of the financial statements, which include related disclosures.

We have reviewed the significant accounting policies adopted by the Town of Ocean City, Maryland (the Town) and have determined that these policies are acceptable accounting policies.



# Required Communications

## 4. Audit Adjustments

We are required to inform the Town's oversight body about adjustments arising from the audit (whether recorded or not) that could in our judgment either individually or in the aggregate have a significant effect on the entity's financial reporting process. We also are required to inform the Town's oversight body about unadjusted audit differences that were determined by management to be individually and in the aggregate, immaterial.

There were no passed adjustments identified during the audit process.

## 5. Fraud and Illegal Acts

We are required to report to the Town's oversight body any fraud and illegal acts involving senior management and fraud and illegal acts (whether caused by senior management or other employees) that cause a material misstatement of the financial statements.

Our procedures identified no instances of fraud or illegal acts.

## 6. Material Weaknesses in Internal Control

We are required to communicate all significant deficiencies in the Town's systems of internal controls, whether or not they are also material weaknesses.

There were no material weaknesses noted during the audit.



# Required Communications



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(continued)

**7. Other Information in Documents Containing Audited Financial Statements**

None.

**8. Disagreements with Management on Financial Accounting and Reporting Matters**

None.

**9. Serious Difficulties Encountered in Performing the Audit**

None.

**10. Major Issues Discussed with Management Prior to Acceptance**

None.

**11. Management Representations**

We have received certain written representations from management as part of the completion of the audit.

**12. Consultation with Other Accountants**

To our knowledge, there were no consultations with other accountants since our appointment as the Town's independent public accountants.

**13. Independence**

As part of our client acceptance process, we go through a process to ensure we are independent of the Town. We are independent of the Town.



# Required Communications

## 14. Our Responsibility Related to Fraud

- Plan and perform the audit to obtain reasonable assurance that there is no material misstatement caused by error or fraud;
- Comply with GAAS AUC 240 “Consideration of Fraud in a Financial Statement Audit”;
- Approach all audits with an understanding that fraud could occur in any entity, at any time, by anyone; and
- Perform mandatory procedures required by GAAS and our firm policies.

### Examples of Procedures Performed

- Discuss thoughts and ideas on where the financial statements might be susceptible to material misstatement due to fraud;
- Understand pressures on the financial statement results;
- Understand the tone and culture of the organization;
- Look for unusual or unexpected transactions, relationships, or procedures;
- Discussions with individuals outside of finance;
- Evaluate key processes and controls; and
- Consider information gathered throughout the audit.



# Required Communications - Fraud

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(continued)



## Opportunity

- Generally provided through weaknesses in internal control
- Tone at the top is important
- We assess controls and tone at the top

## Pressure

- Pressure can be imposed due to economic troubles, personal vices and unrealistic deadlines and performance goals
- There are increased pressures due to economy and minimal salary increases

## Rationalization

- Individuals develop a justification for their fraudulent activities
- Increased rationalization due to minimal salary increases and less personnel



# Responsibility for Mitigating Fraud

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## Management:

- ⊙ CFO/Controller: controls to deter and detect fraud
- ⊙ General Counsel/Compliance: monitoring

## Audit Committee:

- ⊙ Evaluate management identification of fraud risk
- ⊙ Evaluate implementation of fraud controls
- ⊙ Reinforce “tone at the top”
- ⊙ Conduct special investigations

## External Auditor

- ⊙ Evaluate management programs and controls to deter and detect fraud for identified risks
- ⊙ Reasonable assurance that financial statements are free of material misstatement due to fraudulent financial reporting or misappropriation of assets
- ⊙ Compliance with fraud standard (SAS 99)
  - Conversations with finance and operations personnel
  - Disaggregated analytics
  - Surprise audit procedures
  - Journal entry testing



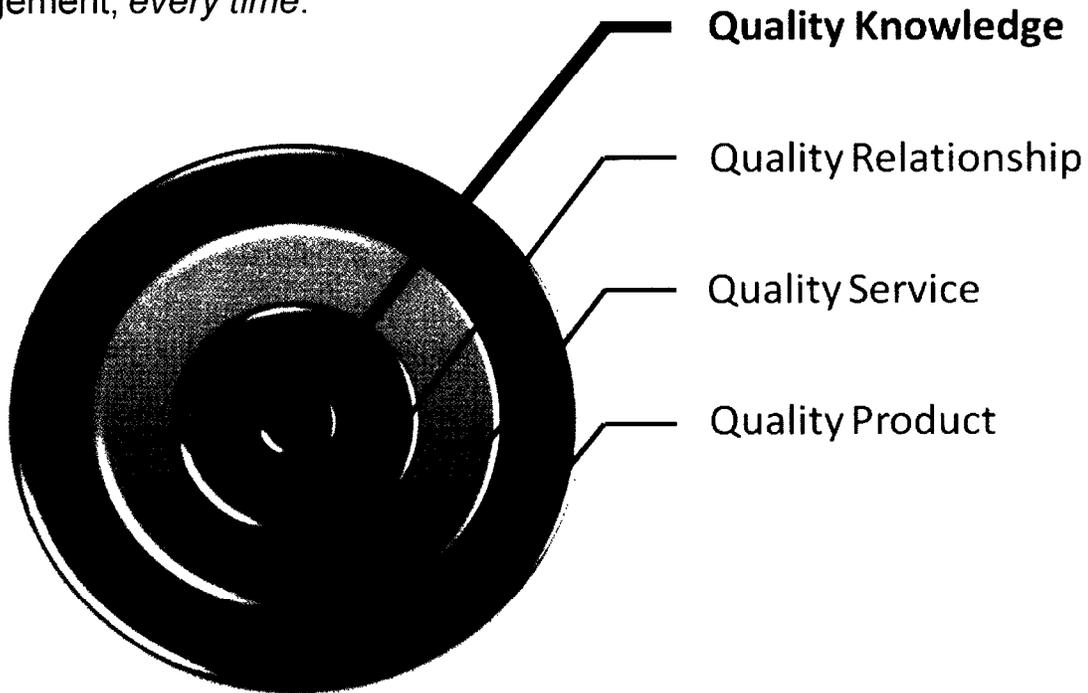
# SBC's Service Pledge to You

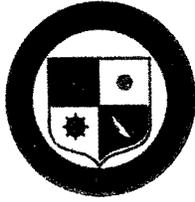
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We will consistently deliver a **Quality Product** and **Quality Service** so that we have the opportunity to establish a **Quality Relationship** with **the Town**, allowing us to provide you with **Quality Knowledge** for your continual success. Only after we have provided you with the knowledge that enables your business to grow and prosper, we have *hit the bullseye!*

Our commitment to you is the execution of our **Bullseye Philosophy**. We execute this philosophy for every client, on every engagement, *every time*.





*Town of Ocean City, Maryland*  
***Report to Citizens***  
*For Fiscal Year Ended June 30, 2013*

***Mayor***

Richard W. Meehan

***City Council***

Lloyd Martin, President  
 Mary P. Knight, Secretary  
 H. Brent Ashley  
 Douglas S. Cymek  
 Dennis W. Dare  
 Joseph M. Mitrecic  
 Margaret L. Pillas

***City Manager***

David L. Recor, ICMA-CM

***Finance Administrator***

Martha J. Bennett, CPA



Clean-up begins after Superstorm Sandy on October 31, 2012.

To the Citizens of Ocean City, Maryland,

Superstorm Sandy struck the east coast on October 29, 2012, with the main storm surge and destruction in New Jersey and New York. While Ocean City had limited damage, the storm served to improve public and private awareness of the impact of hurricanes. Once an isolated fishing village, Ocean City evolved into an array of single-family homes, townhouses, motels, hotels, and luxury condominiums as well as diverse commercial areas that are all sensitive to severe storms. As detailed later in this report, the town government took important steps in the 2013 fiscal year to improve emergency preparedness and plan for the future.

This report summarizes the Town of Ocean City's finances showing how your tax dollars and service fees were used in the fiscal year ending June 30, 2013 and what we have and owe at year end. Our goal is to communicate the results of financial operations in a report that is straightforward and easy to read. The information presented in this report was taken from the Town of Ocean City Comprehensive Annual Financial Report for the year ended June 30, 2013, (the CAFR), which was prepared by the Finance Department. The financial statements in the CAFR, audited by SB & Company, LLC, give much more detail and disclosures and are prepared in a way that is accepted by the Governmental Accounting Standards Board. We invite you to read the CAFR that is available on the Town's website, [www.oceancitymd.gov](http://www.oceancitymd.gov), or you may get a copy by contacting the Finance Department at 410-289-8858.

## ***THE ECONOMY***

A destination resort, Ocean City is nationally recognized as a clean and safe community for its residents, vacation homeowners and visitors with tourism as the basis of its economy. The Town has increased the advertising budget each year for the past five years, from \$3.7 million in 2009 to \$5.9 million in 2013. For the year ended June 30, 2013, room and restaurant sales were 2.7% above the prior year.

The number of construction permits increased in 2013 at 1,660 compared to 1,525 in 2012. The estimated value of construction in 2013 was \$36,287,285 compared to \$35,460,786 in 2012. Several development projects were completed in 2013 including the 67<sup>th</sup> Street Town Center, a \$5.5 million dollar commercial development serving the Sunset Island community.

The Town relies on property taxes for 54% of its general fund revenues. Property tax revenues are directly impacted by the value of homes and new construction. Although the Town has a 3% assessment increase cap for owner-occupied homes, only 5% of properties are eligible for the cap. The assessed value of the remaining business properties, second homes and condominiums is at full market value and is highly sensitive to changing market conditions. As properties in the State of Maryland are assessed on a triennial system, property tax decreases were anticipated in 2013 and increases in values may lag behind other improvements in the economy. However, as the Town has maintained sound budgeting practices with a focus on multiyear planning and has received cooperation from the Town's two unions, the Town's financial position remains favorable.

## ***MAJOR INITIATIVES***

### ***Emergency Preparedness***



As an Atlantic coastal community, Ocean City has historically suffered through severe hurricane and storm events. The Town of Ocean City has been formally training its employees on emergency preparedness since the 1980's. In 2006, Continuity of Operations Plans (COOP) was developed by departments and the Town conducts two COOP exercises each year with other government and non-government agencies. In October 2012, the importance of this type of training was apparent during Superstorm Sandy. Town officials along with Maryland State Highway, Maryland State Police, United States Coast Guard, State of Indiana Incident Management Team, Ocean City Community Emergency Response Team (CERT), National Guard, Delmarva Power, Comcast, Sandpiper Energy, Verizon, Worcester Emergency Services, Sussex Emergency Services, and Maryland Emergency Management Agency (MEMA) were present during and after the storm. Superstorm Sandy "reinforced the thirty-two COOP Plans and interrelation in the overall response of the storm" per Joe Theobald, Director of Emergency Services.

On February 3 – 8, 2013, 75 employees attended the Integrated Emergency Management Course, which was hosted by The Federal Emergency Management Agency (FEMA) in Emmitsburg, MD, at FEMA's Emergency Management Institute. Members of the City Council, department directors, management and essential personnel participated in executing plans, implementing policies and developing procedures to protect life and property during simulated disaster situations. "This experience will not only benefit the employees who attended, but will benefit the community as a whole," Theobald said. "We have a responsibility to prepare for, respond to, recover from and mitigate disaster. This training opportunity provided us an exceptional opportunity to continue our high standard of readiness and ability to function effectively for the Ocean city community in a time of crisis."

## *New Fire and Rescue Boat*

The Town of Ocean City Fire Department received its fire and rescue vessel, Ocean City Fireboat 1 in June, 2013. The Ocean City Volunteer Fire Company (OCVFC) employed Band-Lavis Division of CDI Marine in Annapolis in 2008 to begin a study to determine the current responsibility and future needs of the Ocean City Volunteer Fire Company with regards to maritime fire and rescue. A task force was formed of the OCVFC, the United States Coast Guard, and Natural Resources Police who assessed the marine resources and developed a request for proposal and the project was bid. Moore Boats, LLC was awarded the bid and construction of the 35 foot vessel began. This collaboration took extensive research and planning. The vessel was built to meet the specific geographical needs of the Ocean City area and is capable of operating in water as shallow six inches, marshy or dense canals. It is also capable of pumping 1, 250 gallons of water per minute in the event of a fire and also has a 25 gallon foam system for use on flammable liquid fires. It has state of the art technology, which consist of radar, GPS, sonar depth finder, infrared camera, marine and fire department radios. The rescue equipment consists of EMS/Patient care equipment, rescue swimmer equipment, a 500 pound Davit System (a winch/arm system used to lift heavy objects out of the water), LED scene lighting and diver/rescue swimmer platform and ladder. Additionally, Moore Boat and Denny Sharp of High Tide Marine Construction donated the dock, lift and installation. The total cost for the construction of the boat was \$539,825 with \$150,000 from Department of Natural Resources from the Waterway Improvement Fund. Ocean City Fireboat 1 is unique in design, capability and functionality.



## *Walk Smart Safety Campaign*



In 2013 the State of Maryland dedicated \$400,000 to a new campaign to improve pedestrian safety. With a task force including Town officials, State of Maryland, State Highway Administration, Maryland State Police, Worcester County Sheriff's Office as well as others

in the community, the campaign focused on enforcement, education and engineering. First, through enforcement, the Ocean City Police Department educated pedestrians and drivers who were not following the rules of the road. Second, through education, Crab the Lifeguard was adopted as the official logo for the campaign. The logo depicts "the iconic Maryland crab dressed as a lifeguard who teaches the importance of roadway basics in a beach-friendly, family-fun tone. His Save Yourself! message teaches personal responsibility and directs people to use crosswalks, follow signals and exercise general street smarts." (logo seen above) Last, through engineering, traffic patterns were evaluated. Key intersection signals were retimed, turning movements at intersections were enhanced, "No pedestrian crossing" curb stencils were installed as well as signs in high pedestrian volume areas along Coastal Highway. The campaign is featured on Ocean City transit, plane banners, boat billboard messages, roadside billboards, television and radio public service announcements. As of August 14, 2013, the Ocean City Police Department reported pedestrian accidents were reduced 56% in the three months of the campaign.

## FINANCIAL INFORMATION

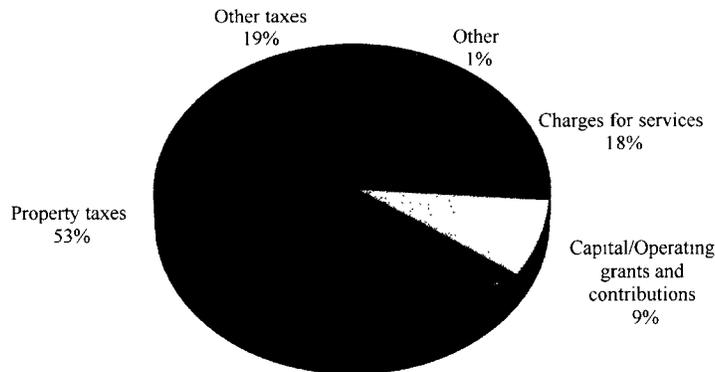
The financial information in this report distinguishes functions of the Town that are principally supported by taxes and intergovernmental revenues, *governmental activities*, from other functions that are intended to cover their costs primarily from user fees and charges and are *utilities and business services*. The governmental activities of the Town include general government, public safety, general public works and beach, sanitation and waste removal, highways and streets, economic development, recreation and culture, and construction of capital assets. The utilities and business services of the Town include water, wastewater, the Roland E. Powell Convention Center, transportation, the Ocean City Municipal Airport and Eagle's Landing Golf Course.

### Governmental Activities

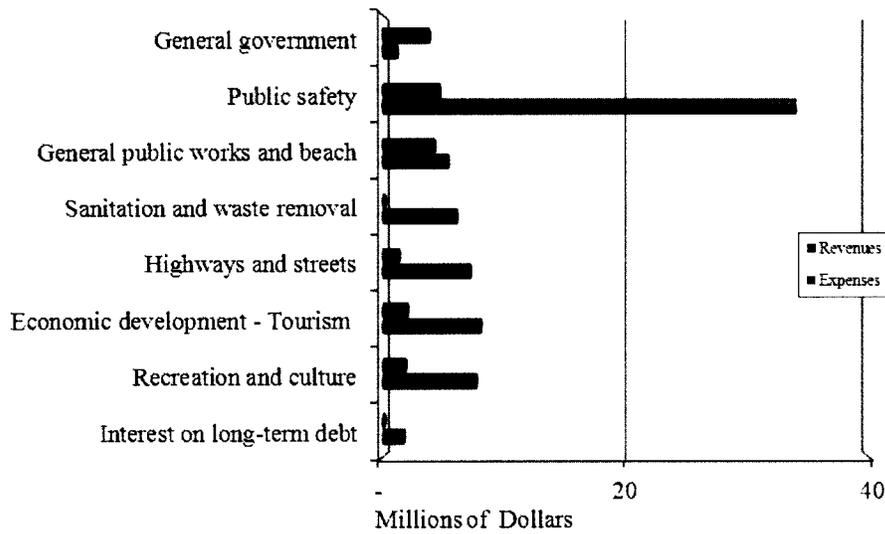
Governmental activities such as police and public safety, solid waste collection, and community services are generally supported by taxes and revenues shared from the federal government, State of Maryland and Worcester County as the fees collected for each activity do not generally cover all expenses.

Where the Money Comes From			Where the Money Goes		
	2013	2012		2013	2012
<b>REVENUES</b>			<b>EXPENSES</b>		
Program Revenues:			General government	\$ 1,118,606	\$ 335,703
Charges for current services	\$ 13,843,347	\$ 13,475,814	Public safety	34,030,231	35,440,373
Operating grants and contributions	3,223,755	2,805,472	General public works and beach	5,315,570	6,257,840
Capital grants and contributions	551,735	-	Sanitation and waste removal	6,034,146	6,776,510
General revenues:			Highways and streets	7,157,008	7,250,787
Property taxes	41,425,378	42,509,186	Economic development - Tourism	8,055,355	7,692,558
Other taxes	15,069,904	14,649,416	Recreation and culture	7,685,116	7,873,652
Grants and contributions not restricted to specific programs	2,827,684	3,093,926	Interest on long-term debt	1,640,586	1,352,400
Other revenue	462,672	927,938	<i>Total expenses</i>	71,036,618	72,979,823
<i>Total revenues</i>	<b>\$ 77,404,475</b>	<b>\$ 77,461,751</b>	Increase in net assets before transfers	6,367,857	4,481,929
			Transfers to other funds	(3,480,205)	(3,205,769)
			<i>Increase in net assets</i>	<b>\$ 2,887,652</b>	<b>\$ 1,276,160</b>

Revenue by Source - Governmental Activities



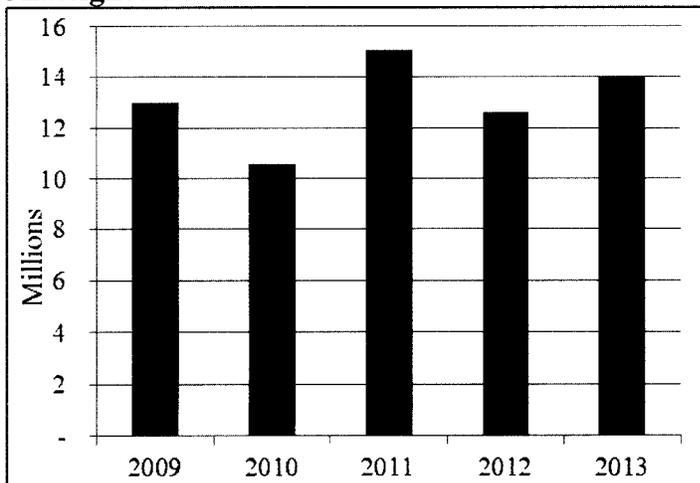
The following graph indicates the service fees and expenses of governmental activities which shows the extent in which the governmental functions produce revenues to their program costs. Expenses not covered by direct program revenues and fees are covered primarily by taxes, licenses, and state and county-shared revenues. Program revenues and fees covered 24.8% of governmental expenses in FY-2013.



The Town’s overall financial position improved in 2013, increasing \$4,720,348 above 2012. The increase was primarily due to reduction of expenses for public works and solid waste. There were losses in business-type activities of (\$1,647,509) before transfers of \$3,480,205 from the general fund resulting in an increase in net position of \$1,832,696. In governmental activities there was an increase of \$2,887,652 in net position. Total revenues remained stable in 2013, decreasing just 0.6% or \$707,658 from 2012, while expenses decreased \$1,541,320 or 1.4%.

Public Safety is the largest governmental function with expenses of \$34,030,231 in 2013, a 4% decrease from 2012, due to a decrease in cost for pension and workers compensation. It is comprised of the police department, \$20,699,138, 60.8%; emergency medical services, \$7,665,797, 22.5%; communications, \$1,547,576, 4.6%; fire department, \$1,303,030, 3.8%; fire marshal, \$1,153,487, 3.4%; construction inspection, \$659,932, 1.9%; emergency management, \$615,468, 1.8%; and electronics, \$385,803, 1.1%. With 24-hour operations, 207 of the Town’s 524 full-time employees work in public safety. An additional 165 employees are hired in the summer season.

**Unassigned Fund Balance**



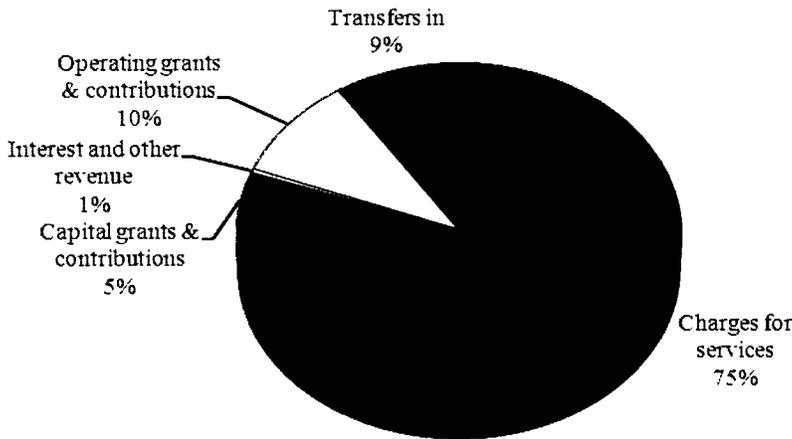
**What is Fund Balance?**

“Fund balance” is the difference between assets and liabilities for governmental funds and is a key measure of financial health. The Town of Ocean City subdivides fund balance into *Restricted*, *Committed*, *Assigned*, and *Unassigned* portions. The restricted and committed portions represent set-asides for existing obligations. The unassigned portion represents set-asides for future purposes and is available for emergencies. Think of the unassigned as the savings account of the fund. It is the Town’s policy to have a minimum of 12-15% of expenses in unassigned fund balance. At June 30, 2013, the percentage was 19.3%.

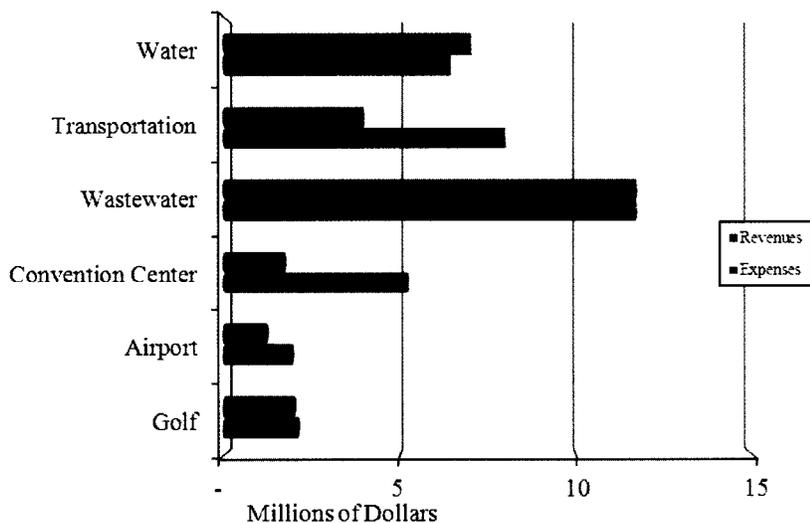
## Utilities and Business Services

The Town operates two utilities and four businesses and accounts for their activities similar to businesses in the private sector. Operating revenues and expenses result from providing services and delivering goods. The Water Fund operates the water treatment plants and distribution system; the Wastewater Fund operates the sewage treatment plant, pumping stations and collection system; the Convention Center Fund accounts for the activities of the Roland E. Powell Convention Center; the Transportation Fund accounts for the operations of the Town’s bus system and boardwalk trams; and the Airport Fund and Golf Course Fund account for the operations of the Ocean City Municipal Airport and Eagle’s Landing Golf Course. Fees and service charges are 73% of all revenues.

**Business-type Activities - Revenues by Source**



The following graph indicates the portion of expenses that are covered by service charges to customers for business-type activities. In water, wastewater, and golf funds, service charges or reserves cover all costs. The operations of the transportation, airport, and convention center recovered 45% of expenses from user charges.



## Utilities and Business Services

	2013	2012
<b>Where the Money Comes From:</b>		
Charges for current services	\$ 27,936,713	\$ 27,538,728
Operating grants and contributions	3,627,269	3,413,436
Capital grants and contributions	1,988,370	3,269,491
Other revenue	146,360	127,438
<i>Total revenues</i>	33,698,712	34,349,093
<b>Where the Money Goes:</b>		
Water	6,428,575	6,419,219
Airport	1,906,293	1,681,333
Wastewater	11,710,740	11,642,169
Convention Center	5,221,549	5,173,147
Transportation	8,007,909	7,936,422
Golf Course	2,071,155	2,092,046
<i>Total expenses</i>	35,346,221	34,944,336
Increase (decrease) in net assets before transfers	(1,647,509)	(595,243)
Transfers	3,480,205	3,205,769
<i>Increase (decrease) in net assets</i>	\$ 1,832,696	\$ 2,610,526

### WHAT WE OWE

The Town borrows most of the money that it spends for major capital improvements by selling general obligation bonds or from loans that do not require collateral. The Town's bonds have interest rates from 1% to 5.6% and are paid from 10 to 20 years. At the end of 2013, the Town owed \$89,368,447 in debt. \$43,860,933 of the debt, or 49%, will be paid from service fees from business-type activities and the tax on food and beverages. At June 30, 2013, there was \$7,474,542 reserved from food tax receipts to pay principal and interest on bonds for the convention center included in the above amount. The remaining \$45,737,265 in debt will be paid from general tax revenues.

Why sell bonds? By selling tax exempt bonds, the Town obtains financing at a low interest rate and spreads the cost of the project over many years instead of adding the total cost to your tax bill in one year.

The Town has several pension plans that its employees participate in and has made a commitment to the employees to fund their future pensions. At April 1, 2013 the date of the actuarial valuation of the plans, the plans had an actuarial value of assets of \$86,104,229 and an actuarial accrued liability of \$105,462,619. This means that \$19,358,390 still needs to be contributed to the plans. Employees contribute 5-8% of their pay to the plans and the Town plans to fund its portion of the liability over the next ten years. The Town has assets of \$12,151,386 to fund retiree health benefits and an actuarial liability of \$42,383,000. The unfunded actuarial liability is being funded over twenty-five years.

### WHERE WE STOOD ON JUNE 30, 2013

The Town's statement of net positions provides a "snapshot" of where we stood financially on June 30<sup>th</sup>, 2013, the last day of the fiscal year. Net position represents the Town's spendable resources and ownership (equity) in the assets that make up the Town's land, infrastructure, and buildings.

	Governmental 2013	Business-type 2013	Total 2013	Change from 2012
Cash and current assets	\$ 38,536,189	\$ 24,715,478	\$ 63,251,667	(7.7) %
Capital assets	88,696,464	107,245,192	195,941,656	(1.3)
Total assets (Owned)	127,232,653	131,960,670	259,193,323	(2.9)
Long-term liabilities outstanding	48,737,265	43,860,933	92,598,198	0.6
Other liabilities	9,149,521	5,066,445	14,215,966	(48.2)
Total liabilities (Debts)	57,886,786	48,927,378	106,814,164	(10.6)
Excess of assets over debts:				
Invested in capital assets, net of debt	53,768,043	65,917,836	119,685,879	32.0
Restricted for loans and food tax receipts	165,000	7,474,542	7,639,542	(69.1)
Unrestricted	15,548,344	10,158,004	25,706,348	(22.0)
Total Excess of Assets over Debts	\$ 69,481,387	\$ 83,550,382	\$ 153,031,769	3.2 %

For additional information  
or questions contact:

Town of Ocean City  
Finance Department  
City Hall  
301 Baltimore Avenue  
PO Box 158  
Ocean City, MD 21843  
410-289-8858



## Town of Ocean City's Report to Citizens

OPERATING INFORMATION FOR 2013

General Information:		Fire and Emergency Services:	
Construction permits issued	1,660	Fire responses	1,190
Value of construction	\$36,287,285	Ambulance responses	4,634
<b>Solid Waste</b>		Fire Safety Inspections/re-inspection	1,935
Trash Processed (tons)	39,640	Fire investigations	107
<b>Wastewater</b>		Classified Fire Personnel	3
Daily capacity (gallons)	14,000,000	Volunteer Firemen, Life Honor, Gold Badge	135
Summer average (gallons)	9,200,000	Classified Emergency Medical Technicians	37
<b>Transportation:</b>		Seasonal Emergency Medical Technicians	65
Bus passengers	2,852,639		

Would you like your utility bill sent to your email address? If so, please email the following to:  
[myocwaterbill@oceancitymd.gov](mailto:myocwaterbill@oceancitymd.gov)

Account Number      Name  
Phone Number      Email Address

Please indicate if you would like email only or email and printed bill.

Visit our website to check your utility and tax account balances or to pay these bills online. [www.oceancitymd.gov](http://www.oceancitymd.gov)

