

Town of Ocean City, Maryland
Comprehensive Annual
Financial Report
For Fiscal Year Ended June 30, 2011



(Cover print by Paul McGehee)
A print of Ocean City in the summer of 1915, illustrates Ocean City as a family resort.

“Old Ocean City - 1915” © By Paul McGehee. Used with the permission of the artist. See prints and originals at www.paulmcgeheart.com

(facing page)
Ocean Pier and Boardwalk circa 1920

This postcard, postmarked 1920, shows a view of the boardwalk and the original ocean pier building. The ocean pier building was destroyed in a Christmas Eve fire in 1925. The building on the left side of the card has a sign that reads "GO-ROUND." This is the original facade of the building that today houses Trimper's famous Merry-Go-Round. The rolling chairs were popular chairs that were pushed or pedaled. They were rented by Dr. Townsend from his pharmacies along the boardwalk.

Town of Ocean City, Maryland
Comprehensive Annual Financial Report
For Fiscal Year Ended
June 30, 2011



Prepared by:
Finance Department

Dennis Dare, PE
City Manager

Martha Bennett Lucey, CPA
Finance Administrator



**Town of Ocean City, Maryland
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2011**

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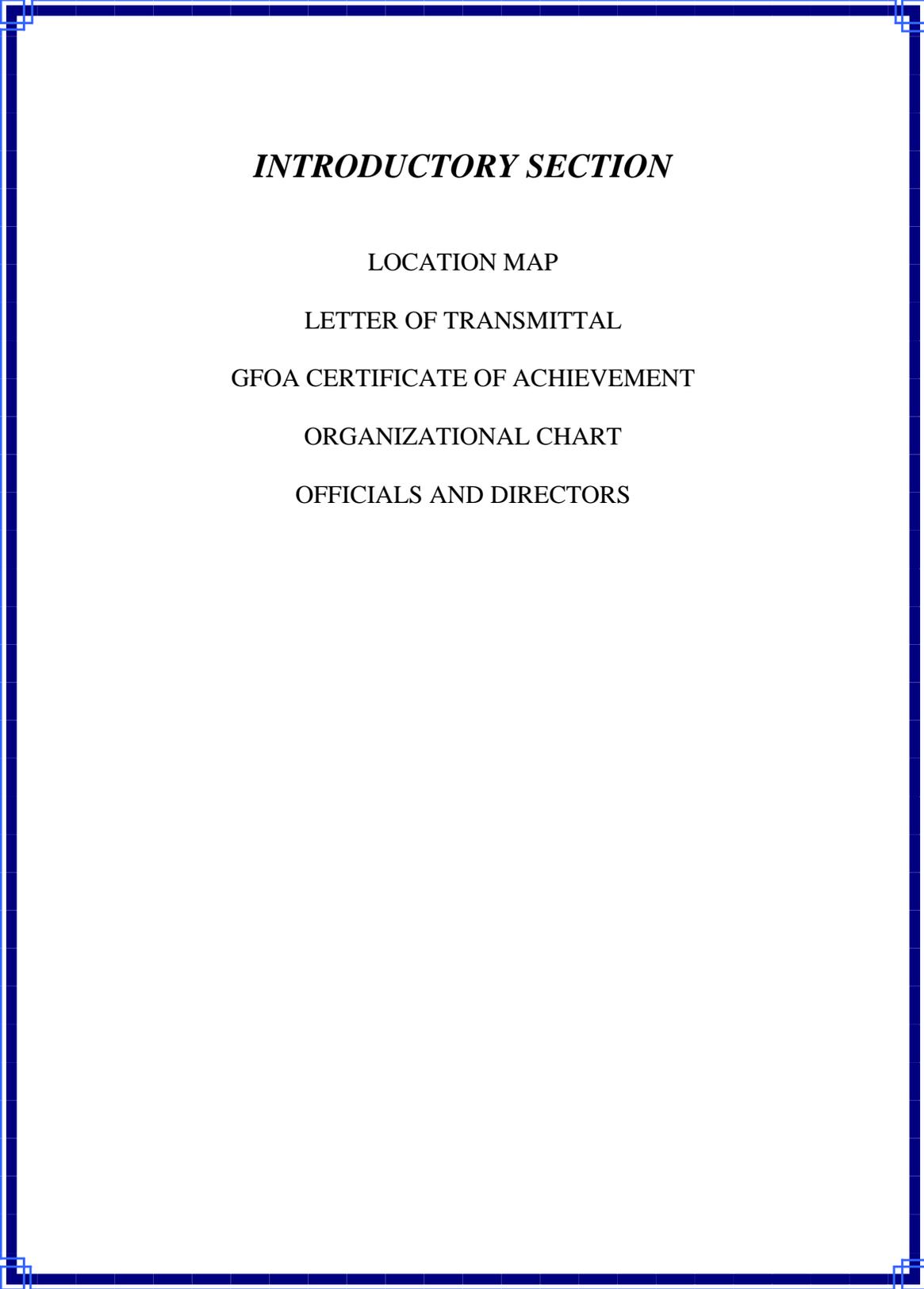
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INTRODUCTORY SECTION

LOCATION MAP

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

OFFICIALS AND DIRECTORS



BINGHAMTON, NY

HARTFORD, CT

WILLIAMSPORT, PA

SCRANTON, PA

PITTSBURGH, PA

ALLENTOWN, PA

NEW YORK

HARRISBURG, PA

PHILADELPHIA, PA

PENNSYLVANIA
MARYLAND

WILMINGTON, DE

BALTIMORE, MD

WASHINGTON
D.C.

OCEAN CITY, MD

ROANOKE, VA

WEST VIRGINIA
VIRGINIA

RICHMOND, VA

Location Map

HAMPTON ROADS, VA

NORTH CAROLINA

RALEIGH, NC



TOWN OF OCEAN CITY

The White Marlin Capital of the World

September 30, 2011

*To the Citizens, Honorable Mayor,
and City Council of the Town of Ocean City*

I respectfully submit the Comprehensive Annual Financial Report (CAFR) for the Town of Ocean City (the Town) for the fiscal year ended June 30, 2011. The purpose of this report is to provide citizens, the Mayor and City Council, management, representatives of financial institutions and others with detailed information about the financial condition and performance of the Town. The CAFR is produced to comply with Section 717 of the Town charter and Article 19, Section 40 of the Annotated Code of Maryland. The financial statements are presented in conformity with accounting principles generally accepted in the United States (GAAP).

In addition, the CAFR provides assurances that the Town fairly presents its financial position and results of operations as verified by SB & Company, LLC, independent public accountants, in accordance with auditing standards and accounting principles generally accepted in the United States. The independent public accountant concluded that the Town of Ocean City's financial statements for the year ended June 30, 2011, are fairly presented in conformity with GAAP. Their report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town was part of a broader, federally mandated "Single Audit" designed to meet the needs of federal grantor agencies. The standards governing Single Audit engagements require the independent public accountants to report not only on the fair presentation of the financial statements, but also on the government's internal controls and compliance with legal requirements, particularly with regard to the administration of federal awards. These reports are available in the Town's separately issued Single Audit Report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town's MD&A can be found immediately following the report of the independent public accountants.

This report consists of management's representations concerning the finances of the Town. Therefore, the Town's management takes full responsibility for both the completeness and accuracy of the information in this report, including all disclosures. We believe the data as presented is correct in all material respects and is reported to fairly present the financial position and results of operations of the various funds of the Town.

This CAFR includes all funds of the Town. The Town has no component units. The Town provides a full range of services including: police protection; fire protection and emergency medical services; solid waste removal; community planning; construction and fire safety inspection; the construction and maintenance of streets and infrastructure; water and wastewater treatment services; recreational activities and cultural events; bus service; airport; golf course and convention center.

MAYOR & CITY COUNCIL
P.O. BOX 158
OCEAN CITY,
MARYLAND 21843-0158

www.oceancitymd.gov

MAYOR
RICHARD W. MEEHAN

CITY COUNCIL MEMBERS

JAMES S. HALL
President

LLOYD MARTIN
Secretary

BRENT ASHLEY
DOUGLAS S. CYMEK
JOSEPH T. HALL, II
MARY P. KNIGHT
MARGARET PILLAS

DENNIS W. DARE
City Manager

KATHLEEN A.P. MATHIAS
City Clerk

Ocean City, MD



*Town of Ocean City
Letter of Transmittal*

The financial statements of the Trustees for the Employees of Ocean City, Maryland Pension Plan, the Town of Ocean City, Maryland Public Employees Pension Plan, and the Other Post-Employment Benefits Trust are included in the CAFR as fiduciary funds of the Town. The Town's reporting entity is explained in Note 1.A. to the financial statements.

THE TOWN AND TOWN GOVERNMENT

Population, Location, and Government. Ocean City is a barrier island founded as a fishing village in 1875. Today, the Town has over 7,100 permanent residents and hosts millions of visitors annually to its beautiful wide beaches, 2.5 mile long boardwalk, bays and natural resources. The Town also offers a wide variety of activities including festivals, fishing tournaments, amusement parks, golf courses, restaurants, and nightclubs.

Incorporated by the State of Maryland in 1898, Ocean City is located approximately 150 miles from Washington, D.C., and 135 miles from Baltimore, Maryland. It is bordered on the north by Fenwick Island, Delaware, on the south by an inlet which separates Ocean City from Assateague Island state and national seashore parks, on the west by wide shallow bays and on the east by the Atlantic Ocean. Ocean City is one of the premier seaside resorts on America's east coast due to a variety of attributes including its convenience to major metropolitan areas and access by automobile using US Route 50 to the west and US Route 13 and Delaware Route 1 to the north.



The Town operates under a council-manager form of government. Policymaking and legislative authority are vested with the seven-member City Council. The Mayor has the power to veto ordinances, nominate appointments to Town boards, and represent the Town before other governmental authorities. The Council is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the Town's manager, attorney, clerk, and chief of police. The Town's manager is responsible for carrying out the ordinances and policies of the City Council, for overseeing day-to-day operations of Town departments, and for appointing heads of the departments. The Mayor and City Council

are elected on a non-partisan, at large basis. Council members serve four-year staggered terms with three to four elected every two years. The Mayor is elected to serve a two-year term.

The annual budget serves as the foundation for the Town's financial planning and control. The City Manager and Finance Administrator may approve transfers of appropriations within a department or between departments. Transfers between funds or utilization of contingencies require approval of the Mayor and City Council. A budget-to actual comparison for general fund is presented in the financial section of this report.

ECONOMIC CONDITIONS

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 tourism industry can be broken down into three classifications: 1) hotels, motels, and condominium rentals 2) restaurants and nightclubs and 3) retail shops, the boardwalk and malls. It is estimated that over eight million people visit the resort each year. Although the peak months are June, July and August, tourism is also strong in April, May, September and October. Depending on the weekend weather, these off-season months may average over 200,000 people.

The Town government, in conjunction with local businesses and non-profit groups, has sought to increase business with the use of festivals, entertainment, and sporting events. The largest events such as Sunfest, Winterfest of Lights, Springfest, the Ocean City Air Show, auto rallies, and motorcycle events attract thousands of visitors. The Town also sponsors weekly bonfire storytelling sessions, family activities and movies on the beach, concerts, both on and off the beach, and various entertainment venues at Northside Park on 125th Street and at Sunset Park located on the bay front in downtown Ocean City. There are 19 golf courses in the Ocean City area. Group business, meetings, and events held at the Convention Center have also maintained room occupancy levels and restaurant and retail sales.

The Town increased the advertising budget from \$3.7 million in 2009 to \$4.5 million in 2011. The successful campaign included the use of social media, Facebook and Twitter, and television ads featuring “Rodney, the Lifeguard” to promote the resort. For the year ended June 30, 2011, room sales were 5.3% above the prior year and food and beverage sales were up 3.3%.

The number of construction permits was slightly more in 2011 at 1,622 compared to 1,501 in 2010, but the 2011 fiscal year saw a substantial decline in the estimated value of that construction. The estimated value of construction in 2011 was \$25,521,294 compared to \$36,525,292 in 2010. The decrease in real estate values has forced several scheduled development projects to be delayed, changed in scope, or withdrawn. Investors and developers are understandably applying more conservative strategies during this economic downturn.

The Town relies on property taxes for 57% 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 are anticipated for a number of years and may lag behind other improvements in the economy.

MAJOR INITIATIVES

General Obligation Build America Bonds of 2010

In November 2010, the Town issued \$18,105,000 in 20-year general obligation bonds to fund the following land purchases and improvements:

Convention Center Expansion	\$	5,000,000
Land acquisition - 64th St - General Fund		3,396,825
Land acquisition - 64th St - Wastewater Fund		1,828,750
64th St boat ramp		762,525
32nd St wastewater pumping station		610,020
Wastewater plant dissolved air floatation units		2,338,410
15th-49th St force Main & pump replacements		3,761,790
15th St wastewater pumping Station		406,680
Total	\$	<u>18,105,000</u>

The American Recovery and Reinvestment Act of 2009 authorized the Town to issue federally taxable Build America Bonds to finance capital expenditures for which it could issue federally tax-exempt bonds and elect to receive a subsidy payment from the federal government equal to 35% of each interest payment on the bonds. A syndicate managed by Robert W. Baird & Co was the successful bidder for the bonds at a public sale on November 18, 2010. The average coupon rate for the bonds was 4.82% and the true interest cost to the Town was 3.07%.

Pension Plan and Wage and Benefit Changes for New Employees

The Town Council has passed an ordinance in May 2011 to close the Town's defined benefit pension plans to new hires. New hires were provided a defined contribution plan with a 5% mandatory contribution by the employee matched by the Town and an option of an additional 2% contribution also to be matched by the Town. The salary ranges for new hires in all classifications of general, non-union employees were reduced from 2% to 8%. Retiree health insurance for new hires is offered until age 65 only, with retirement after 25 years of service. This change was anticipated by the Council to reduce immediate costs for wages and future pension and retiree health unfunded liabilities.

ACTIVITIES AND ACCOMPLISHMENTS

Ocean City Free-For-All



The Town of Ocean City launched the "Ocean City Free-for-All" promotion in 2011. This promotion highlights all cost-free activities the Town offers. The promotion, in conjunction with the Rodney the Lifeguard campaign, was instituted as an investment in the Town's visitors. While the Town of Ocean City has offered some free activities for its visitors for over fifteen years, it increased its free activities in 2011 and has maintained these activities despite their costs. There are various free activities that visitors can participate in:

- *Concerts on the Beach* is a weekly, nighttime event that features bands of different genre but is appealing to all ages. As one visitor described it “*There is nothing like sitting on the beach with your feet in the sand, listening to good music with a gorgeous sunset behind you and the sound of the waves crashing on the shore.*”
- *Family Movie Nights* are held each Monday and Friday on 27th Street and show G-rated movies.
- *Family Olympics* are held each Tuesday at 27th Street and feature sand castle contests, tug of war, relay games and more.
- *Sundaes in the Park* is held each Sunday at Northside Park on 125th Street and features bands of different genre as well as special entertainment for kids. There is fun for everyone as well as “make your own sundaes” for a small fee.
- *Sunset Party Nights* are held each Thursday at Sunset Park located on S. Philadelphia Avenue on the Bay. This also features bands of different genre. Visitors bring their chairs and enjoy the music as the sun sets.
- *Life Saving Museum* houses the Town’s history. Additionally, families can watch the feedings at the museum aquarium; learn about sharks, beach safety, knot tying and more.



The Town of Ocean City also partners with outside vendors to bring other free activities to Ocean City such as the annual Air Show, various parades including the Maryland State Firemen’s Parade, its Fourth of July celebration and concert, and the Radio Disney productions. For more information on other free activities please visit, www.ococean.com/freeforall.

Rodney Saves Campaign



In 2009, while other businesses and municipalities were cutting their advertising funds due to the recession, the Town of Ocean City took a different approach. The Town of Ocean City’s Tourism Department partnered with MGH, Inc – an integrated marketing and communications agency in Baltimore, Maryland to develop a unique advertising campaign to promote tourism. After much brainstorming, the Rodney campaign was developed – a campaign that featured Rodney, Ocean City’s favorite lifeguard, who rescues people from their mundane, stressful lives and brings them to Ocean City, Maryland for a vacation. The Rodney campaign was a fully integrated campaign and not just a creative idea. The campaign covered the traditional media, online media, social media, public relations promotions, word of mouth, and events and reminded the public that they deserved a vacation. One of the traditional media ads highlighted Rodney rescuing a man from lawn work, loading him onto an Ocean City, Maryland tram and bringing him to Ocean City. Rodney soon transitioned from saving individuals to saving the entire East Coast. The campaign also focused on the value the visitor receives while vacationing in Ocean City with the “Rodney Saves” slogan. It highlighted money-saving deals and discounts as well as the free-for-all events (see above) occurring in Ocean City six nights a week. Local businesses were encouraged to join with the Town to provide special discounts and some local businesses also provided free family events.

*Town of Ocean City
Letter of Transmittal*

Additional promotional avenues were created with Android and iPhone applications and updates to the Ocean City Insiders. Since 2007, the Ocean City Insiders have been the first ambassadors for Ocean City, Maryland. They provide advice to potential visitors and an avenue for the visitor to ask and in return, receive feedback and recommendations. The Ocean City Insiders became a fully integrated part of this advertising campaign push too and it proved to be effective. To broaden the social media infiltration, MGH developed profiles for Ocean City in the social media marketing arena. This advertising avenue proved to be successful when the Ocean City fan network grew 62% in the past year.



FINANCIAL INFORMATION AND PLANNING

Capital planning. The Town has adopted a capital improvement plan that includes a ten-year plan to repair 75 miles of town streets. Improvements to the Town’s infrastructure have been continuous for over 30 years. Of high priority and designed are projects for improvements to St. Louis Avenue, a boardwalk restroom, downtown park, new water and wastewater mains, wastewater plant improvements, and fire station.

Fiscal policies. The Town has incorporated the above capital plan in its fiscal policies that encourage the use of surpluses in excess of reserve and cash flow requirements in the governmental activities to be invested in capital assets or to retire outstanding debt. The policy for business type activities is for their unrestricted net assets to be maintained at sufficient levels for working capital needs and to fund system improvements.

Tax base. The State of Maryland Department of Assessments and Taxation is responsible for assessing property values in Ocean City. Reassessments are made on a triennial basis and real property is assessed at market value. Assessments were \$10.4 billion dollars for fiscal year 2011, a 2.2% decrease from 2010.

Pension Trust Funds and Other Post-employment Benefits Trust Fund (OPEB). Assets for the General Employees Pension Plan, the Public Safety Employees Pension Plan, and OPEB Trust Fund are invested and managed by Morgan Stanley. The plans have highly diversified portfolios. The pension plans experienced an investment rate of return of 13.4% for the plan year ended March 31, 2011. The OPEB Trust Fund had a return of 22.4% for the same period. The Town contributed 100% of its annual required contribution to each of the plans in 2011. Additional information on the Town’s pension funds can be found in Note 11 in the notes to the financial statements on page 73.

General fund reserve. The Town has a policy of maintaining a reserve of 10% of general fund expenditures to handle potential revenue shortfalls, cash flows for the peak employment in the summer season, and for emergencies. At June 30, 2011, that reserve, unassigned fund balance, was 20.2% or \$15,049,478 compared to 13.4% and \$10,590,252 in 2010.

Bond ratings. The Town's bonds that are insured are designated with the insurance company's credit rating or are unrated. The Town received ratings of AA- from Fitch Ratings and Aa2 from Moody's Investors Service and AA- from Standard and Poor's for the General Obligation Build America Bonds of 2010 which were sold in November 2010.

AWARDS AND ACKNOWLEDGEMENTS

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Ocean City for its comprehensive annual financial report for the fiscal year ended June 30, 2010. This is the 23rd consecutive year that the Town has received this prestigious award. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will be submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgments. I would like to thank the employees of the Town for their contributions to this report. I appreciate each employee who has taken on additional duties and responsibilities in providing Town services in a period of uncertainty and reduced personnel. With their help and the efforts of the entire finance department, we have maintained strong internal financial controls and accurate financial reporting to keep the public informed and to provide a foundation for future decisions.

Respectfully submitted,

A handwritten signature in black ink that reads "Martha J. Bennett, CPA". The signature is written in a cursive style.

Martha J. Bennett, CPA, CGFM
Finance Administrator

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Ocean City
Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2010

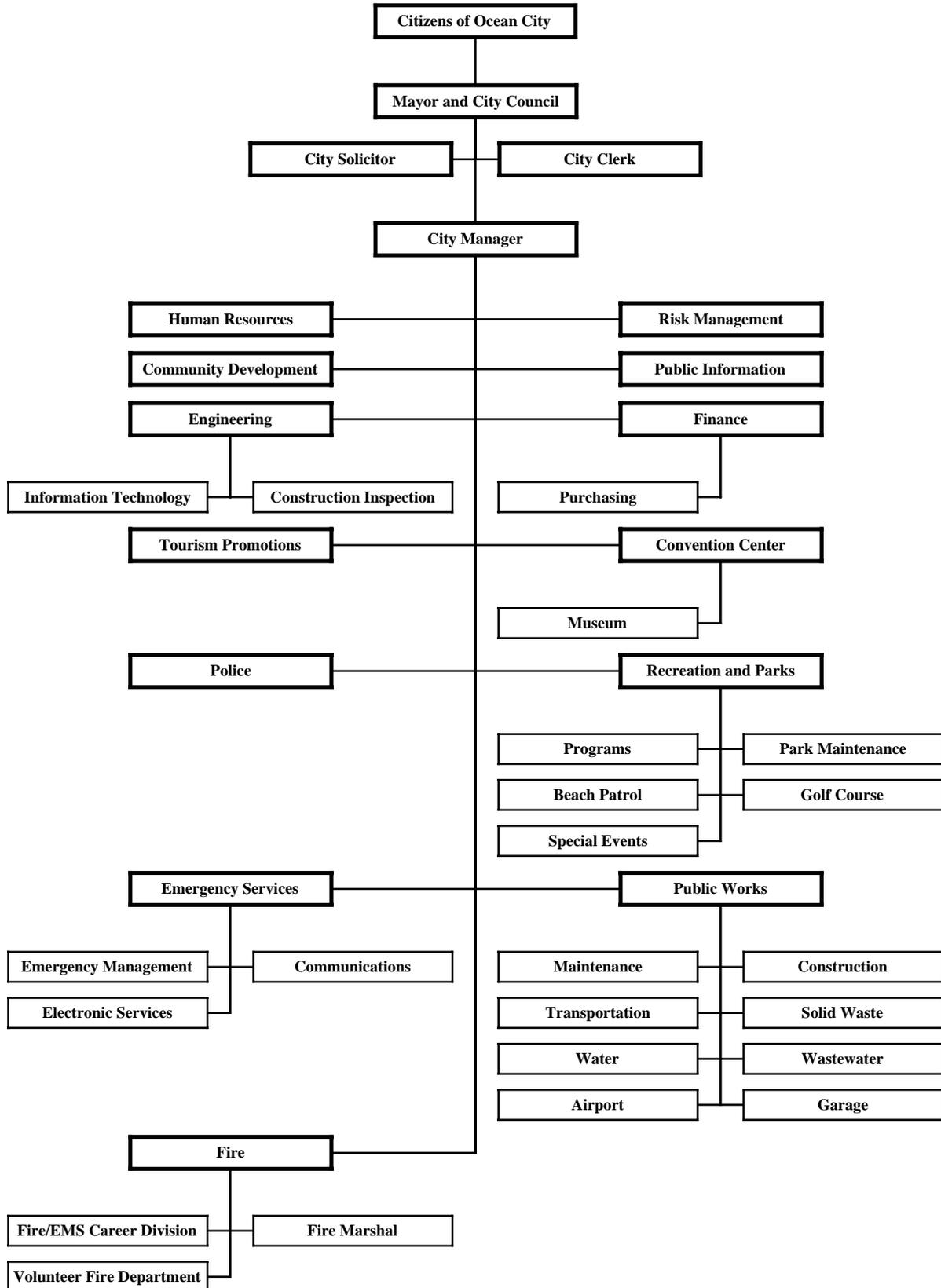
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Town of Ocean City Organizational Chart
2011



Town of Ocean City
List of Principal Officials and Directors
June 30, 2011

<u>Title</u>	<u>Name</u>
Mayor	Richard W. Meehan
President of Council	James S. Hall
Secretary of Council	Lloyd Martin
Council Member	Brent Ashley
Council Member	Douglas S. Cymek
Council Member	Joseph T Hall, II
Council Member	Mary P. Knight
Council Member	Margaret L. Pillas
City Manager	Dennis W. Dare, PE
City Solicitor	Guy R. Ayres III
City Clerk	Kathleen A. P. Mathias
Finance Administrator	Martha Bennett Lucey, CPA
City Engineer	Terence J. McGean, PE
Emergency Services Director	Joseph J. Theobald
Chief of Police	Bernadette A. DiPino
Fire Chief	Christopher Larmore
Fire Marshal	Samuel E. Villani, Jr., CFI
Public Works Director	Hal O. Adkins
Planning/Community Dev Director	Jesse C. Houston
Recreation and Parks Director	Thomas J. Shuster, CPRP

General Employees of Ocean City, Maryland Pension Plan
Public Safety Employees of Ocean City, Maryland Pension Plan

<u>Trustees</u>	<u>Employee Trustees</u>
Guy R. Ayres III	Pamela W. Marshall
Reese Cropper III	Michael Levy
Timothy J. King	
Geoffrey Robbins	
Richard W. Meehan	
Brent Ashley	
Douglas S. Cymek	
James S. Hall	
Joseph T Hall, II	
Mary P. Knight	
Lloyd Martin	
Margaret L. Pillas	

FINANCIAL SECTION





REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Honorable Major
and City Council of the Town of Ocean City, Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ocean City, Maryland (the Town), as of June 30, 2011, and for the year then ended, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. 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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated September 29, 2011, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of funding progress and schedules of employer contributions as listed in the table of contents 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 evidence sufficient to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying introductory section, combining and individual nonmajor funds, business-type funds and fiduciary funds statements and the statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

Hunt Valley, Maryland
September 29, 2011

SB & Company, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS



Town of Ocean City
Management's Discussion and Analysis
June 30, 2011

This section of the Comprehensive Annual Financial Report provides discussion and analysis of the financial performance of the Town of Ocean City (the Town) and an overview of the Town's financial activities for the fiscal year ended June 30, 2011. This information is best understood if read in conjunction with the transmittal letter at the front of this report and the Town's financial statements, which follow this section.

Financial highlights for FY 2011

- The assets of the Town exceeded its liabilities at the close of the 2011 fiscal year resulting in net assets of \$144,424,735. Of this amount, \$27,679,930 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors, \$9,638,746 is restricted for future debt service, \$1,583,579 is restricted for capital projects, \$130,000 is restricted for advances to other funds, and \$105,392,480 is invested in capital assets, net of related debt.
- Through the recession in 2009 and 2010, the Town's overall financial position decreased (\$28,627) or (.02%). In 2011, net assets increased \$6,478,696, or 4.7%. There were gains from governmental activities of \$5,755,333 before transfers of \$3,795,956 to other funds. Due to a (2.2%) decrease in assessments and no change in the tax rate, revenue from property taxes decreased (\$1,239,332) or (2.82%). However, revenue from service charges increased \$1,725,185, or 4.6% from the prior year. There was a significant increase in revenue from grants and contributions of \$5,284,467 above the \$751,195 received in 2010, primarily from funding from the American Recovery and Reinvestment Act (ARRA) designated for local transit services. The overall 6.0% increase in revenues of \$6,342,516 and a stabilization of expenses of (.2%) or (\$164,807) below the prior year served to increase net assets.
- As of June 30, 2011, the Town's governmental funds reported combined ending fund balances of \$17,761,652 an increase of \$5,502,948 from the prior year. Although the real property tax rate remained \$0.395 per \$100 of assessed value, tax receipts were \$1,076,782 less than 2010 due to the (2.2%) decrease in assessments. The decline in revenue was anticipated and operating expenditures were reduced to offset the loss of revenue. In 2010, there was expenditure for land of \$3,236,038 which was reimbursed from bond proceeds in the 2011 fiscal year, directly increasing fund balance. Capital projects, a nonmajor governmental fund, had a net change in fund balance of \$611,557. The fund received bond proceeds of \$870,990, had capital expenditures of \$1,035,324, and \$516,716 was expended for principal and interest on a notes payable for land acquired in prior years. Of the total amount in fund balance, \$15,049,478 is available to meet the Town's current and future needs, and is unassigned fund balance. Unassigned general fund balance at year-end was 20.2% of general fund expenditures and other uses, above the percentage in FY-2010 of 13.4%, and in excess of Town reserve policy of 10%.
- The Town's net debt increased by \$10,795,675 during the current fiscal year. The key factors in this change were sale of \$18,105,000 in bonds for capital improvements, scheduled principal retirements of general obligation bonds, loans and capital leases of \$7,184,325 and an additional payment of \$125,000 on notes payable.

*Town of Ocean City
Management's Discussion and Analysis*

- The Town closed its two defined benefit pension plans to new hires and established a defined contribution plan with a Town match of employee contributions up to 7% of pay.

Overview of the financial statements

The Town's basic financial statements have three components: government-wide financial statements, fund financial statements, and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

The *statement of net assets* presents information on all the Town's assets and liabilities, with the difference between the two reported as *net assets*. Increases or decreases in net assets, over time, are indicators as to whether the financial position of the Town is improving or declining.

The *statement of activities* presents information showing how the Town's assets changed during the past fiscal year. All changes in net assets are reported when the underlying event or transaction occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in a future fiscal period such as uncollected income taxes and earned but unused, vacation leave.

Both of these 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 cover their costs primarily from user fees and charges and are *business-type activities*. 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 business-type activities of the Town include water, transportation, wastewater, the Roland E. Powell Convention Center, the Ocean City Municipal Airport and Eagle's Landing Golf Course.

The government-wide statements can be found on pages 37-39 of this report.

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 can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows 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 in evaluating a government's near-term financing requirements.

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Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact 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 has two governmental funds. 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, which is considered to be a major fund. The capital projects fund, a non-major fund, is used to report the funding and expenditures for the purchase or construction of capital assets, other than those reported in proprietary funds. The construction may span over more than one fiscal year.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 40-43 of this report.

Proprietary funds. The Town maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and wastewater utilities, convention center, and transportation system, which are major funds, and for two nonmajor funds, which account for the operations of the airport and golf course. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses internal service funds to account for its fleet of vehicles, their maintenance, management information systems, and risk management. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the major funds and combined information for the non-major funds. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for non-major enterprise funds and the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 44-51 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The Town has three fiduciary funds, the General Employees Pension Fund, the Public Safety Employees Pension Fund, and the Other Post-employment Benefits Trust Fund. The accounting used for these funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 52-53 of this report.

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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. The notes to the financial statements can be found on pages 54-77 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on pages 80-82 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, nonmajor proprietary funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 84-99 of this report.

Government-wide Financial Analysis

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the Town as a whole as of and for the year ended June 30, 2011 with comparative information for the previous year.

Statement of Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and condition. In the case of the Town, assets exceeded liabilities by \$144,424,735 at the close of the fiscal year for June 30, 2011, compared to \$137,946,039 for the year ended June 30, 2010, an increase of \$6,478,696.

By far the largest portion of the Town's net assets, 72.9%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

	Governmental Activities		Business-type Activities		Total Primary Government		%
	2011	2010	2011	2010	2011	2010	
Current and other assets	\$ 31,464,720	\$ 30,066,925	\$ 37,135,463	\$ 20,278,134	\$ 68,600,183	\$ 50,345,059	36.3%
Capital assets	80,977,073	79,195,979	96,355,890	98,267,261	177,332,963	177,463,240	(0.1)
Total assets	112,441,793	109,262,904	133,491,353	118,545,395	245,933,146	227,808,299	8.0
Long-term liabilities outstanding	32,958,704	32,292,257	43,549,120	34,827,273	76,507,824	67,119,530	14.0
Other liabilities	14,165,514	13,612,449	10,835,073	9,130,281	25,000,587	22,742,730	9.9
Total liabilities	47,124,218	45,904,706	54,384,193	43,957,554	101,508,411	89,862,260	13.0
Net assets:							
Invested in capital assets, net of debt	47,390,589	46,393,277	58,001,891	60,260,847	105,392,480	106,654,124	(1.2)
Restricted	1,713,579	1,222,022	9,638,746	9,667,139	11,352,325	10,889,161	4.3
Unrestricted	16,213,407	15,742,899	11,466,523	4,659,855	27,679,930	20,402,754	35.7
Total net assets	\$ 65,317,575	\$ 63,358,198	\$ 79,107,160	\$ 74,587,841	\$ 144,424,735	\$ 137,946,039	4.70

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.

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A portion of the Town's net assets, \$11,352,325, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$27,679,930, may be used to meet the Town's ongoing obligations to citizens and creditors. This is a \$6,478,696 increase from 2010.

The following table indicates the changes in net assets for governmental and business-type activities:

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2011	2010	2011	2010	2011	2010	
REVENUES							
Program Revenues:							
Charges for current services	\$13,123,194	\$12,592,238	\$26,397,862	\$25,203,633	\$ 39,521,056	\$ 37,795,871	4.6%
Operating grants and contributions	2,807,769	2,705,797	3,414,926	3,401,683	6,222,695	6,107,480	1.9
Capital grants and contributions	75,000	80,000	5,960,662	671,195	6,035,662	751,195	703.5
General revenues:							
Property taxes	42,660,709	43,900,041	-	-	42,660,709	43,900,041	(2.8)
Other taxes	13,703,686	13,031,401	-	-	13,703,686	13,031,401	5.2
Grants and contributions not restricted to specific programs	2,636,388	2,436,638	-	-	2,636,388	2,436,638	8.2
Other revenue	711,467	835,277	105,059	396,303	816,526	1,231,580	(33.7)
Total revenues	75,718,213	75,581,392	35,878,509	29,672,814	111,596,722	105,254,580	6.0
EXPENSES:							
General government	751,333	1,621,071	-	-	751,333	1,621,071	(53.7)
Public safety	34,297,859	33,961,816	-	-	34,297,859	33,961,816	1.0
General public works and beach	6,205,643	6,055,716	-	-	6,205,643	6,055,716	2.5
Sanitation and waste removal	6,193,273	7,081,833	-	-	6,193,273	7,081,833	(12.5)
Highways and streets	6,763,540	7,036,697	-	-	6,763,540	7,036,697	(3.9)
Economic development-Tourism	6,671,972	6,243,797	-	-	6,671,972	6,243,797	6.9
Recreation and culture	7,783,123	7,890,492	-	-	7,783,123	7,890,492	(1.4)
Interest on long-term debt	1,296,137	1,261,803	-	-	1,296,137	1,261,803	2.7
Water	-	-	7,597,787	6,978,781	7,597,787	6,978,781	8.9
Transportation	-	-	7,493,620	7,715,464	7,493,620	7,715,464	(2.9)
Wastewater	-	-	11,045,110	10,337,839	11,045,110	10,337,839	6.8
Convention Center	-	-	5,533,018	5,669,798	5,533,018	5,669,798	(2.4)
Other enterprise operations	-	-	3,485,611	3,427,726	3,485,611	3,427,726	1.7
Total expenses	69,962,880	71,153,225	35,155,146	34,129,608	105,118,026	105,282,833	(0.2)
Increase in net assets before transfers	5,755,333	4,428,167	723,363	(4,456,794)	6,478,696	(28,627)	(22731.4)
Transfers	(3,795,956)	(4,288,477)	3,795,956	4,288,477	-	-	
Increase in net assets	1,959,377	139,690	4,519,319	(168,317)	6,478,696	(28,627)	(22731.4)
Net assets prior year	63,358,198	63,218,508	74,587,841	74,756,158	137,946,039	137,974,666	
Net assets current year	\$65,317,575	\$63,358,198	\$79,107,160	\$74,587,841	\$144,424,735	\$137,946,039	4.70

For the year ended June 30, 2011, the Town reported positive balances in all three categories of net assets, both for the Town as a whole, as well as its separate governmental activities. For business-type activities, balances were positive as a whole, except in the Transportation Fund, which reported unrestricted net deficit of (\$142,471) and a nonmajor fund, the golf course fund, which reported unrestricted net deficits of (\$69,977). The deficit for the Transportation fund increased \$107,387 from 2010. It was an improvement from the prior year for the golf course, as its deficit decreased \$77,924.

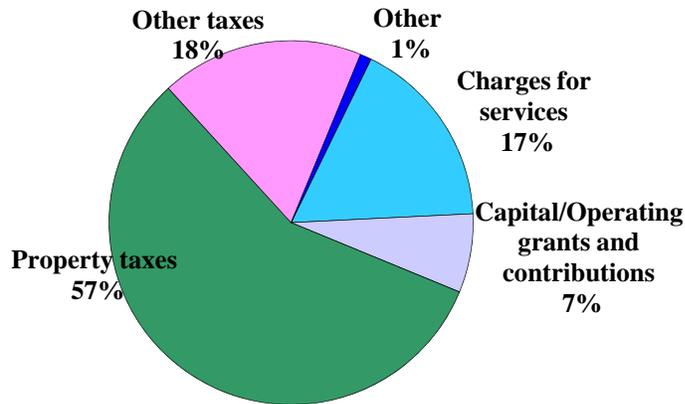
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As a whole, the Town's net assets increased \$6,478,696 for the year ending June 30, 2011. The majority of the increase was due to grants of \$5,283,331 in internal service fund activities which was recognized in business-type activities as they associated to transportation related items. Total revenues for governmental activities increased \$136,821 while expenses before transfers decreased \$1,190,345.

Governmental activities: Revenue was stable as a whole for governmental activities with an increase of \$136,821 or .18%, however, variances occurred for specific revenue types. Key elements in the revenue increase of \$136,821 for governmental activities are as follows:

- Property tax revenues and tax penalties and interest decreased 2.8% or \$1,239,332 as a result of assessment decreases of 2.2%. The tax rate remained the same at \$0.395 per \$100 of assessed value in FY-11. Property taxes comprise 57% of revenue for governmental activities and 38.2% of all Town revenues.
- Revenues in the category, "Other Taxes" increased \$672,285 or 5.2%. This category includes admissions taxes, income taxes, highway user taxes, and room taxes. Room taxes, the largest revenue source in this category with receipts of \$11,907,434 had an increase of \$680,530, or 6.0% from the prior year, an indicator that hotel sales in the resort have increased since the recession. Income taxes were \$98,935 below 2010 as capital gains declined with the decline in real estate values. Highway user taxes decreased \$25,255 due to a decision by the State of Maryland to withhold this shared tax from local jurisdictions. Admissions and amusement taxes increased \$65,187.
- Revenue for current services increased \$530,956 in governmental activities. There was an increase in receipts from liquor board sales of \$259,232. Rates for parking lots and meters were increased in 2010 the resulting in additional revenue of \$555,310 from this source. Revenue from fees for special events increased \$126,155. Waste collection fees and recycling sales decreased \$198,905 as the Town closed the recycling center and ships all solid waste to an energy facility. Photo franchise fees decreased \$314,790. The bids received were lower than in prior years as the photo business has declined as more people use personal digital cameras and phones on the beach.
- The revenue recognized from operating and capital grants and other contributions increased 5.689%, or \$296,722. The state grant for tourism development increased \$205,904. However, federal grants decreased \$83,967 for emergency response and local block grants for crime prevention. In December 2010, a state licensed casino opened in Worcester County. Under state law, the Town receives 20% of the local impact grant allocated to Worcester County of 5.5% of sales. The amount received by the Town for this new revenue source was \$224,791 from December 2010 through June 2011.

Revenue by Source - Governmental Activities



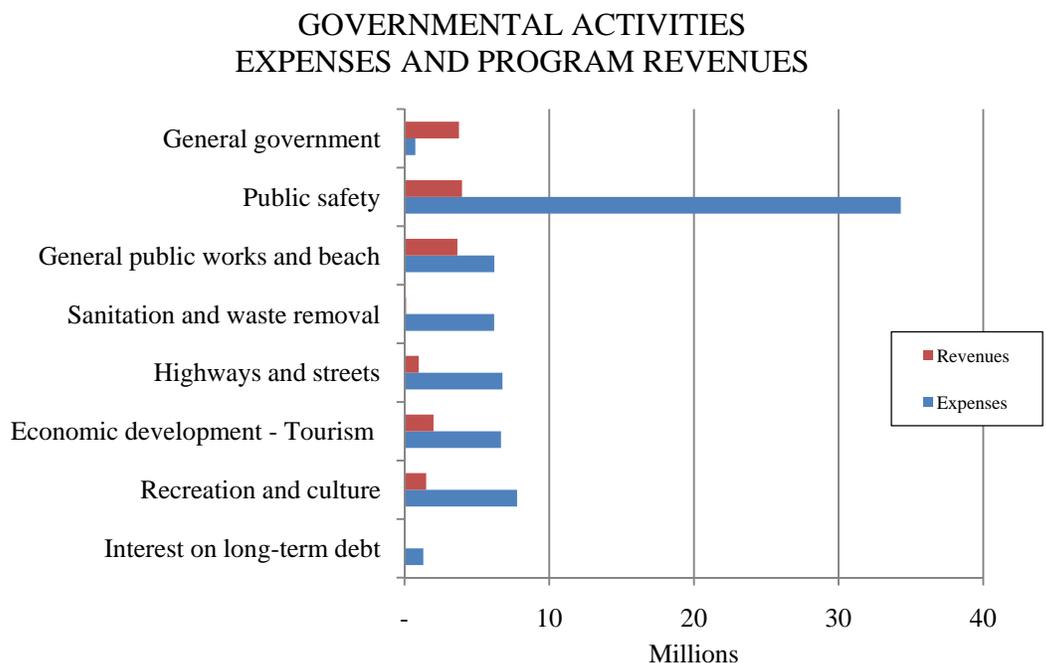
- Other revenue includes investment earnings which were \$172,784 below the prior year due to lower interest rates, decreasing from a weighted average of .94% in FY-2010 to .51% in FY-2011. This decline was offset by an increase of \$36,746 for capital asset sales. In 2011, the Town successfully used an online government auction site to sell vehicles and equipment.

Expenses for governmental activities decreased 4.4% or \$3,242,466 in FY-2010. This decrease in expenses was maintained in FY-2011, with an additional decrease of \$1,190,345 or 1.7% compared to FY-2010 primarily due to the following:

- Wages and employee benefits, which are 65.5% of total expenses, decreased 4.4% or \$2,235,061 from the prior year. There were no wage increases and a hiring freeze had been in place since 2008. The police and fire fighter unions worked cooperatively with town officials and agreed not to accept contractual salary increases. In 2010, the Town offered a retirement incentive program which was accepted by 23 governmental activity employees. The number of full-time governmental positions was decreased 43, from 455 to 412.
- Other operating expenses increased \$1,044,716 or 5.07%. The Town outsourced work previously done by Town employees such as transporting trash and boardwalk repairs. The Town has a contract with East Coast Resources to haul the Town's trash to waste-to-energy plants in Pennsylvania and Virginia instead of the Town taking it to the Worcester County landfill. The Town eliminated its recycling program in 2010 as source separation of trash from recyclables was no longer necessary. The cost of contracted services increased \$751,394.
- There was a 6.8% increase in expenses for economic development, tourism, in 2011 above 2010, or \$428,175. With the support of the hotel industry, the room tax was increased from 4.0% to 4.5% in January 2008 specifically to increase the resort advertising expenditures. As a result, the Town spent over \$728,200 more on advertising in 2011 than in 2010. It is an increase of \$1,622,769 above the amount spent in 2008.

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The following graph indicates the functional revenues and expenses of governmental activities to demonstrate the extent which the governmental functions produce revenues to offset program costs. Expenses not covered by direct program revenues are covered primarily by taxes, licenses, and state and county-shared revenues. Functional revenues covered 22.8% of governmental expenses in FY-2011 compared to 21.6% in FY-2010 and 21.3% in FY-2009.



Business-type activities. There was an increase of \$4,519,319 in the Town's net assets in FY-2011 attributed to business-type activities compared to a decrease of \$168,317 in FY-2010. Key elements of this increase are as follows:

- Service fees for business-type activities increased 4.74%, or \$1,194,229. A 2010 rate study advised 5-year fee increases to cover capital improvements and debt service for wastewater utilities and a reduction in water rates effective July 1, 2010. Revenue from water fees was \$154,046 less than the prior year and wastewater revenue increased \$845,074 from the prior year. Bus fares were increased in January 2011, resulting in an additional \$194,892 in revenue for the transportation system. Revenue increased \$127,940 at the convention center for food and beverage commissions, sales to exhibitors, and hall rentals. Fuel sales at the airport increased \$136,984 as fuel prices increased through 2010 and 2011. A new hangar increased rental income by \$17,481. Business was soft at the golf course in 2011 as it was in 2010. Sales decreased \$16,573 from 2010.

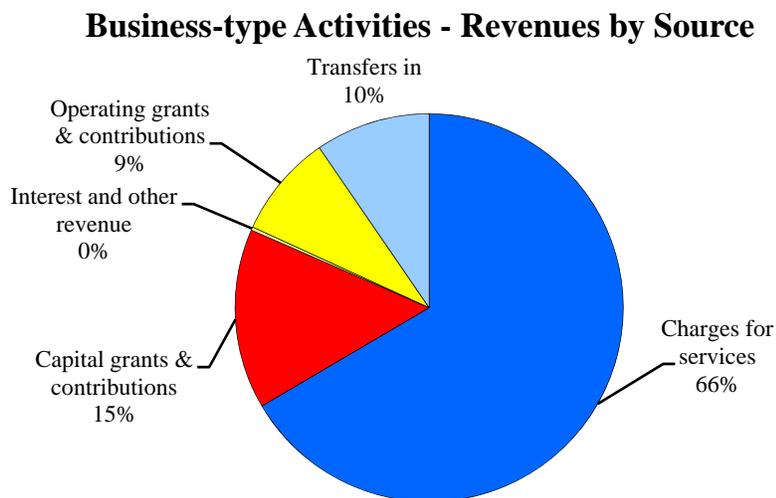
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- Revenue from operating grants and contributions for business-type activities was \$13,243 above 2010. Receipts from the local sales tax rate on food and beverages dedicated to pay debt service on the convention center increased \$34,996. As operating costs were reduced at the convention center, the state grant for operations was reduced by \$90,936. The convention center and wastewater funds received \$69,183 to subsidize interest on the 2010 Build America Bonds.
- Capital grants increased \$5,289,467 compared to the prior year, the primary reason for the increase in net assets for business-type activities. The Town received \$381,088 in state and \$4,902,243 in federal grants for fourteen buses through the ARRA. The airport received \$331,009 more in federal and state grants than in 2010. However, contributions from impact fees for water and wastewater service were \$128,671 less than in 2010.
- Expenses increased \$1,025,538 or 3.0% for business-type operations above 2010. As wages and benefits decreased \$559,975 or 4.0%, the increase in expenses was primarily for repairs, maintenance and contracted services. Additionally, interest expense increased \$134,740 due to the issue of the General Obligation Build America Bonds of 2010 in the wastewater and convention center funds. As noted above, \$69,183 was received which subsidized the interest expense.
- In the water fund, expenses were \$619,006 above the prior year. The increase was primarily due to replacement of filters at Gorman Avenue and 44th Street plants for \$1,051,222 and repairs to water mains for \$79,162. These costs were offset by decreases in wages and benefits, chemicals, and utilities.
- Of the \$221,844 reduction in expenses in the transportation fund, \$184,615 was attributed to reduction in salary expenses for full-time and part-time bus and tram drivers. Operations were reduced in the off-season and between the hours of midnight and 6:00 am. Costs for internal services decreased \$151,396; however, vehicle repairs increased \$94,646 above the prior year. As the loss was reduced due to fare increases and the reductions in expenses, there was a \$543,807 reduction in the general fund transfer to the transportation fund.
- Expenses for the wastewater fund increased \$707,271 or 6.8%. There were significant repairs to the oxygen building roof and industrial coatings applied to the secondary clarifier that increased repairs by \$213,119 above 2010. Other equipment repairs were made to the Fournier press, \$82,000, replacement of the gravity thickener drive, \$61,000, the rotary press, \$80,000, and the headworks bar screen was rebuilt for \$71,000. Interest expense was \$165,828 above 2010.

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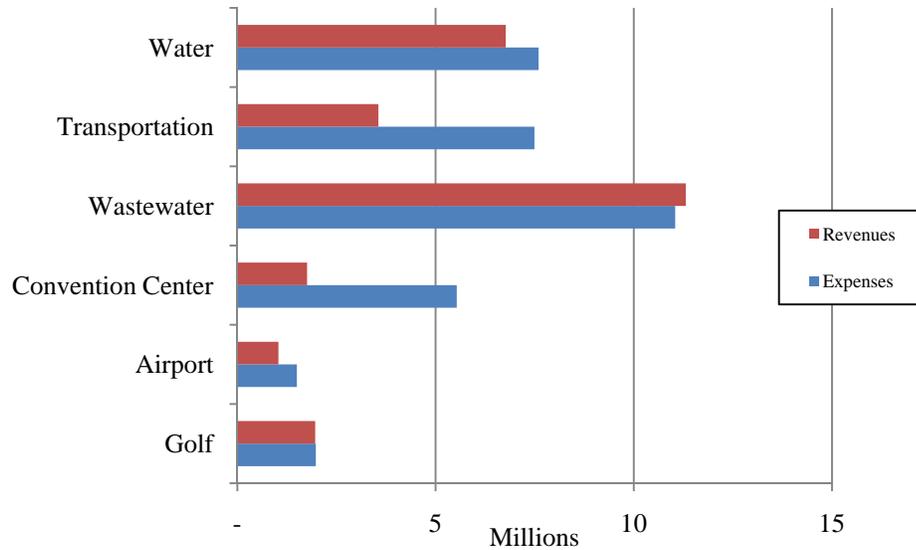
- The convention center expenses decreased \$136,780 primarily due a decrease in cost for utilities. The building control systems installed in the prior year improved timing of heat, cooling and lighting on a room by room basis, reducing utility costs \$138,575, or 20%. Several vacancies were filled in 2010, increased wages and benefits \$76,483.
- Expenses increased \$57,885 above 2010 for nonmajor funds. Operating expenses were only \$15,454 above the prior year for the airport fund and \$3,726 for the golf course fund. Expenses for salaries and benefits were \$55,965 less in the airport fund, but the cost of fuel increased \$97,159. Contracted services decreased \$30,274 as major electrical repairs were made in 2010 and the cost of concrete crushing, an ancillary operation on airport property, were less than the prior year due to the decline in construction. To subsidize airport operations there was a transfer from the general fund of \$390,711, an increase of \$82,688 from 2010.
- Operating expenses at the other nonmajor fund, the golf course, increased only \$3,726 but the decrease in sales resulted in an operating loss of \$19,282. Golf course operating income, net of depreciation was \$14,097. The golf course had a net gain of \$44,545 after a transfer from the general fund of \$63,805, the amount of amusement taxes generated by the course.

As shown in the following graph, 66% of revenues for business-type activities are from service charges:



The following graph indicates the portion of expenses that are covered by service charges to customers for business-type activities. The water, wastewater and golf course funds are self-supporting and users or reserves cover all costs. The operations of the transportation, airport, and convention center recovered 43.7% of expenses from user charges.

Business-type Activities – Expenses and Program Revenues



Financial Analysis of the Town's Funds

As noted previously, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Town's governmental funds is to provide information on current inflows, outflows, and balances of available, spendable resources. Such information is useful in assessing the Town's financing requirements. The amount of unassigned fund balance is a measure of the Town's net resources available at fiscal year end. Unassigned fund balance provides a reserve for emergencies, enables the City Council to stabilize tax rates, and provides working capital from which to pay Town bills between tax collection due dates.

At June 30, 2011, the Town's governmental funds reported a combined ending fund balance of \$17,761,652 compared to \$12,258,704 in 2010. The change in fund balance for the governmental funds was a gain of \$5,502,948. The key factors in this decrease were:

- Although the tax rate was the same at \$.395 per \$100 of valuation, assessment decreases of 2.2% resulted in a decrease in tax receipts of \$1,076,782.
- Other taxes increased \$846,688 as room tax receipts were \$680,530 above the prior year and the State of Maryland distributed \$224,791 to the Town from slot machine revenues in Worcester County.
- The revenue category licenses and permits increased \$62,964 from 2010. Fee increases of 2% for business and room licenses generated an additional \$68,882. A new revenue source

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in 2009, the sale of taxi medallions, generated \$50,738 above 2010. There were decreases in revenues for environmental fees from building permits of \$85,770. However, cable television franchise fees increased \$37,701.

- Revenue from other agencies was \$71,931 above receipts in 2010. The largest grant increase was from the State of Maryland for tourism development, an increase of \$205,904 from 2009. Other state grants for streets energy improvements declined \$33,149. Federal grants decreased \$73,565 for emergency response and forfeitures shared by the US Justice Department. Except for a decrease in the grant to volunteer fire companies of \$26,000, grants from Worcester County were maintained at the same level as in 2010.
- Charges for current services were \$429,737 more than in 2010. As noted above in governmental activities, an increase in parking rates generated an additional \$555,310 in additional receipts and there were increases in liquor board sales of \$259,232. Revenue from photo franchise fees decreased \$314,790.
- The category of fines and forfeitures had revenue increases of \$38,255. Revenue from tow fines was up \$38,676, and municipal fines increased \$24,275. Revenue from forfeitures of vehicles and assets and false alarm fines was \$19,956 less than in 2010.
- General Fund expenditures, before other financing sources and uses, decreased \$5,099,113 or 6.8% in 2011. Most of this decrease was due to the purchase of land adjacent to the public works complex at 65th Street in 2009 in the amount of \$3,282,636. This was an expense in governmental funds in 2009. The Town sold bonds in 2011 to reimburse the General Fund for this expense in the 2011 fiscal year. The increase in fund balance from the bond proceeds was \$3,288,360.
- Expenditures in the category of general government decreased \$670,195, as there was a retirement incentive program in 2009. Public safety comprises 46.6% of all general fund expenditures. The cost of public safety decreased \$93,782, significant as personnel costs are 81% of public safety expenditures. Police and firefighter unions agreed not to receive their contractual increases for increments and cost-of-living adjustments. The Town again funded only half of its annual contribution to the Ocean City Volunteer Fire Company equipment fund.
- After adjusting for the land purchase noted above, the three categories of public works had an overall decrease of \$1,342,130 in expenditures; highways and streets decreased by \$482,811; sanitation and waste removal decreased \$1,090,958. However, general public works and beach increased \$231,639 as the Town contribution to the state beach replenishment fund was \$325,339 above 2009. The elimination of on site recycling and private transport of trash to the waste-to-energy facility resulted in the savings for sanitation and waste removal. Other decreases were in salaries and benefits due to the elimination of positions in public works.
- Expenditures for the category recreation and culture decreased \$216,912. This was due to a reduction in salaries and benefits which were \$273,086 below 2010. With some reduction in activities and service levels, use of seasonal employees was limited in recreation programs and park maintenance.

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- Economic development and tourism continued to be a major focus in 2011 due to the recession. This is the only functional category that increased expenditures in 2011 above 2010. An additional \$728,200 was spent on advertising in 2011 for a total of \$4,753,224. Expenditures for free concerts and festivals were reduced in 2011 by \$68,739. Wages and benefits for this category decreased \$186,909.
- The Town retired principal in the amount of \$3,416,907, an increase of \$134,271 above 2010. A transfer of \$516,716 was made from the capital project fund from inlet parking revenues dedicated for downtown improvement to pay principal of \$500,000 and interest of \$16,717 on notes for downtown land purchases made in prior years. The Town issued \$4,159,350 in bonds in governmental funds to reimburse the general fund for the purchase of land in the prior year and to fund improvements. Issuance costs of \$43,746 were expended. Interest expenses were \$10,920 less in 2011 than in 2010.
- Transfers to other funds were \$4,795,956 in 2011 compared to \$4,357,291 in 2010, an increase of \$438,665. Transfers to capital projects were increased \$956,393 increasing pay-as-you-go projects in 2011. In addition to the above transfer of \$516,716 from capital projects funds to pay debt service, there was a transfer from the vehicle equipment fund of \$31,851 to reimburse the general fund for transfers made prior years to purchase additional vehicles.

The fund balance for the nonmajor fund, capital projects, increased \$611,557 due to unspent bond proceeds and transfers from the general fund. In 2011, revenues of \$292,607 were received from service charges and interest income in addition to the transfer of \$1,000,000 and bond proceeds of \$870,990. The following pay-as-you-go improvements were made:

Street paving, sidewalks and repairs	\$ 901,167
Shoreline improvements	9,055
Land improvements 64 th St	118,573
Boat ramp	<u>6,529</u>
Total	<u>\$ 1,035,324</u>

Remaining fund balance of \$1,583,579 is dedicated as follows:

Restricted for capital projects	\$ 747,437
Committed for contracts and purchase orders	52,343
Committed for capital projects	783,799

The general fund is the chief operating fund of the Town and accounts for major functions of the government including public safety, highways and streets, solid waste disposal, parks and recreation, economic development and general administrative services. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. At June 30, 2011, unassigned general fund balance was \$15,049,478, which represents 20.2% of general fund expenditures and other uses. Total general fund balance represents 21.8% of total expenditures and other uses at year-end. At the end of the prior year, the percentage was 14.2%.

*Town of Ocean City
Management's Discussion and Analysis*

Proprietary funds. The Town's proprietary funds provide the same information found in the government-wide financial statements but in more detail. A major fund, transportation and a non-major funds, the golf course fund, reported deficits in unrestricted net assets of (\$142,471), and (\$69,977) respectively. The transportation fund receives operating grants from the state and federal governments and a subsidy from the general fund, but grants have not increased in proportion to increases in wages, fuel and vehicle maintenance. Due to the recession, leisure recreation activities such as golf were down which reduced profits for this enterprise.

A loss of \$774,568 was reported in the water fund. Rates for water usage were increased in 2011 based on a rate study through 2015. Use of reserves to fund pay-go-projects was anticipated, however, major repairs to the water plants increased operating expenses in 2011 above projections.

The wastewater fund had a gain of \$407,854, with investment in capital assets of \$1,213,645. The capital asset acquisitions included \$102,691 for land improvements at 64th St, pumping station improvements of \$92,042 at 32nd St and \$152,253 at 15th St. Sewer main improvements were \$709,671. Service fees were increased 7.8% in April 2010 to fund future capital improvements and related debt service. Proceeds from the bond issue of \$8,945,650 were dedicated for capital improvements.

The convention center fund had an operating loss of \$3,517,548 compared to a loss of \$3,716,914 in 2010. The convention center fund received subsidies of \$1,416,189 from the Maryland Stadium Authority and \$1,425,730 from the Town, permitting an increase the net assets of the convention center of \$314,302. Debt service for the fund is supported by a tax on food and beverages in Ocean City. The debt sinking fund had a balance of \$9,638,746 at year-end and is shown as a restricted net asset. Other factors concerning proprietary funds are addressed in the discussion of the Town's business-type activities.

Fiduciary funds. In 2011, the pension funds had investment gains of 13.4%. The actuarial value of assets is calculated using a 5-year average actuarial valuation of assets that reflects a five-year phase-in of actual versus expected return. This reduces large fluctuations in the contributions due to temporary or one-year changes in the market value of investments as was seen in 2009. This is both rational and responsible for pension plans, which have both long-term investments and long-term liabilities. The required contribution calculation methodology uses a 10-year, level percent of pay, open gain/loss basis. This resulted in a smoothing of payments compared to the closed gain/loss methodology by netting actuarial gains and losses. Using the 5-year average actuarial valuation of assets, the General Employees Pension Plan had an actuarial gain of \$198,144. The Public Safety Employees Pension Plan experienced an actuarial loss of \$1,688,283.

The General Employees Pension Plan funded ratio, an indicator of funding status, increased from 77.1% to 79.5% due to the above investment gains. Employees contribute 5% of pay to the plan and the Town contributed \$2,135,528, or 10.9% of pay, to the plan with a ten-amortization of the unfunded actuarial liability with the exception of plan improvements made in 2004 that are being amortized over 20 years.

The funded ratio increased from 70.9% to 72.6% for the Public Safety Employees Pension Plan due to the above investment gains. Employees contribute 8% of pay to the plan. The Town contributed \$2,917,212 to the plan, or 24.1% of pay, which includes a 10-year amortization of the unfunded liabilities for the plans. Additional information on the pension plans can be found on pages 73-76 of this report.

The pension plans were closed to new entrants in May 2011. All new employees are required to participate in a defined contribution plan. The council selected the International City Managers Association Retirement Corporation (ICMA-RC) to administer the plan.

In 2009, the Town established a trust fund to provide for retiree health insurance benefits. The Other Post employment Benefits Trust (OPEB Trust) is a defined benefit healthcare plan whose assets may be expended solely to pay for post employment benefits and the costs of administering the trust fund. The Town had an actuarial study prepared in May 2011. The plan had investment gains of 22.4% for the year. The accrued liability for the plan is \$40,674,000 and it is being amortized over 30 years. The Town made the annual required contribution to the plan of \$3,516,000 in 2011 and made the annual required contribution in 2009 and 2010. Additional information on the OPEB Trust can be found on pages 71-73 of this report.

General Fund Budgetary Highlights

Amendments to the adopted budget may occur during the year in a legally permissible procedure (see Note 3.A. on page 60). Two amendments were made in FY-2011. Differences between the original budget and final amended budget for the general fund resulted in recognition of \$2,453,802 in additional revenues and other sources, and \$141,716 increase in transfers in. Appropriations were increased \$3,318,056 for operations, and an increase of \$830,037 for transfers to other funds. Significant appropriation changes were made as follows:

- Recognized state and federal grants of \$1,078,559 and to expend grant proceeds which included \$196,943 from Homeland Security, \$368,364 for Federal Emergency Management (FEMA), \$92,879 for public safety grants, Program Open Space for \$75,000 for Robin Park playground equipment, \$322,571 from the State for tourism development, and \$72,632 for stormwater planning.
- Increased anticipated revenue from property taxes by \$169,345 for corporations and mitigation fees \$44,973. Increases were recognized for room taxes of \$384,934; taxi medallion sales of \$20,800; parking fees \$42,682; and donations of \$152,528 for boardwalk benches, wheelchairs, the mounted unit, and trees. Revenue for building permits and fire inspection fees was reduced \$107,696 and photo franchise fee revenue was reduced \$300,000.
- To approve additional expenditures of \$51,370 for retiree health insurance and pension, public safety grant programs of \$681,130, boardwalk benches for \$100,000, inlet lot equipment of \$45,000, air show funding of \$50,000, tourism advertising for \$630,375, skatepark repairs of \$36,332 and \$24,665 for roof repairs at Northside Park. To reduce appropriations for part-time wages, supplies, and vehicle parts and fuel by \$296,533 for sanitation and waste removal.
- To increase a transfer to capital projects fund \$1,000,000 for street paving. To decrease the appropriation to the Transportation fund by \$36,500 and to decrease the transfer to the Convention Center fund \$133,463 as expenses and services had been reduced for the year.
- To recognize transfers from capital projects funds for \$141,716 for debt service for notes payable on land.

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During the year, revenues were above final budget estimates by \$44,953 and bond proceeds were \$3,288,360 more than projected as the bond sale had been budgeted in the prior year. Expenditures were \$2,112,058 less than anticipated, resulting in a favorable variance from the budget of \$5,445,371. The key elements of this variation were:

- The category of revenue from other agencies was \$102,281 less than anticipated due to FEMA grant funded projects not completed or funds received by year-end. Other revenue was \$188,113 under budget as interest income and donations were less than anticipated. Charges for current services were \$339,905 above projections. Liquor Board sales were \$219,893 above the budget and revenue from emergency medical fees were \$97,328 above estimates.
- The largest variances for expenditures were for public safety, which was \$796,945 under budget for the following divisions, police, \$359,362; fire department and emergency services, \$249,590; communications and emergency management, \$169,074; and inspections, \$18,919. Capital equipment of \$471,395 for grant funded expenditures is expected to be purchased in the next fiscal year.
- The category economic development – tourism was under budget by \$471,930 as advertising purchases were \$358,994 below the budgeted amount. Other functional divisions were restricted from hiring, and limited spending for repairs, supplies, and purchased services, saving \$906,280.

Capital Assets

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2011, was \$177,332,963 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, streets, infrastructure, machinery and equipment. The total decrease in capital assets for the current fiscal year was 0.1% comprised of a 2.25% increase for governmental activities and a 1.95% decrease for business-type activities. Depreciation exceeded additions of \$8,930,823 in FY-2011 by \$2,135,667 or 24%. The total value of all capital assets has been reduced 50.7% by depreciation.

Major capital asset additions for the year ending June 30, 2011, included the following:

Medical and protective equipment	\$ 128,484
Land improvements 64 th Street – general fund	118,573
Street paving	824,019
Land at 64 th Street – wastewater fund	102,691
Playground equipment and park improvements	75,000
Convention center expansion	673,836
Airport hangar	726,616
Airport runway design	401,026
Wastewater plant air flotation	165,763
Wastewater plant improvements	352,395
Wastewater pumping stations	244,295
Sewer mains	709,671
Vehicles and heavy equipment	6,655,096

*Town of Ocean City
Management's Discussion and Analysis*

A table of the Town's capital assets by type, net of depreciation, is listed below. Additional information can be found in Note 6 on page 65 of this report.

Town of Ocean City's Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2011	2010	2011	2010	2011	2010	
	Land	\$ 22,207,960	\$ 22,053,098	\$ 14,194,409	\$ 14,091,718	\$ 36,402,369	
Buildings	22,984,337	24,059,619	43,013,536	44,674,321	65,997,873	68,733,940	(4.0)
Other improvements	8,001,651	8,691,651	1,898,715	1,928,564	9,900,366	10,620,215	(6.8)
Streets and infrastructure	13,088,312	13,263,881	13,680,839	14,754,358	26,769,151	28,018,239	(4.5)
Machinery & equipment	14,694,813	11,127,730	21,274,017	22,680,809	35,968,830	33,808,539	6.4
Construction in progress	-	-	2,294,374	137,491	2,294,374	137,491	1568.7
	<u>\$ 80,977,073</u>	<u>\$ 79,195,979</u>	<u>\$ 96,355,890</u>	<u>\$ 98,267,261</u>	<u>\$ 177,332,963</u>	<u>\$ 177,463,240</u>	(0.1)

Debt Administration

At June 30, 2011, the Town had total general obligation bonded debt, backed by the full faith and credit of the Town, outstanding of \$81,688,603, net of deferred amounts. The remainder of the Town's debt is comprised of notes payable to the State of Maryland for \$734,407.

In November 2010, the Town issued bonds in the amount of \$18,105,000 to purchase land at 64th Street, fund wastewater improvements, and to fund expansion of the convention center. The Town paid current maturities of \$6,877,656 and \$500,000 on two notes payable. Outstanding general obligation debt represents 0.79% of the assessed valuation of property in the Town. The debt limit is 5.2% of assessments, leaving a legal debt margin of \$459 million dollars.

The Town's bonds are insured by the Municipal Bond Insurance Association (MBIA), the Financial Guaranty Insurance Company (FGIC), Financial Security Assurance Inc. (FSA), and Assured Guaranty or are uninsured. MBIA's rating is B- and Assured Guaranty is rated AA+ by Standard and Poor's. FGIC and FSA are unrated.

The Town has obtained ratings on its bonds in 2010 from Moody's Investor Services Inc, "Aa2", Standard and Poor's Corporation, "AA-", and Fitch Ratings, "AA-". Additional information on the Town's debt can be found in Note 8 on pages 67-69 of this report.

Economic Factors and Next Year's Budget and Rates

- The Town has experienced a two-year decline in assessments of 15% from 2009 to 2011 due to national economic conditions. The market value of property in the resort decreased 13% for the 2010 fiscal year, but only 2% in 2011.
- Town services are evaluated to determine effectiveness, value, and cost efficiencies. Non-public safety services have been reduced or changed in the 2011 budget where feasible to reduce costs.

*Town of Ocean City
Management's Discussion and Analysis*

- Hotel and rental sales increased 5.34% in 2011. Food and beverage sales increased 3.26% for the fiscal year. Ocean City remains a convenient travel destination from metropolitan areas. The Town has continued to dedicate a portion of hotel room taxes to increased advertising of Ocean City as a resort destination.
- Non-union employees did not receive wage increases or cost-of-living adjustments in fiscal year 2010 or 2011. Also, the police and fire fighter unions voluntarily agreed to forgo contracted wage increases and a 3% cost-of-living adjustment for the 2010 and 2011 fiscal years.
- The Town will continue to encourage events and festivals to attract visitors such as the Air Show staged in June in 2011. These events have greatly improved business in the spring and fall.
- The Town has received approval that the State of Maryland will participate in the convention center improvements through the oversight of the Maryland Stadium Authority for \$5 million.
- The Town has passed an ordinance in May 2011 to close the Town's defined benefit pension plans to new hires. New hires were provided a defined contribution plan with a 5% mandatory contribution by employees and an option of an additional 2% contribution to be matched by the Town. Also, salaries and retiree health benefits were reduced for new hires.

All of these factors were considered in preparing the Town's budget for the 2012 fiscal year. With reduced service levels, the real property tax rate was maintained at \$0.395 per \$100 of valuation. Assessments decreased only 0.2% from \$10.30 billion in 2011 to \$10.28 billion in 2012.

Request for Information

This financial report is designed to provide a general overview of the Town of Ocean City's finances for all those with an interest in the town's finances. Questions concerning any information provided in this report or requests for additional information should be addressed to the Finance Administrator, Town of Ocean City, PO Box 158, Ocean City, Maryland, 21843; or MLucey@oceancitymd.gov.

BASIC FINANCIAL STATEMENTS

The basic financial statements provide an overview of the various financial schedules in this report. The information can be used to obtain a summary of the Town's financial transactions.



TOWN OF OCEAN CITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 3,962,001	\$ 7,751,963	\$ 11,713,964
Investments	15,988,685	10,589,803	26,578,488
Receivables, net	2,662,320	2,491,664	5,153,984
Interest receivable	44,591	38,705	83,296
Intergovernmental receivable	10,148,892	1,005,917	11,154,809
Internal balances	(2,359,615)	2,359,615	-
Inventories	887,546	636,299	1,523,845
Other	300	2,500	2,800
Total current assets	<u>31,334,720</u>	<u>24,876,466</u>	<u>56,211,186</u>
Noncurrent assets:			
Restricted investments	-	12,388,997	12,388,997
Advances to other funds	130,000	(130,000)	-
Capital assets:			
Land	22,207,960	14,194,409	36,402,369
Buildings	37,512,090	95,344,959	132,857,049
Other improvements	21,542,633	4,899,046	26,441,679
Streets and infrastructure	39,293,502	32,402,673	71,696,175
Machinery and equipment	46,819,509	42,882,531	89,702,040
Construction in progress	-	2,294,374	2,294,374
Less accumulated depreciation	(86,398,621)	(95,662,102)	(182,060,723)
Total noncurrent assets	<u>81,107,073</u>	<u>108,614,887</u>	<u>189,721,960</u>
Total assets	<u>112,441,793</u>	<u>133,491,353</u>	<u>245,933,146</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,658,040	1,267,589	2,925,629
Accrued expenses	2,320,343	747,815	3,068,158
Compensated absences	1,979,688	445,932	2,425,620
Unearned revenue	1,617,435	2,972,432	4,589,867
Claims and judgments	870,921	-	870,921
Other	2,549,080	113,900	2,662,980
Current portion of long-term debt	3,170,007	5,287,405	8,457,412
Total current liabilities	<u>14,165,514</u>	<u>10,835,073</u>	<u>25,000,587</u>
Noncurrent liabilities:			
Bonds, notes, and loans payable	30,416,477	43,549,120	73,965,597
Other noncurrent liabilities	2,542,227	-	2,542,227
Total noncurrent liabilities	<u>32,958,704</u>	<u>43,549,120</u>	<u>76,507,824</u>
Total liabilities	<u>47,124,218</u>	<u>54,384,193</u>	<u>101,508,411</u>
NET ASSETS			
Invested in capital assets, net of related debt	47,390,589	58,001,891	105,392,480
Restricted for debt service	-	9,638,746	9,638,746
Restricted for capital projects	1,583,579	-	1,583,579
Restricted for other purposes	130,000	-	130,000
Unrestricted	16,213,407	11,466,523	27,679,930
Total net assets	<u>\$ 65,317,575</u>	<u>\$ 79,107,160</u>	<u>\$ 144,424,735</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Indirect Expenses Allocation</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
Primary government:				
Governmental activities:				
General government	\$ 5,766,900	\$ (5,015,567)	\$ 3,758,744	\$ -
Public safety	32,920,016	1,377,843	1,965,631	2,002,526
General public works and beach	6,189,971	15,672	3,651,107	6,609
Sanitation and waste removal	5,754,758	438,515	109,543	-
Highways and streets	6,353,580	409,960	982,101	-
Economic development - Tourism	6,426,672	245,300	1,321,806	682,571
Recreation and culture	7,423,369	359,754	1,334,262	90,000
Interest on long-term debt	1,296,137	-	-	26,063
Total governmental activities	<u>72,131,403</u>	<u>(2,168,523)</u>	<u>13,123,194</u>	<u>2,807,769</u>
Business-type activities:				
Water	6,983,929	613,858	6,772,436	-
Transportation	7,018,732	474,888	3,558,571	825,782
Wastewater	10,322,234	722,876	11,311,636	56,054
Convention Center	5,348,715	184,303	1,758,112	2,533,090
Airport	1,433,501	70,196	1,034,475	-
Golf Course	1,879,512	102,402	1,962,632	-
Total business-type activities	<u>32,986,623</u>	<u>2,168,523</u>	<u>26,397,862</u>	<u>3,414,926</u>
Total primary government	<u>\$ 105,118,026</u>	<u>\$ -</u>	<u>\$ 39,521,056</u>	<u>\$ 6,222,695</u>

General revenues:
 Property taxes
 Property tax penalties and interest
 Sales and income taxes
 State gaming contributions
 Grants and contributions not restricted to specific programs
 Investment earnings
 Other revenue
 Transfers
 Total general revenues and transfers
 Increase in net assets
 Net assets - beginning
 Net assets - ending

The notes to the financial statements are an integral part of this statement.

Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ 3,007,411	\$ -	\$ 3,007,411
-	(30,329,702)	-	(30,329,702)
-	(2,547,927)	-	(2,547,927)
-	(6,083,730)	-	(6,083,730)
-	(5,781,439)	-	(5,781,439)
-	(4,667,595)	-	(4,667,595)
75,000	(6,283,861)	-	(6,283,861)
-	(1,270,074)	-	(1,270,074)
<u>75,000</u>	<u>(53,956,917)</u>	<u>-</u>	<u>(53,956,917)</u>
36,291	-	(789,060)	(789,060)
5,430,811	-	2,321,544	2,321,544
63,395	-	385,975	385,975
50,000	-	(1,191,816)	(1,191,816)
380,165	-	(89,057)	(89,057)
-	-	(19,282)	(19,282)
<u>5,960,662</u>	<u>-</u>	<u>618,304</u>	<u>618,304</u>
<u>\$ 6,035,662</u>	<u>(53,956,917)</u>	<u>618,304</u>	<u>(53,338,613)</u>
	42,291,024	-	42,291,024
	369,685	-	369,685
	13,703,686	-	13,703,686
	224,791	-	224,791
	2,411,597	-	2,411,597
	124,288	100,789	225,077
	587,179	4,270	591,449
	(3,795,956)	3,795,956	-
	<u>55,916,294</u>	<u>3,901,015</u>	<u>59,817,309</u>
	1,959,377	4,519,319	6,478,696
	63,358,198	74,587,841	137,946,039
	<u>\$ 65,317,575</u>	<u>\$ 79,107,160</u>	<u>\$ 144,424,735</u>

TOWN OF OCEAN CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Major Fund	Nonmajor Fund	Total Governmental Funds
	General	Capital Project	
ASSETS			
Cash and cash equivalents	\$ 3,894,376	\$ 9,395	\$ 3,903,771
Investments	10,244,093	2,130,197	12,374,290
Accounts receivable, net of allowances for uncollectibles	2,602,060	170	2,602,230
Intergovernmental receivable	4,591,273	-	4,591,273
Due from other funds	4,820,000	-	4,820,000
Interest receivable	22,506	85	22,591
Other	300	-	300
Advance to other fund	130,000	-	130,000
	<u>130,000</u>	<u>-</u>	<u>130,000</u>
Total assets	<u>\$ 26,304,608</u>	<u>\$ 2,139,847</u>	<u>\$ 28,444,455</u>
LIABILITIES			
Accounts payable	\$ 4,768,809	\$ 556,268	\$ 5,325,077
Other	2,549,080	-	2,549,080
Deferred revenue	2,808,646	-	2,808,646
	<u>2,808,646</u>	<u>-</u>	<u>2,808,646</u>
Total liabilities	<u>10,126,535</u>	<u>556,268</u>	<u>10,682,803</u>
FUND BALANCES			
Fund balance: Restricted for capital projects	-	747,437	747,437
Committed for encumbrances	-	52,343	52,343
Committed for capital projects	-	783,799	783,799
Nonspendable, advance to other fund	130,000	-	130,000
Assigned for encumbrances	998,595	-	998,595
Unassigned	15,049,478	-	15,049,478
	<u>15,049,478</u>	<u>-</u>	<u>15,049,478</u>
Total fund balances	<u>16,178,073</u>	<u>1,583,579</u>	<u>17,761,652</u>
Total liabilities and fund balances	<u>\$ 26,304,608</u>	<u>\$ 2,139,847</u>	
Adjustments for the Statement of Net Assets:			
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.			67,724,696
Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred revenue in the governmental funds. (Note 5)			1,191,211
Loan proceeds not received in current period			297,171
Internal service funds are used by management to charge the costs of equipment replacement; and, therefore, the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Assets, net of portion debited to business-type activities, \$2,654,615			12,148,416
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. (Note 2)			(33,805,571)
Net assets of governmental activities			<u>\$ 65,317,575</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Major Fund	Nonmajor Fund	Total Governmental Funds
	General	Capital Projects	
REVENUES			
Property taxes	\$ 42,731,367	\$ -	\$ 42,731,367
Other taxes	13,909,064	-	13,909,064
Licenses and permits	3,921,106	-	3,921,106
Fines and forfeitures	780,018	-	780,018
Charges for current services	8,132,676	289,394	8,422,070
Revenue from other agencies	5,294,366	-	5,294,366
Other revenue	661,679	3,213	664,892
Total revenues	75,430,276	292,607	75,722,883
EXPENDITURES			
Current:			
General government	3,320,277	-	3,320,277
Public safety	32,430,202	-	32,430,202
General public works and beach	4,898,008	127,681	5,025,689
Sanitation and waste removal	5,332,518	-	5,332,518
Highways and streets	5,187,263	900,186	6,087,449
Economic development - Tourism	6,420,490	-	6,420,490
Recreation and culture	7,242,738	-	7,242,738
Debt service:			
Principal	3,416,907	-	3,416,907
Interest	1,295,164	-	1,295,164
Bond issuance costs	36,289	7,457	43,746
Total expenditures	69,579,856	1,035,324	70,615,180
Excess (deficiency) of revenues over expenditures	5,850,420	(742,717)	5,107,703
OTHER FINANCING SOURCES (USES)			
Bonds and notes issued	3,288,360	870,990	4,159,350
Transfers in	548,567	1,000,000	1,548,567
Transfers out	(4,795,956)	(516,716)	(5,312,672)
Total other financing sources and (uses)	(959,029)	1,354,274	395,245
Net change in fund balance	4,891,391	611,557	5,502,948
Fund balance at beginning of year	11,286,682	972,022	12,258,704
Fund balance at end of year	<u>\$ 16,178,073</u>	<u>\$ 1,583,579</u>	<u>\$ 17,761,652</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Amounts reported for governmental activities in the statement of activities
(pages 38 and 39) are different because:

Net change in fund balances for total governmental funds (page 41) \$ 5,502,948

Governmental funds report capital outlays as expenditures. However, in the statement
of activities the costs of capital assets are allocated over their useful life and reported
as depreciation expense.

Capital outlay	\$ 1,145,147	
Depreciation expense	(3,040,923)	
Capital outlay exceeded depreciation in the current period by:		(1,895,776)

Revenues in the statement of activities that do not provide current financial resources
are not reported as revenues in governmental funds.

Local income tax deferred in prior year	\$ 19,413	
Deferred uncollected property taxes	(70,658)	(51,245)

The issuance of long-term debt provides current financial resources to governmental
funds, while the repayment of the principal of long term debt consumes the current
financial resources of governmental funds. Neither transaction has any effect on net
assets. Also, governmental funds report the effect of issuance costs, premiums,
discounts, and similar items when debt is first issued, whereas these amounts are
deferred and amortized in the statement of activities. This amount is the net effect of
these differences in the treatment of long-term debt and related items.

Principal payments on general obligation debt	\$ 3,416,907	
Issuance costs	43,746	
Issuance of long-term debt	(4,159,350)	
Amortization of gain on refunding of debt	(4,739)	(703,436)

Some expenses reported in the statement of activities do not require the use of current
financial resources and are not reported as expenditures in governmental funds.

Accrued interest on debt		4,238
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Internal service funds are used by management to charge the costs of certain activities
to individual funds. The net revenue of internal service funds is reported with
governmental activities.

(897,352)

Change in net assets of governmental activities (page 39)	\$ 1,959,377
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The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Encumbrances	Actual Amounts Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Original	Final				
REVENUES						
Property taxes	\$ 42,553,244	\$ 42,722,589	\$ 42,731,367	\$ -	\$ 42,731,367	\$ 8,778
Other taxes	12,940,514	13,899,274	13,909,064	-	13,909,064	9,790
Licenses and permits	3,937,350	3,918,333	3,921,106	-	3,921,106	2,773
Fines and forfeitures	661,190	805,917	780,018	-	780,018	(25,899)
Charges for current services	8,039,328	7,792,771	8,132,676	-	8,132,676	339,905
Revenue from other agencies	4,292,025	5,396,647	5,294,366	-	5,294,366	(102,281)
Other revenue	507,870	849,792	661,679	-	661,679	(188,113)
Total revenues	72,931,521	75,385,323	75,430,276	-	75,430,276	44,953
EXPENDITURES						
Current:						
General government	3,597,431	3,470,531	3,320,277	3,913	3,324,190	146,341
Public safety	31,972,727	33,418,340	32,430,202	191,193	32,621,395	796,945
General public works and beach	5,075,686	5,132,467	4,898,008	41,131	4,939,139	193,328
Sanitation and waste removal	5,753,328	5,956,795	5,332,518	397,507	5,730,025	226,770
Highways and streets	5,042,286	5,232,632	5,187,263	10,722	5,197,985	34,647
Economic development - Tourism	5,975,961	6,919,212	6,420,490	26,792	6,447,282	471,930
Recreation and culture	7,490,350	7,928,069	7,242,738	327,337	7,570,075	357,994
Debt service:						
Principal	3,291,907	3,416,907	3,416,907	-	3,416,907	-
Interest	1,235,874	1,278,653	1,295,164	-	1,295,164	(16,511)
Bond issuance costs	-	-	36,289	-	36,289	(36,289)
Total expenditures	69,435,550	72,753,606	69,579,856	998,595	70,578,451	2,175,155
Excess (deficiency) of revenues over expenditures	3,495,971	2,631,717	5,850,420	(998,595)	4,851,825	2,220,108
OTHER FINANCING SOURCES (USES)						
Bonds and notes issued	-	-	3,288,360	-	3,288,360	3,288,360
Transfers in	406,851	548,567	548,567	-	548,567	-
Transfers out	(3,902,822)	(4,732,859)	(4,795,956)	-	(4,795,956)	(63,097)
Total other financing sources (uses)	(3,495,971)	(4,184,292)	(959,029)	-	(959,029)	3,225,263
Net change in fund balances	-	(1,552,575)	4,891,391	(998,595)	3,892,796	5,445,371
Fund balance, beginning of year	11,286,682	11,286,682	11,286,682	-	11,286,682	-
Fund balance, end of year	\$ 11,286,682	\$ 9,734,107	\$ 16,178,073	\$ (998,595)	\$ 15,179,478	\$ 5,445,371

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2011

	Business-type Activities - Enterprise Funds	
	Water	Transportation
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 2,004,250	\$ 3,003
Investments	240,000	-
Receivables, net	1,115,224	121,070
Interest receivable	-	-
Intergovernmental receivable	-	124,936
Inventories	-	-
Other	-	-
Total current assets	3,359,474	249,009
Noncurrent assets:		
Restricted investments	-	-
Capital assets:		
Land	755,019	-
Buildings	18,674,452	2,835,349
Other improvements	3,245,712	81,837
Streets and infrastructure	21,611,976	-
Machinery and equipment	4,831,774	275,256
Construction in progress	-	-
Less accumulated depreciation	(32,422,048)	(1,845,496)
Total noncurrent assets	16,696,885	1,346,946
Total assets	20,056,359	1,595,955
LIABILITIES		
Current liabilities:		
Accounts payable	250,255	45,454
Accrued expenses	94,827	180,964
Compensated absences	77,618	50,947
Due to other funds	-	110,000
Deferred revenue	-	-
Claims and judgments	-	-
Other	96,285	4,115
Current portion of long-term debt	1,143,758	-
Total current liabilities	1,662,743	391,480
Noncurrent liabilities:		
Claims and judgments	-	-
Advanced from other funds	-	-
Bonds, notes, and loans payable	5,380,586	-
Total noncurrent liabilities	5,380,586	-
Total liabilities	7,043,329	391,480
NET ASSETS		
Invested in capital assets, net of related debt	10,172,541	1,346,946
Restricted for debt service	-	-
Unrestricted	2,840,489	(142,471)
Total net assets	\$ 13,013,030	\$ 1,204,475

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.
Net assets of business-type activities

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds				Governmental Activities
Wastewater	Convention Center	Nonmajor Enterprise Funds	Total	Internal Service
\$ 3,863,122	\$ 1,873,457	\$ 8,131	\$ 7,751,963	\$ 58,230
7,176,651	3,173,152	-	10,589,803	3,614,395
974,257	128,188	152,925	2,491,664	60,090
526	37,948	231	38,705	22,000
-	478,713	402,268	1,005,917	5,260,448
499,872	-	136,427	636,299	887,546
-	-	2,500	2,500	-
<u>12,514,428</u>	<u>5,691,458</u>	<u>702,482</u>	<u>22,516,851</u>	<u>9,902,709</u>
-	9,600,888	2,788,109	12,388,997	-
2,278,532	7,456,616	3,704,242	14,194,409	-
42,676,377	25,937,286	5,221,495	95,344,959	1,447,083
884,357	59,266	627,874	4,899,046	31,545
4,890,317	-	5,900,380	32,402,673	-
35,864,976	1,193,324	717,201	42,882,531	41,849,668
1,119,728	773,620	401,026	2,294,374	-
(42,362,124)	(11,835,390)	(7,197,044)	(95,662,102)	(30,075,919)
<u>45,352,163</u>	<u>33,185,610</u>	<u>12,163,283</u>	<u>108,744,887</u>	<u>13,252,377</u>
<u>57,866,591</u>	<u>38,877,068</u>	<u>12,865,765</u>	<u>131,261,738</u>	<u>23,155,086</u>
638,628	105,181	228,071	1,267,589	222,927
273,548	151,225	47,251	747,815	78,277
152,840	118,541	45,986	445,932	112,703
-	-	185,000	295,000	4,525,000
-	126,836	2,845,596	2,972,432	-
-	-	-	-	870,921
13,500	-	-	113,900	-
2,054,504	2,029,296	59,847	5,287,405	-
<u>3,133,020</u>	<u>2,531,079</u>	<u>3,411,751</u>	<u>11,130,073</u>	<u>5,809,828</u>
-	-	-	-	2,542,227
-	-	130,000	130,000	-
28,179,985	8,492,015	1,496,534	43,549,120	-
<u>28,179,985</u>	<u>8,492,015</u>	<u>1,626,534</u>	<u>43,679,120</u>	<u>2,542,227</u>
<u>31,313,005</u>	<u>11,023,094</u>	<u>5,038,285</u>	<u>54,809,193</u>	<u>8,352,055</u>
21,319,325	17,344,286	7,818,793	58,001,891	13,252,377
-	9,638,746	-	9,638,746	-
5,234,261	870,942	8,687	8,811,908	1,550,654
<u>\$ 26,553,586</u>	<u>\$ 27,853,974</u>	<u>\$ 7,827,480</u>	<u>76,452,545</u>	<u>\$ 14,803,031</u>
			2,654,615	
			<u>\$ 79,107,160</u>	

TOWN OF OCEAN CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities - Enterprise Funds	
	Water	Transportation
Operating revenues:		
Charges for sales and services	\$ 6,772,436	\$ 3,558,571
Total operating revenues	<u>6,772,436</u>	<u>3,558,571</u>
Operating expenses:		
Personal services	1,777,176	3,384,735
Contractual services	1,314,587	121,346
Utilities	405,017	82,540
Repairs and maintenance	1,304,529	2,059,227
Other supplies and expenses	257,381	204,416
Internal services	839,120	707,375
Insurance claims and expenses	-	-
Depreciation	1,410,609	92,135
Total operating expenses	<u>7,308,419</u>	<u>6,651,774</u>
Operating income (loss)	<u>(535,983)</u>	<u>(3,093,203)</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	6,824	438
Operating grants	-	825,782
Miscellaneous revenue	-	4,270
Interest expense	(281,700)	-
Loss on disposal of assets	-	-
Total nonoperating revenues (expenses)	<u>(274,876)</u>	<u>830,490</u>
Income (loss) before contributions and transfers	(810,859)	(2,262,713)
Capital contributions	36,291	147,480
Transfers in	-	1,915,710
Transfers out	-	-
Change in net assets	<u>(774,568)</u>	<u>(199,523)</u>
Total net assets - beginning	<u>13,787,598</u>	<u>1,403,998</u>
Total net assets - ending	<u>\$ 13,013,030</u>	<u>\$ 1,204,475</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.
Change in net assets of business-type activities (page 39)

The notes to the financial statements are an integral part of this statement.

Business-type Activities - Enterprise Funds				Governmental Activities
Wastewater	Convention Center	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 11,311,636	\$ 1,758,112	\$ 2,997,107	\$ 26,397,862	\$ 10,296,534
<u>11,311,636</u>	<u>1,758,112</u>	<u>2,997,107</u>	<u>26,397,862</u>	<u>10,296,534</u>
3,962,194	2,969,226	1,303,202	13,396,533	2,829,863
250,576	204,943	351,026	2,242,478	1,124,517
624,229	553,036	99,170	1,763,992	92,195
881,563	290,749	121,214	4,657,282	511,713
572,372	166,014	897,126	2,097,309	2,821,159
1,006,291	342,325	289,731	3,184,842	991,625
-	-	-	-	945,201
2,715,217	749,367	334,980	5,302,308	2,723,259
<u>10,012,442</u>	<u>5,275,660</u>	<u>3,396,449</u>	<u>32,644,744</u>	<u>12,039,532</u>
<u>1,299,194</u>	<u>(3,517,548)</u>	<u>(399,342)</u>	<u>(6,246,882)</u>	<u>(1,742,998)</u>
7,437	85,490	600	100,789	46,575
56,054	2,533,090	-	3,414,926	-
-	-	-	4,270	-
(1,018,226)	(262,460)	(89,162)	(1,651,548)	(472)
-	-	-	-	(27,460)
<u>(954,735)</u>	<u>2,356,120</u>	<u>(88,562)</u>	<u>1,868,437</u>	<u>18,643</u>
344,459	(1,161,428)	(487,904)	(4,378,445)	(1,724,355)
63,395	50,000	380,165	677,331	5,283,331
-	1,425,730	454,516	3,795,956	-
-	-	-	-	(31,851)
<u>407,854</u>	<u>314,302</u>	<u>346,777</u>	<u>94,842</u>	<u>3,527,125</u>
<u>26,145,732</u>	<u>27,539,672</u>	<u>7,480,703</u>		<u>11,275,906</u>
<u>\$ 26,553,586</u>	<u>\$ 27,853,974</u>	<u>\$ 7,827,480</u>		<u>\$ 14,803,031</u>
			<u>4,424,477</u>	
			<u>\$ 4,519,319</u>	

TOWN OF OCEAN CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities	
	Water	Transportation
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 6,877,843	\$ 3,516,383
Payments to suppliers	(3,229,375)	(2,445,993)
Payments to employees	(1,761,895)	(3,347,934)
Payments for interfund services used	(839,120)	(707,375)
Net cash provided (used) by operating activities	<u>1,047,453</u>	<u>(2,984,919)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from other funds	-	110,000
Advances to other funds	-	-
Subsidy from county, state and federal grants	-	874,309
Transfers to other funds	-	-
Transfers from other funds	-	1,915,710
Net cash provided by noncapital financing activities	<u>-</u>	<u>2,900,019</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital grant	-	76,808
Capital contributions	36,291	-
Acquisition and construction of capital assets	(84,287)	-
Proceeds from bond issue	-	-
Bond issuance costs	-	-
Principal paid on capital debt	(1,116,468)	-
Interest paid on capital debt and leases	(280,687)	-
Capital lease payment	-	-
Proceeds from sales of capital assets	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,445,151)</u>	<u>76,808</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	336,000	8,679
Purchase of investments	-	-
Interest and dividends received	6,824	438
Net cash provided (used) by investing activities	<u>342,824</u>	<u>9,117</u>
Net increase (decrease) in cash and cash equivalents	(54,874)	1,025
Cash and cash equivalents at beginning of the year	2,059,124	1,978
Cash and cash equivalents at end of the year	<u>\$ 2,004,250</u>	<u>\$ 3,003</u>

(Continued)

The notes to the financial statements are an integral part of this statement.

Enterprise Funds				Governmental
Wastewater	Convention Center	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 11,285,512	\$ 1,659,596	\$ 2,992,436	\$ 26,331,770	\$ 10,296,559
(2,341,955)	(1,202,746)	(1,479,923)	(10,699,992)	(5,526,285)
(3,958,046)	(2,956,759)	(1,314,033)	(13,338,667)	(2,825,718)
(1,000,291)	(342,325)	(290,001)	(3,179,112)	(991,625)
<u>3,985,220</u>	<u>(2,842,234)</u>	<u>(91,521)</u>	<u>(886,001)</u>	<u>952,931</u>
-	-	185,000	295,000	4,184,000
-	(247,759)	(120,000)	(367,759)	-
-	2,608,784	-	3,483,093	-
-	-	-	-	(31,851)
-	1,425,730	454,516	3,795,956	-
-	<u>3,786,755</u>	<u>519,516</u>	<u>7,206,290</u>	<u>4,152,149</u>
56,054	63,129	5,294	201,285	22,883
63,395	-	-	99,686	-
(1,213,645)	(708,431)	(1,089,936)	(3,096,299)	(6,666,392)
8,945,650	5,000,000	-	13,945,650	-
(76,585)	(42,806)	-	(119,391)	-
(1,711,478)	(984,113)	(55,313)	(3,867,372)	-
(969,254)	(239,795)	(89,721)	(1,579,457)	(766)
-	-	-	-	(93,389)
-	-	-	-	211,163
<u>5,094,137</u>	<u>3,087,984</u>	<u>(1,229,676)</u>	<u>5,584,102</u>	<u>(6,526,501)</u>
3,645,414	11,938,819	801,253	16,730,165	4,141,199
(8,869,065)	(14,376,430)	-	(23,245,495)	(3,439,220)
6,911	275,309	915	290,397	64,417
<u>(5,216,740)</u>	<u>(2,162,302)</u>	<u>802,168</u>	<u>(6,224,933)</u>	<u>766,396</u>
3,862,617	1,870,203	487	5,679,458	(655,025)
505	3,254	7,644	2,072,505	713,255
<u>\$ 3,863,122</u>	<u>\$ 1,873,457</u>	<u>\$ 8,131</u>	<u>\$ 7,751,963</u>	<u>\$ 58,230</u>

TOWN OF OCEAN CITY
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Business-type Activities	
	Water	Transportation
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS		
Operating income (loss)	\$ (535,983)	\$ (3,093,203)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,410,609	92,135
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:		
Accounts Receivable	129,411	(42,188)
Inventories	-	-
Prepaid expenses	-	-
Compensated absences	10,247	8,196
Customer deposits	(24,004)	-
Accounts payable	52,139	21,536
Accrued expenses	5,034	28,605
Deferred revenue	-	-
Claims liability	-	-
Total adjustments	1,583,436	108,284
Net cash provided (used) by operating activities	\$ 1,047,453	\$ (2,984,919)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Decrease in fair value of investments	\$	-	\$	-
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The notes to the financial statements are an integral part of this statement.

Enterprise Funds				Governmental Activities
Wastewater	Convention Center	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 1,299,194	\$ (3,517,548)	\$ (399,342)	\$ (6,246,882)	(1,742,998)
2,715,217	749,367	334,980	5,302,308	2,723,259
(35,124)	(59,231)	(15,196)	(22,328)	25
(38,617)	-	18,915	(19,702)	75,947
-	-	6,676	6,676	-
(6,973)	746	131	12,347	(80)
-	-	-	(24,004)	-
40,402	11,996	(47,965)	78,108	(35,190)
11,121	11,721	(245)	56,236	4,225
-	(39,285)	10,525	(28,760)	-
-	-	-	-	(72,257)
2,686,026	675,314	307,821	5,360,881	2,695,929
\$ 3,985,220	\$ (2,842,234)	\$ (91,521)	\$ (886,001)	\$ 952,931
\$ -	\$ (179,588)	\$ -	\$ (179,588)	\$ (29,284)

TOWN OF OCEAN CITY
 COMBINED STATEMENT OF PLAN NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2011

	Pension Trust Funds	OPEB Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$ 3,482,329	\$ 917,236	\$ 4,399,565
Interest and dividends receivable	173,971	23,097	197,068
Investments, at fair value:			
State investment pool	-	205,655	205,655
Domestic equities	21,755,127	2,999,924	24,755,051
Domestic fixed income	19,424,951	2,757,540	22,182,491
Real estate investment trusts	2,122,811	204,571	2,327,382
International equities	14,498,281	1,525,164	16,023,445
International fixed income	3,265,858	328,930	3,594,788
Alternative investments	8,078,763	-	8,078,763
Natural resources	4,301,851	427,389	4,729,240
Total investments	<u>73,447,642</u>	<u>8,449,173</u>	<u>81,896,815</u>
Total assets	<u>77,103,942</u>	<u>9,389,506</u>	<u>86,493,448</u>
LIABILITIES			
Accounts payable	18,152	5,414	23,566
Accrued liabilities	<u>1,352,333</u>	<u>-</u>	<u>1,352,333</u>
Total liabilities	<u>1,370,485</u>	<u>5,414</u>	<u>1,375,899</u>
NET ASSETS			
Held in trust for pension benefits and other post employment benefits	<u>\$ 75,733,457</u>	<u>\$ 9,384,092</u>	<u>\$ 85,117,549</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
 COMBINED STATEMENT OF CHANGES IN PLAN NET ASSETS
 FIDUCIARY FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Funds	OPEB Trust Fund	Total
Additions			
Contributions:			
Employer	\$ 5,052,750	\$ 3,516,000	\$ 8,568,750
Members	1,810,155	156,377	1,966,532
Total contributions	6,862,905	3,672,377	10,535,282
Miscellaneous Income	-	24,026	24,026
Investment earnings:			
Net appreciation			
in fair value of investments	11,372,442	1,160,613	12,533,055
Interest	1,005,793	128,671	1,134,464
Dividends	744,075	80,987	825,062
Total investment income	13,122,310	1,370,271	14,492,581
Less investment expense	538,366	54,498	592,864
Net investment income	12,583,944	1,315,773	13,899,717
Total additions	19,446,849	5,012,176	24,459,025
Deductions			
Benefits and refunds paid	3,851,955	832,319	4,684,274
Administrative expenses	103,778	5,414	109,192
Total deductions	3,955,733	837,733	4,793,466
Changes in net assets	15,491,116	4,174,443	19,665,559
Total net assets - beginning	60,242,341	5,209,649	65,451,990
Total net assets - ending	\$ 75,733,457	\$ 9,384,092	\$ 85,117,549

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
Notes to the Financial Statements
June 30, 2011

Note 1: Summary of Significant Accounting Policies

The financial statements of the Town of Ocean City (the Town) have been prepared in conformity with accounting principles generally accepted in the United States (US GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below. These policies should be recognized by the reader as integral to the preparation and use of the accompanying financial statements.

A. Reporting Entity

The "Mayor and City Council of Ocean City" is the corporate name for the inhabitants of the Town of Ocean City, Maryland, under the laws of the State of Maryland. The "Town of Ocean City" shall be construed to mean both the Town and its inhabitants.

The Town is governed by an elected seven-member City Council and operates under a Council-Manager form of government. The Town provides the following services as authorized by its charter: Public Safety, Public Works and Utilities, Solid Waste, Highways and Streets, Recreation and Culture, Planning, Zoning, Economic Development, and General Administrative Services. Schools, libraries, courts, and social services are operated by Worcester County.

For financial reporting purposes, in conformance with accounting principles generally accepted in the United States, the reporting entity includes the Mayor and City Council of Ocean City, the primary government, its proprietary funds and the following fiduciary funds.

Employees of Ocean City, Maryland Pension Plan and Trust. The Town of Ocean City provides a single-employer defined benefit plan for its general employees which are governed by a seven-member Board of Trustees appointed by the Mayor and Council. The Town is authorized to establish benefit levels and approves the actuarial assumptions used in determination of contribution levels.

Ocean City, Maryland Public Safety Employees Pension Plan and Trust. The Town's public safety employees participate in the Public Safety Employees Pension Plan (PSEPP). PSEPP functions for the benefit of these employees and is governed by a seven-member Board of Trustees appointed by the Mayor and Council. The Town and PSEPP participants are obligated to fund all PSEPP costs based upon actuarial valuations. The Town is authorized to establish benefit levels and approves the actuarial assumptions used in determination of contribution levels.

Ocean City, Maryland Other Post-Employment Benefits Trust. The Town provides a defined benefit healthcare plan whose assets may be expended solely to pay for post-employment health care benefits and the costs of administering the trust fund. The operation of the trust is governed by a Board of Trustees whose members are the Trustees of the Town's Pension Plans. The Town is authorized to establish benefit levels and approves the actuarial assumptions used in determination of contribution levels.

The Town participates in a multiple employer cost sharing pension plan with Worcester County for wastewater employees transferred to the Town from the County in 1994, under the "Sewerage Treatment Facilities Transfer Agreement" between the Town and the Worcester County Commissioners. The pension plan is not included in this report because it is completely managed by Worcester County. Additional financial information and actuarial reports for each of the pension and trust plans may be obtained at the Human Resource office, City Hall Room 220, 301 Baltimore Avenue, Ocean City, Maryland 21842.

The Town is not financially accountable for the Ocean City Development Corporation and it has not been included in the Town's financial statements. There are no organizations for which the Town is financially accountable or would be described as a component unit or a discretely presented component unit of the Town during the fiscal year.

B. Government-wide and fund financial statements

The statement of net assets and the statement of changes in net assets report information on all of the non-fiduciary activities of the Town. Eliminations have been made to remove the effect of interfund activity from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities that are supported primarily by customer service charges.

The statement of activities presents a comparison between direct expenses and program revenues for each of the business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those specifically associated with a program or function. Program revenues include charges to customers and grants and contributions restricted to the capital or operational requirements of particular programs. Revenues that are not classified as program revenues, such as taxes, are reported as general revenues.

Separate financial statements are shown for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year of levy. Grants are recognized as revenue when all eligibility requirements are met. For pension trust funds, employee and employer contributions are recognized as revenues in the period in which employee services are performed. The Town has elected not to follow private-sector standards of accounting and financial reporting pronouncements issued by the Financial Accounting Standards Board (FASB) issued after November 30, 1989, generally followed in both government-wide and proprietary fund financial statements if those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation and the Town has elected not to follow subsequent private sector guidance.

Governmental fund statements are presented using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collected within 60 days of year end. Expenditures are

Town of Ocean City
Notes to the Financial Statements

recorded when the related liability is incurred as under accrual accounting. Principal and interest on general long-term debt and expenditures for compensated absences are recorded when the payments are due.

Those revenues susceptible to accrual are property taxes, taxes collected by the state and county on behalf of the Town, franchise taxes, special assessments, revenue from other agencies, interest revenue and charges for services. Fines and forfeitures, licenses, permits, penalties and interest (on property taxes) and other revenues become measurable and available when cash is received by the Town and are recognized as revenue at that time.

The Town has one major governmental fund, the General Fund. It is used to account for and report all financial resources of the government not accounted for and reported in another fund. The General Fund accounts for the normal recurring activities of the Town such as police, public works, recreation and parks, and general government, etc. These activities are financed primarily by property taxes, other taxes, service charges, and grants from other governmental units.

The Town utilizes a capital projects fund to account for all financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of major capital facilities and other capital assets not financed by proprietary funds and is a non-major governmental fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and delivering goods in connection with the fund's principal ongoing operations such as charges to customers for sales and services and expenses such as salaries, product costs, administrative expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town has four major proprietary funds. 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. The Town has two non-major proprietary funds, the Airport Fund and Golf Course Fund, which account for the operations of the Ocean City Municipal Airport and Eagle's Landing Golf Course.

The Town also reports internal service funds, capital projects fund and pension and other post employment benefit trust funds. The Town maintains four internal service funds: the Information Technology Fund accounts for the Town's computer operations; the Service Center Fund accounts for the maintenance of Town vehicles and operates a central purchasing warehouse; the Vehicle and Equipment Trust Fund accounts for the purchase and use (lease) of Town vehicles, equipment and radios; and the Risk Management Fund accounts for insurance expenses and claims liabilities for worker's compensation, vehicle and general claims.

The Town has three fiduciary funds: the Employees of Ocean City, Maryland Pension Plan and Trust and the Ocean City, Maryland Public Safety Employees Pension Plan and Trust, and the Ocean City, Maryland Other Post-employment Benefits Trust. As fiduciary funds, these funds are used to account for assets held on behalf of outside parties under the terms of a formal trust agreement.

The effect of interfund activity has been eliminated from the government-wide financial statements except for charges between the Water, Transportation, Wastewater, and Convention Center Funds and the General Fund for indirect services. Elimination of these charges would distort the costs and program revenues reported for the various services. Amounts reported as program revenues include charges to customers for goods and services, operating grants and contributions and capital

grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets, liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Assets, liabilities, and net assets or equity

1. *Cash equivalents and investments*

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with a maturity date within three months of purchase. Cash deposits of the Town are made in accordance with the Annotated Code of Maryland (the Code), which requires depositories to give security in the form of collateral as provided for in the Code, for the safekeeping and forthcoming, when required, of these deposits.

Excess funds are also permitted to be invested either in bonds or other obligations for the payment of principal and interest of which the faith and credit of the United States of America are pledged, or in obligations of Federal governmental agencies issued pursuant to acts of Congress, or in the local government investment pool created by the State of Maryland. The fiduciary funds are also authorized to invest in corporate bonds and notes, preferred stocks, common stocks, real estate investment trusts and commodities. Investments are reported at fair value. Net assets available for benefits used to calculate the unfunded pension benefit obligation in the Pension Trust Funds are reported at their actuarial value that reflects a five-year phase-in of actual versus expected return.

For the purposes of the statement of cash flows, the Town considers all highly liquid investments (including restricted assets) with an original maturity of three months or less to be cash equivalents. Cash resources of each of the individual funds, except the pension funds and cash held by fiscal agents are required to be segregated by law or policy, are combined to form a pool of cash and investments to maximize interest earnings. Income from pooled investments is allocated to funds on the basis of their equity in pooled cash.

2. *Receivables and Payables*

Property taxes are reported at their estimated collectible value. The following summarizes the property tax calendar:

	<u>Real</u>	<u>Personal and Corporate</u>
Assessment Roll Validated:	Dec. 31	Jan. 1
Tax Rate Ordinance Approved:	June 30	June 30
Beginning of fiscal year for which taxes have been levied:	July 1	July 1
Tax bills Rendered and Due:	July 1	On State
Owner-occupied residential:	July 1 and Jan. 1	Notification
Property Taxes Payable:		
Delinquent	Oct. 1 & Feb. 1	After 30 days
Terms	60 days	30 days
Delinquent Interest	12%	18%

*Town of Ocean City
Notes to the Financial Statements*

Information presented is for "full year" levy. "Half year" levy dates are each six months later, and relate to new construction in the first six months of the calendar year. A lien is attached to property on the billing date, becomes delinquent October 1, and is sold at tax sale by the end of 18 months. Worcester County, Maryland bills and collects real property taxes for the Town and remits cash collections to the Town weekly in July, August, and September and monthly from October to June. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience bad debt. Receivables are shown net of such an allowance for uncollectibles. Real property taxes are generally fully collectible.

The non-current portion of interfund loans are classified as "advances to/from other funds". Advances between funds reported in the fund financial statements are offset by a fund balance reserve account in the general fund to indicate that they are not available for appropriation and are not expendable financial resources.

3. Inventories

Inventories are recorded in proprietary funds and are valued at the lower of average cost or market, adjusted for obsolescence. These inventories consist of spare parts, fuel, and merchandise for resale to the public. Internal service funds maintain inventories of auto parts, water meters and connections, gasoline, and diesel fuel, which are maintained for consumption by other Town departments.

4. Restricted assets

Food tax receipts collected by Worcester County and granted to the Town for the sole purpose of paying debt service on bonds issued to renovate the convention center are invested at the Maryland Local Government Investment Pool and in fixed income securities and are recorded in the Convention Center Fund. Proceeds from the sale of airport land restricted by the Federal Aviation Administration for future airport improvements and bond proceeds restricted for the construction of a hangar are recorded in a non-major fund, the Airport Fund, and are invested at the Maryland Local Government Investment Pool.

5. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure such as roads, storm drains, and pipe systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The Town defines capital assets as assets that cost more than \$10,000 and have an estimated useful life in excess of three years. Infrastructure acquired prior to implementation of GASB Statement 34 has been reported. Such assets are valued at historical or estimated historical cost if actual historical cost was not available. Donated assets are stated at their fair market value on the date donated. The costs of normal maintenance and repairs that do not add to the value of the asset or extend asset lives are not capitalized.

Expenditures for major assets and improvements are capitalized as projects are constructed. Interest on debt during the construction period is capitalized. The amount of interest to be capitalized is offset by interest income earned on invested proceeds over the same period. Exhaustible capital assets of the general fund and proprietary funds are depreciated, which is charged as an expense against their operations. Accumulated depreciation is reported in the statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives are generally as follows:

Buildings	20 - 40 years
Infrastructure	40 - 50 years
Water distribution system	40 - 50 years
Land improvements	25 - 50 years
Equipment and vehicles	4 - 10 years

6. *Compensated absences*

Vested or accumulated vacation leave is accrued when earned by employees and a liability is recorded in the government-wide and business-type activities statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits, as the Town does not pay these amounts when employees separate from service. Full-time, permanent employees earn annual vacation leave at the following rates: 1-5 years service, 10 days; 6-10 years service, 15 days; 11-19 years service, 20 days; 20 years service and over, 25 days. A maximum of 10 days accumulated and/or current vacation leave may be carried forward into the next year. All other vacation leave must be used by the employee in the current year or forfeited. The Town pays all outstanding vacation leave at separation on a one-for-one basis. The accrual in each fund type is included in "Compensated absences" in the government-wide statements and is \$1,979,688 for governmental activities funds and \$445,932 for business-type activities, respectively, as of June 30, 2011, an increase of \$76,123 from 2010. Compensated absences related to governmental activities for current and prior years are generally liquidated from the general fund. A liability for vacation pay is recorded in governmental funds only if they have matured as the result of retirement or resignation.

7. *Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net assets. Bond premiums, discounts, issuance costs, and losses on refunding of debt are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of deferred amounts.

In the governmental fund financial statements, the face amount of the debt issued is reported as other financing sources. Issuance costs are reported as expenditures.

8. *Equity*

The government-wide and business-type activities fund financial statements utilize a net asset presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- *Invested in capital assets, net of related debt* – This category groups all capital assets including infrastructure into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net assets* – This category presents external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted net assets* – This category presents the net assets of the Town, not restricted for any purpose.

In the fund financial statements, governmental funds report limitations of fund balance for amounts that are nonspendable and are not available for appropriation or are legally restricted by outside parties or creditors for use for a specific purpose. Commitments of fund balance represent limitations placed on spending that are imposed by and may be removed by formal action of the City Council. Assignments of fund balance reflect tentative plans by management that may be subject to change. Residual net resources are reported as unassigned fund balance and are the excess of nonspendable, restricted, committed, and assigned fund balance.

Note 2: Reconciliation of government-wide statement of net assets and governmental fund balance sheet

The governmental fund balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One aspect of that reconciliation is long-term liabilities. Long-term liabilities applicable to the Town’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets. The summary of the \$33,805,571 difference is as follows:

Bonds and loans payable	\$ 33,636,242
Add deferred amounts (to be amortized and credited to interest expense)	
Deferred loss on refunding	(251,660)
Issuance premiums	201,903
Accrued interest payable	<u>219,086</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets – governmental activities	<u>\$ 33,805,571</u>

Note 3: Stewardship, compliance, and accountability

Budgetary information

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before January 15 of each year, all agencies of the Town submit requests for appropriations to the City Manager. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year.
2. On or before May 28, the proposed budget is presented to the City Council for review.
3. The City Council holds two public hearings on the proposed budget and may insert new line items into the budget and increase or decrease the amounts in existing line items.
4. Prior to July 1, the budget is legally enacted through passage of an ordinance.
5. The annual appropriated budget is adopted on a non-GAAP basis as it includes lawfully encumbered amounts. All annual appropriations lapse at fiscal year-end to the extent that they have not been expended or lawfully encumbered. Each year the original annual appropriated budget is amended by ordinance to include lawfully encumbered appropriations from the previous year.
6. Transfers of budgeted amounts between line items or departments within a fund may be accomplished with the approval of the City Manager and Finance Administrator such that the net effect on total expenditures for the Fund equals zero. Budget amendments, which establish additional revenue, equal to or in excess of new appropriations or move appropriations from one fund to another must be approved by the City Council after holding public hearings by a two-thirds vote. For year ended June 30, 2011, the Council approved two budget amendments to recognize additional revenue of \$2,427,739, to increase appropriations by \$3,980,314 and to appropriate prior year fund balance of \$1,552,575.

Town of Ocean City
Notes to the Financial Statements

7. The budget information presented in the accompanying financial statements includes all budget ordinances and amendments as approved by the Mayor and City Council for the fiscal year ending June 30, 2011 for the General Fund, the governmental fund type for which an annual budget is adopted. No annual budget and actual comparisons are presented in the financial statements for governmental funds utilizing project ordinances.
8. Encumbrances represent intentions related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other obligations for the expenditure of resources are recorded to disclose that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as commitments or assignments of fund balances and do not constitute expenditures or liabilities because the obligation will be honored during the subsequent year.

Note 4: Deposits and Investments

A. Cash on Hand.

At year-end, cash on hand for petty cash and change funds was \$48,607.

B. Deposits.

At year-end, the carrying amount of the Town's deposits was \$981,305 and the bank balance was \$1,074,372. The deposits of the Town were not exposed to custodial credit risk at June 30, 2011. The Town has a contractual arrangement with the bank for funds to be transferred daily from an investment in a repurchase agreement, with assets held in the Town's name, to cover checks as presented.

C. Investments.

At June 30, 2011, the Town's investment balances by type and maturity were as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			Interest Rate At June 30
		Less than 1	1-5	6-10	
Certificates of deposit	\$ 4,990,749	\$ 1,535,185	\$ 3,455,564	\$ -	1.23%
Repurchase agreements	3,669,684	3,669,684	-	-	0.05%
State investment pool	21,831,021	21,831,021	-	-	0.07%
U.S. government money market	7,921,216	7,921,216	-	-	0.01%
Money market mutual fund	3,492,716	3,492,716	-	-	0.01%
U.S. Treasuries	8,025,725	4,251,115	3,774,610	-	2.19%
U.S. agencies	17,341,414	5,382,092	9,384,815	2,574,507	2.00%
Domestic equities	24,755,050	24,755,050	-	-	-
Domestic fixed income	9,166,722	-	4,559,806	4,606,916	5.03%
International equities	16,023,445	16,023,445	-	-	-
International fixed income	3,594,789	3,594,789	-	-	8.29%
Natural resources	4,729,240	4,729,240	-	-	-
Real estate investment trust	2,327,383	2,327,383	-	-	-
Alternative investments	8,078,763	-	8,078,763	-	-
	<u>\$ 135,947,917</u>	<u>\$ 99,512,936</u>	<u>\$ 29,253,558</u>	<u>\$ 7,181,423</u>	

Town of Ocean City
Notes to the Financial Statements

Reconciliation of cash and investments as shown on Statement of Net Assets:

Cash on hand	\$ 48,607
Carrying amount of deposits	981,305
Carrying amount of investments - (above)	<u>135,947,917</u>
Total cash and investments	136,977,829
Less: amounts in fiduciary funds	<u>(86,296,380)</u>
Total cash and investments per statement of net assets	<u>\$ 50,681,449</u>
Cash and cash equivalents	\$ 11,713,964
Investments	26,578,488
Restricted investments	<u>12,388,997</u>
Total cash and investments per statement of net assets	<u>\$ 50,681,449</u>

Investment Rate Risk. Fair value fluctuates with interest rates, and increasing interest rates could cause fair value to decline below original cost. To limit the Town's exposure to fair value losses arising from increasing interest rates, the Town's investment policy limits the term of investment maturities except for funds in the risk management fund and fiduciary funds, for which longer term maturities are allowed to match the cash flow of liabilities. For other Town funds, the policy requires that 70% of investments mature in less than one year and permits 30% to be invested from one to five years. Town Management believes the liquidity in the portfolio is adequate to meet cash flow requirements and to preclude the Town from having to sell investments below original cost for that purpose. The investments at June 30, 2011, met the Town's investment policy as of that date.

Investment income includes the following for the year ended June 30, 2011:

Net interest and dividends	\$ 2,452,609
Net increase in fair value of investments	<u>12,265,049</u>
Total investment income	14,717,658
Less: investment income in fiduciary funds	<u>(14,492,581)</u>
Total net investment income per statement of activities	<u>\$ 225,077</u>

Credit Risk. Town investment policy does not permit investments in commercial paper or corporate bonds except in Fiduciary Funds or if they are permitted under state law in the state investment pool. The Town invests in the Maryland Local Government Investment Pool (MLGIP) which is under the administration of the State Treasurer. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard and Poors, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. In the Fiduciary Funds, domestic fixed income securities must be rated "BBB" or above. The trustees permit the purchase of international fixed income securities below a rating of "BBB" or to be unrated. At June 30, 2011, \$1,032,051 of fiduciary fund investments were rated "BB" or "B" and \$1,235,804 were unrated, with 26.6% of total fixed income securities below single "A" quality. Of the Town's debt investments as of June 30, 2011, \$8,025,725 was in US Treasuries that do not require disclosure of credit quality.

*Town of Ocean City
Notes to the Financial Statements*

The remaining \$33,772,609 in investments on June 30, 2011, are listed below using the Standard and Poor's rating scale:

Investment Type	Credit Rating	Domestic Amount	International Amount	Total
Repurchase agreements	Unrated	\$ 3,669,684	-	\$ 3,669,684
US agencies	AAA	17,341,414	-	17,341,414
Corporate and international bonds	AAA	61,421	-	61,421
	AA	831,068	414,533	1,245,601
	A	4,332,562	254,517	4,587,078
	BBB	3,941,671	657,885	4,599,556
	BB	-	325,268	325,268
	B	-	706,782	706,782
	Unrated	-	1,235,804	1,235,804
Totals		<u>\$30,177,820</u>	<u>\$ 3,594,789</u>	<u>\$33,772,609</u>

After the fiscal year end, on August 5, 2011, Standard and Poor's lowered the credit rating of the US government and federal agencies from AAA to AA+.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover all or a portion of the value of its investments or collateral securities that are in the possession of an outside party. The Town's policy to control custodial risk on investments requires collateralization at 102%. For the Town's \$3,669,684 in repurchase agreements, \$5,000,000 in underlying securities were held by the Bank of America, N.A. in the Town's name. At June 30, 2011 all of the Town's investments were insured or registered, or for which the securities were held by the Town or its agent in the Town's name or were invested the MLGIP.

Foreign Currency Risk. The investment policy for the Fiduciary, Pension Trust and OPEB Trust Funds, permits up to 65% of total investments in foreign currency denominated equities, fixed income and natural resource investments. The investment position was 42.1% at year-end, or \$36,325,633. The investments were in 182 international firms with 22.6% of the value of these investments in firms that are rated A- to AA+ and 39.6% in firms that are rated B- to BBB by Standard and Poor's and the remainder in firms that are unrated.

Town of Ocean City
Notes to the Financial Statements

Note 5: Receivables

A. Property Taxes Receivable

Property taxes are reported at their estimated collectible value. Total assessed value on which levies were made for the year ended June 30, 2011, was \$10,413,493,746. The Town's real property tax rate was \$0.395 per \$100 of assessed value. The Town tax rate for personal and corporate property was \$1.29 per \$100 of assessed value. The Town collected 97.5% of current year property taxes levied in the current year. Total property tax collections were 100.1% of current taxes levied.

B. Receivables

Receivables as of year end for the government's major and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>Governmental</u>	<u>Water</u>	<u>Transportation</u>	<u>Wastewater</u>	<u>Convention Center</u>	<u>Non-major Funds</u>	<u>Total</u>
Taxes	\$ 1,232,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,232,741
Emergency Medical Accounts	762,031	-	-	-	-	-	762,031
	1,137,835	1,115,224	121,070	974,257	131,982	152,925	3,633,293
Gross Receivables	3,132,607	1,115,224	121,070	974,257	131,982	152,925	5,628,065
Less Allowance	(470,287)	-	-	-	(3,794)	-	(474,081)
	<u>\$ 2,662,320</u>	<u>\$ 1,115,224</u>	<u>\$ 121,070</u>	<u>\$ 974,257</u>	<u>\$ 128,188</u>	<u>\$ 152,925</u>	<u>\$ 5,153,984</u>

The allowance for uncollectibles for governmental activities is for emergency medical transport receivables.

Governmental funds report deferred revenue in relation to receivables for revenues that are not considered to be available to liquidate liabilities of the current period such as property taxes not collected within 60 days after fiscal year end. Deferred revenue also includes rental and program advances, franchise fees and similar prepayments received by the Town, grant revenue received prior to the incurrence of qualifying expenditures, and governmental fund nonexchange contributions which did not meet the GASB Statement No. 33 time restriction. Deferred revenue for governmental activities, general fund at June 30, 2011 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property tax receivables	\$ 1,013,493	\$ -	\$ 1,013,493
Income tax	177,718	-	177,718
Grants	-	141,805	141,805
Mitigation fees	-	627,664	627,664
Rental and program advances	-	278,485	278,485
Franchise payments	-	569,481	569,481
	<u>\$ 1,191,211</u>	<u>\$ 1,617,435</u>	<u>\$ 2,808,646</u>

Note 6: Capital Assets

The following is a summary of governmental capital assets activity for the year ended June 30, 2011:

Governmental activities:	<u>Beginning Balance</u>	<u>Transfers and Increases</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 22,053,098	\$ 154,862	\$ -	\$ 22,207,960
Total capital assets, not being depreciated	22,053,098	154,862	-	22,207,960
<i>Capital assets, being depreciated:</i>				
Buildings	37,512,090	-	-	37,512,090
Other Improvements	21,536,105	6,528	-	21,542,633
Streets and infrastructure	38,831,550	824,019	(362,067)	39,293,502
Machinery and equipment	<u>41,810,522</u>	<u>6,858,580</u>	<u>(1,849,593)</u>	<u>46,819,509</u>
Total capital assets, being depreciated	<u>139,690,267</u>	<u>7,689,127</u>	<u>(2,211,660)</u>	<u>145,167,734</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(13,452,471)	(1,075,282)	-	(14,527,753)
Other Improvements	(12,844,454)	(696,528)	-	(13,540,982)
Streets and infrastructure	(25,567,669)	(999,588)	362,067	(26,205,190)
Machinery and equipment	<u>(30,682,792)</u>	<u>(2,992,784)</u>	<u>1,550,880</u>	<u>(32,124,696)</u>
Total accumulated depreciation	<u>(82,547,386)</u>	<u>(5,764,182)</u>	<u>1,912,947</u>	<u>(86,398,621)</u>
Total capital assets being depreciated, net	<u>57,142,881</u>	<u>1,924,945</u>	<u>(298,713)</u>	<u>58,769,113</u>
Governmental activities capital assets, net	<u>\$ 79,195,979</u>	<u>\$ 2,079,807</u>	<u>\$ (298,713)</u>	<u>\$ 80,977,073</u>

The following is a summary of business-type capital assets activity for the year ended June 30, 2011:

Business-type activities:	<u>Beginning Balance</u>	<u>Transfers and Increases</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 14,091,718	\$ 102,691	\$ -	\$ 14,194,409
Construction in progress	<u>137,491</u>	<u>2,194,591</u>	<u>(37,708)</u>	<u>2,294,374</u>
Total capital assets, not being depreciated	14,229,209	2,297,282	(37,708)	16,488,783
<i>Capital assets, being depreciated:</i>				
Buildings	94,646,775	726,616	(28,432)	95,344,959
Other improvements	4,899,046	-	-	4,899,046
Infrastructure	32,323,512	79,161	-	32,402,673
Machinery and equipment	<u>42,809,525</u>	<u>442,919</u>	<u>(369,913)</u>	<u>42,882,531</u>
Total capital assets, being depreciated	<u>174,678,858</u>	<u>1,248,696</u>	<u>(398,345)</u>	<u>175,529,209</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(49,972,454)	(2,387,401)	28,432	(52,331,423)
Other Improvements	(2,970,482)	(29,849)	-	(3,000,331)
Infrastructure	(17,569,154)	(1,152,680)	-	(18,721,834)
Machinery and equipment	<u>(20,128,716)</u>	<u>(1,732,378)</u>	<u>252,580</u>	<u>(21,608,514)</u>
Total accumulated depreciation	<u>(90,640,806)</u>	<u>(5,302,308)</u>	<u>281,012</u>	<u>(95,662,102)</u>
Total capital assets being depreciated, net	<u>84,038,052</u>	<u>(4,053,612)</u>	<u>(117,333)</u>	<u>79,867,107</u>
Business-type activities capital assets, net	<u>\$ 98,267,261</u>	<u>\$ (1,756,330)</u>	<u>\$ (155,041)</u>	<u>\$ 96,355,890</u>

Town of Ocean City
Notes to the Financial Statements

Depreciation expense was charged to functions/programs in governmental activities as follows:

General government	\$ 112,910
Public safety	482,419
General public works and beach	888,588
Highways and streets	1,013,750
Sanitation and waste removal	317,240
Economic Development	5,824
Recreation and culture	<u>220,192</u>
	3,040,923
Capital assets held by the Town's internal service funds are charged to the various functions based on usage	<u>2,723,259</u>
Total depreciation – governmental activities	<u>\$ 5,764,182</u>

Depreciation expense was charged to business type activities as follows:

Water fund	\$ 1,410,609
Transportation fund	92,135
Wastewater fund	2,715,217
Convention Center fund	749,367
Airport fund	301,601
Golf Course fund	<u>33,379</u>
Total depreciation – business-type activities	<u>\$ 5,302,308</u>

The Town has on-going construction projects as of June 30, 2011. The projects include wastewater plant improvements, main and pumping stations, expansion of the convention center, and an airplane runway. At year-end, the Town's obligations with contractor's are as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Wastewater plant improvements	\$ 165,763	\$ 208,611
Wastewater pumping stations	244,295	1,743,723
Wastewater main	709,670	1,895,127
Convention Center expansion	773,620	27,529
Airplane runway	<u>401,026</u>	<u>39,697</u>
Total	<u>\$ 2,294,374</u>	<u>\$ 3,914,687</u>

Note 7: Interfund receivables, payables and transfers

The General Fund made an advance of \$130,000 to the Golf Course Fund, a non-major business-type activity to meet cash flows for operations at year-end. Interfund balances also exist between the General Fund and the Transportation Fund of \$110,000 and the Airport Fund of \$185,000 for working capital until grant funded expenditures are reimbursed; between the General Fund and Internal Service Funds, the Service Center Fund of \$440,000 to purchase inventory and the Vehicle Equipment Trust Fund of \$4,085,000, until grant funded expenditures buses are reimbursed.

Net transfers of \$3,795,956 are shown in the Statement of Activities. Transfers were made from the General Fund to subsidize operations and for capital expenditures.

Transportation Fund	1,915,710
Convention Center Fund	1,425,730
Airport Fund	390,711
Golf Course Fund	<u>63,805</u>
Total	<u>\$3,795,956</u>

Note 8: Long-term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years was \$94,490,000. In December 2010, the Town issued \$18,105,000 of general obligation bonds for the purchase of land, wastewater improvements, a boat ramp and the expansion of the convention center. The interest on the bonds is taxable and were sold under the Build America Bonds program. The federal government subsidizes the issuer 35% of interest paid over the life of the bonds. The taxable bonds were sold at an average interest rate of 4.82%. The true interest rate, after the subsidy was 3.07%.

General obligation bonds are direct obligations and pledge the full faith and credit of the Town. These bonds generally are issued as 20-year serial bonds, except for refunding issues or issues less than \$5 million. All interest is paid semi-annually. General obligation bonds currently outstanding are as follows:

<u>Bond Issue</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding June 30, 2011</u>
Recreation Complex Bond of 1998	4.64%	\$ 1,200,000	\$ 309,227
Municipal Refunding Bonds of 2004	2.00 – 5.00%	31,325,000	11,710,000
Municipal Purpose Bonds of 2005	3.00 – 5.00%	21,050,000	16,105,000
Airport Improvement Bond of 2005	5.43%	1,025,000	849,980
Airport Improvement Bond of 2006	3.50%	4,100,000	3,760,000
Municipal Refunding Bonds of 2007	3.50 – 5.00%	22,320,000	17,910,000
Municipal Refunding Bonds of 2009	2.00 – 4.00%	12,745,000	12,745,000
Airport Improvement Bond of 2010	5.82%	725,000	706,400
Municipal Purpose Bonds of 2010	1.00 – 5.60%	<u>18,105,000</u>	<u>18,105,000</u>
Total General Obligation Bonds		112,595,000	82,200,607
Less deferred amounts:			
For issuance premiums		629,236	541,931
On refunding		<u>(2,323,283)</u>	<u>(1,053,935)</u>
Total		<u>\$ 110,900,953</u>	<u>\$ 81,688,603</u>

Annual debt service requirements to maturity for general obligation bonds is below. Future federal subsidy for Build America Bonds issued in 2010 of \$2,652,050 is not netted with interest.

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	3,115,201	1,280,024	5,278,110	1,833,172
2013	2,837,096	1,171,625	5,244,230	1,676,406
2014	2,930,367	1,075,455	5,219,227	1,522,923
2015	2,510,259	950,131	5,737,019	1,341,120
2016	2,610,713	871,130	5,175,887	1,137,945
2017-2021	10,291,363	2,928,811	12,666,137	3,862,283
2022-2026	6,334,770	1,258,352	6,655,228	1,691,043
2027-2031	2,286,080	230,834	3,308,920	443,870
Deferred amounts:				
For premiums	201,903	-	340,028	-
On refunding	<u>(251,660)</u>	-	<u>(802,275)</u>	-
Total	<u>\$ 32,866,092</u>	<u>\$ 9,766,362</u>	<u>\$ 48,822,511</u>	<u>\$ 13,508,762</u>

Town of Ocean City
Notes to the Financial Statements

B. Intergovernmental Loans

The Town has agreements with the State of Maryland Department of Natural Resources for six non-interest bearing loans that financed the construction of bulkheads along the Sinepuxent Bay and a loan from the Maryland Energy Administration for energy efficiency improvements in the Convention Center at an interest rate of 2.0%. A summary of state loans is as follows:

<u>Loan</u>	<u>Maturity</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding June 30, 2011</u>
Soil erosion control 1 st Street	2017	-	\$ 106,112	\$ 29,713
Soil erosion control 6 th Street	2016	-	71,000	17,040
Soil erosion control Bayshore Drive	2012	-	157,810	10,519
Soil erosion control South Ocean Drive	2023	-	548,115	365,950
Soil erosion control Robin Drive	2026	-	297,171	297,171
Community energy loan program	2013	2.00%	<u>45,132</u>	<u>14,014</u>
Total intergovernmental loans			<u>\$ 1,225,340</u>	<u>\$ 734,407</u>

Annual debt service requirements to maturity for state loans are as follows:

<u>Year Ending June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>		<u>Principal</u>	<u>Interest</u>
2012	54,806		9,296	234
2013	55,815		4,718	950
2014	55,815		-	-
2015	55,814		-	-
2016	55,814		-	-
2017-2021	254,979		-	-
2022-2026	<u>187,350</u>		<u>-</u>	<u>-</u>
Total	<u>\$ 720,393</u>		<u>\$ 14,014</u>	<u>\$ 1,184</u>

C. Prior years defeasance of debt

In prior years, the Town defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. All of the remaining defeased bonds have been refunded. The refundings resulted in a difference between the reacquisition price and the net carrying amount of the old debt, which is being charged to operations through 2021 using the effective-interest method. The unamortized amount of the deferred amount for refunding in prior years is \$251,660 in governmental activities and \$802,275 in business-type activities.

D. Legal Debt Margin

The Town's legal debt margin at June 30, based on 5.2% of assessable property, was \$459,813,072.

E. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the United States Treasury at least every five years. The Town has no arbitrage liability for its bonds.

F. Changes in Long-Term Liabilities

During the year ended June 30, 2011, the following changes occurred in long term liabilities reported for governmental and business-type activities:

<u>Governmental Activities</u>	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
General Obligation Bonds	\$31,627,651	4,159,350	\$ (2,871,152)	\$ 32,915,849	\$ 3,115,201
Intergovernmental loans	766,148	-	(45,756)	720,392	54,806
Note payable	500,000	-	(500,000)	-	-
Capital leases	93,389	-	(93,389)	-	-
Deferred amounts:					
Bond issuance premium	223,446	-	(21,543)	201,903	-
On refunding	<u>(277,942)</u>	<u>-</u>	<u>26,282</u>	<u>(251,660)</u>	<u>-</u>
Total long-term debt	32,932,692	4,159,350	(3,505,558)	33,586,484	3,170,007
Claims and losses	<u>3,485,405</u>	<u>945,201</u>	<u>(1,017,458)</u>	<u>3,413,148</u>	<u>870,921</u>
Governmental activities					
Long-term liabilities	<u>\$ 36,418,097</u>	<u>\$ 5,104,551</u>	<u>\$ (4,523,016)</u>	<u>\$ 36,999,632</u>	<u>\$ 4,040,928</u>
<u>Business-type activities</u>	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
		\$			
General Obligation Bonds	\$ 39,197,365	13,945,650	\$ (3,858,257)	\$ 49,284,758	\$ 5,278,110
Intergovernmental loans	23,127	-	(9,113)	\$14,014	9,295
Deferred amounts:					
Bond issuance premium	374,451	-	(34,423)	340,028	-
On refunding	<u>(900,300)</u>	<u>-</u>	<u>98,025</u>	<u>(802,275)</u>	<u>-</u>
Total long-term debt	<u>38,694,643</u>	<u>13,945,650</u>	<u>(3,803,768)</u>	<u>48,836,525</u>	<u>5,287,405</u>
Business-type activities					
Long-term liabilities	<u>\$38,694,643</u>	<u>\$ 13,945,650</u>	<u>\$(3,803,768)</u>	<u>\$ 48,836,525</u>	<u>\$ 5,287,405</u>

Internal service funds primarily serve the governmental funds, the general fund and, accordingly, their long-term liabilities are included in the above totals for governmental activities. For internal service funds, a claims and losses liability will be liquidated through the Town's Risk Management Internal Service Fund. (See Note 9.B. below.) That fund will finance the payment of those claims by charging the other funds based on management's assessment of the relative insurance risk that should be assumed by individual funds. Currently, governmental activities assume approximately 80% of insurance cost and business-type activities 20%.

Note 9: Other Information

A. Advances to/from other funds

An interfund advance of \$130,000 is reported in the general fund. The advance to a nonmajor fund, the Golf Course Fund, has been offset by a nonspendable component of fund balance, as it is not anticipated that the amount will be repaid within one year. The advance is reported as a non-current liability in the statement of net assets of business-type activities.

Town of Ocean City
Notes to the Financial Statements

B. Risk management

The Town is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and acts of God. The Town established the Risk Management Fund (an Internal Service Fund) to account for and finance its uninsured risks of loss.

Under this program, the Risk Management Fund provides coverage for up to a maximum of \$250,000 for each general and auto liability claim, \$10,000 for each property claim, and \$600,000 for each workers compensation claim. The Town purchases commercial insurance for claims in excess of these amounts and for all other risks of loss. Settled claims from these risks have not exceeded commercial coverage for the past three fiscal years, and there has not been a reduction in insurance coverage in the past fiscal year.

All funds of the Town participate in the program and make payments to the Risk Management Fund based on estimates of the amounts needed to pay prior and current year claims, pay premiums to insurance carriers for excess coverage and to establish a reserve for catastrophic losses. The fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Liabilities for worker's compensation losses incurred are estimated at the fixed or reasonably determinable payment expected to be incurred over a long period of time discounted at their present value using a 3.5 percent discount rate. The worker's compensation and property and casualty costs are based on separately determined actuarial valuations.

Changes in the Fund's claims liability amount since June 30, 2009 were:

Claims Liability as of June 30, 2009	\$ 3,475,698
Current year claims	671,832
Changes in estimates	289,734
Claim Payments	<u>(951,859)</u>
Claims Liability as of June 30, 2010	3,485,405
Current year claims	762,447
Changes in estimates	182,754
Claim Payments	<u>(1,017,458)</u>
Claims Liability as of June 30, 2011	<u>\$ 3,413,148</u>

At June 30, 2011, the Risk Management Fund had cash and investments of \$3,512,831 to pay claims.

C. Commitments and contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

The Town is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Town's attorney and management, the resolution of these matters will not have a material adverse effect on the financial condition of the Town.

D. Intergovernmental assistance

In 1995, the Mayor and City Council entered into an agreement with the State of Maryland for the construction, operation, and contributions for the expansion and improvement of the Roland E. Powell Convention Center. Construction costs were shared 50% each by the Town and the State of Maryland. Overall project construction management was through the Maryland Stadium Authority (the Authority). The agreement provides that the Town control and operate the facility. Chapter 603 of the Laws of Maryland of 1995 authorized the Authority to pay one-half of the annual operating deficit, if any, of the Convention Center from the time of construction until the bonded debt is repaid. For the year ended June 30, 2011 the amount of the contribution was \$1,416,189.

Chapter 641 of the Laws of Maryland of 1995 authorized the County Commissioners of Worcester County to impose a tax on the sale of food and beverages in the Town for the purposes of paying the principal and interest on bonds issued by the Town for its share of the expansion and improvement cost of the Roland E. Powell Convention Center, which the County implemented for a 1% tax on the sale of food and beverages. The tax was reduced to 0.5% in 2008. The Town sold an additional \$5 million of bonds in 2010 for the expansion of the convention center. Sales tax receipts of \$1,108,771 were \$116,942 less than debt service for year ended June 30, 2011. Cumulative receipts and interest of \$9,638,746 in excess of debt service is shown on the statement of net assets for proprietary funds as net assets, restricted for debt service. The balance of the debt was \$10,605,000 at June 30, 2011.

Note 10: Other Post Employment Benefits (OPEB)

A. Plan description

The Town offers postretirement medical, dental, vision, and prescription coverage for employees in addition to pensions. Any full-time eligible employee of the Town of Ocean City is eligible to participate in the plan. A closed group of Wastewater Fund employees who transferred from the Town of Worcester County in 1994 receive postretirement health benefits for retirees and their dependents.

The Town subsidizes a portion of the premiums. For Wastewater Fund employees, the subsidy is 90%. Employees who have retired after January 1, 1998 with 15 years of service receive an 80% subsidy. Employees who have a date of hire after July 1, 2006, have a 25 year service requirement to receive the 80% subsidy.

On May 9, 2011, the Council passed an ordinance to charge the plan for employees hired after July 1, 2011. After 25 years of service, all new hires shall receive the current benefit amount of \$625 increased a maximum of 3% per year until they reach age 65. The Town's retirees under age 65 pay a higher rate based on the retiree's actual experience that is higher than the premium for employees. In addition, there is a separate rate for retirees over age 65. Because the Town of Ocean City charges a premium for retirees under age 65 based on the Town's retiree's experience, there is no implicit subsidy.

In 2008, the Town established trust fund to provide for retiree health insurance benefits. The Other Post Employment Benefits Trust (OPEB Trust) is a single employer defined benefit healthcare plan whose assets may be expended solely to pay for post employment benefits and the costs of administering the trust fund. The operation of the OPEB is governed by a Board of Trustees whose members are the Trustees of the Town's Pension Plans. Separate financial statements are not issued for the OPEB Trust.

Town of Ocean City
Notes to the Financial Statements

Plan membership at June 30, 2011 consisted of the following:

Active employees		501
Retirees and beneficiaries receiving benefits		<u>107</u>
	Total	<u>608</u>

Funding policy and contributions

The City Council has the authority to establish and amend contribution requirements of the plan members and the Town. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined biannually by an actuarial valuation. For the fiscal year 2011, the Town contributed \$3,516,000 to the plan, including \$675,942 for current premiums, 81% of total premiums, and an additional \$2,840,058 to prefund benefits. Plan members receiving benefits contributed \$156,377, or 19% of total premiums through their required contribution.

B. Annual OPEB cost and net OPEB obligation

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the methodology of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period up to thirty years. The ARC for fiscal year 2011 was based on an actuarial valuation for fiscal year beginning July 1, 2010 and ending June 30, 2011, dated May 16, 2011. The ARC and the net OPEB obligation as of July 1, 2008, for fiscal year 2009; July 1, 2009, for fiscal year 2010; and July 1, 2010, for fiscal year 2011, are as follows:

		<u>2009</u>	<u>2010</u>	<u>2011</u>
Annual required contribution (ARC)	\$	3,104,000	\$ 3,104,000	\$ 3,516,000
Contribution made	100%	<u>(3,104,000)</u>	<u>(3,104,000)</u>	<u>(3,516,000)</u>
Net OPEB obligation	\$	<u>-</u>	<u>-</u>	<u>-</u>

C. Funding Status and Funding Progress

As of July 1, 2010, the most recent actuarial valuation date, the plan was 14.1 percent funded. The actuarial accrued liability for benefits was \$37,010,000 and the actuarial value of assets, at market, was \$5,209,649, resulting in an unfunded actuarial liability (UAAL) of \$31,800,351. The covered payroll (annual payroll of active employees covered by the plan) was \$28,576,843, and the ratio of the UAAL to the covered payroll was 111.3 percent.

The actuarial valuation of the OPEB plan is performed using estimates of the value of reported amounts and assumptions about the probability of the occurrence of events in the future including assumptions about future employment, mortality, and healthcare costs. The actuarially determined amounts regarding the funded status of the OPEB plan and the ARC of the Town are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Town made 100% of the ARC for fiscal years 2009, 2010 and 2011.

D. Actuarial Methods and Assumptions

The calculations of projected benefits are based on the terms of the OPEB plan in effect at the time of the valuation and on the historical pattern of sharing costs between the employer and retired plan members to that point. The actuarial calculations reflect a long-term perspective and the actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in the actuarial accrued value of assets.

Actuarial assumptions used in the actuarial valuation were:

Valuation date	July 1, 2010
Actuarial method	Projected unit credit
Amortization method	Closed, level dollar
Amortization period	Closed 28 year period
Investment rate of return	7.5%
Discount Rate	7.5%
Asset valuation method	Fair value of assets at year end
Salary scale	4.0%
Mortality	1994 Group Annuity Mortality Table
Health care cost trend rates:	Initial 9.5%
	Ultimate 5.9%

Note 11: Employee Retirement Systems

The Town contributes to two single employer pension plans in which all eligible employees participate, the Employees of Ocean City, Maryland Pension Plan and Trust (PERS) and the Ocean City, Maryland Public Safety Employees Pension Plan and Trust (PSEPP) with the exception of Wastewater Fund employees who were transferred to the Town from the Worcester County Department of Water and Wastewater Services. The transfer agreement between the Town and the Worcester County Commissioners requires that the Town contribute to a multi-employer cost sharing plan to permit the 41 transferred wastewater employees to continue to participate in a mandatory contributory defined benefit plan administered by Nationwide Financial Company for County water and wastewater employees. The plan had assets in excess of the pension benefit obligation as of June 30, 2010. The investments of the plans represent primarily U.S. Government securities and commercial paper.

Summary of Significant Accounting Policies: The accounts of the plans, including benefits and refunds, are maintained using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due and the Town has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The investments are reported at fair value based on published securities data. The actuarial method for valuing the assets is 5-year smoothed market value.

Trend Information: Trend information gives an indication of progress made in accumulating sufficient assets to pay benefits when due. Trend information is presented following the information presented for the two plans. Beginning April 1, 2009, actuarial value of assets reflects a five-year phase-in of expected return vs. actual return. Prior to that date, the actuarial value of assets was set to market value.

Change in Plan Provisions: The plans were closed to new entrants after April 1, 2011.

Town of Ocean City
Notes to the Financial Statements

The condensed financial statements of the plans are as follows:

Condensed Statement of Net Assets

	General Employees <u>Pension Fund</u>	Public Safety Employees <u>Pension Fund</u>	<u>Total</u>
Assets:			
Cash and receivables	\$ 1,704,119	\$ 1,952,181	\$ 3,656,300
Investments	<u>36,700,406</u>	<u>36,747,236</u>	<u>73,447,642</u>
Total assets	<u>38,404,525</u>	<u>38,699,417</u>	<u>77,103,942</u>
Liabilities:			
Total liabilities	<u>9,076</u>	<u>1,361,409</u>	<u>1,370,485</u>
Net Assets:			
Held in trust for pension benefits	<u>\$ 38,395,449</u>	<u>\$ 37,338,008</u>	<u>\$ 75,733,457</u>

Condensed Statement of Changes in Fiduciary Net Assets

	General Employees <u>Pension Fund</u>	Public Safety Employees <u>Pension Fund</u>	<u>Total</u>
Additions:			
Contributions	\$ 3,020,838	\$ 3,842,067	\$ 6,862,905
Investment income	<u>6,398,153</u>	<u>6,185,791</u>	<u>12,583,944</u>
Total additions	9,418,991	10,027,858	19,446,849
Deductions:			
Benefits and refunds paid	1,794,622	2,057,333	3,851,955
Administrative expenses	<u>56,731</u>	<u>47,047</u>	<u>103,778</u>
Total deductions	<u>1,851,353</u>	<u>2,104,380</u>	<u>3,955,733</u>
Change in net assets	7,567,638	7,923,478	15,491,116
Net Assets - beginning of year	<u>30,827,811</u>	<u>29,414,530</u>	<u>60,242,341</u>
Net Assets - end of year	<u>\$ 38,395,449</u>	<u>\$ 37,338,008</u>	<u>\$ 75,733,457</u>

A. General Employees Pension Plan (PERS)

1. Plan description

Per Code Chapter §C-1006 of the Town of Ocean City, the Trustees of Employees of Ocean City, Maryland Pension Plan (PERS) function as the investment and administrative agent for the Town with respect to the single-employer defined benefit plan. The plan covers all non-public safety employees and wastewater employees hired after July 1, 1994. The pension plan provides retirement, disability, and death benefits. A member may retire at age 55 with 10 years of continuous service (early retirement), at age 55 with 30 years of continuous service (unreduced early retirement), at age 65 (normal retirement), or postpone retirement. Benefits begin to vest after 5 years of continuous employment, and participants are fully vested after 15 years of continuous employment, or at retirement age if sooner. The plan was closed to new entrants as of April 1, 2011.

The plan provides retirement benefits which are a monthly income payable for life in an amount equal to 50% of final average monthly compensation reduced 1/30th for each year of service less than 30. Final benefit is based on average compensation of the three highest consecutive years in the last ten years prior to retirement. The benefit is unreduced at age 55 with 30 years of service. Full-time employees participate immediately at hire. Participants contribute 5% of pay. Any pre-April 1, 1996 participant whose retirement benefit was not increased by a benefit formula change made in October 2004 will receive an additional annuity equal in value to 130% of their accumulated employee contributions with interest. Additionally, retiring employees receive one month of additional service credit for each 176 hours of unused sick leave for the benefit amount, not retirement eligibility, with a credit assumption equal to 1% of other service.

2: Funding policy and contributions

Funding policy for the PERS provides for annual Town contributions based upon actuarial valuations. The contribution and actuarial accrued liability is determined using the projected unit credit actuarial cost method. All administrative costs are paid by the PERS. At April 1, 2011, the plan's actuarial value of assets was \$37,244,012, using a five-year phase-in smoothing of expected versus actual return. The market value of the assets was \$38,532,358. The actuarial accrued liability was \$46,835,031. The unfunded actuarial liability was \$9,591,019. The plan was 79.5% funded. The annual covered payroll was \$17,316,053 and the unfunded actuarial liability was 55.39% of covered payroll. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability.

The contribution to the PERS for 2011 of \$2,135,538 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of April 1, 2010 and represented 10.9% of covered payroll. Employee contributions of 5% of pay totaled \$885,300. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 3% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 10% annually for the first five years, 7% for years 5-10 and 5% annually thereafter, attributable to seniority/merit, and (c) no post-retirement benefit increases. The mortality assumption is the RP2000 Combined Healthy No-Collar Table projected to 2018, separate for males and females. The actuarial value of assets reflects a five-year phase-in of actual versus expected result.

The amortization of the unfunded liability is 10-year, level percent of pay, open gain/loss except for losses due to plan changes, which are amortized over 20 years. The Town has contributed 100% of the required contribution for the past three years. The contribution was \$2,135,538, \$2,472,916, and \$2,474,479 for the years ended June 30 for 2011, 2010 and 2009, respectively. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

B. Public Safety Employees Pension Plan (PSEPP)

1. Plan description

All of the Town's full-time police officers, firefighter/emergency medical technicians, fire marshals and communication employees participate in the Public Safety Employees Pension Plan (PSEPP), a single-employer, defined benefit pension plan. The plan provides retirement, disability, and death benefits. A member may retire at age 55 with 10 years of continuous service (reduced early retirement), at age 65 (normal retirement), after completion of 25 years of service (unreduced retirement) or postpone retirement. Benefits begin to vest after 5 years of continuous employment, and participants are fully vested after 15 years of continuous employment, or at retirement age if sooner.

Normal retirement benefits are a monthly income payable for life in an amount equal to 60% of final average monthly compensation reduced 1/15th for each year of service less than 15 at normal retirement date for employees hired before April 1, 1996. For employees hired after that date benefit formula is 60% of final average compensation reduced for years of service less than 25 at exit age. Employees hired before April 1, 1996, receive the benefit under whichever formula produces the largest benefit. Final benefit is based on average compensation of the three highest consecutive years in the last ten years prior to retirement. Retiring employees receive one month of additional service credit for each 176 hours of unused sick leave for the benefit amount, not retirement eligibility, with a credit assumption equal to 3% of other service. The plan was closed to new entrants on April 1, 2011.

2. Funding policy and contributions

Annual Town contributions are based upon the PSEPP trust agreement that requires the Town to make remaining actuarially determined periodic contributions using the projected unit credit actuarial cost method. All administrative costs are paid by the PSEPP. At April 1, 2011, the plan's actuarial value of assets was \$36,240,860, using a five-year phase-in smoothing of expected versus actual return. The market value of assets was \$37,584,938. The actuarial accrued liability was \$49,944,550 and the unfunded actuarial liability was \$13,703,690. The plan was 72.6% funded. The annual covered payroll was \$11,260,790 and the unfunded actuarial liability was 121.7% of covered payroll. The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability.

Employer contributions totaling \$2,917,212 were made in 2011 in accordance with actuarially determined requirements computed through an actuarial valuation performed as of April 1, 2010, and represented 24.1% of current covered payroll. Participants are required to contribute 8% of pay. Employee contributions totaled \$924,855. Significant actuarial assumptions used in the valuation included (a) a rate of return on the investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 3% a year compounded annually, attributable to inflation, (c) additional projected salary increases of 7% annually for the first five years, 4% for years 5-10 and 2% annually thereafter, attributable to seniority/merit, and (d) no post-retirement benefit increases, (e) the RP2000 Combined Healthy No-Collar Table mortality assumption projected to 2018 separate for males and females. The actuarial value of assets reflects a five-year phase-in of actual versus expected result.

The amortization of the unfunded liability is 10-year, level percent of pay, open gain/loss except for losses due to plan changes, which are amortized over 20 years. The Town has contributed 100% of the required contribution for the past three years. The contribution was \$2,917,212, \$2,771,852, and \$2,721,333 for the years ended June 30 for 2011, 2010 and 2009, respectively. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

C. Cost Sharing Multiple-Employer Pension Plan

1. Plan description

Wastewater employees who transferred to the Town from Worcester County participate in a mandatory contributory defined benefit plan managed by the County and administered by Nationwide Financial Company. The financial information for the plan is included in the Worcester County Financial Report. The report may be obtained at the Office of the Treasurer, 1 W. Market Street, Snow Hill, Maryland, 21863.

For the plan year ended June 30, 2011, the total covered payroll was \$1,278,022. The pension plan provides pension, death, and disability benefits. Normal retirement age is 65. Early retirement, with reduced benefits, may be taken at age 55 with the completion of 10 years of service. An employee is fully vested after five years of service.

2. Funding policy

Plan members are required to contribute 4% of their annual covered salary and the Town is required to contribute at an actuarially determined rate. The rate for the fiscal year 2011 contribution was 7.45% of annual covered payroll. The contribution requirements of plan members and the Town is established and may be amended by the County Commissioners of Worcester County.

The actuarial accrued liability was computed as part of an actuarial valuation performed as of July 1, 2010. The County's plan does not make separate measurement of assets and actuarial accrued liability for individual employers. The actuarial accrued liability at July 1, 2010, for the plan as a whole, determined by an actuarial valuation performed on that date, was \$4,867,778. The actuarial value of assets, at fair value, as of that date was \$6,657,801 with assets in excess of the actuarial accrued liability by \$1,790,023.

3. Annual pension cost and three-year trend information

In addition to employee contributions of 4% of annual salary, the Town makes actuarially determined periodic contributions to the plan using the aggregate cost method. There were no changes in actuarial assumptions or benefit provisions that significantly affected the valuation of the actuarial accrued liability during fiscal year 2011.

Employee contributions totaled \$50,013. The Town's actuarially determined contribution as the employer was \$95,257 or 7.45% of covered payroll for the plan year beginning July 1, 2010. This contribution covers the Town's total liability for funding, as determined by Worcester County. The Town's contribution for its employees represents 51.3% of the actuarially determined contribution requirement for all employers. The Town does not have any unfunded actuarial accrued liability with respect to this plan. The Town has contributed 100% of the required contribution for the past three years. The contribution was \$95,257, \$88,033, and \$113,022 for the years ended June 30 for 2011, 2010 and 2009, respectively.



***PENSION TRUST FUNDS
REQUIRED SUPPLEMENTARY INFORMATION***

Schedules of Funding Progress

Schedules of Employer Contributions

TOWN OF OCEAN CITY
GENERAL EMPLOYEE PENSION TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
2002 - 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
4/1/2011	\$ 37,244,012	\$ 46,835,031	\$ 9,591,019	79.5 %	\$ 17,316,053	55.4 %
4/1/2010	34,048,462	44,188,307	10,139,845	77.1	19,517,323	52.0
4/1/2009	30,699,087 *	42,734,316	12,035,229	71.8	20,595,416	58.4
4/1/2008	28,220,231	39,178,031	10,957,800	72.0	20,666,347	53.0
4/1/2007	26,243,723	35,094,768	8,851,045	74.8	19,043,583	46.5
4/1/2006	20,938,052	30,856,957	9,918,905	67.9	17,475,494	56.8
4/1/2005	16,126,315	25,982,098	9,855,783	62.1	14,427,102	68.3
4/1/2004(1)	13,571,986	23,687,917	10,115,931	57.3	13,780,405	73.4
4/1/2003	9,823,084	14,696,821	4,873,737	66.8	12,831,139	38.0
4/1/2002	10,288,830	13,303,464	3,014,634	77.3	12,216,780	24.7

Source: "The Employees of Ocean City, Maryland Pension Plan Actuarial Valuation for the Plan Year Beginning April 1, 2011", William M. Mercer, Inc..

(1) In 2004, the benefit formula was changed, see Note 10a.

*Actuarial value of assets was set equal to market value prior to April 1, 2009, actuarial value of assets reflects a five-year phase-in of expected vs. actual return.

TOWN OF OCEAN CITY
GENERAL EMPLOYEE PENSION TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
2002 - 2011

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 2,135,538	100%
2010	2,472,916	100%
2009	2,474,479	100%
2008	2,348,529	100%
2007	2,255,718	100%
2006	1,969,055	100%
2005	1,671,266	100%
2004	1,519,435	100%
2003	1,058,140	100%
2002	908,973	100%

TOWN OF OCEAN CITY
PUBLIC SAFETY EMPLOYEE PENSION TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
2002 - 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
4/1/2011	\$ 36,240,860	\$ 49,944,550	\$ 13,703,690	72.6 %	\$ 11,260,790	121.7 %
4/1/2010	32,552,514	45,893,274	13,340,760	70.9	12,119,371	110.1
4/1/2009	29,568,757 *	43,434,805	13,866,048	68.1	12,064,994	114.9
4/1/2008	27,416,007	39,492,370	12,076,363	69.4	11,367,218	106.2
4/1/2007	25,595,150	35,149,787	9,554,637	72.8	10,742,790	88.9
4/1/2006	20,488,803	29,572,838	9,084,035	69.3	10,133,931	89.6
4/1/2005	16,444,865	22,320,763	5,875,898	73.7	8,236,439	71.3
4/1/2004	14,591,505	18,831,022	4,239,517	77.5	7,595,561	55.8
4/1/2003	10,457,554	17,068,738	6,611,184	61.3	7,131,592	92.7
4/1/2002	11,268,287	16,319,019	5,050,732	69.1	6,540,995	77.2

Source: "Ocean City, Maryland Public Safety Employees Pension Plan Actuarial Valuation Report for the Plan Year Beginning April 1, 2011", William M. Mercer, Inc.

*Actuarial value of assets was set equal to market value prior to April 1, 2009, actuarial value of assets reflects a five-year phase-in of expected vs. actual return.

TOWN OF OCEAN CITY
PUBLIC SAFETY EMPLOYEE PENSION TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
2002 - 2011

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2011	\$ 2,917,210	100%
2010	2,771,852	100%
2009	2,721,333	100%
2008	2,709,034	100%
2007	2,371,215	100%
2006	1,569,865	100%
2005	1,094,655	100%
2004	1,368,283	100%
2003	836,816	100%
2002	660,998	100%

TOWN OF OCEAN CITY
 OPEB TRUST FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 2009 - 2011

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>Unfunded Actuarial Accrued Liabilty as a Percentage of Covered Payroll</u>
7/1/2010	\$ 5,209,649	\$ 37,010,000	\$ 31,800,351	14.1 %	\$ 28,576,843	111.3 %
7/1/2009	2,751,277	28,958,000	26,206,723	9.5	31,636,694	82.8
7/1/2008	0	28,958,000	28,958,000	0.0	32,660,410	88.7

Source: "Town of Ocean City, Maryland Post Employment Medical Benefits Actuarial Valuation
 for Fiscal Year Ended June 30, 2011", Bolton Partners, Inc..

TOWN OF OCEAN CITY
 OPEB TRUST FUND
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS
 2009 - 2011

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 3,516,000	100%
2010	3,104,000	100%
2009	3,104,000	100%

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition, operation, and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges. The operation of Enterprise Funds are accounted for in such a manner as to show a profit or loss similar to comparable private enterprises.

The following activities of the Town are reported in this section:

AIRPORT FUND

To account for the activities and construction projects of the municipally-owned airport.

GOLF COURSE FUND

To account for the activities of the municipally-owned golf course, Eagle's Landing.

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 JUNE 30, 2011

	Business-type Activities - Enterprise Funds		
	Airport	Golf Course	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,953	\$ 6,178	\$ 8,131
Receivables, net	10,855	142,070	152,925
Interest receivable	231	-	231
Intergovernmental receivable	402,042	226	402,268
Inventories	69,419	67,008	136,427
Other	-	2,500	2,500
Total current assets	<u>484,500</u>	<u>217,982</u>	<u>702,482</u>
Noncurrent assets:			
Restricted investments	2,788,109	-	2,788,109
Capital assets:			
Land	1,174,102	2,530,140	3,704,242
Buildings	4,587,345	634,150	5,221,495
Other improvements	-	627,874	627,874
Streets and infrastructure	5,900,380	-	5,900,380
Machinery and equipment	164,637	552,564	717,201
Construction in progress	401,026	-	401,026
Less accumulated depreciation	<u>(5,669,822)</u>	<u>(1,527,222)</u>	<u>(7,197,044)</u>
Total noncurrent assets	<u>9,345,777</u>	<u>2,817,506</u>	<u>12,163,283</u>
Total assets	<u>9,830,277</u>	<u>3,035,488</u>	<u>12,865,765</u>
LIABILITIES			
Current liabilities:			
Accounts payable	202,118	25,953	228,071
Accrued expenses	15,816	31,435	47,251
Compensated absences	2,670	43,316	45,986
Due to other funds	185,000	-	185,000
Deferred revenue	2,788,341	57,255	2,845,596
Current portion of long-term debt	59,847	-	59,847
Total current liabilities	<u>3,253,792</u>	<u>157,959</u>	<u>3,411,751</u>
Noncurrent liabilities:			
Advanced from other funds	-	130,000	130,000
Bonds, notes, and loans payable	1,496,534	-	1,496,534
Total noncurrent liabilities	<u>1,496,534</u>	<u>130,000</u>	<u>1,626,534</u>
Total liabilities	<u>4,750,326</u>	<u>287,959</u>	<u>5,038,285</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,001,287	2,817,506	7,818,793
Unrestricted	78,664	(69,977)	8,687
Total net assets	<u>\$ 5,079,951</u>	<u>\$ 2,747,529</u>	<u>\$ 7,827,480</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Airport	Golf Course	Total
Operating revenues:			
Charges for sales and services	\$ 1,034,475	\$ 1,962,632	\$ 2,997,107
Total operating revenues	<u>1,034,475</u>	<u>1,962,632</u>	<u>2,997,107</u>
Operating expenses:			
Personal services	300,834	1,002,368	1,303,202
Contractual services	113,271	237,755	351,026
Utilities	43,618	55,552	99,170
Repairs and maintenance	57,019	64,195	121,214
Other supplies and expenses	491,828	405,298	897,126
Internal services	106,364	183,367	289,731
Depreciation	301,601	33,379	334,980
Total operating expenses	<u>1,414,535</u>	<u>1,981,914</u>	<u>3,396,449</u>
Operating loss	<u>(380,060)</u>	<u>(19,282)</u>	<u>(399,342)</u>
Nonoperating revenues (expenses)			
Interest and investment revenue	578	22	600
Interest expense	(89,162)	-	(89,162)
Total nonoperating revenues (expenses)	<u>(88,584)</u>	<u>22</u>	<u>(88,562)</u>
Loss before contributions and transfers	(468,644)	(19,260)	(487,904)
Capital contributions	380,165	-	380,165
Transfers in	390,711	63,805	454,516
Change in net assets	<u>302,232</u>	<u>44,545</u>	<u>346,777</u>
Total net assets - beginning	<u>4,777,719</u>	<u>2,702,984</u>	<u>7,480,703</u>
Total net assets - ending	<u>\$ 5,079,951</u>	<u>\$ 2,747,529</u>	<u>\$ 7,827,480</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Airport	Golf Course	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,040,712	\$ 1,951,724	\$ 2,992,436
Payments to suppliers	(726,148)	(753,775)	(1,479,923)
Payments to employees	(311,665)	(1,002,368)	(1,314,033)
Payments for interfund services used	(106,364)	(183,637)	(290,001)
Net cash provided (used) by operating activities	(103,465)	11,944	(91,521)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Advances from other funds	185,000	-	185,000
Advances to other funds	-	(120,000)	(120,000)
Transfers from other funds	390,711	63,805	454,516
Net cash provided (used) by noncapital financing activities	575,711	(56,195)	519,516
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from capital grant	5,294	-	5,294
Acquisition and construction of capital assets	(1,089,936)	-	(1,089,936)
Principal paid on capital debt	(55,313)	-	(55,313)
Interest paid on capital debt and leases	(89,721)	-	(89,721)
Net cash used by capital and related financing activities	(1,229,676)	-	(1,229,676)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments	755,626	45,627	801,253
Interest and dividends received	893	22	915
Net cash provided by investing activities	756,519	45,649	802,168
Net increase (decrease) in cash and cash equivalents	(911)	1,398	487
Cash and cash equivalents at beginning of the year	2,864	4,780	7,644
Cash and cash equivalents at end of the year	\$ 1,953	\$ 6,178	\$ 8,131

(Continued)

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS (Continued)
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Operating loss	\$ (380,060)	\$ (19,282)	\$ (399,342)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation	301,601	33,379	334,980
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:			
Accounts Receivable	6,237	(21,433)	(15,196)
Inventories	3,797	15,118	18,915
Prepaid expenses	6,676	-	6,676
Compensated absences	(7,157)	7,288	131
Accounts payable	(30,885)	(17,080)	(47,965)
Accrued expenses	(3,674)	3,429	(245)
Deferred revenue	-	10,525	10,525
Total adjustments	<u>276,595</u>	<u>31,226</u>	<u>307,821</u>
Net cash provided (used) by operating activities	<u>\$ (103,465)</u>	<u>\$ 11,944</u>	<u>\$ (91,521)</u>



INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department of a government to other departments on a cost-reimbursement basis. Services accounted for in Internal Service Funds are tangible, and it is possible to determine the extent to which they benefit individual departments of the government.

The following activities of the Town are reported in this section:

INFORMATION TECHNOLOGY

To account for the costs of operating computers and data processing systems used by other Town departments. Such costs are billed to other departments.

SERVICE CENTER FUND

To account for the costs of operating a fuel depot and maintenance facility for automotive equipment used by Town departments. Such costs are billed to the other departments. The fund also includes a centralized purchasing facility. The facility contracts goods used by other departments. Charges for these goods are at a cost plus a mark up to cover employee costs, depreciation costs, and the amortization of long-term debt.

VEHICLE AND EQUIPMENT TRUST FUND

To account for costs of acquiring vehicles and equipment used by other city departments. The fund owns all rolling stock in the Town and receives its operating revenue from the various departments through vehicle and equipment lease charges.

RISK MANAGEMENT FUND

To account for costs of providing workers' compensation and liability insurance coverage to other departments and to provide funds to pay claims, premiums, reserves, and administrative costs of the program.

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF NET ASSETS
 INTERNAL SERVICE FUNDS
 JUNE 30, 2011

	<u>Information Technology</u>	<u>Service Center</u>	<u>Vehicle & Equipment Trust</u>	<u>Risk Management</u>	<u>Total</u>
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 909	\$ 1,942	\$ 1,943	\$ 53,436	\$ 58,230
Investments	177,000	-	-	3,437,395	3,614,395
Receivables, net	-	-	60,090	-	60,090
Interest receivable	-	-	-	22,000	22,000
Intergovernmental receivable	-	-	5,260,448	-	5,260,448
Inventories	-	887,546	-	-	887,546
Total current assets	<u>177,909</u>	<u>889,488</u>	<u>5,322,481</u>	<u>3,512,831</u>	<u>9,902,709</u>
Noncurrent assets:					
Capital assets:					
Buildings	-	1,373,223	73,860	-	1,447,083
Other improvements	-	31,545	-	-	31,545
Machinery and equipment	609,957	184,154	41,055,557	-	41,849,668
	<u>609,957</u>	<u>1,588,922</u>	<u>41,129,417</u>	<u>-</u>	<u>43,328,296</u>
Less accumulated depreciation	<u>(609,957)</u>	<u>(1,144,262)</u>	<u>(28,321,700)</u>	<u>-</u>	<u>(30,075,919)</u>
Total capital Assets	<u>-</u>	<u>444,660</u>	<u>12,807,717</u>	<u>-</u>	<u>13,252,377</u>
Total noncurrent assets	<u>-</u>	<u>444,660</u>	<u>12,807,717</u>	<u>-</u>	<u>13,252,377</u>
Total assets	<u>177,909</u>	<u>1,334,148</u>	<u>18,130,198</u>	<u>3,512,831</u>	<u>23,155,086</u>
LIABILITIES					
Current liabilities:					
Accounts payable	34,909	105,611	9,374	73,033	222,927
Accrued expenses	23,170	44,150	-	10,957	78,277
Compensated absences	26,097	71,765	-	14,841	112,703
Due to other funds	-	440,000	4,085,000	-	4,525,000
Claims and judgments	-	-	-	870,921	870,921
Total current liabilities	<u>84,176</u>	<u>661,526</u>	<u>4,094,374</u>	<u>969,752</u>	<u>5,809,828</u>
Noncurrent liabilities:					
Claims and judgments	-	-	-	2,542,227	2,542,227
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,542,227</u>	<u>2,542,227</u>
Total liabilities	<u>84,176</u>	<u>661,526</u>	<u>4,094,374</u>	<u>3,511,979</u>	<u>8,352,055</u>
NET ASSETS					
Invested in capital assets, net of related debt	-	444,660	12,807,717	-	13,252,377
Unrestricted	93,733	227,962	1,228,107	852	1,550,654
Total net assets	<u>\$ 93,733</u>	<u>\$ 672,622</u>	<u>\$ 14,035,824</u>	<u>\$ 852</u>	<u>\$ 14,803,031</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
Operating revenues:					
Charges for sales and services	\$ 1,781,405	\$ 4,496,524	\$ 1,965,163	\$ 2,053,442	\$ 10,296,534
Total operating revenues	<u>1,781,405</u>	<u>4,496,524</u>	<u>1,965,163</u>	<u>2,053,442</u>	<u>10,296,534</u>
Operating expenses:					
Personal services	897,880	1,707,136	-	224,847	2,829,863
Contractual services	44,077	7,540	251,151	821,749	1,124,517
Utilities	32,574	58,392	-	1,229	92,195
Repairs and maintenance	446,807	63,735	-	1,171	511,713
Other supplies and expenses	222,517	2,522,132	75,121	1,389	2,821,159
Internal services	73,000	281,188	533,858	103,579	991,625
Insurance claims and expenses	-	-	-	945,201	945,201
Depreciation	8,651	47,656	2,666,952	-	2,723,259
Total operating expenses	<u>1,725,506</u>	<u>4,687,779</u>	<u>3,527,082</u>	<u>2,099,165</u>	<u>12,039,532</u>
Operating income (loss)	<u>55,899</u>	<u>(191,255)</u>	<u>(1,561,919)</u>	<u>(45,723)</u>	<u>(1,742,998)</u>
Nonoperating revenues (expenses)					
Interest and investment revenue	-	-	-	46,575	46,575
Interest expense	-	-	(472)	-	(472)
Loss on disposal of assets	-	-	(27,460)	-	(27,460)
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>(27,932)</u>	<u>46,575</u>	<u>18,643</u>
Income (loss) before contributions and transfers	55,899	(191,255)	(1,589,851)	852	(1,724,355)
Capital contributions	-	-	5,283,331	-	5,283,331
Transfers out	-	-	(31,851)	-	(31,851)
Change in net assets	<u>55,899</u>	<u>(191,255)</u>	<u>3,661,629</u>	<u>852</u>	<u>3,527,125</u>
Total net assets - beginning, as restated	<u>37,834</u>	<u>863,877</u>	<u>10,374,195</u>	<u>-</u>	<u>11,275,906</u>
Total net assets - ending	<u>\$ 93,733</u>	<u>\$ 672,622</u>	<u>\$ 14,035,824</u>	<u>\$ 852</u>	<u>\$ 14,803,031</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Information Technology
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 1,781,430
Payments to suppliers	(731,001)
Payments to employees	(900,869)
Payments for interfund services used	(73,000)
Net cash provided (used) by operating activities	76,560
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Advances from other funds	-
Transfers to other funds	-
Net cash provided by noncapital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Proceeds from capital grant	-
Acquisition and construction of capital assets	-
Interest paid on capital debt and leases	-
Capital lease payment	-
Proceeds from sales of capital assets	-
Net cash used by capital and related financing activities	-
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	-
Purchase of investments	(77,000)
Interest and dividends received	-
Net cash provided (used) by investing activities	(77,000)
Net increase (decrease) in cash and cash equivalents	(440)
Cash and cash equivalents at beginning of the year	1,349
Cash and cash equivalents at end of the year	\$ 909

(Continued)

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ 4,496,524	\$ 1,965,163	\$ 2,053,442	\$ 10,296,559
(2,611,711)	(326,272)	(1,857,301)	(5,526,285)
(1,701,068)	-	(223,781)	(2,825,718)
(281,188)	(533,858)	(103,579)	(991,625)
(97,443)	1,105,033	(131,219)	952,931
99,000	4,085,000	-	4,184,000
-	(31,851)	-	(31,851)
99,000	4,053,149	-	4,152,149
-	22,883	-	22,883
-	(6,666,392)	-	(6,666,392)
-	(766)	-	(766)
-	(93,389)	-	(93,389)
-	211,163	-	211,163
-	(6,526,501)	-	(6,526,501)
-	1,365,382	2,775,817	4,141,199
-	-	(3,362,220)	(3,439,220)
-	-	64,417	64,417
-	1,365,382	(521,986)	766,396
1,557	(2,937)	(653,205)	(655,025)
385	4,880	706,641	713,255
\$ 1,942	\$ 1,943	\$ 53,436	\$ 58,230

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS (Continued)
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	<u>Information Technology</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS	
Operating income (loss)	\$ <u>55,899</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	8,651
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:	
Accounts Receivable	25
Inventories	-
Compensated absences	(2,953)
Accounts payable	14,974
Accrued expenses	(36)
Claims liability	<u>-</u>
Total adjustments	<u>20,661</u>
Net cash provided (used) by operating activities	<u>\$ 76,560</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Decrease in fair value of investments	\$ -
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Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ (191,255)	\$ (1,561,919)	\$ (45,723)	\$ (1,742,998)
47,656	2,666,952	-	2,723,259
-	-	-	25
75,947	-	-	75,947
2,873	-	-	(80)
(35,859)	-	(14,305)	(35,190)
3,195	-	1,066	4,225
-	-	(72,257)	(72,257)
93,812	2,666,952	(85,496)	2,695,929
\$ (97,443)	\$ 1,105,033	\$ (131,219)	\$ 952,931

\$ -	\$ -	\$ (29,284)	\$ (29,284)
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FIDUCIARY FUNDS

Fiduciary Funds are used to account for assets held by the Town in a trustee capacity for individual, private, organization, other government or other funds.

GENERAL EMPLOYEES PENSION TRUST PLAN

To account for the accumulation of resources to be used for retirement annuity payments at appropriate amounts and times in the future. The Town contributes resources that are determined by an annual actuarial study.

PUBLIC SAFETY EMPLOYEES PENSION TRUST PLAN

To account for the accumulation of resources for pension benefit payments to qualified public safety employees. Resources are contributed by the Town as determined by an annual actuarial study and by participating employees.

TOWN OF OCEAN CITY
 COMBINED STATEMENT OF FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS
 JUNE 30, 2011

	Pension Trust Funds	OPEB Trust Fund	Total
ASSETS			
Cash and cash equivalents	\$ 3,482,329	\$ 917,236	\$ 4,399,565
Interest and dividends receivable	173,971	23,097	197,068
Investments, at fair value:			
State investment pool	-	205,655	205,655
Domestic equities	21,755,127	2,999,924	24,755,051
Domestic fixed income	19,424,951	2,757,540	22,182,491
Real estate investment trusts	2,122,811	204,571	2,327,382
International equities	14,498,281	1,525,164	16,023,445
International fixed income	3,265,858	328,930	3,594,788
Alternative investments	8,078,763	-	8,078,763
Natural resources	4,301,851	427,389	4,729,240
Total investments	<u>73,447,642</u>	<u>8,449,173</u>	<u>81,896,815</u>
Total assets	<u>77,103,942</u>	<u>9,389,506</u>	<u>86,493,448</u>
LIABILITIES			
Accounts payable	18,152	5,414	23,566
Accrued liabilities	<u>1,352,333</u>	<u>-</u>	<u>1,352,333</u>
Total liabilities	<u>1,370,485</u>	<u>5,414</u>	<u>1,375,899</u>
NET ASSETS			
Held in trust for pension benefits and other post employment benefits	<u>\$ 75,733,457</u>	<u>\$ 9,384,092</u>	<u>\$ 85,117,549</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF OCEAN CITY
 COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Pension Trust Funds	OPEB Trust Fund	Total
Additions			
Contributions:			
Employer	\$ 5,052,750	\$ 3,516,000	\$ 8,568,750
Members	1,810,155	156,377	1,966,532
Total contributions	6,862,905	3,672,377	10,535,282
Miscellaneous Income	-	24,026	24,026
Investment earnings:			
Net appreciation			
in fair value of investments	11,372,442	1,160,613	12,533,055
Interest	1,005,793	128,671	1,134,464
Dividends	744,075	80,987	825,062
Total investment income	13,122,310	1,370,271	14,492,581
Less investment expense	538,366	54,498	592,864
Net investment income	12,583,944	1,315,773	13,899,717
Total additions	19,446,849	5,012,176	24,459,025
Deductions			
Benefits and refunds paid	3,851,955	832,319	4,684,274
Administrative expenses	103,778	5,414	109,192
Total deductions	3,955,733	837,733	4,793,466
Changes in net assets	15,491,116	4,174,443	19,665,559
Total net assets - beginning	60,242,341	5,209,649	65,451,990
Total net assets - ending	\$ 75,733,457	\$ 9,384,092	\$ 85,117,549

The notes to the financial statements are an integral part of this statement.



STATISTICAL SECTION

This part of the Town of Ocean City, Maryland's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town's overall financial health.

<u>Contents</u>	<u>Page(s)</u>
Financial Trends These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	102-109
Revenue Capacity These schedules contain information to help the reader assess the Town's most significant local revenue sources, the property tax and the room tax.	110-116
Debt Capacity These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	117-120
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the Town's financial activities take place.	121-122
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	123-127

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year.

Town of Ocean City, Maryland

Net Assets by Component

Last Ten Fiscal Years

(accrual basis of accounting)

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental Activities			
Invested in Capital Assets, Net of Related Debt	\$ 47,390,589	\$ 46,393,277	\$ 44,851,930
Restricted	1,713,579	1,222,022	1,543,521
Unrestricted	<u>16,213,407</u>	<u>15,742,899</u>	<u>16,823,057</u>
<i>Total Governmental Activities Net Assets</i>	<u>65,317,575</u>	<u>63,358,198</u>	<u>63,218,508</u>
Business-Type Activities			
Invested in Capital Assets, Net of Related Debt	58,001,891	60,260,847	58,489,349
Restricted	9,638,746	9,667,139	9,406,011
Unrestricted	<u>11,466,523</u>	<u>4,659,855</u>	<u>6,860,798</u>
<i>Total Business-Type Activities Net Assets</i>	<u>79,107,160</u>	<u>74,587,841</u>	<u>74,756,158</u>
Primary government			
Invested in Capital Assets, Net of Related Debt	105,392,480	106,654,124	103,341,279
Restricted	11,352,325	10,889,161	10,949,532
Unrestricted	<u>27,679,930</u>	<u>20,402,754</u>	<u>23,683,855</u>
<i>Total Primary Government Net Assets</i>	<u>\$ 144,424,735</u>	<u>\$ 137,946,039</u>	<u>\$ 137,974,666</u>

2008	2007	2006	2005	2004	2003	2002
\$ 43,313,477	\$ 44,411,771	\$ 41,652,909	\$ 35,404,193	\$ 37,237,850	\$ 37,862,154	\$ 36,231,648
4,383,493	1,406,804	3,690,935	7,055,810	2,359,090	1,683,025	2,191,500
13,601,386	14,081,801	11,491,400	10,933,461	11,015,099	8,870,904	8,294,848
61,298,356	59,900,376	56,835,244	53,393,464	50,612,039	48,416,083	46,717,996
55,116,392	52,958,492	49,172,981	43,074,509	54,280,575	52,188,549	45,823,019
8,199,752	7,094,064	5,852,828	5,699,656	4,039,108	3,138,088	2,535,382
11,832,112	10,049,458	13,255,951	16,067,294	5,038,860	8,025,419	13,404,361
75,148,256	70,102,014	68,281,760	64,841,459	63,358,543	63,352,056	61,762,762
98,429,869	97,370,263	90,825,890	78,478,702	91,518,425	90,050,703	82,054,667
12,583,245	8,500,868	9,543,763	12,755,466	6,398,198	4,821,113	4,726,882
25,433,498	24,131,259	24,747,351	27,000,755	16,053,959	16,896,323	21,699,209
<u>\$ 136,446,612</u>	<u>\$ 130,002,390</u>	<u>\$ 125,117,004</u>	<u>\$ 118,234,923</u>	<u>\$ 113,970,582</u>	<u>\$ 111,768,139</u>	<u>\$ 108,480,758</u>

Town of Ocean City, Maryland

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

	2011	2010	2009
Expenses			
Governmental Activities:			
General Government	\$ 751,333	\$ 1,621,071	\$ 1,673,926
Public Safety	34,297,859	33,961,816	34,517,293
General Public Works and Beach	6,205,643	6,055,716	6,675,942
Sanitation and Waste Removal	6,193,273	7,081,833	7,587,896
Highways and Streets	6,763,540	7,036,697	8,008,372
Economic Development - Tourism	6,671,972	6,243,797	5,739,043
Recreation and Culture	7,783,123	7,890,492	8,795,235
Interest on Long-Term Debt	1,296,137	1,261,803	1,397,984
<i>Total Governmental Activities Expenses</i>	<u>69,962,880</u>	<u>71,153,225</u>	<u>74,395,691</u>
Business-Type Activities:			
Water	7,597,787	6,978,781	7,333,521
Transportation	11,045,110	10,337,839	11,075,781
Wastewater	5,533,018	5,669,798	6,265,962
Convention Center	7,493,620	7,715,464	8,324,858
Airport	1,503,697	1,449,538	1,749,959
Golf	1,981,914	1,978,188	2,260,550
<i>Total Business-Type Activities Expenses</i>	<u>35,155,146</u>	<u>34,129,608</u>	<u>37,010,631</u>
<i>Total Primary Government Expenses</i>	<u>\$ 105,118,026</u>	<u>\$ 105,282,833</u>	<u>\$ 111,406,322</u>
Program Revenues			
Governmental Activities:			
Charges for Services:			
General government	\$ 3,758,744	\$ 3,464,313	\$ 3,699,975
Public safety	1,965,631	1,859,508	1,696,096
General public works and beach	3,651,107	3,123,547	2,888,571
Sanitation and waste removal	109,543	312,364	430,535
Highways and streets	982,101	926,911	715,568
Economic development - Tourism	1,321,806	1,294,913	1,675,547
Recreation and culture	1,334,262	1,610,682	1,606,662
Operating Grants and Contributions	2,807,769	2,705,797	2,932,577
Capital Grants and Contributions	75,000	80,000	218,551
<i>Total Governmental Activities Program Revenues</i>	<u>16,005,963</u>	<u>15,378,035</u>	<u>15,864,082</u>
Business-Type Activities:			
Charges for Services:			
Water	6,772,436	6,926,482	7,204,163
Transportation	3,558,571	3,363,679	3,439,218
Wastewater	11,311,636	10,466,562	10,274,178
Convention Center	1,758,112	1,630,172	1,691,850
Airport	1,034,475	837,533	1,139,331
Golf	1,962,632	1,979,205	2,017,988
Operating Grants and Contributions	3,414,926	3,401,683	4,539,925
Capital Grants and Contributions	5,960,662	671,195	756,286
<i>Total Business-Type Activities Program Revenues</i>	<u>35,773,450</u>	<u>29,276,511</u>	<u>31,062,939</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 51,779,413</u>	<u>\$ 44,654,546</u>	<u>\$ 46,927,021</u>

2008	2007	2006	2005	2004	2003	2002
\$ 2,299,373	\$ 2,354,011	\$ 2,260,255	\$ 2,210,767	\$ 1,239,176	\$ 1,269,701	\$ 1,479,107
32,345,385	29,202,378	25,347,862	22,603,945	20,741,305	18,470,579	18,243,992
6,090,271	6,175,410	5,795,271	5,319,516	4,771,177	4,438,373	4,171,943
7,127,947	6,849,196	6,195,897	5,894,297	5,476,452	5,436,051	5,267,148
7,338,573	6,964,317	6,112,945	5,818,748	5,601,371	4,529,054	5,486,120
5,600,101	4,227,250	4,067,088	3,995,845	3,631,068	3,663,523	3,218,854
8,109,675	7,098,691	6,580,404	6,386,759	5,556,411	5,193,597	5,205,370
1,449,018	1,538,808	1,638,477	1,376,678	1,240,314	1,692,600	2,281,406
<u>70,360,343</u>	<u>64,410,061</u>	<u>57,998,199</u>	<u>53,606,555</u>	<u>48,257,274</u>	<u>44,693,478</u>	<u>45,353,940</u>
7,193,221	7,045,220	6,994,515	6,125,859	5,654,993	5,756,055	5,406,838
9,622,464	8,839,617	7,387,915	6,661,378	6,026,428	5,340,275	5,407,188
6,003,335	5,896,177	8,499,404	8,228,078	8,022,887	7,388,163	7,470,129
8,036,740	8,014,968	5,038,307	5,124,371	4,779,005	4,717,868	4,660,544
1,614,880	1,627,726	1,515,485	1,120,307	976,559	1,014,601	763,823
2,164,803	2,124,943	2,046,530	2,034,905	2,041,027	2,061,708	2,229,549
<u>34,635,443</u>	<u>33,548,651</u>	<u>31,482,156</u>	<u>29,294,898</u>	<u>27,500,899</u>	<u>26,278,670</u>	<u>25,938,071</u>
<u>\$ 104,995,786</u>	<u>\$ 97,958,712</u>	<u>\$ 89,480,355</u>	<u>\$ 82,901,453</u>	<u>\$ 75,758,173</u>	<u>\$ 70,972,148</u>	<u>\$ 71,292,011</u>
\$ 3,987,939	\$ 4,555,293	\$ 4,854,842	\$ 4,948,199	\$ 4,318,966	\$ 4,012,359	\$ 3,936,492
1,745,958	1,701,398	1,629,703	1,649,218	1,449,006	1,369,093	1,258,517
3,007,666	3,118,017	3,079,825	3,030,546	2,730,553	2,251,321	2,306,148
552,864	306,433	166,076	175,918	163,223	190,935	141,924
823,938	753,772	721,049	661,496	658,007	637,637	496,286
1,452,035	1,359,916	1,346,673	1,234,497	940,819	1,166,254	1,191,352
1,575,344	1,496,451	1,525,757	1,488,875	1,468,705	1,405,025	1,116,947
2,810,084	2,794,189	2,429,558	2,681,396	2,256,497	1,404,388	1,309,463
292,244	787,782	683,127	906,195	263,406	493,704	764,563
<u>16,248,072</u>	<u>16,873,251</u>	<u>16,436,610</u>	<u>16,776,340</u>	<u>14,249,182</u>	<u>12,930,716</u>	<u>12,521,692</u>
7,162,687	6,840,989	6,937,909	6,095,087	5,930,548	5,958,881	5,593,694
3,605,466	3,511,131	3,543,393	3,226,897	3,118,675	3,084,148	2,555,143
9,746,366	9,129,355	8,808,583	8,162,626	7,663,559	7,560,447	7,168,085
1,638,928	1,923,673	1,742,303	1,619,021	1,466,416	1,413,910	1,405,386
1,038,623	1,070,152	995,840	848,819	608,093	518,180	540,616
2,055,393	1,931,502	2,152,506	2,199,883	2,324,673	2,240,263	2,415,904
4,606,116	4,309,687	4,195,060	3,911,853	3,870,590	4,005,436	4,055,940
3,607,552	885,908	2,601,934	1,661,427	161,322	1,052,812	939,428
<u>33,461,131</u>	<u>29,602,397</u>	<u>30,977,528</u>	<u>27,725,613</u>	<u>25,143,876</u>	<u>25,834,077</u>	<u>24,674,196</u>
<u>\$ 49,709,203</u>	<u>\$ 46,475,648</u>	<u>\$ 47,414,138</u>	<u>\$ 44,501,953</u>	<u>\$ 39,393,058</u>	<u>\$ 38,764,793</u>	<u>\$ 37,195,888</u>

Town of Ocean City, Maryland

Changes in Net Assets (continued)

Last Ten Fiscal Years

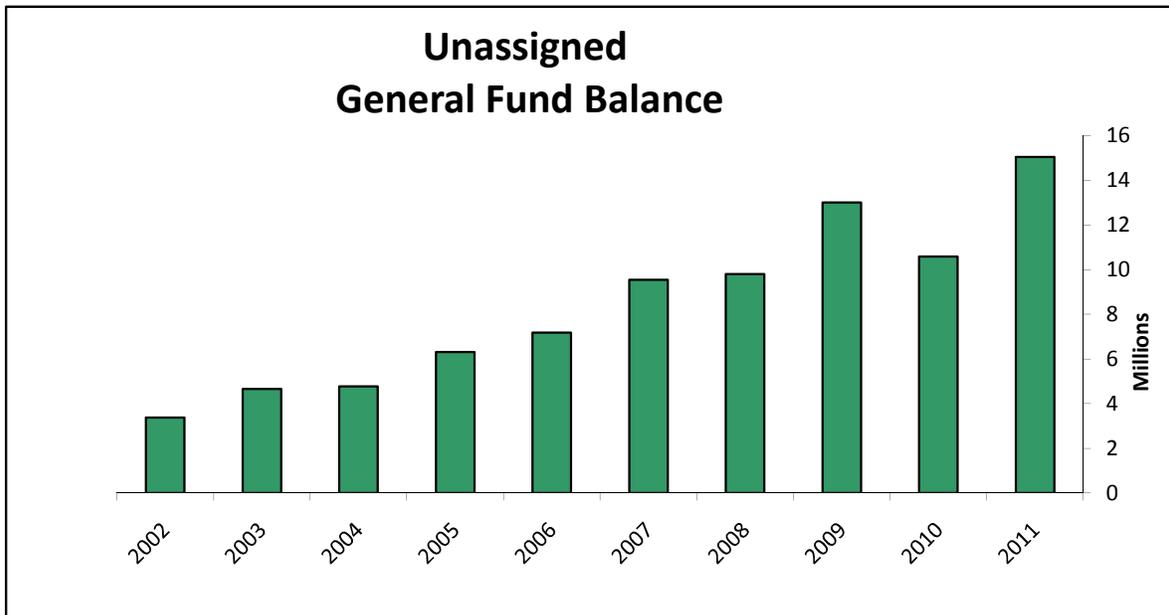
(accrual basis of accounting)

	2011	2010	2009
Net (Expense)/Revenue			
Governmental Activities	\$ (53,956,917)	\$ (55,775,190)	\$ (58,531,609)
Business-Type Activities	618,304	(4,853,097)	(5,947,692)
<i>Total Primary Government Net Expense</i>	<u>\$ (53,338,613)</u>	<u>\$ (60,628,287)</u>	<u>\$ (64,479,301)</u>
 General Revenues and Other Changes in Net Assets			
Governmental Activities:			
Taxes:			
Property and Other Local Taxes Levied For:			
General Purposes	\$ 42,660,709	\$ 43,900,041	\$ 48,025,233
Sales and Income Taxes	13,703,686	13,031,401	13,757,540
State gaming contributions	224,791	-	-
Grants and Entitlements not Restricted			
to Specific Programs	2,411,597	2,436,638	2,509,917
Investment Earnings	124,288	297,072	683,113
Loss on Sale of Capital Assets	-	-	-
Other Revenue	587,179	538,205	621,324
Transfers	(3,795,956)	(4,288,477)	(5,145,366)
<i>Total Governmental Activities</i>	<u>55,916,294</u>	<u>55,914,880</u>	<u>60,451,761</u>
Business-Type Activities:			
Investment Earnings	100,789	310,128	410,228
Gain (loss) on Sale of Capital Assets	-	-	-
Other Revenue	4,270	86,175	-
Transfers	3,795,956	4,288,477	5,145,366
<i>Total Business-Type Activities</i>	<u>3,901,015</u>	<u>4,684,780</u>	<u>5,555,594</u>
<i>Total Primary Government</i>	<u>\$ 59,817,309</u>	<u>\$ 60,599,660</u>	<u>\$ 66,007,355</u>
 Change in Net Assets			
Governmental Activities	\$ 1,959,377	\$ 139,690	\$ 1,920,152
Business-Type Activities	4,519,319	(168,317)	(392,098)
<i>Total Primary Government Change in Net Assets</i>	<u>\$ 6,478,696</u>	<u>\$ (28,627)</u>	<u>\$ 1,528,054</u>

2008	2007	2006	2005	2004	2003	2002
\$ (54,112,271)	\$ (47,536,810)	\$ (41,561,589)	\$ (36,830,215)	\$ (34,008,092)	\$ (31,762,762)	\$ (32,832,248)
(1,174,312)	(3,946,254)	(504,628)	(1,569,285)	(2,357,023)	(444,593)	(1,263,875)
<u>\$ (55,286,583)</u>	<u>\$ (51,483,064)</u>	<u>\$ (42,066,217)</u>	<u>\$ (38,399,500)</u>	<u>\$ (36,365,115)</u>	<u>\$ (32,207,355)</u>	<u>\$ (34,096,123)</u>
\$ 44,320,692	\$ 38,714,874	\$ 33,317,113	\$ 29,232,197	\$ 26,126,491	\$ 21,986,998	\$ 20,933,199
13,789,976	13,696,456	12,836,646	12,587,732	11,659,670	12,065,800	12,747,991
-	-	-	-	-	-	-
628,833	704,624	483,032	157,080	142,808	155,872	96,451
1,175,057	1,498,827	1,023,963	552,485	153,722	344,434	1,026,411
-	-	-	(374,265)	-	-	-
936,421	914,535	705,999	362,460	381,001	549,882	-
(5,340,728)	(4,927,374)	(3,363,384)	(2,906,049)	(2,259,644)	(1,642,137)	(1,906,702)
<u>55,510,251</u>	<u>50,601,942</u>	<u>45,003,369</u>	<u>39,611,640</u>	<u>36,204,048</u>	<u>33,460,849</u>	<u>32,897,350</u>
872,247	839,134	581,545	221,788	103,866	144,750	223,384
-	-	-	(75,636)	-	247,000	-
7,579	-	-	-	-	-	-
5,340,728	4,927,374	3,363,384	2,906,049	2,259,644	1,642,137	1,906,702
<u>6,220,554</u>	<u>5,766,508</u>	<u>3,944,929</u>	<u>3,052,201</u>	<u>2,363,510</u>	<u>2,033,887</u>	<u>2,130,086</u>
\$ 61,730,805	\$ 56,368,450	\$ 48,948,298	\$ 42,663,841	\$ 38,567,558	\$ 35,494,736	\$ 35,027,436
\$ 1,397,980	\$ 3,065,132	\$ 3,441,780	\$ 2,781,425	\$ 2,195,956	\$ 1,698,087	\$ 65,102
5,046,242	1,820,254	3,440,301	1,482,916	6,487	1,589,294	866,211
<u>\$ 6,444,222</u>	<u>\$ 4,885,386</u>	<u>\$ 6,882,081</u>	<u>\$ 4,264,341</u>	<u>\$ 2,202,443</u>	<u>\$ 3,287,381</u>	<u>\$ 931,313</u>

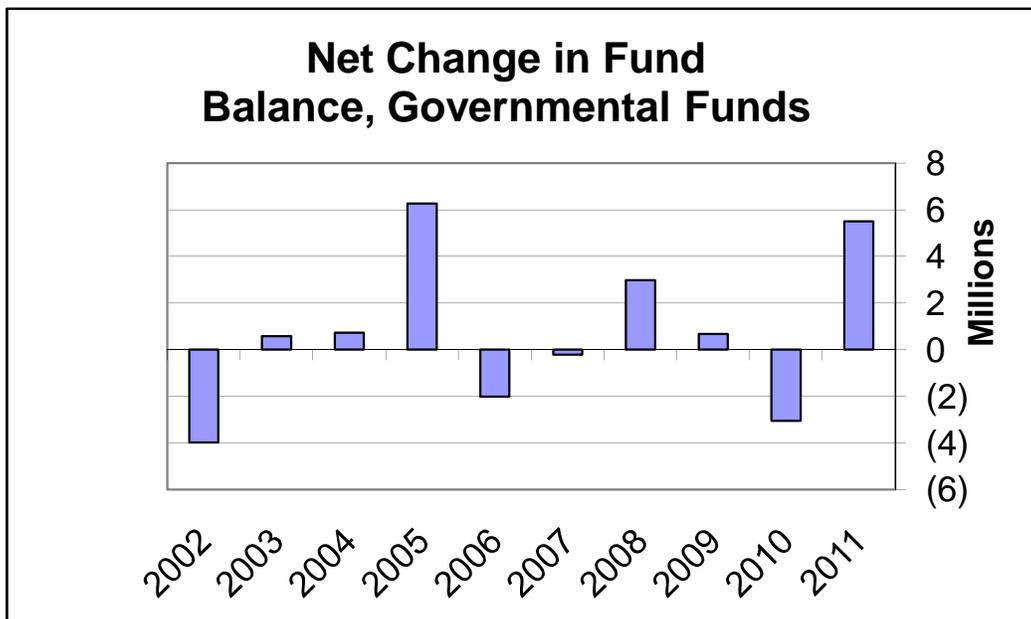
Town of Ocean City, Maryland
Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2011	2010	2009	2008
General Fund				
Assigned for advances & other	\$ 130,000	\$ 250,000	\$ 250,000	\$ 260,000
Assigned for encumbrances	998,595	446,430	762,998	456,351
Unassigned	15,049,478	10,590,252	13,005,682	9,795,646
Total General Fund	\$ 16,178,073	\$ 11,286,682	\$ 14,018,680	\$ 10,511,997
All Other Governmental Funds				
Restricted for capital projects	\$ 747,437	\$ 129,990	\$ 166,068	\$ 3,138,153
Committed for encumbrances	52,343	61,546	118,881	785,960
Committed for capital projects	783,799	780,486	1,008,572	199,380
Total All Other Governmental Funds	1,583,579	972,022	1,293,521	4,123,493
Total Governmental Funds	\$ 17,761,652	\$ 12,258,704	\$ 15,312,201	\$ 14,635,490
 Unassigned General Fund Balance as a Percentage of Expenditures	 20.2%	 13.4%	 16.9%	 12.8%



2007	2006	2005	2004	2003	2002
\$ 270,000	\$ 715,000	\$ 530,000	\$ 288,727	\$ 301,447	\$ 399,674
699,721	983,295	524,370	499,915	262,975	444,898
9,549,272	7,179,410	6,311,281	4,771,502	4,659,944	3,374,729
<u>\$ 10,518,993</u>	<u>\$ 8,877,705</u>	<u>\$ 7,365,651</u>	<u>\$ 5,560,144</u>	<u>\$ 5,224,366</u>	<u>\$ 4,219,301</u>
\$ 450,319	\$ 2,521,307	\$ 4,328,931	\$ 1,025,736	\$ 1,119,750	\$ 1,855,195
166,548	474,628	2,196,879	635,074	199,056	336,305
519,937	-	-	409,553	364,219	-
<u>1,136,804</u>	<u>2,995,935</u>	<u>6,525,810</u>	<u>2,070,363</u>	<u>1,683,025</u>	<u>2,191,500</u>
<u>\$ 11,655,797</u>	<u>\$ 11,873,640</u>	<u>\$ 13,891,461</u>	<u>\$ 7,630,507</u>	<u>\$ 6,907,391</u>	<u>\$ 6,410,801</u>

13.7% 11.6% 11.2% 9.2% 10.0% 7.3%



Town of Ocean City, Maryland
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2011	2010	2009
Revenues			
Property Taxes	\$ 42,731,367	\$ 43,808,149	\$ 47,881,933
Other Taxes	13,909,064	13,062,376	13,922,143
Licenses and Permits	3,921,106	3,858,142	3,811,003
Fines and Forfeitures	780,018	741,763	612,431
Charges for Services	8,422,070	7,992,333	8,289,520
Revenue from Other Agencies	5,294,366	5,222,435	5,521,329
Other Revenue	664,892	714,825	1,128,148
<i>Total Revenues</i>	<u>75,722,883</u>	<u>75,400,023</u>	<u>81,166,507</u>
Expenditures			
Current:			
General Government	3,320,277	3,990,472	3,869,464
Public Safety	32,301,718	32,223,500	32,467,482
General Public Works and Beach	4,908,045	4,698,501	5,063,642
Sanitation and Waste Removal	5,332,518	6,423,476	6,784,236
Highways and Streets	5,263,430	5,684,270	6,319,490
Economic Development - Tourism	6,420,490	5,999,877	5,507,535
Recreation and Culture	7,167,738	7,359,074	8,048,173
Capital Outlay	1,145,147	3,764,227	3,718,202
Debt service:			
Principal Retirement	3,416,907	3,282,636	2,164,178
Interest and Fiscal Charges	1,295,164	1,306,084	1,402,028
Bond Issuance Costs	43,746	73,711	-
<i>Total Expenditures</i>	<u>70,615,180</u>	<u>74,805,828</u>	<u>75,344,430</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>5,107,703</u>	<u>594,195</u>	<u>5,822,077</u>
Other Financing Sources (Uses)			
Bonds and notes issued	4,159,350	4,388,662	-
Premium on bonds issued	-	180,873	-
Payment to refunded bond escrow agent	-	(4,495,824)	-
Transfers In	1,548,567	1,181,198	916,016
Transfers Out	(5,312,672)	(4,902,601)	(6,061,382)
<i>Total Other Financing Sources (Uses)</i>	<u>395,245</u>	<u>(3,647,692)</u>	<u>(5,145,366)</u>
<i>Net Change in Fund Balances</i>	<u>\$ 5,502,948</u>	<u>\$ (3,053,497)</u>	<u>\$ 676,711</u>
Debt Service as a Percentage of Noncapital Expenditures	6.8%	6.5%	5.0%

2008	2007	2006	2005	2004	2003	2002
\$ 44,112,396	\$ 38,553,222	\$ 33,281,605	\$ 29,097,429	\$ 26,157,957	\$ 22,117,440	\$ 20,829,114
13,831,745	13,706,607	12,751,463	12,561,124	11,682,536	11,998,532	12,498,382
4,072,860	4,711,672	4,895,070	5,017,242	4,407,455	4,089,698	3,915,003
632,554	570,709	614,863	523,136	586,518	560,924	557,494
8,440,330	8,008,899	8,118,187	8,429,121	6,885,403	6,382,002	5,975,169
3,640,661	4,015,590	3,291,522	2,963,921	2,512,614	2,053,964	2,170,477
1,911,742	2,488,030	1,752,771	747,846	535,614	677,625	813,167
<u>76,642,288</u>	<u>72,054,729</u>	<u>64,705,481</u>	<u>59,339,819</u>	<u>52,768,097</u>	<u>47,880,185</u>	<u>46,758,806</u>
4,401,856	4,336,014	3,607,775	3,892,257	2,865,191	2,023,593	2,021,219
31,104,717	28,185,979	24,517,032	21,756,557	19,794,752	17,626,862	16,870,305
4,973,218	4,984,240	4,711,047	4,016,271	3,531,469	3,325,515	2,993,469
6,659,892	6,328,058	5,873,562	5,606,629	5,207,178	5,331,082	4,978,310
6,084,432	5,448,588	4,588,339	4,160,215	3,983,490	3,423,427	4,053,572
5,400,974	4,053,155	3,946,216	3,861,408	3,495,989	3,495,288	3,132,924
7,544,679	6,580,642	6,147,126	6,182,466	5,081,905	4,828,920	4,761,308
4,350,085	3,242,665	6,408,284	6,586,267	1,976,492	900,326	5,246,199
2,245,407	2,750,168	3,077,627	1,878,426	2,757,452	3,033,997	2,956,469
1,361,330	1,435,689	1,502,910	1,208,203	1,243,195	1,665,365	1,823,300
118,485	-	-	100,217	99,331	-	-
<u>74,245,075</u>	<u>67,345,198</u>	<u>64,379,918</u>	<u>59,248,916</u>	<u>50,036,444</u>	<u>45,654,375</u>	<u>48,837,075</u>
<u>2,397,213</u>	<u>4,709,531</u>	<u>325,563</u>	<u>90,903</u>	<u>2,830,984</u>	<u>2,225,810</u>	<u>(2,078,269)</u>
12,642,381	-	1,020,000	9,076,100	11,990,767	-	-
406,051	-	-	-	-	-	-
(7,125,224)	-	-	-	(11,739,660)	-	-
2,064,944	623,463	1,492,722	1,353,440	1,897,676	35,000	752,373
<u>(7,405,672)</u>	<u>(5,550,837)</u>	<u>(4,856,106)</u>	<u>(4,259,489)</u>	<u>(4,157,320)</u>	<u>(1,677,137)</u>	<u>(2,659,075)</u>
<u>582,480</u>	<u>(4,927,374)</u>	<u>(2,343,384)</u>	<u>6,170,051</u>	<u>(2,107,868)</u>	<u>(1,642,137)</u>	<u>(1,906,702)</u>
<u>\$ 2,979,693</u>	<u>\$ (217,843)</u>	<u>\$ (2,017,821)</u>	<u>\$ 6,260,954</u>	<u>\$ 723,116</u>	<u>\$ 583,673</u>	<u>\$ (3,984,971)</u>
5.2%	6.5%	7.9%	5.9%	8.3%	10.5%	11.0%

Town of Ocean City, Maryland
 Tax Revenues by Source, Governmental Funds
 Last Ten Fiscal Years
(modified accrual basis of accounting)

Year	Property Taxes	Room Occupancy Taxes *	Admission & Amusement Taxes*	Income Taxes	Other Taxes	Total
2011	\$ 42,731,367	\$ 11,907,434	\$ 1,179,152	\$ 524,878	\$ 297,600	\$ 56,640,431
2010	43,808,149	11,226,904	1,113,965	623,813	97,694	56,870,525
2009	47,881,933	11,016,045	1,218,792	863,318	823,988	61,804,076
2008	43,744,359	10,719,678	1,302,455	918,144	891,468	57,576,104
2007	38,200,651	10,345,545	1,238,744	1,183,634	938,684	51,907,258
2006	33,079,077	9,752,224	1,208,606	939,754	850,879	45,830,540
2005	28,893,748	9,593,436	1,252,422	953,168	762,098	41,454,872
2004	25,978,629	9,595,457	812,599	635,662	638,818	37,661,165
2003	21,942,128	9,231,935	1,286,896	703,880	775,821	33,940,660
2002	20,696,935	9,136,047	1,550,202	959,692	852,441	33,195,317
Change 2002-2011	106.5%	30.3%	-23.9%	-45.3%	-65.1%	70.6%

* In 2003, state court ruled that a portion of prior years amusement taxes for restaurants be refunded. Refunds were made in 2003 and 2004. In 2008 the room tax rate was increased from 4% to 4.5%.

Town of Ocean City, Maryland
 Assessed Valuation and Estimated Actual Values of Taxable Property
 Last Ten Fiscal Years

Year	Real Property	Personal Property	Corporate Property	Total	Total Direct Tax Rate	Estimated * Actual Values of Taxable Property	Percentage Of Change
2011	\$10,268,325,607	\$ 13,650,155	\$ 131,517,984	\$10,413,493,746	\$ 0.395	\$ 10,413,493,746	(2.2) %
2010	10,501,239,662	14,338,062	133,172,636	10,648,750,360	0.395	10,648,750,360	(13.0)
2009	12,090,447,495	16,500,853	135,247,984	12,242,196,332	0.38	12,242,196,332	17.0
2008	10,309,041,337	15,670,379	140,104,253	10,464,815,969	0.41	10,464,815,969	21.1
2007	8,491,695,814	15,500,465	135,395,271	8,642,591,550	0.43	8,642,591,550	27.3
2006	6,642,584,042	15,395,878	130,433,323	6,788,413,243	0.47	6,788,413,243	17.3
2005	5,640,578,371	14,789,786	131,293,900	5,786,662,057	0.48	5,786,662,057	19.2
2004	4,710,176,078	21,171,008	124,356,279	4,855,703,365	0.51	4,855,703,365	20.9
2003	3,861,432,196	21,336,512	131,963,798	4,014,732,506	0.52	4,014,732,506	5.2
2002	3,676,122,698	20,072,259	119,241,289	3,815,436,246	0.52	3,815,436,246	3.7

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2002-2011.

Town of Ocean City, Maryland
Property Tax Levies And Collections
Last Ten Fiscal Years

Year	Total Tax Levy*	Current Tax Collections	Percent of Current Tax Collections To Tax Levy	Collections in Subsequent Years	Total Collections To Date	Percent of Total Tax Collections To Tax Levy to Date	Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Tax Levy
2011	\$42,451,063	\$ 41,381,958	97.48 %	-	\$41,381,958	97.482	1,069,105	2.518 %
2010	43,222,775	42,215,437	97.67	930,896	43,146,333	99.823	76,442	0.177 %
2009	47,645,761	46,401,667	97.39	1,190,159	47,591,826	99.887	53,935	0.113 %
2008	43,751,440	42,264,998	96.60	1,454,769	43,719,767	99.928	31,673	0.072 %
2007	38,257,770	37,639,139	98.38	617,599	38,256,738	99.997	1,032	0.003 %
2006	33,014,184	32,495,310	98.43	518,320	33,013,630	99.998	554	0.002 %
2005	28,909,936	28,582,990	98.87	326,946	28,909,936	100.00	-	0.00 %
2004	25,882,708	25,508,356	98.55	374,352	25,882,708	100.00	-	0.00 %
2003	21,812,439	21,593,909	99.00	218,530	21,812,439	100.00	-	0.00 %
2002	20,726,232	20,217,245	97.54	508,987	20,726,232	100.00	-	0.00 %

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2002 - 2011.

* "Total Tax Levy" represent the original tax levy, less real property tax credits for civic associations, elderly and disabled taxpayers, and other adjustments.

Town of Ocean City, Maryland
Principal Taxpayers
Current Fiscal Year and Nine Years Ago

Taxpayer	2011	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Americana Stowaway Motel, Inc.	\$ 66,778,747	0.64
Harrison Inn Stardust Inc	64,692,188	0.62
91st Street Joint Venture	39,050,850	0.38
LPBOC Hotel Limited Partnership	33,911,766	0.33
Genesar	29,734,328	0.29
Harrison HI 18 LLC	25,830,470	0.25
Harrison Inn Ocean View	24,099,100	0.23
Harrison QI 17 LLC	23,356,766	0.22
Delmarva Power	21,843,840	0.21
Harrison Inn 66	21,643,970	0.21
	<u>\$ 350,942,025</u>	<u>3.38%</u>
Total Assessed Valuation	\$ 10,413,493,746	
Taxpayer	2002	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Connectiv	\$ 26,080,390	0.68%
Verizon - Maryland	11,198,420	0.29
LPBOC Hotel Limited Partnership	8,653,970	0.23
Bayshore Development Corporation	8,574,950	0.22
Genesar, Inc.	7,640,930	0.20
Windsor Resorts Inc.	7,059,590	0.19
Harrison QI 17 LLC	6,086,980	0.16
William & Anna Esham Sr.	5,306,340	0.14
Harrison Inn 66, Inc	4,938,810	0.13
Ocean City Plaza, LLC	4,741,680	0.12
	<u>\$ 90,282,060</u>	<u>2.36%</u>
Total Assessed Valuation	\$ 3,815,436,246	

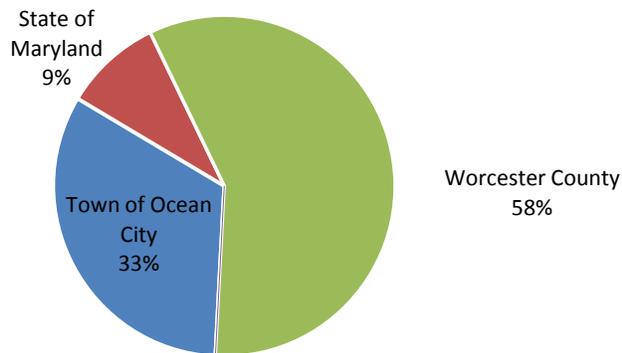
(1) Assessed valuation based on the valuation of property for taxes collected in 2011 and 2002 respectively, and a review of the ten largest taxpayers for the City.

Source: Town of Ocean City Finance Department

Town of Ocean City, Maryland
 Property Tax Rates - Direct and Overlapping Governments
 (Per \$100 of Assessed Valuation)
 Last Ten Fiscal Years

Year	Direct Rate	Overlapping Rates			Total
	Town of Ocean City	Worcester County	State of Maryland		
2011	\$ 0.395	\$ 0.70	\$ 0.112		\$ 1.207
2010	0.395	0.70	0.112		1.207
2009	0.380	0.70	0.112		1.192
2008	0.410	0.70	0.112		1.222
2007	0.430	0.70	0.112		1.242
2006	0.470	0.73	0.132		1.332
2005	0.480	0.73	0.132		1.342
2004	0.510	0.73	0.132		1.372
2003	0.516	0.73	0.084		1.330
2002	0.516	0.73	0.084		1.330

Source: Town of Ocean City Finance Department



Town of Ocean City
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Tax Year	Governmental Activities			Business-Type Activities			Total Primary Government	% of Actual Property Value	Per Capita
	General Obligation Bonds	Inter-Governmental Loans	Loans & Capital Leases	General Obligation Bonds	Inter-Governmental Loans	Capital Leases			
2011	\$ 32,866,092	\$ 720,393	\$ -	\$ 48,822,511	\$ 14,014	\$ -	\$ 82,423,010	0.79%	\$ 11,606
2010	31,573,155	766,148	593,389	38,671,516	23,127	-	71,627,335	0.67	9,284
2009	30,228,391	502,400	1,459,247	45,696,736	32,061	-	77,918,835	0.64	10,304
2008	32,369,874	672,150	2,498,372	48,954,815	40,819	-	84,536,030	0.81	10,249
2007	29,496,156	173,855	3,610,632	48,532,564	45,132	-	81,858,339	0.95	10,933
2006	31,952,059	203,459	5,398,554	48,226,831	-	-	85,780,903	1.26	10,400
2005	34,730,583	468,716	3,985,354	52,149,050	-	-	91,333,703	1.58	12,443
2004	27,356,573	740,868	5,111,382	42,909,983	-	34,616	76,153,422	1.57	10,481
2003	29,613,860	1,077,666	2,657,412	45,471,198	-	66,741	78,886,877	1.96	10,964
2002	32,306,307	1,557,632	1,664,716	48,259,211	-	175,950	83,963,816	2.20	11,688

Source: Town of Ocean City Finance Department

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

Town of Ocean City
Ratios of General Obligation Bonds Outstanding
Last Ten Fiscal Years

<u>Tax Year</u>	<u>General Obligation Bonds Outstanding</u>	<u>% of Actual Property Value</u>	<u>Per Capita</u>
2011	\$ 81,688,603	0.78%	\$ 11,502
2010	70,244,671	0.66	9,105
2009	75,925,127	0.62	9,940
2008	81,324,689	0.78	10,754
2007	78,028,722	0.90	10,422
2006	80,178,890	1.18	9,721
2005	86,879,633	1.50	11,836
2004	70,266,556	1.45	9,671
2003	75,085,058	1.87	10,436
2002	80,565,518	2.11	11,215

Source: Town of Ocean City Finance Department

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

Town of Ocean City, Maryland
 Computation of Direct and Overlapping Debt
 June 30, 2011

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City *	Amount Applicable to Town of Ocean City
Direct			
Town of Ocean City	<u>\$ 82,423,010</u>	100.0%	<u>\$ 82,423,010</u>
Overlapping			
Worcester County	<u>93,578,436</u>	57.7%	<u>55,492,013</u>
Total Direct and Overlapping Debt	<u><u>\$ 176,001,446</u></u>		<u><u>\$ 137,915,023</u></u>

Source: Town of Ocean City Finance Department

* Percentages were determined by dividing each overlapping subdivision's assessed valuation within the Town by its total assessed valuation.
 The debt outstanding includes general obligation bonds and note debt.

Town of Ocean City, Maryland
 Computation of Legal Debt Margin
 As of June 30, 2011

Assessed Value		<u>\$ 10,413,493,746</u>
Maximum general obligation debt limited to 5.2% of assessed valuation *		\$ 541,501,675
Outstanding bonds	<u>\$ 81,688,603</u>	
Net Chargeable to Bond Limit		<u>81,688,603</u>
LEGAL DEBT MARGIN at JUNE 30, 2011		<u>\$ 459,813,072</u>

* Section C-719 of the Code of the Town of Ocean City.
 Source: Town of Ocean City Finance Department

Town of Ocean City, Maryland
 Schedule of Legal Debt Margin
 2002 - 2011

Fiscal Year	Assessed Value	Legal Debt Limitation	Legal Borrowing Limitation	Debt Subject to Limitation	Legal Debt Margin
2011	\$ 10,413,493,746	5.2 %	\$ 541,501,675	\$ 81,688,603	\$ 459,813,072
2010	10,648,750,360	5.2	\$ 553,735,019	70,244,671	483,490,348
2009	12,242,196,332	5.2	636,594,209	75,925,127	560,669,082
2008	10,464,815,969	5.2	544,170,430	81,324,689	462,845,741
2007	8,642,591,550	5.2	449,414,761	78,028,722	371,386,039
2006	6,788,413,243	5.2	352,997,489	80,178,890	272,818,599
2005	5,786,662,057	5.2	300,906,427	86,879,633	214,026,794
2004	4,855,703,365	5.2	252,496,575	70,266,556	182,230,019
2003	4,014,732,506	5.2	208,766,090	78,886,877	129,879,213
2002	3,815,436,246	5.2	198,402,685	83,963,816	114,438,869

Town of Ocean City, Maryland

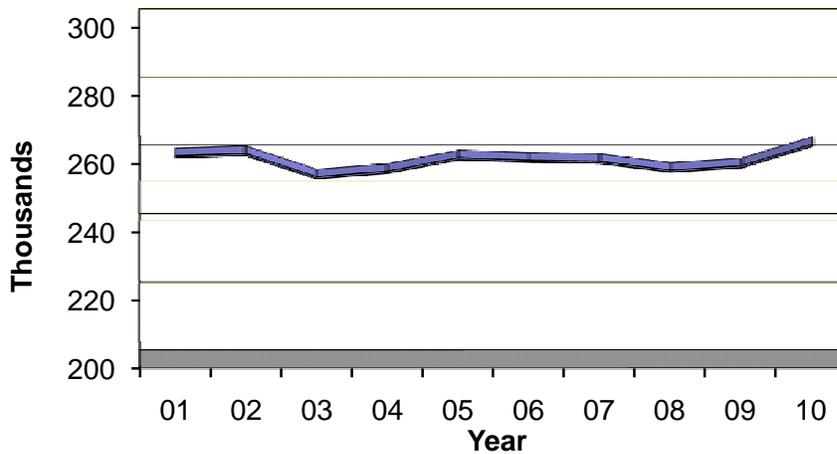
Demographic Statistics

Calendar Years 2001 - 2010

Year	(1) Population	(2) Median Household Income	(3) Worcester County Personal Income	(4) Median Age	(5) School Enrollment	(6) Unemployment Rate
2010	7,102	\$ 54,750	\$ 2,036,635	54.2	6,713	9.8 %
2009	7,715	54,750	2,013,834	47.2	6,693	9.0
2008	7,638	54,200	1,933,772	47.2	6,747	7.5
2007	7,562	52,950	1,853,434	47.2	6,745	6.6
2006	7,487	50,950	1,754,329	47.2	6,830	6.4
2005	7,413	49,000	1,679,509	47.2	6,727	6.4
2004	7,340	47,700	1,543,311	47.2	6,600	6.7
2003	7,266	44,700	1,513,368	47.2	6,539	6.5
2002	7,195	44,350	1,455,769	47.2	6,850	6.2
2001	7,184	43,800	1,310,398	47.2	6,850	6.6

- (1) Maryland State Data Center, Dept of State Planning(est.).
- (2) Maryland State Data Center (figures are for Worcester County).
- (3) Maryland State Data Center (figures are for Worcester County) in thousands of dollars.
- (4) U.S. Census Bureau, Census 2010; Maryland State Data Center.
- (5) Figures are for Worcester County Public Schools which includes Ocean City.
- (6) U.S. Department of Labor, Bureau of Labor Statistics (Information available for Worcester County only).

Estimated Average Summer Population



Town of Ocean City, Maryland
Principal Employers
Current Fiscal Year
Number of employees for quarter ending June 30, 2011

2011		
<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total County Employment</u>
Harrison Group	1,100	3.83 %
Phillips	550	1.91
OC Seacrets, Inc.	515	1.79
Bayshore Development	500	1.74
KTG LLC	371	1.29
Clarion Resort Fontaine Bleau	324	1.13
Fagers Island, Ltd.	292	1.02
91st St. Joint Venture	266	0.93
Trimpers Rides, Inc.	250	0.87
Castle in the Sand, Inc.	<u>190</u>	<u>0.66</u>
Total	<u><u>4,358</u></u>	<u><u>15.17 %</u></u>
Total Worcester County Employees (Data available for county only)	<u><u>28,733</u></u>	

Source: Town of Ocean City, Maryland, Finance Department. Total County employment figures from the Maryland Department of Labor, Licensing & Regulation Career and Workforce Information. Data for 2002 is unavailable.

Town of Ocean City, Maryland
 Full-Time City Government Employees by Function/Program
 Last Ten Fiscal Years

<u>Function/program</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General Government	37	38	39	39	40	40	39	37	36	37
Public Safety	210	215	218	223	213	196	187	187	180	182
General Public Works	46	49	55	54	53	52	50	50	48	48
Solid Waste	25	40	44	44	44	44	44	44	44	44
Highway and Streets	22	33	36	36	36	36	34	34	34	35
Tourism	4	8	9	9	9	11	11	11	11	11
Recreation	42	48	51	51	48	50	48	47	47	47
Water	21	23	24	25	25	25	25	25	25	25
Transportation	13	16	17	17	17	17	13	13	13	13
Wastewater	45	46	49	48	48	48	47	47	47	47
Convention Center	34	35	40	40	40	40	35	35	35	35
Airport	3	3	4	4	3	3	3	3	3	3
Internal Service	30	33	36	36	36	36	35	31	30	30
Full Time Employee Totals:	532	587	622	626	612	598	571	564	553	557
	814	755	799	871	841	793	808	809	863	890
Total Employees	<u>1,346</u>	<u>1,342</u>	<u>1,421</u>	<u>1,497</u>	<u>1,453</u>	<u>1,391</u>	<u>1,379</u>	<u>1,373</u>	<u>1,416</u>	<u>1,447</u>

Source: Town of Ocean City, Maryland 2002-2011 annual budgets

Method: Using 1.0 for each full-time employee.

Town of Ocean City, Maryland
 Operating Indicators by Function/Program
 Last Ten Fiscal Years

Function/program	2011	2010	2009	2008
General Information				
Area in Square Miles	5	5	5	5
Year-round Residents	7,102	7,715	7,638	7,562
Registered Voters	5,166	6,549	5,417	6,550
Average Summer Population	263,765	257,479	256,169	258,726
General Government				
Construction Permits Issued	1,622	1,501	1,407	1,795
Estimated Value of Construction	\$ 25,521,294	\$ 36,525,292	\$ 49,378,207	\$ 69,597,628
Public Safety - Police				
Total Arrests	3,572	4,213	3,515	3,599
Parking Violations	14,705	13,859	12,871	11,749
Classified Officers	102	107	107	107
Seasonal Officers	102	90	82	110
Fire and Emergency Services				
Fire responses	1,224	1,254	1,429	1,344
Ambulance responses	5,935	5,776	5,529	5,680
Fire Safety Inspections/Re-Inspections	2,068	2,010	2,310	3,176
Fire Investigations	136	144	202	257
Classified Fire Personnel	4	4	4	3
Volunteer Officers, Firemen, Life Honor, Gold Badge	221	219	220	230
Classified Emergency Medical Technicians	36	40	42	42
Seasonal Emergency Medical Technicians	74	58	54	41
Solid Waste				
Trash Processed (tons)	34,253	33,149	28,959	31,635
Trash Recycled (tons)	283	2,742	3,285	3,603
Tourism and Recreation				
Seasonal Beach Patrol Personnel	189	189	194	208
Water				
Daily Average Consumption (gallons)	5,591,287	5,026,025	5,434,695	5,555,219
Plants Daily Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000
Transportation				
Bus Passengers	2,997,578	3,099,117	3,315,614	3,481,330
Wastewater				
Daily Average Treatment (gallons)	5,731,000	5,766,000	5,428,814	5,442,071
Summer Daily Treatment Average (gallons)	9,986,000	9,595,000	9,237,300	9,720,000
Plants Daily Treatment Capacity (gallons)	14,000,000	14,000,000	14,000,000	14,000,000
Number of Customer Accounts	28,781	28,792	28,777	28,481
Airport				
Based Aircraft	67	67	66	68
Aircraft Fueled	4,081	3,838	3,738	3,661

Source: Town of Ocean City Finance Department

2007	2006	2005	2004	2003	2002
5	5	5	5	5	5
7,487	7,413	7,340	7,266	7,195	7,184
5,447	6,783	5,718	6,251	5,565	5,758
259,105	259,761	255,858	254,251	261,014	260,381
2,065	1,837	1,545	1,245	1,335	1,280
\$ 164,614,258	\$ 184,582,285	\$ 123,622,811	\$ 133,358,845	\$ 104,643,832	\$ 68,236,839
3,925	3,287	4,258	4,450	4,817	4,120
9,284	12,728	10,309	14,153	13,859	15,868
107	104	96	96	96	96
110	94	105	105	105	105
1,460	1,589	1,428	1,621	1,451	1,370
5,580	5,244	5,030	4,981	5,108	4,947
2,990	3,042	4,067	2,110	2,173	1,956
171	142	251	368	162	150
3	3	3	3	3	3
237	229	218	234	234	209
42	42	33	32	35	36
34	29	32	27	28	20
33,447	33,656	33,027	33,941	33,567	33,572
3,096	3,049	3,106	3,283	3,095	3,167
190	198	185	181	166	216
5,582,958	5,117,781	4,572,410	4,706,273	4,900,000	5,123,370
18,000,000	18,000,000	18,000,000	18,000,000	18,000,000	17,000,000
3,423,798	3,476,654	3,275,891	3,224,130	3,280,193	3,928,445
5,691,945	5,514,000	5,484,652	5,587,333	5,611,000	5,540,000
9,795,522	9,762,000	9,737,000	10,080,000	10,070,000	10,050,000
14,000,000	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
28,284	27,964	28,708	28,720	28,717	28,713
63	48	48	45	45	45
7,500	6,936	6,960	6,913	6,975	6,850

Town of Ocean City, Maryland
 Capital Asset Statistics by Function/Program
 Last Ten Fiscal Years

Function/program	2011	2010	2009	2008
Public Safety - Police				
Stations	2	2	2	2
Vehicles	84	83	84	81
Public Safety - Fire and Emergency Services				
Stations	5	5	5	5
Ambulances	9	9	9	9
Highways and Streets				
Streets (miles)	69	69	69	69
Number of Streetlights	3,024	3,024	3,024	3,006
Storm Sewers (miles)	43	43	43	43
Catch Basins	2,310	2,307	2,307	2,307
Heavy Equipment	48	50	50	50
Solid Waste				
Heavy Equipment	25			
Economic Development - Tourism, Recreation, and Culture				
Number of Parks / Playgrounds	14 / 6	14 / 6	14 / 6	14 / 6
Park Acreage	77	77	77	77
Recreation Centers	1	1	1	1
Boardwalk (miles)	3	3	3	3
Beach (miles)	10	10	10	10
Tennis Courts	14	14	14	14
Museum	1	1	1	1
Golf Course	1	1	1	1
Water				
Water Mains (miles)	141	150	150	150
Treatment Plants	3	3	3	3
Service Connections	7,582	7,077	7,121	7,121
Fire Hydrants	847	846	915	915
Transportation				
Buses	69	55	56	55
Handicapped Buses	4	4	3	3
Trolleys	8	8	8	8
Boardwalk Trams	8	8	8	8
Wastewater				
Sanitary sewers (miles)	150	150	150	150
Treatment Plants	1	1	1	1
Pumping Stations	9	9	9	9
Convention Center				
Convention Center (7,000 seats)	1	1	1	1
Airport				
Runway (2) (feet)	7,270	7,270	7,270	7,270
Square feet of Hangars	140,080	120,860	120,860	120,860

Source: Town of Ocean City Finance Department

2007	2006	2005	2004	2003	2002
2	2	2	2	2	2
81	85	79	78	75	74
5	5	5	5	5	5
9	9	9	9	9	9
69	69	67	67	67	67
2,997	2,942	2,906	2,884	2,884	2,849
43	43	43	42	42	42
2,305	2,289	2,286	2,284	2,284	2,280
50	50	50	50	49	49
14 / 6	13 / 6	13 / 7	13 / 7	13 / 7	13 / 8
79	79	79	79	79	79
1	1	1	1	1	1
3	3	3	3	3	3
10	10	10	10	10	10
14	14	14	14	14	14
1	1	1	1	1	1
1	1	1	1	1	1
150	150	150	150	150	150
3	3	3	3	3	3
7,096	7,093	7,069	7,073	7,030	7,003
915	912	817	699	699	695
56	56	56	54	58	53
3	2	3	3	2	2
8	7	-	-	-	-
8	8	8	8	8	8
150	150	150	150	150	150
1	1	1	1	1	1
9	9	9	10	9	9
1	1	1	1	1	1
7,270	7,270	7,270	7,270	7,270	7,270
120,860	90,860	90,860	90,860	90,860	90,860

