

**Town of Ocean City, Maryland**  
**Comprehensive Annual**  
**Financial Report**  
**For Fiscal Year Ended June 30, 2012**



(Cover photo by Susan Magnano)  
Paul-Luc Ronchetti competing at the 2011 Dew Tour. Used with the permission of the artist.  
Article featured on page 4. See more at [magnanimouspictures.com](http://magnanimouspictures.com).

(facing page)  
Long time Beach Patrol employees and their years of service to the Town of Ocean City Beach Patrol.  
(from L to R)  
Lt. Michael “Mike” Stone, 28 years; Capt. Melbourne “Butch” Arbin, 40 years; 1<sup>st</sup> Lt. Walter “Skip” Lee,  
30 years; Sgt. Timothy “Tim” Uebel, 29 years; and 2<sup>nd</sup> Lt. Edward “Ward” Kovacs, 30 years.  
Article featured on page 4.  
Picture by: Kristin Joson

Town of Ocean City, Maryland  
*Comprehensive Annual Financial Report*

For Fiscal Year Ended  
June 30, 2012



*Prepared by:*  
Finance Department

David L. Recor, ICMA-CM  
City Manager

Martha J. Bennett, CPA  
Finance Administrator



**Town of Ocean City, Maryland  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2012**

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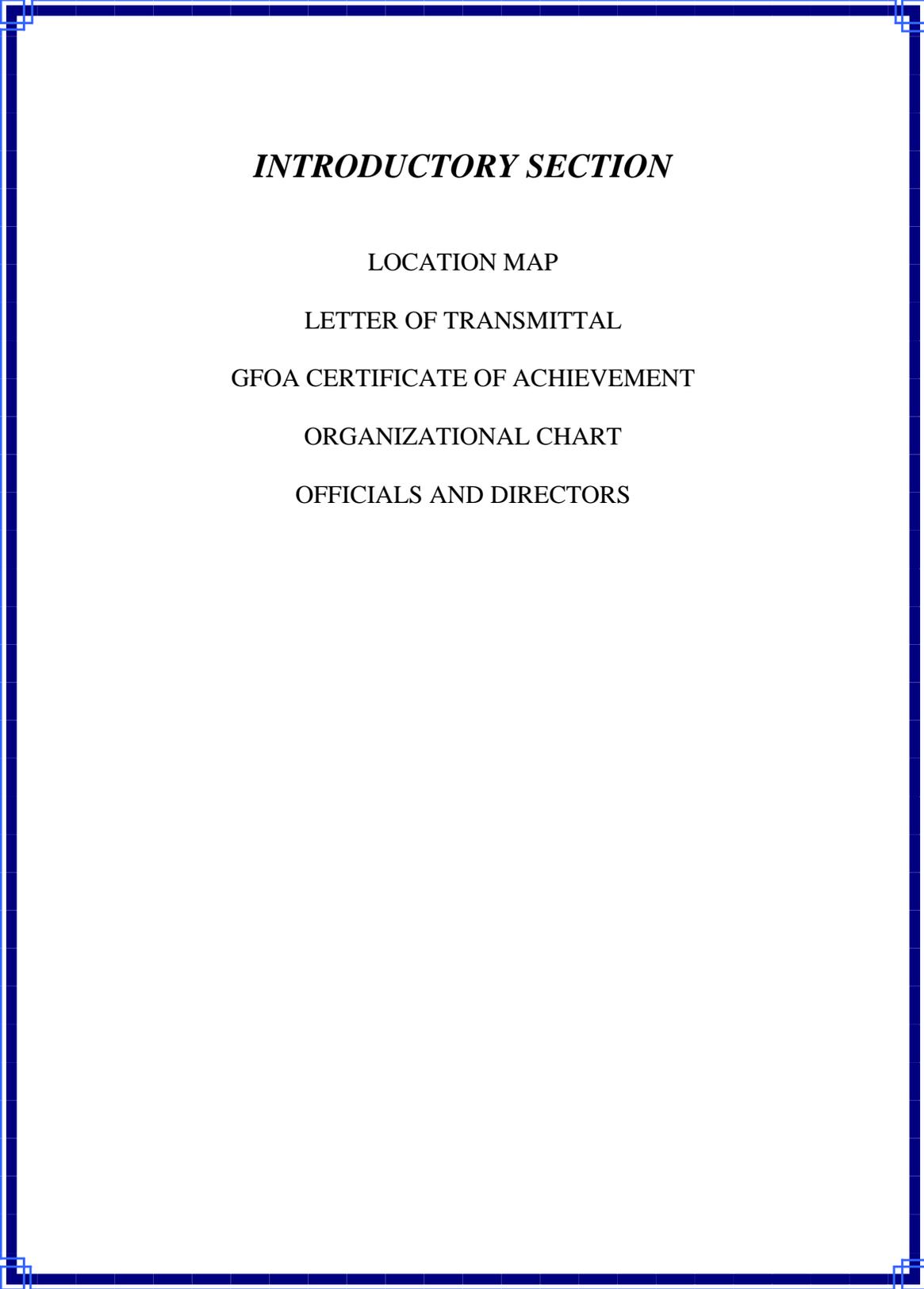
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***INTRODUCTORY SECTION***

LOCATION MAP

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

OFFICIALS AND DIRECTORS



**Location Map**



TOWN OF  
**OCEAN CITY**

*The White Marlin Capital of the World*

October 12, 2012

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

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

[www.oceancitymd.gov](http://www.oceancitymd.gov)

I respectfully submit the Comprehensive Annual Financial Report (CAFR) for the Town of Ocean City (the Town) for the fiscal year ended June 30, 2012. 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).

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

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.

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 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, 2012, 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 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.

Ocean City, MD



1

2001

*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, bars 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, motorcycle events, and the Dew Tour sporting event featured below attract thousands of visitors. The Town also sponsors family activities and movies on the beach, concerts, both on and off the beach, and various entertainment venues at Northside Park on 125<sup>th</sup> 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.

To offset the effects of the current recession on the tourism industry, the Town increased the advertising budget each year, from \$3.7 million in 2009 to \$5.8 million in 2012. 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, 2012, room sales were 6.25% above the prior year and food and beverage sales were up 4.16%. This increase in sales occurred even though the town was evacuated for three days in August 2011 due to hurricane Irene.

The number of construction permits was slightly less in 2012 at 1,525 compared to 1,622 in 2011, but the 2012 fiscal year saw a substantial increase in the estimated value of that construction. The estimated value of construction in 2012 was \$35,460,786 compared to \$25,521,294 in 2011. Several development projects delayed during the recession were completed in 2012 including a new 113 unit hotel, the Hampton Inn and Suites.

The Town relies on property taxes for 55% 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. However, as the Town has maintained sound budgeting practices with a focus on multiyear planning and has received cooperation from the Town’s two unions, the Town’s financial position remains favorable.

## **ACTIVITIES AND ACCOMPLISHMENTS**

### ***The Dew Tour***



Alli Sports, a division of NBC Sports, held their famous Dew Tour in Ocean City in 2011 and 2012. The Dew Tour is an extreme sports event consisting of summer and winter events. The summer locations are conducive to skateboarding and BMX, with additional competitions of surf and freestyle motocross and the winter locations are conducive to snowboarding and free skiing. To accommodate these events, the tour is held in various locations in the United States. Ocean City was the opening location for the tour. The other locations were Portland, Oregon, Salt Lake City, Utah and Las Vegas, Nevada for the Dew Tour Championships. In the seven years the event has been touring, this was the first time the tour was held on the beach. Each athlete competes and accumulates points based on their individual event and ultimately for the title of Dew Cup champion.

In addition, the event featured live concerts and included some of the biggest performers in the music industry. The events were broadcast live on NBC and NBC Sports Network as well as distributed on Universal HD and internationally on Eurosport, Fox Australia, Extreme Channel and Allarco Superchannel. Organizers of the event were pleased with the Ocean City venue, which had record-breaking crowds in attendance, which provided a significant economic impact to town businesses.

### ***Ocean City Beach Patrol***

The Ocean City Beach Patrol can trace its beginnings back to 1848, when Congress allotted money to build and supply eight small lifeboat stations along the New Jersey coast to save the lives of those who were on ships caught in storms off the coast. Swimming in the ocean, which was once only for those shipwrecked crews who swam to save their lives, became a recreational pastime and many lives were lost. Local governments were urged to hire people to “guard” the beach, and thus, would begin the “lifeguard”. The Ocean City Beach Patrol was formed in 1930 by William W. McCabe and Captain William Purnell of the Coast Guard. In 1935, former Mayor Harry W. Kelley and former Captain Bob Craig were members of the Ocean City Beach Patrol.



*The Ocean City Beach Patrol is pictured here in 1939.  
Front row, left to right: Emory (Huck) Savage, Toby Field, Captain Edward Lee Carey, Franklyn (Cutie) Savage, Roger Ewing, William Tutton. Back row, left to right: Nash Strudwick, Jack Horner, William West, Collins Elliott, Assistant Captain Robert Craig, Milton Conner and Jim Parker.*

Since then, the Beach Patrol has continued to change. Today, the Beach Patrol employs approximately 200 employees. Many think the Beach Patrol as a seasonal operation; however, there are some employees that work year round. Almost half of the staff has been a part of the Beach Patrol for five years or more and 33 employees have been employed for ten years or more.

Five members have been employed for 28 years or more. They are Lt. Mike Stone – 28 years, Sgt. Tim Uebel – 29 years, Lt. Ward Kovacs and 1<sup>st</sup>. Lt. Skip Lee - 30 years, and Captain Butch Arbin – 40 years. Although the Ocean City Beach Patrol is their second job, these highly trained individuals are committed to the Town of Ocean City and the safety of its visitors. They have impacted thousands of lives without looking for recognition.



### ***MAJOR INITIATIVES***

#### ***General Obligation Municipal Purpose and Refunding Bonds of 2012***

In May 2012, the Town issued \$33,560,000 million of General Obligation Municipal Purpose and Refunding Bonds, which resulted in a savings of \$858,377 in future debt service for the Town's wastewater and general funds. Ocean City attracted national interest in the municipal market as nine prominent underwriters competed for the bonds with bids based on a true interest rate ranging from 2.39% to 2.67%. The bid was awarded Robert W. Baird & Co, Inc. Proceeds of the bonds were used to refund the Town's outstanding Series 2005 bonds, which mature after 2015, and to finance the new boardwalk, comfort station, street improvements, fire stations, wastewater plant improvements and pumping stations and a new parking lot. The sale resulted in a net present value savings of 5.61% of refunded principal.

#### ***Boardwalk Renovation Project***



<http://ocean-city-shown-by-photos.com/Ocean-City-skyline-pictures.html>

The boardwalk, an iconic feature of Ocean City, Maryland, has existed since 1902. It was originally built as a walkway to accommodate the guests of several oceanfront hotels. The original structure was rolled up and removed during high tide. In approximately 1910, a permanent boardwalk was constructed which spanned five blocks. In 1920 it was expanded to 15<sup>th</sup> Street. The storm of March 1962 destroyed the boardwalk and it was rebuilt as it is today.

Since its early days, the boardwalk has undergone many renovations. In 2011, the Town's engineers realized that part of the boardwalk was in need of a total renovation, from the ground to the surface while other parts only needed new boards replaced. Plans for the renovation were drawn with one plan changing the boardwalk to a concrete walk. In January 2011, the Mayor and City Council requested the help of the public through an on-line poll, to decide which option to choose for the reconstruction of the boardwalk. At the Council Meeting on March 7, 2011, the City Engineer presented the results of the poll, which showed that 51% wanted to keep the wooden boardwalk. Immediately, the Mayor and City Council voted to rebuild the boardwalk with wooden planks.

*Town of Ocean City  
Letter of Transmittal*

The first phase of the renovation replaced the boards from Somerset Street to the Inlet, repairing any substructure as needed as well as the boardwalk and its substructure from 27<sup>th</sup> to 15<sup>th</sup> Streets. Phase two of the project will begin in October 2012 and will consist of full replacement of the boardwalk from North Division Street to 15<sup>th</sup> Street and replacement of the deck boards from Somerset Street to North Division Street. It will be completed in April 2013 and will also include a new restroom and performance stage at Caroline Street. Proceeds from the above bond sale were used to fund the \$6 million dollar boardwalk project and restroom and stage project costing \$1 million dollars.



*Boardwalk Trivia:*

*The boardwalk is two and one-half miles long. There are approximately 25,913 boards and 1,451,128 screws used in the boardwalk.*

***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, designed, funded and under construction, are projects for improvements to St. Louis Avenue, the boardwalk, new boardwalk restroom, new water and wastewater mains, wastewater plant improvements, and fire station improvements at 15<sup>th</sup> St headquarters and Montego Bay firehouses.

***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 \$10.3 billion dollars for fiscal year 2012, a 0.6% decrease from 2011.

***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 0.4% for the plan year ended March 31, 2012. The OPEB Trust Fund had a loss of 2.5% for the period ending June 30, 2012. The Town contributed 100% of its annual required contribution to each of the plans in 2012. Additional information on the Town's pension trust funds and OPEB trust fund can be found in Notes 10 and 11 in the notes to the financial statements starting on page 71.

**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, 2012, that reserve, unassigned fund balance, was 17.5% or \$12,605,645 compared to 20.2% and \$15,049,478 in 2011.

**Bond ratings.** The Town's bonds that are insured are designated with the insurance company's credit rating or are unrated. The Town maintained its ratings of AA- from Fitch Ratings and Aa2 from Moody's Investors Service and AA- from Standard and Poor's in May 2012 when it issued the General Obligation Municipal Purpose and Refunding Bonds of 2012.

#### **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, 2011. This is the 24<sup>th</sup> consecutive year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles 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 give my appreciation to the employees of the Town for their service and many contributions to this report. Many employees have taken on additional duties and responsibilities in providing Town services in a period of economic uncertainty. With their help, the Finance Department has worked to maintain strong internal controls to provide accurate financial reporting to keep the public informed and assist management decision making. I would like to commend Roger Baskerville, Assistant Finance Administrator, for his efforts in 2012 to automate the CAFR reports, which will improve their timeliness in the future.

Respectfully submitted,

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

Martha J. Bennett, CPA, CGFM, CGMA  
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, 2011

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.



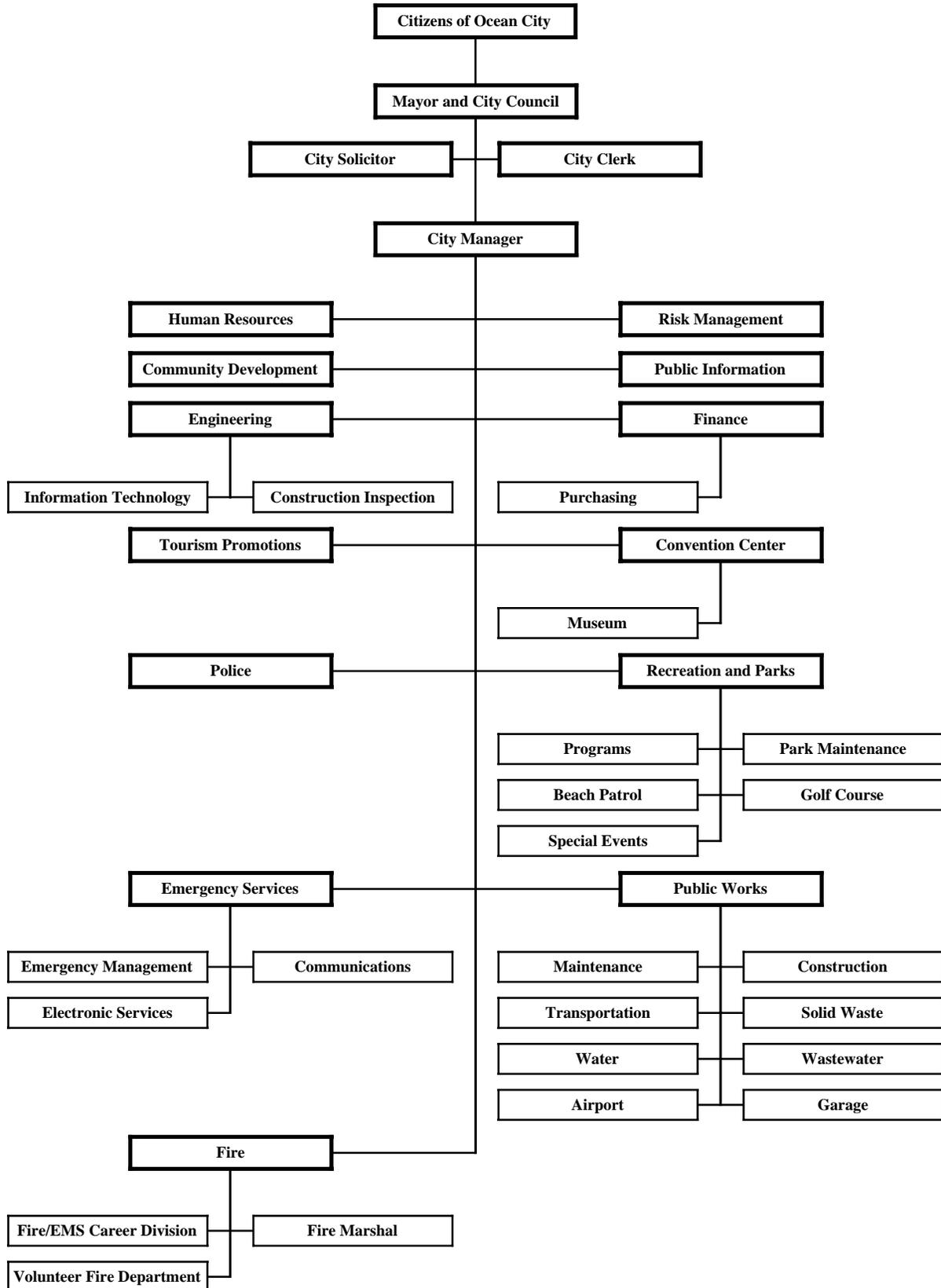
*Linda C. Sandison*

President

*Jeffrey R. Emer*

Executive Director

Town of Ocean City Organizational Chart  
2012



**Town of Ocean City**  
**List of Principal Officials and Directors**  
**June 30, 2012**

<u><b>Title</b></u>	<u><b>Name</b></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	David L. Recor, ICMA-CM
City Solicitor	Guy R. Ayres III
City Clerk	Kelly L. Allmond
Finance Administrator	Martha J. Bennett, 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	David W. Hartley
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**  
**Other Post Employment Benefits Trust**

**Trustees**

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

***FINANCIAL SECTION***





**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Honorable Mayor  
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, 2012 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. 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 opinion.

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, 2012, and the respective changes in financial position, cash flows where applicable, thereof and the respective budgetary comparison for the general and pension trust funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of funding progress and schedules of employer contributions 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.



**SB & COMPANY, LLC**  
EXPERIENCE • QUALITY • CLIENT SERVICE

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  
October 12, 2012

*SB & Company, LLC*

***MANAGEMENT'S DISCUSSION AND ANALYSIS***



Town of Ocean City  
*Management's Discussion and Analysis*  
June 30, 2012

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This section of the Comprehensive Annual Financial Report provides a 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, 2012. This information is best understood if read in conjunction with the transmittal letter at the front of this report found on pages 1-7 and the Town's financial statements, which follow this section.

**Financial highlights for FY 2012**

- The assets of the Town exceeded its liabilities at the close of the 2012 fiscal year resulting in net assets of \$148,311,421. Of this amount, \$32,941,449 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's overall financial position, or net assets, improved \$3,886,686 or 2.69%. Revenues were stable at 0.2%, or \$214,123, above 2011. There were gains from governmental activities of \$4,481,929 before transfers of \$3,205,769 to other funds, a net of \$1,276,160. Business-type activities contributed \$2,610,526 to net assets.
- As of June 30, 2012, the Town's governmental funds reported combined ending fund balances of \$32,061,629 an increase of \$14,299,977 from the prior year. Of the total amount in fund balance, \$15,303,578 is restricted for capital projects and \$12,605,645 is available to meet the Town's current and future needs, and is unassigned fund balance. Unassigned general fund balance at year-end was 17.5% of general fund expenditures and other uses, below the percentage in FY-2011 of 20.2%, but in excess of Town reserve policy of 10%.
- The Town's net debt increased by \$14,346,930 during the current fiscal year. The key factors in this change were sale of \$21,395,000 in bonds for capital improvements, the sale of \$12,165,000 in bonds used to advance refund 2005 Municipal Purpose Bonds maturing after 2015, and scheduled principal retirements of general obligation bonds, loans and capital leases of \$8,448,361.

**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 which supports 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.

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

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, wastewater, the Roland E. Powell Convention Center, the Ocean City Municipal Airport, the bus and boardwalk tram operations, and Eagle's Landing Golf Course.

The government-wide statements can be found on pages 35-37 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.

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. 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.

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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 38-41 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 airport, which are major funds, and for two nonmajor funds, which account for the operations of the transportation (buses and boardwalk trams) 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 42-49 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 50-51 of this report.

**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 52-75 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 78-80 of this report.

The combining statements referred to earlier in connection with 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 82-97 of this report.

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**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, 2012 with comparative information for the previous year.

**Statement of Net Assets**

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 \$148,311,421 at the close of the fiscal year for June 30, 2012, compared to \$144,424,735 for the year ended June 30, 2011, an increase of \$3,886,686.

By far the largest portion of the Town's net assets, 61%, 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		% Change
	2012	2011	2012	2011	2012	2011	
Current and other assets	\$ 45,419,585	\$ 31,464,720	\$ 23,097,566	\$ 37,135,463	\$ 68,517,151	\$ 68,600,183	-0.1%
Capital assets	83,271,818	80,977,073	115,274,760	96,355,890	198,546,578	177,332,963	12.0
Total assets	128,691,403	112,441,793	138,372,326	133,491,353	267,063,729	245,933,146	8.6
Long-term liabilities outstanding	48,032,066	32,958,704	43,282,134	43,549,120	91,314,200	76,507,824	19.4
Other liabilities	14,065,602	14,165,514	13,372,506	10,835,073	27,438,108	25,000,587	9.7
Total liabilities	62,097,668	47,124,218	56,654,640	54,384,193	118,752,308	101,508,411	17.0
Net assets:							
Invested in capital assets, net of debt	35,032,961	47,390,589	55,645,888	58,001,891	90,678,849	105,392,480	(14.0)
Restricted	16,140,004	1,713,579	8,551,119	9,638,746	24,691,123	11,352,325	117.5
Unrestricted	15,420,770	16,213,407	17,520,679	11,466,523	32,941,449	27,679,930	19.0
Total net assets	\$ 66,593,735	\$ 65,317,575	\$ 81,717,686	\$ 79,107,160	\$ 148,311,421	\$ 144,424,735	2.69

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.

A portion of the Town's net assets, \$24,691,123, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$32,941,449, may be used to meet the Town's ongoing obligations to citizens and creditors. This is a \$5,261,519 increase from 2011.

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

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2012	2011	2012	2011	2012	2011	
<b>REVENUES</b>							
Program Revenues:							
Charges for current services	\$ 13,475,814	\$ 13,123,194	\$ 27,538,728	\$ 26,397,862	\$ 41,014,542	\$ 39,521,056	3.8%
Operating grants and contributions	2,805,472	2,807,769	3,413,436	3,414,926	6,218,908	6,222,695	(0.1)
Capital grants and contributions	-	75,000	3,269,491	5,960,662	3,269,491	6,035,662	(45.8)
General revenues:							
Property taxes	42,509,186	42,660,709	-	-	42,509,186	42,660,709	(0.4)
Other taxes	14,649,416	13,703,686	-	-	14,649,416	13,703,686	6.9
Grants and contributions not restricted to specific programs	3,093,926	2,636,388	-	-	3,093,926	2,636,388	17.4
Other revenue	927,938	711,467	127,438	105,059	1,055,376	816,526	29.3
Total revenues	<u>77,461,752</u>	<u>75,718,213</u>	<u>34,349,093</u>	<u>35,878,509</u>	<u>111,810,845</u>	<u>111,596,722</u>	0.2
<b>EXPENSES:</b>							
General government	335,703	751,333	-	-	335,703	751,333	(55.3)
Public safety	35,440,373	34,297,859	-	-	35,440,373	34,297,859	3.3
General public works and beach	6,257,840	6,205,643	-	-	6,257,840	6,205,643	0.8
Sanitation and waste removal	6,776,510	6,193,273	-	-	6,776,510	6,193,273	9.4
Highways and streets	7,250,787	6,763,540	-	-	7,250,787	6,763,540	7.2
Economic development - Tourism	7,692,558	6,671,972	-	-	7,692,558	6,671,972	15.3
Recreation and culture	7,873,652	7,783,123	-	-	7,873,652	7,783,123	1.2
Interest on long-term debt	1,352,400	1,296,137	-	-	1,352,400	1,296,137	4.3
Water	-	-	6,419,219	7,597,787	6,419,219	7,597,787	(15.5)
Wastewater	-	-	11,642,169	11,045,110	11,642,169	11,045,110	5.4
Convention Center	-	-	5,173,147	5,533,018	5,173,147	5,533,018	(6.5)
Airport	-	-	1,681,333	1,503,697	1,681,333	7,493,620	11.8
Other enterprise operations	-	-	10,028,468	9,475,534	10,028,468	9,475,534	5.8
Total expenses	<u>72,979,823</u>	<u>69,962,880</u>	<u>34,944,336</u>	<u>35,155,146</u>	<u>107,924,159</u>	<u>105,118,026</u>	2.7
Increase in net assets before transfers	4,481,929	5,755,333	(595,243)	723,363	3,886,686	6,478,696	(40.0)
Transfers	(3,205,769)	(3,795,956)	3,205,769	3,795,956	-	-	
Increase in net assets	1,276,160	1,959,377	2,610,526	4,519,319	3,886,686	6,478,696	(40.0)
Net assets prior year	65,317,575	63,358,198	79,107,160	74,587,841	144,424,735	137,946,039	
Net assets current year	<u>\$ 66,593,735</u>	<u>\$ 65,317,575</u>	<u>\$ 81,717,686</u>	<u>\$ 79,107,160</u>	<u>\$ 148,311,421</u>	<u>\$ 144,424,735</u>	2.7

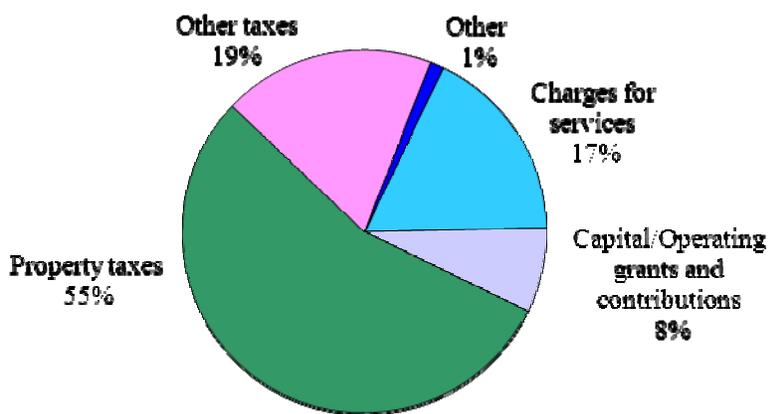
For the year ended June 30, 2012, the Town reported positive balances in all three categories of net assets, both for the Town as a whole, as well as its separate governmental activities. For business-type activities, balances were positive as a whole, except in the Airport Fund, which reported unrestricted net deficit of (\$599,627) and in two nonmajor funds, the golf course fund, which reported a net deficit of (\$105,073) and the Transportation fund with a net deficit of (\$253,845).

As a whole, the Town's net assets increased \$3,886,686 for the year ending June 30, 2012. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

**Governmental activities:** Actions taken during the recession, such as freezing wages and increasing advertising and tourism promotion expenses, kept revenues and expenses stable in 2012 resulting in a modest increase in net assets of \$1,276,160. However, some variances occurred for specific revenue and expense types. Key elements in the net asset increase for governmental activities are as follows:

- Property tax revenues and tax penalties and interest decreased 0.4% or \$151,523 as a result of assessment decreases of 0.6%. The tax rate remained the same at \$0.395 per \$100 of assessed value in FY-11. Property taxes comprise 54.8% of revenue for governmental activities and 38% of all Town revenues.

**Revenue by Source - Governmental Activities**

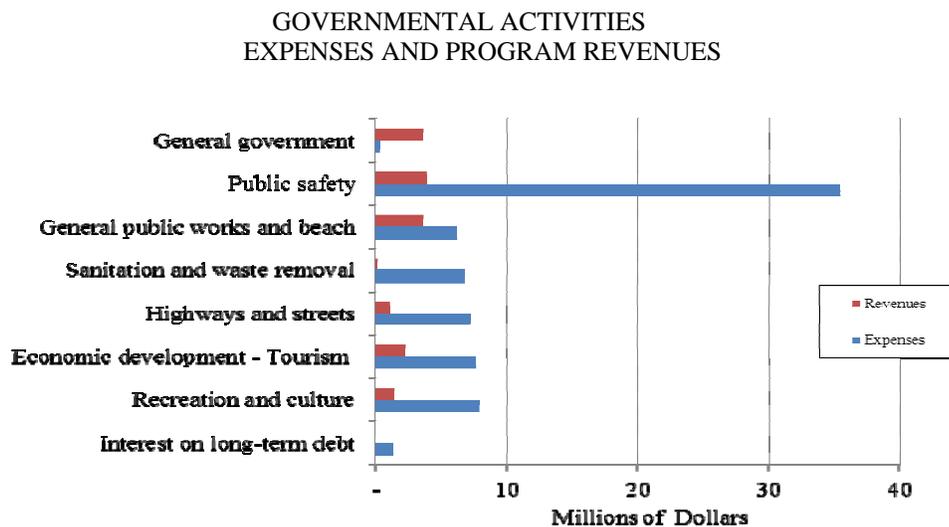


- Revenues in the category, “Other Taxes” increased \$945,730 or 6.9%. This category includes admissions taxes, income taxes, highway user taxes, and room taxes. Room taxes, the largest revenue source in this category with receipts of \$12,566,287 had an increase of \$658,853, or 6% from the prior year, an indicator that hotel sales in the resort have increased steadily since the recession. This was especially favorable as the Town was evacuated in August 2011 during hurricane Irene and businesses were closed for three days. Income taxes were \$169,896 above 2011 as business and real estate activity increased. Highway user taxes increased by \$139,784 as the State of Maryland distributed funds withheld from local jurisdictions in 2011.
- Revenue for current services increased \$352,620 in governmental activities. Revenue from new parking lots and meters resulted \$51,180 in additional revenue. Fees from building permits increased \$136,887 as construction projects that had been delayed during the recession started again. Revenue from special events from concert fee increases of \$83,047, a fare increase for the Winterfest tram, \$145,868, and the new Bike Week event, \$85,000. The bids received for beach equipment rental franchises were \$84,759 higher than in the prior year. The Town’s share of sales from Worcester County Liquor Board sales was reduced by \$227,618, as the county changed the operation of the department from a March 31 fiscal year end to June 30. The payment should be at the prior level in future years.

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- The revenue recognized from operating and capital grants and other contributions was increased 6.88% or \$380,241 in 2012. 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 increased \$208,269 from \$224,791 for six months of operations in 2011 to \$433,060 for a full year of operations in 2012. Due to an increase in the number of calls for service, the Worcester County grant for ambulance service increased \$143,909.
- Other revenue includes gains from capital asset sales. The Town successfully used an online government auction site to sell vehicles and equipment resulting in a gain of \$122,573.
- Personnel costs for wages and employee benefits, which are 64.6% of total expenses, increased 1.2% or \$949,030 from the prior year, and were comprised of a \$187,427 decrease in wages and an increase of \$1,136,457 in benefit expenses for pension and workers compensation. There were no wage increases, but a hiring freeze in place since 2008 was lifted in 2012. The police and fire fighter unions have worked cooperatively with town officials and agreed not to accept contractual salary increases for the past three years.
- Other operating expenses increased \$2,067,913 or 9.5%. Increases in fuel prices and repairs increased expenses for vehicles \$430,324. There was a 22.8% increase in expenses for tourism advertising and promotional events in 2012 above 2011, or \$1,020,586. The room tax rate was increased from 4% to 4.5% in January 2008 specifically to increase the resort advertising expenditures. In 2012, the Town spent \$2,446,870 above the amount spent in 2008. Major repairs were made to the concrete floor at the solid waste transfer station costing \$394,406.

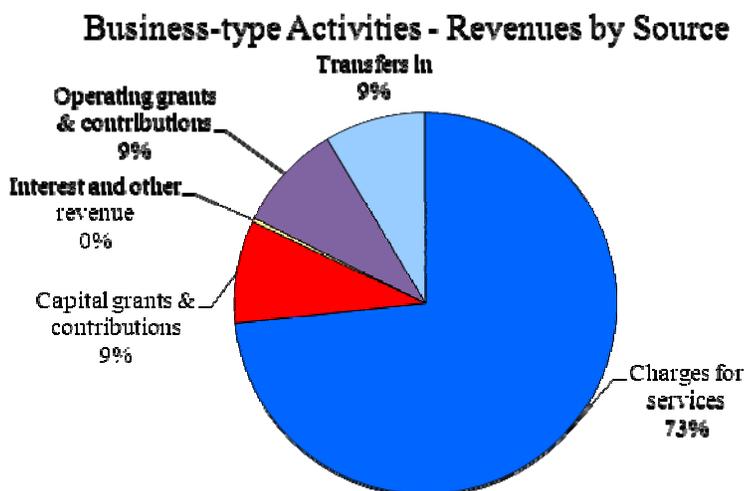
The following graph indicates the functional revenues and expenses of governmental activities to demonstrate the extent which the governmental functions produce revenues to offset program costs. Expenses not covered by direct program revenues are covered primarily by taxes, licenses, and state and county-shared revenues. Functional revenues covered 22.3% of governmental expenses in FY-2012 compared to 22.8% in FY-2011.



**Business-type activities.** There was an increase of \$2,610,526 in the Town's net assets in FY-2012 attributed to business-type activities. Key elements of this increase are as follows:

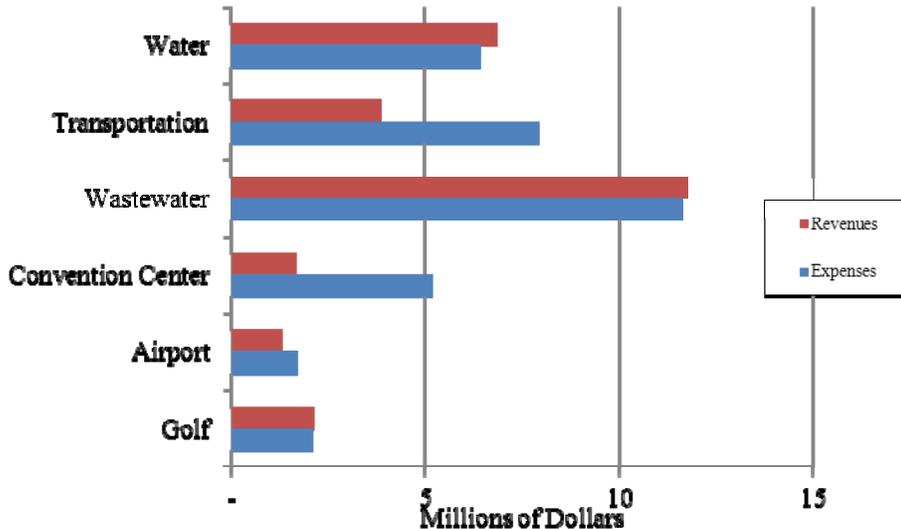
- Service fees for business-type activities increased 4.3%, or \$1,140,866. A 2010 rate study advised fee increases to be phased in over 5 years to cover capital improvements and debt service for water and wastewater utilities. The second year of the 5-year phase in of rate increases was effective April 1, 2011. Revenue from water fees was \$74,248 above the prior year and wastewater revenue increased \$450,166. Bus fares were increased in January 2011, resulting in an additional \$295,743 in revenue for the transportation system in 2012 fiscal year. Fuel sales at the airport increased \$216,274 as fuel prices increased through 2011 and 2012. Business improved at the golf course in 2012 as sales increased \$143,254 above 2011.
- Expenses decreased \$210,810 or 0.6% for business-type operations compared to 2011. As wages and benefits increased \$202,386, the decrease in expenses was primarily from reductions in expenses for repairs, maintenance and contracted services for the water plants and the convention center.

Service charges covered 66% of expenses for business-type activities in 2011, however, as shown in the following graph, 73% of revenues for business-type activities in 2012 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 49.5% 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, 2012, the Town’s governmental funds reported a combined ending fund balance of \$32,061,629 compared to \$17,761,652 in 2011. The fund balance for the governmental funds increased \$14,299,977, primarily due the receipt of bond proceeds of \$16,767,823 for capital improvements.

The General Fund unassigned fund balance, which is available for spending, decreased from \$15,049,478 in 2011 to \$12,605,645 in 2012, while total general fund balance decreased only \$21,448 during the fiscal year. The changes in both total and unassigned general fund balance are important to evaluate the fund’s liquidity.

- Although the tax rate was the same at \$.395 per \$100 of valuation, assessment decreases of (0.6%) resulted in a decrease in property tax receipts of \$175,723. Total General Fund revenues increased 2% or \$1,604,455 in 2012, primarily due to the increases in the category “Other Taxes” of \$1,160,196. The increases were in room taxes of \$658,853, state shared casino taxes of \$208,269, income tax of \$169,896, and highway user taxes of \$169,896.

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- General Fund expenditures, before other financing sources and uses, increased \$2,577,298 or 3.7% in 2012. Most of this increase was in the categories of Public Safety and Economic Development. Public safety comprised 46.2% of all general fund expenditures and increased \$944,276 primarily due to an increase in the contribution to the pension fund of \$484,151 due to actuarial losses from investments during the recession and an increase of \$384,891 for workers compensation. Wages were at the same level in 2012 as police and firefighter unions agreed not to receive their contractual increases for increments and cost-of-living adjustments during the recession.
- Economic development and tourism continued to be a major focus in 2012 as expenditures increased 15.7% or \$1,008,008, more than any other category. An additional \$1,090,579 was spent on advertising and promotions in 2012 above 2011. This included \$224,801, used to fund and promote free concerts, laser shows and fireworks near the boardwalk in the evening to further support tourism.
- Bond proceeds from the Municipal Refunding Bonds of 2012 of \$5,952,638 were used to pay the refunded bond escrow agent \$5,908,464 and issuance costs of \$44,174 to advance refund \$5,303,375 of General Fund debt for the 2005 Municipal Purpose bonds. Principal in the amount of \$3,160,956 was retired, a decrease of \$255,951 from 2011. Interest expenses were \$15,167 less in 2012 than in 2011.
- Transfers to other funds were \$4,943,199 in 2012 compared to \$4,795,956 in 2011, an increase of \$147,243. Transfers to capital projects were increased \$737,430 for pay-as-you-go projects in 2012. Transfers to enterprise funds decreased by \$590,187 as increased revenues from rate increases reduced the amount of subsidies needed to fund operations.
- In June 2012, the City Council voted to assign \$2,749,395 of fund balance to provide resources for the 2013 fiscal year budget.

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, 2012, unassigned general fund balance was \$12,605,645, which represents 17.5% of general fund expenditures and other uses. It was 20.2% in 2011. Total general fund balance represents 20.9% of total expenditures and other uses at year-end. At the end of the prior year, 2011, the percentage was 21.8%.

The fund balance for the capital projects fund increased \$14,321,425 due to the receipt of bond proceeds of \$17,805,071 and a transfer of \$1,737,430 from the general fund for the following projects:

Street paving, sidewalks and repairs	\$ 5,416,279
Art league building	600,000
Boardwalk	6,034,614
Caroline St restroom	1,006,022
Fire station improvements	5,030,360
4 <sup>th</sup> St parking lot	<u>1,455,226</u>
Total	<u>\$ 19,542,501</u>

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Remaining fund balance of \$15,905,004 is dedicated as follows:

Restricted for capital projects	\$ 15,303,578
Committed for capital projects	601,426

**Proprietary funds.** The Town's proprietary funds provide the same information found in the government-wide financial statements but in more detail.

A gain of \$533,479 was reported in the water fund compared to a loss of \$774,568 in 2011. Rates for water usage were increased in 2011 based on a rate study through 2015. Major repairs to the water plants increased operating expenses in 2011, which were not incurred in 2012.

The wastewater fund had a gain of \$439,958 due to an increase in revenue from service fees of \$450,166. Rates were increased in April 2011 to fund future capital improvements and related debt service. Proceeds from the 2012 bond issue of \$12,294,332 were used to refund the 2005 Municipal Bond, \$7,335,956, and to fund capital improvements. There were additions in capital assets of \$8,463,580 for wastewater mains, plant improvements, and pumping stations.

The convention center fund had an operating loss of \$3,236,198 compared to a loss of \$3,517,548 in 2011. The convention center fund received subsidies of \$1,287,530 from the Maryland Stadium Authority and from the Town, permitting an increase in the net assets of the convention center of \$405,910. 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 \$8,551,119 at year-end and is shown as a restricted net asset.

A major fund, the airport fund, and two nonmajor funds, transportation and golf course funds, reported deficits in unrestricted net assets of (\$599,627), (\$253,845) and (\$105,073) respectively. The airport fund had a change in net assets of \$900,090 in 2012 due to capital contributions from federal grants, but has sustained operating losses that have resulted in the deficit. 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 operating costs. Fare increases were made in 2011, but did not offset increases in fuel costs during the fiscal year. The golf course fund had operating losses during the recession as leisure recreation activities such as golf were down, but had a positive change in net assets of \$62,041 in 2012.

**Fiduciary funds.** In 2012, the pension funds had an investment return of (0.14)%. 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 and 2010. 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. Using the 5-year average actuarial valuation of assets, the General Employees Pension Plan had an actuarial gain of \$16,614. The Public Safety Employees Pension Plan experienced an actuarial loss of \$842,093.

The General Employees Pension Plan funded ratio, an indicator of funding status, increased from 82.4% to 79.5%. Employees contribute 5% of pay to the plan and the Town contributed \$2,473,662, or 14.3% of pay, to the plan with a 10-year amortization of the unfunded actuarial liability with the exception of plan improvements made in 2004 that are being amortized over 20 years.

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The funded ratio increased from 73.2% to 76.6% for the Public Safety Employees Pension Plan. Employees contribute 8% of pay to the plan. The Town contributed \$3,380,743 to the plan, or 15.3% 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 72-76 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. Additional information on the defined contribution plan can be found on page 73 of this report.

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 losses of (2.0%) 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 \$3,675,000 in 2012 and made the annual required contribution in 2009, 2010, and 2011. Additional information on the OPEB Trust can be found on pages 70-71 of this report.

**General Fund Budgetary Highlights**

Amendments to the adopted budget may occur during the year by ordinance (see Note 3 on page 58). Two amendments were made in FY-2012. Differences between the original budget and final amended budget for the general fund resulted in recognition of \$3,260,054 in additional revenues. Appropriations were increased \$4,004,621 for operations, and an increase of \$1,358,420 for transfers to other funds. Significant appropriation changes were made as follows:

- Recognized state and federal grants of \$1,248,545 and to expend grant proceeds which included \$133,879 from Homeland Security, \$195,879 from Federal Emergency Management Agency (FEMA) which includes \$105,442 for reimbursement of expenses incurred during hurricane Irene, \$250,017 for public safety grants, a grant of \$150,000 from the Maryland Department of Natural Resources for a fire boat, \$348,132 from the State for tourism development, and \$161,610 from Worcester County for ambulance services.
- Increased anticipated revenue were recognized for room taxes of \$757,784; stormwater mitigation fees of \$113,743; parking fees \$98,497; and special event fees \$164,800 Revenue for building permits was increased \$121,188, while revenue was reduced from state shared casino taxes by \$261,939 and highways user taxes by \$28,107.
- To approve additional expenditures of \$253,774 related to hurricane Irene, \$664,529 for contributions to the pension funds to make the actuarial required contribution, \$300,000 due to an increase in workers compensation claims for public safety, and for grant programs of \$660,314. The budget for tourism advertising was increased \$676,779 from the above state grant and additional room taxes.

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- To increase a transfer to capital projects fund \$1,198,000 for street paving, \$350,000, the art league building \$600,000, and parking lot improvements of \$248,000. To increase appropriations to the Transportation fund by \$60,000, to fund a landscaping project at the airport for \$40,000, to fund a new irrigation system at the golf course for \$200,000, and to decrease the transfer to the Convention Center fund by \$139,580 as expenses were less than anticipated for the year.

During the year, revenues were less than final budget estimates by \$64,277 Expenditures and transfers to other funds were \$2,101,642 less than anticipated, resulting in a favorable variance from the budget of \$2,081,539. The key elements of this variation were:

- The category of revenue from other taxes was \$337,421 more than anticipated as room tax revenue was \$308,503 above the budget. The category of other revenue was \$566,282 under budget as donations for the fire boat of \$390,000 and mounted unit of \$257,914 were not recognized.
- The largest variances for expenditures were for public safety, which was \$1,219,540 under budget. Budgeted capital equipment of \$1,003,873 for grant funded expenditures is expected to be purchased in the next fiscal year.
- The category economic development – tourism was under budget by \$201,344 as advertising purchases and promotions were \$163,840 below the budgeted amount. Other functional divisions limited spending for repairs, supplies, and purchased services, saving \$423,801.

### **Capital Assets**

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2012, was \$187,448,788 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, streets, infrastructure, machinery and equipment. The total increase in capital assets for the current fiscal year was 5.7% comprised of a 2.83% increase for governmental activities and an 8.12% increase for business-type activities. Additions exceeded depreciation of \$10,900,086 in FY-2012 by \$11,520,722 or 106%. The total value of all capital assets has been reduced 49.8% by depreciation.

Major capital asset additions for the year ending June 30, 2012, included the following:

Gymnasium roof	\$ 255,865
Land for a parking lot	1,617,311
Street paving	1,122,966
Boardwalk improvements	2,083,346
Convention center expansion	3,278,207
Airport runway	1,834,792
Wastewater plant air flotation	2,555,857
Wastewater plant improvements	2,306,792
Wastewater pumping stations	200,601
Sewer mains	3,370,674
Vehicles and heavy equipment	2,914,270

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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 63 of this report.

**Town of Ocean City's Capital Assets**

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2012	2011	2012	2011	2012	2011	
	Land	\$ 23,825,271	\$ 22,207,960	\$ 14,194,409	\$ 14,194,409	\$ 38,019,680	
Buildings	22,229,383	22,984,337	40,777,172	43,013,536	63,006,555	65,997,873	(4.5)
Other improvements	9,143,332	8,001,651	1,870,638	1,898,715	11,013,970	9,900,366	11.2
Streets and infrastructure	13,154,343	13,088,312	15,990,873	13,680,839	29,145,216	26,769,151	8.9
Machinery and equipment	14,638,582	14,694,813	22,043,498	21,274,017	36,682,080	35,968,830	2.0
Construction in progress	280,907	-	9,300,380	2,294,374	9,581,287	2,294,374	317.6
	<u>\$ 83,271,818</u>	<u>\$ 80,977,073</u>	<u>\$ 104,176,970</u>	<u>\$ 96,355,890</u>	<u>\$ 187,448,788</u>	<u>\$ 177,332,963</u>	5.7

**Debt Administration**

At June 30, 2012, the Town had total general obligation bonded debt, backed by the full faith and credit of the Town, outstanding of \$96,090,583, net of deferred amounts. The remainder of the Town's debt is comprised of notes payable to the State of Maryland for \$679,356.

In May 2012, the Town issued bonds in the amount of \$33,560,000 to advance refund \$12,300,000 of the 2005 General Obligation Bonds and \$21,295,000 for capital projects which included reconstruction of the boardwalk, a new boardwalk restroom, St. Louis Ave street improvements, land for a parking lot at 4<sup>th</sup> Street, fire station improvements, and wastewater pumping stations. The bonds sold at a true interest cost of 1.97% and resulted in a net present value savings of 5.61% of refunded principal, or \$858,377 of future debt service.

The Town paid current maturities of \$8,448,361 in 2012. Outstanding general obligation debt represents 0.93% of the assessed valuation of property in the Town. The debt limit is 5.2% of assessments, leaving a legal debt margin of \$442 million dollars.

The Town obtained ratings on its bonds in 2012 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 65-68 of this report.

**Economic Factors and Next Year's Budget and Rates**

- The Town has experienced a three-year decline in assessments of 15% from 2009 to 2012 due to national economic conditions.
- Town services are evaluated to determine effectiveness, value, and cost efficiencies. Major repairs and improvements for streets and buildings that had been postponed in 2010 and 2011 were added back to the 2012 budget and funded by reserves or by the above bond issue.

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

- Hotel and rental sales increased 6.25% in 2012. Food and beverage sales increased 4.16% 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 for three years. Also, the police and fire fighter unions voluntarily agreed to forgo contracted wage increases and a 3% cost-of-living adjustment for three years. Their contracts will be renegotiated in 2013.
- The Town has encouraged new events and festivals to attract visitors such as the Dew Tour, Air Show, and weekly beach concerts and fireworks in 2012. These events have improved business for hotels and restaurants while offering free, family centered activities.
- The Town has received approval that the State of Maryland will participate in the construction of a performing arts center at the Roland E. Powell Convention Center through the oversight of the Maryland Stadium Authority for \$5.7 million dollars. The total project is estimated to cost \$14 million dollars.

All of these factors were considered in preparing the Town's budget for the 2013 fiscal year. To maintain service levels, the real property tax rate was increased from \$0.395 per \$100 of valuation to \$0.4585 as assessments decreased 16% from \$10.3 billion in 2012 to \$8.7 billion in 2013. Total tax revenues are anticipated to decrease only \$1,066,246 or 2.5%.

### **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 MBennett@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, 2012

	Primary Government		Total
	Governmental	Business-type	
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,159,322	\$ 5,485,994	\$ 15,645,316
Investments	27,786,387	9,996,059	37,782,446
Receivables, net	2,866,254	2,859,026	5,725,280
Interest receivable	29,454	32,565	62,019
Intergovernmental receivable	5,197,532	2,138,910	7,336,442
Internal balances	(1,929,823)	1,929,823	-
Inventories	841,459	652,689	1,494,148
Other	234,000	2,500	236,500
Total current assets	<u>45,184,585</u>	<u>23,097,566</u>	<u>68,282,151</u>
Noncurrent assets:			
Restricted investments	-	11,332,790	11,332,790
Advances to other funds	235,000	(235,000)	-
Capital assets not being depreciated:			
Land	23,825,271	14,194,409	38,019,680
Construction in progress	280,907	9,300,380	9,581,287
Capital assets, net of accumulated depreciation:			
Buildings	22,229,383	40,777,172	63,006,555
Other improvements	9,143,332	1,870,638	11,013,970
Streets and infrastructure	13,154,343	15,990,873	29,145,216
Machinery and equipment	14,638,582	22,043,498	36,682,080
Total noncurrent assets	<u>83,506,818</u>	<u>115,274,760</u>	<u>198,781,578</u>
Total assets	<u>128,691,403</u>	<u>138,372,326</u>	<u>267,063,729</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	2,436,292	3,754,619	6,190,911
Accrued expenses	2,583,920	824,170	3,408,090
Compensated absences	1,835,721	464,049	2,299,770
Unearned revenue	1,696,317	2,958,307	4,654,624
Claims and judgments	1,012,844	-	1,012,844
Other	1,619,127	122,413	1,741,540
Current portion of long-term debt	2,881,381	5,248,948	8,130,329
Total current liabilities	<u>14,065,602</u>	<u>13,372,506</u>	<u>27,438,108</u>
Noncurrent liabilities:			
Bonds, notes, and loans payable	45,357,476	43,282,134	88,639,610
Other noncurrent liabilities	2,674,590	-	2,674,590
Total noncurrent liabilities	<u>48,032,066</u>	<u>43,282,134</u>	<u>91,314,200</u>
Total liabilities	<u>62,097,668</u>	<u>56,654,640</u>	<u>118,752,308</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	35,032,961	55,645,888	90,678,849
Restricted for debt service	-	8,551,119	8,551,119
Restricted for capital projects	15,905,004	-	15,905,004
Restricted for other purposes	235,000	-	235,000
Unrestricted	15,420,770	17,520,679	32,941,449
Total net assets	<u>\$ 66,593,735</u>	<u>\$ 81,717,686</u>	<u>\$ 148,311,421</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, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Program Revenues Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 335,703	\$ 3,647,286	\$ -
Public safety	35,440,373	2,005,130	1,941,696
General public works and beach	6,257,840	3,662,776	2,412
Sanitation and waste removal	6,776,510	91,608	-
Highways and streets	7,250,787	1,086,162	-
Economic development - Tourism	7,692,558	1,600,439	708,132
Recreation and culture	7,873,652	1,382,413	90,000
Interest on long-term debt	1,352,400	-	63,232
Total governmental activities	<u>72,979,823</u>	<u>13,475,814</u>	<u>2,805,472</u>
Business-type activities:			
Water	6,419,219	6,846,684	-
Wastewater	11,642,169	11,761,802	134,623
Convention Center	5,173,147	1,663,028	2,467,023
Airport	1,681,333	1,307,014	-
Transportation	7,936,422	3,854,314	811,790
Golf Course	2,092,046	2,105,886	-
Total business-type activities	<u>34,944,336</u>	<u>27,538,728</u>	<u>3,413,436</u>
Total primary government	<u>\$ 107,924,159</u>	<u>\$ 41,014,542</u>	<u>\$ 6,218,908</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) Revenues and Changes in Net Assets		
	Primary Government		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ 3,311,583	\$ -	\$ 3,311,583
-	(31,493,547)	-	(31,493,547)
-	(2,592,652)	-	(2,592,652)
-	(6,684,902)	-	(6,684,902)
-	(6,164,625)	-	(6,164,625)
-	(5,383,987)	-	(5,383,987)
-	(6,401,239)	-	(6,401,239)
-	(1,289,168)	-	(1,289,168)
-	(56,698,537)	-	(56,698,537)
92,894	-	520,359	520,359
162,195	-	416,451	416,451
50,000	-	(993,096)	(993,096)
942,262	-	567,943	567,943
2,022,140	-	(1,248,178)	(1,248,178)
-	-	13,840	13,840
3,269,491	-	(722,681)	(722,681)
\$ 3,269,491	(56,698,537)	(722,681)	(57,421,218)
	42,237,028	-	42,237,028
	272,158	-	272,158
	14,649,416	-	14,649,416
	433,060	-	433,060
	2,660,866	-	2,660,866
	163,704	124,938	288,642
	764,234	2,500	766,734
	(3,205,769)	3,205,769	-
	57,974,697	3,333,207	61,307,904
	1,276,160	2,610,526	3,886,686
	65,317,575	79,107,160	144,424,735
\$	\$ 66,593,735	\$ 81,717,686	\$ 148,311,421

TOWN OF OCEAN CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General	Capital Project	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,144,654	\$ 2,631	\$ 10,147,285
Investments	6,672,069	16,214,313	22,886,382
Accounts receivable, net of allowances for uncollectibles	2,835,757	398	2,836,155
Intergovernmental receivable	4,905,929	-	4,905,929
Due from other funds	1,595,000	-	1,595,000
Interest receivable	19,995	230	20,225
Advances to other funds	235,000	-	235,000
	<u>26,408,404</u>	<u>16,217,572</u>	<u>42,625,976</u>
Total assets	<u>\$ 26,408,404</u>	<u>\$ 16,217,572</u>	<u>\$ 42,625,976</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 5,778,366	\$ 312,568	\$ 6,090,934
Other	1,619,127	-	1,619,127
Deferred revenue	2,854,286	-	2,854,286
	<u>10,251,779</u>	<u>312,568</u>	<u>10,564,347</u>
Total liabilities	<u>10,251,779</u>	<u>312,568</u>	<u>10,564,347</u>
<b>FUND BALANCES</b>			
Fund balance: Nonspendable, advance to other fund	235,000	-	235,000
Restricted for capital projects	-	15,303,578	15,303,578
Committed for capital projects	-	601,426	601,426
Assigned - purchases on order	566,585	-	566,585
Assigned - subsequent year's budget	2,749,395	-	2,749,395
Unassigned	12,605,645	-	12,605,645
	<u>16,156,625</u>	<u>15,905,004</u>	<u>32,061,629</u>
Total fund balances	<u>16,156,625</u>	<u>15,905,004</u>	<u>32,061,629</u>
Total liabilities and fund balances	<u>\$ 26,408,404</u>	<u>\$ 16,217,572</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.			69,878,173
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)			1,157,969
Loan proceeds not received in current period			291,603
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 assigned to business-type activities, \$3,124,823			11,726,451
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)			<u>(48,522,090)</u>
Net assets of governmental activities			<u>\$ 66,593,735</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, 2012

	General	Capital Projects	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 42,555,644	\$ -	\$ 42,555,644
Other taxes	15,069,260	-	15,069,260
Licenses and permits	4,050,517	-	4,050,517
Fines and forfeitures	856,672	-	856,672
Charges for current services	8,297,333	271,292	8,568,625
Revenue from other agencies	5,466,338	-	5,466,338
Other revenue	738,967	4,115	743,082
<b>Total revenues</b>	<b>77,034,731</b>	<b>275,407</b>	<b>77,310,138</b>
<b>EXPENDITURES</b>			
Current:			
General government	3,050,023	1,523	3,051,546
Public safety	33,374,478	-	33,374,478
General public works and beach	4,998,667	28,216	5,026,883
Sanitation and waste removal	5,871,647	-	5,871,647
Highways and streets	5,434,793	186,971	5,621,764
Economic development - Tourism	7,428,498	-	7,428,498
Recreation and culture	7,513,921	-	7,513,921
Capital outlay	-	5,174,702	5,174,702
Debt service:			
Principal	3,160,956	-	3,160,956
Interest	1,279,997	-	1,279,997
Bond issuance costs	44,174	105,071	149,245
<b>Total expenditures</b>	<b>72,157,154</b>	<b>5,496,483</b>	<b>77,653,637</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>4,877,577</b>	<b>(5,221,076)</b>	<b>(343,499)</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bonds and notes issued	5,251,116	16,767,823	22,018,939
Premium on bonds issued	701,522	1,037,248	1,738,770
Payment to refunded bond escrow agent	(5,908,464)	-	(5,908,464)
Transfers in	-	1,737,430	1,737,430
Transfers out	(4,943,199)	-	(4,943,199)
<b>Total other financing sources and (uses)</b>	<b>(4,899,025)</b>	<b>19,542,501</b>	<b>14,643,476</b>
<b>Net change in fund balance</b>	<b>(21,448)</b>	<b>14,321,425</b>	<b>14,299,977</b>
Fund balance at beginning of year	16,178,073	1,583,579	17,761,652
Fund balance at end of year	<b>\$ 16,156,625</b>	<b>\$ 15,905,004</b>	<b>\$ 32,061,629</b>

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, 2012

Amounts reported for governmental activities in the statement of activities  
(pages 36 and 37) are different because:

Net change in fund balances for total governmental funds (page 39) \$ 14,299,977

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	\$ 5,468,269	
Depreciation expense	(3,017,498)	
Capital outlay exceeded depreciation in the current period by:		2,450,771

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	\$ 13,216	
Deferred uncollected property taxes	(46,458)	
		(33,242)

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	\$ 3,160,956	
Issuance costs	38,604	
Issuance of long-term debt	(22,018,939)	
Premium on sale of bonds	(1,738,770)	
Payment to Bond Escrow Agent to refund debt	5,908,464	
Amortization of gain on refunding of debt	(8,257)	
		(14,657,942)

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	\$ (64,146)	
Loss on disposal of equipment	(297,293)	
		(361,439)

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.

(421,965)

Change in net assets of governmental activities (page 37)

\$ 1,276,160

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, 2012

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget - Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 42,606,715	\$ 42,491,715	\$ 42,555,644	\$ 63,929
Other taxes	14,202,029	14,731,839	15,069,260	337,421
Licenses and permits	3,724,560	4,008,491	4,050,517	42,026
Fines and forfeitures	672,900	785,597	856,672	71,075
Charges for current services	7,936,879	8,270,451	8,297,333	26,882
Revenue from other agencies	4,257,121	5,505,666	5,466,338	(39,328)
Other revenue	438,750	1,305,249	738,967	(566,282)
<b>Total revenues</b>	<b>73,838,954</b>	<b>77,099,008</b>	<b>77,034,731</b>	<b>(64,277)</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,321,689	3,225,176	3,050,023	175,153
Public safety	32,322,680	34,594,018	33,374,478	1,219,540
General public works and beach	5,100,437	4,923,556	4,998,667	(75,111)
Sanitation and waste removal	5,571,220	5,903,421	5,871,647	31,774
Highways and streets	5,263,779	5,474,751	5,434,793	39,958
Economic development - Tourism	6,331,717	7,629,842	7,428,498	201,344
Recreation and culture	7,525,458	7,690,837	7,513,921	176,916
Debt service:				
Principal	3,170,007	3,170,007	3,160,956	9,051
Interest	1,406,225	1,406,225	1,279,997	126,228
Bond issuance costs	-	-	44,174	(44,174)
<b>Total expenditures</b>	<b>70,013,212</b>	<b>74,017,833</b>	<b>72,157,154</b>	<b>1,860,679</b>
<b>Excess of revenues over expenditures</b>	<b>3,825,742</b>	<b>3,081,175</b>	<b>4,877,577</b>	<b>1,796,402</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds and notes issued	-	-	5,251,116	5,251,116
Premium on bonds issued	-	-	701,522	701,522
Payment to Bond Escrow Agent	-	-	(5,908,464)	(5,908,464)
Transfers out	(3,825,742)	(5,184,162)	(4,943,199)	240,963
<b>Total other financing sources (uses)</b>	<b>(3,825,742)</b>	<b>(5,184,162)</b>	<b>(4,899,025)</b>	<b>285,137</b>
<b>Net change in fund balances</b>	<b>-</b>	<b>(2,102,987)</b>	<b>(21,448)</b>	<b>2,081,539</b>
Fund balance, beginning of year	16,178,073	16,178,073	16,178,073	-
<b>Fund balance, end of year</b>	<b>\$ 16,178,073</b>	<b>\$ 14,075,086</b>	<b>\$ 16,156,625</b>	<b>\$ 2,081,539</b>

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, 2012

	Business-type Activities - Enterprise Funds	
	Water	Wastewater
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,032,466	\$ 4,436,826
Investments	1,510,000	5,215,412
Receivables, net	1,301,491	1,127,600
Interest receivable	-	83
Intergovernmental receivable	-	14
Inventories	-	513,736
Other	-	-
Total current assets	3,843,957	11,293,671
Noncurrent assets:		
Restricted investments	-	-
Capital assets:		
Land	755,019	2,278,532
Buildings	18,674,452	42,752,215
Other improvements	3,245,712	884,357
Streets and infrastructure	21,676,567	8,260,991
Machinery and equipment	4,831,774	38,171,768
Construction in progress	240,700	2,772,035
Less accumulated depreciation	(33,728,743)	(45,023,881)
Total noncurrent assets	15,695,481	50,096,017
Total assets	19,539,438	61,389,688
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	322,764	794,799
Accrued expenses	90,603	309,469
Compensated absences	76,847	159,505
Due to other funds	-	-
Deferred revenue	-	-
Claims and judgments	-	-
Other	109,167	9,000
Current portion of long-term debt	867,508	2,248,428
Total current liabilities	1,466,889	3,521,201
Noncurrent liabilities:		
Claims and judgments	-	-
Advanced from other funds	-	-
Bonds, notes, and loans payable	4,526,040	30,874,943
Total noncurrent liabilities	4,526,040	30,874,943
Total liabilities	5,992,929	34,396,144
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	10,301,933	16,972,646
Restricted for debt service	-	-
Unrestricted	3,244,576	10,020,898
Total net assets	\$ 13,546,509	\$ 26,993,544

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
Convention Center	Airport	Nonmajor Enterprise Funds	Total	Internal Service
\$ 3,367	\$ 1,470	\$ 11,865	\$ 5,485,994	\$ 12,037
3,270,647	-	-	9,996,059	4,900,005
201,734	15,256	212,945	2,859,026	30,099
32,482	-	-	32,565	9,229
321,360	1,335,074	482,462	2,138,910	-
-	82,099	56,854	652,689	841,459
-	-	2,500	2,500	234,000
<u>3,829,590</u>	<u>1,433,899</u>	<u>766,626</u>	<u>21,167,743</u>	<u>6,026,829</u>
8,551,119	2,781,671	-	11,332,790	-
7,456,616	1,174,102	2,530,140	14,194,409	-
25,937,286	4,587,345	3,469,500	95,420,798	1,447,083
59,266	-	709,711	4,899,046	31,545
-	5,900,380	-	35,837,938	-
1,188,936	164,637	928,947	45,286,062	41,237,042
4,051,827	2,235,818	-	9,300,380	-
<u>(12,556,463)</u>	<u>(5,985,262)</u>	<u>(3,467,314)</u>	<u>(100,761,663)</u>	<u>(29,322,025)</u>
<u>34,688,587</u>	<u>10,858,691</u>	<u>4,170,984</u>	<u>115,509,760</u>	<u>13,393,645</u>
<u>38,518,177</u>	<u>12,292,590</u>	<u>4,937,610</u>	<u>136,677,503</u>	<u>19,420,474</u>
1,333,761	1,237,956	65,339	3,754,619	294,102
153,115	19,698	251,285	824,170	94,058
113,635	5,872	108,190	464,049	112,136
25,000	770,000	400,000	1,195,000	400,000
115,152	2,781,671	61,484	2,958,307	-
-	-	-	-	1,012,844
-	-	4,246	122,413	-
2,069,718	63,294	-	5,248,948	-
<u>3,810,381</u>	<u>4,878,491</u>	<u>890,544</u>	<u>14,567,506</u>	<u>1,913,140</u>
-	-	-	-	2,656,060
-	-	235,000	235,000	-
6,447,912	1,433,239	-	43,282,134	-
<u>6,447,912</u>	<u>1,433,239</u>	<u>235,000</u>	<u>43,517,134</u>	<u>2,656,060</u>
<u>10,258,293</u>	<u>6,311,730</u>	<u>1,125,544</u>	<u>58,084,640</u>	<u>4,569,200</u>
17,619,838	6,580,487	4,170,984	55,645,888	13,393,645
8,551,119	-	-	8,551,119	-
2,088,927	(599,627)	(358,918)	14,395,856	1,457,629
<u>\$ 28,259,884</u>	<u>\$ 5,980,860</u>	<u>\$ 3,812,066</u>	<u>78,592,863</u>	<u>\$ 14,851,274</u>
			3,124,823	
			<u>\$ 81,717,686</u>	

TOWN OF OCEAN CITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities - Enterprise Funds	
	Water	Wastewater
Operating revenues:		
Charges for sales and services	\$ 6,846,684	\$ 11,761,802
Operating expenses:		
Personal services	1,825,922	4,091,422
Contractual services	612,693	429,080
Utilities	354,338	476,435
Repairs and maintenance	887,134	1,033,227
Other supplies and expenses	353,016	609,831
Internal services	827,209	1,033,524
Insurance claims and expenses	-	-
Depreciation	1,306,695	2,736,942
Total operating expenses	<u>6,167,007</u>	<u>10,410,461</u>
Operating income (loss)	<u>679,677</u>	<u>1,351,341</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	3,476	8,517
Operating grants	-	134,623
Miscellaneous revenue	-	-
Interest expense	(242,568)	(1,187,900)
Gain (loss) on disposal of assets	-	(28,818)
Total nonoperating revenues (expenses)	<u>(239,092)</u>	<u>(1,073,578)</u>
Income (loss) before contributions and transfers	440,585	277,763
Capital contributions	92,894	162,195
Transfers in	-	-
Change in net assets	<u>533,479</u>	<u>439,958</u>
Total net assets - beginning	<u>13,013,030</u>	<u>26,553,586</u>
Total net assets - ending	<u><u>\$ 13,546,509</u></u>	<u><u>\$ 26,993,544</u></u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.

Change in net assets of business-type activities (page 37)

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

Business-type Activities - Enterprise Funds				Governmental
Convention		Nonmajor		Activities
Center	Airport	Enterprise	Total	Internal
		Funds		Service
				Funds
\$ 1,663,028	\$ 1,307,014	\$ 5,960,200	\$ 27,538,728	\$ 11,421,439
2,838,891	312,653	4,530,031	13,598,919	2,915,504
160,936	146,684	298,308	1,647,701	1,195,813
434,494	41,755	120,725	1,427,747	58,788
246,498	59,945	2,388,090	4,614,894	537,489
151,205	613,106	483,474	2,210,632	3,699,877
314,792	106,055	1,053,115	3,334,695	1,000,645
-	-	-	-	1,324,360
752,410	315,440	122,919	5,234,406	2,648,180
<u>4,899,226</u>	<u>1,595,638</u>	<u>8,996,662</u>	<u>32,068,994</u>	<u>13,380,656</u>
<u>(3,236,198)</u>	<u>(288,624)</u>	<u>(3,036,462)</u>	<u>(4,530,266)</u>	<u>(1,959,217)</u>
112,813	2	130	124,938	71,307
2,467,023	-	811,790	3,413,436	-
-	-	2,500	2,500	-
(275,258)	(85,695)	-	(1,791,421)	-
-	-	-	(28,818)	410,842
<u>2,304,578</u>	<u>(85,693)</u>	<u>814,420</u>	<u>1,720,635</u>	<u>482,149</u>
<u>(931,620)</u>	<u>(374,317)</u>	<u>(2,222,042)</u>	<u>(2,809,631)</u>	<u>(1,477,068)</u>
50,000	942,262	496,829	1,744,180	1,525,311
1,287,530	332,964	1,585,275	3,205,769	-
<u>405,910</u>	<u>900,909</u>	<u>(139,938)</u>	<u>2,140,318</u>	<u>48,243</u>
<u>27,853,974</u>	<u>5,079,951</u>	<u>3,952,004</u>		<u>14,803,031</u>
<u>\$ 28,259,884</u>	<u>\$ 5,980,860</u>	<u>\$ 3,812,066</u>		<u>\$ 14,851,274</u>
			470,208	
			<u>\$ 2,610,526</u>	

TOWN OF OCEAN CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities	
	Water	Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers and users	\$ 6,673,299	\$ 11,603,945
Payments to suppliers	(2,165,962)	(2,652,481)
Payments to employees	(1,818,301)	(4,067,135)
Payments for interfund services used	(827,209)	(1,033,524)
Net cash provided (used) by operating activities	<u>1,861,827</u>	<u>3,850,805</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Advances from other funds	-	-
Advances to other funds	-	-
Subsidy from county, state and federal grants	-	-
Transfers from other funds	-	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Proceeds from capital grant	-	134,623
Capital contributions	92,894	162,195
Acquisition and construction of capital assets	(274,001)	(7,173,576)
Proceeds from bond issue	461,763	12,294,332
Payment to bond escrow agent	(458,949)	(7,335,956)
Bond issuance costs	(2,814)	(74,377)
Principal paid on capital debt	(1,143,758)	(2,054,504)
Interest paid on capital debt and leases	(242,222)	(1,200,037)
Proceeds from sales of capital assets	-	-
Net cash provided (used) by capital and related financing activities	<u>(1,567,087)</u>	<u>(5,247,300)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	-	1,961,239
Purchase of investments	(1,270,000)	-
Interest and dividends received	3,476	8,960
Net cash provided (used) by investing activities	<u>(1,266,524)</u>	<u>1,970,199</u>
Net increase (decrease) in cash and cash equivalents	(971,784)	573,704
Cash and cash equivalents at beginning of the year	<u>2,004,250</u>	<u>3,863,122</u>
Cash and cash equivalents at end of the year	<u>\$ 1,032,466</u>	<u>\$ 4,436,826</u>

(Continued)

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

Enterprise Funds				Governmental
Convention Center	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 1,577,798	\$ 1,302,613	\$ 6,014,631	\$ 27,172,286	\$ 11,421,439
(1,015,983)	(892,879)	(3,286,511)	(10,013,816)	(6,683,814)
(2,842,678)	(305,569)	(4,477,218)	(13,510,901)	(2,893,212)
(314,792)	(106,055)	(1,053,115)	(3,334,695)	(993,044)
(2,595,655)	(1,890)	(2,802,213)	312,874	851,369
25,000	585,000	400,000	1,010,000	-
-	-	(5,000)	(5,000)	(4,125,000)
2,594,765	-	836,244	3,431,009	-
1,287,530	332,964	1,585,275	3,205,769	-
3,907,295	917,964	2,816,519	7,641,778	(4,125,000)
29,611	2,560	117,699	284,493	6,785,759
50,000	-	-	305,089	-
(2,053,726)	(780,245)	(129,451)	(10,410,999)	(19,065)
-	-	-	12,756,095	-
-	-	-	(7,794,905)	-
-	-	-	(77,191)	-
(2,029,296)	(59,848)	-	(5,287,406)	-
(248,872)	(85,695)	-	(1,776,826)	-
-	-	-	-	440,833
(4,252,283)	(923,228)	(11,752)	(12,001,650)	7,207,527
7,884,586	6,438	-	9,852,263	5,799,000
(6,957,301)	-	-	(8,227,301)	(7,075,441)
143,268	233	130	156,067	74,909
1,070,553	6,671	130	1,781,029	(1,201,532)
(1,870,090)	(483)	2,684	(2,265,969)	2,732,364
1,873,457	1,953	9,181	7,751,963	58,230
\$ 3,367	\$ 1,470	\$ 11,865	\$ 5,485,994	\$ 2,790,594

TOWN OF OCEAN CITY  
STATEMENT OF CASH FLOWS (Continued)  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Business-type Activities	
	Water	Wastewater
<b>RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS</b>		
Operating income (loss)	\$ 679,677	\$ 1,351,341
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,306,695	2,736,942
<b>EFFECT OF CHANGES IN OPERATING ASSETS &amp; LIABILITIES:</b>		
Accounts receivable	(186,267)	(153,357)
Inventories	-	(13,864)
Prepaid expenses	-	-
Compensated absences	(771)	6,665
Customer deposits	12,882	-
Accounts payable	41,219	(94,544)
Accrued expenses	8,392	17,622
Deferred revenue	-	-
Claims liability	-	-
Total adjustments	1,182,150	2,499,464
Net cash provided (used) by operating activities	\$ 1,861,827	\$ 3,850,805
 <b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Increase (Decrease) in fair value of investments	\$ -	\$ -

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

Enterprise Funds				Governmental
Convention Center	Airport	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ (3,236,198)	\$ (288,624)	\$ (3,036,462)	\$ (4,530,266)	(1,959,217)
752,410	315,440	122,919	5,234,406	2,648,180
(73,546)	(4,401)	50,202	(367,369)	-
-	(12,680)	10,154	(16,390)	46,087
-	-	-	-	(234,000)
(4,906)	3,202	13,927	18,117	(1,284)
-	-	-	12,882	-
(22,850)	(18,709)	(6,068)	(100,952)	79,349
1,119	3,882	38,886	69,901	16,498
(11,684)	-	4,229	(7,455)	-
-	-	-	-	255,756
640,543	286,734	234,249	4,843,140	2,810,586
\$ (2,595,655)	\$ (1,890)	\$ (2,802,213)	\$ 312,874	\$ 851,369
\$ (24,989)	\$ -	\$ -	\$ (24,989)	\$ 9,169

TOWN OF OCEAN CITY  
 COMBINED STATEMENT OF FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 JUNE 30, 2012

	Pension Trust Funds	OPEB Trust Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,918,650	\$ 680,942	\$ 3,599,592
Interest and dividends receivable	204,743	35,161	239,904
Investments, at fair value:			
Domestic equities	21,320,530	3,305,840	24,626,370
Domestic fixed income	24,868,067	4,651,772	29,519,839
Real estate investment trusts	2,500,434	313,642	2,814,076
International equities	7,697,415	981,009	8,678,424
International fixed income	3,717,173	488,271	4,205,444
Alternative investments	10,546,795	1,304,316	11,851,111
Natural resources	2,919,621	390,433	3,310,054
Total investments	<u>73,570,035</u>	<u>11,435,283</u>	<u>85,005,318</u>
Total assets	<u>76,693,428</u>	<u>12,151,386</u>	<u>88,844,814</u>
<b>LIABILITIES</b>			
Accounts payable	<u>20,832</u>	<u>-</u>	<u>20,832</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits and other post employment benefits	<u>\$ 76,672,596</u>	<u>\$ 12,151,386</u>	<u>\$ 88,823,982</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  
 FIDUCIARY FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Pension Trust Funds	OPEB Trust Fund	Total
<b>Additions</b>			
Contributions:			
Employer	\$ 5,854,405	\$ 3,675,000	\$ 9,529,405
Plan members	1,703,145	178,872	1,882,017
Total contributions	7,557,550	3,853,872	11,411,422
Miscellaneous income	-	131,637	131,637
Investment earnings:			
Net depreciation in fair value of investments	(4,219,109)	(503,786)	(4,722,895)
Interest	1,533,051	225,850	1,758,901
Dividends	849,926	102,890	952,816
Total investment earnings	(1,836,132)	(175,046)	(2,011,178)
Less investment expense	547,849	68,220	616,069
Net investment loss	(2,383,981)	(243,266)	(2,627,247)
Total additions	5,173,569	3,742,243	8,915,812
<b>Deductions</b>			
Benefits and refunds paid	4,136,281	974,949	5,111,230
Administrative expenses	98,149	-	98,149
Total deductions	4,234,430	974,949	5,209,379
Change in net assets	939,139	2,767,294	3,706,433
Total net assets - beginning	75,733,457	9,384,092	85,117,549
Total net assets - ending	\$ 76,672,596	\$ 12,151,386	\$ 88,823,982

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

TOWN OF OCEAN CITY  
*Notes to the Financial Statements*  
June 30, 2012

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***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 to approve 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 provides a 401(a) self-directed defined contribution plan for employees hired after July 1, 2011. The contribution and funding requirements are established by and may be amended by the Town. The plan is administered by the International City Management Retirement Corporation.

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.

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.

*Town of Ocean City*  
*Notes to the Financial Statements*

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 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 two major governmental funds, the General Fund and Capital Projects Fund. The General Fund 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.

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

The Town also reports internal service funds, 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 which 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%

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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 is 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 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. All items have been included regardless of their acquisition date or cost. For the initial capitalization of general infrastructure, assets were 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. All vacation leave is classified as a current liability as 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. 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, fund balance policies, and fund balance flow assumptions*

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 the City Council or City Manager, per Title VII of the Town Charter, 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. It is the Town's policy to consider restricted fund balances to have been depleted before using any of the components of unrestricted fund balance. When the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**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 \$48,522,090 difference is as follows:

Bonds and loans payable	\$ 47,185,282
Add deferred amounts (to be amortized and credited to interest expense)	
Deferred loss on refunding	(158,916)
Issuance premiums	1,212,491
Accrued interest payable	<u>283,233</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets – governmental activities	<u>\$ 48,522,090</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, 2012, the Council approved two budget amendments to recognize additional revenue of \$3,260,054, to increase appropriations by \$5,363,041 and to appropriate prior year fund balance of \$2,102,987.

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, 2012 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.

**Note 4: Deposits and investments**

**A. Cash on hand**

At year-end, cash on hand for petty cash and change funds was \$49,129.

**B. Deposits**

At year-end, the carrying amount of the Town's deposits was \$836,779 and the bank balance was \$1,667,762. The deposits of the Town were not exposed to custodial credit risk at June 30, 2012. 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, 2012, 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	\$ 5,913,093	\$ 2,158,711	\$ 3,754,382	\$ -	1.00 %
Repurchase agreements	4,416,118	4,416,118	-	-	0.01
State investment pool	13,517,522	13,517,522	-	-	0.14
U.S. government money market	30,681,313	30,681,313	-	-	0.15
Money market mutual fund	2,479,101	2,479,101	-	-	0.14
U.S. Treasuries	10,779,338	3,708,603	2,183,001	4,887,734	1.76
U.S. agencies	17,054,770	2,409,072	11,771,161	2,874,537	1.60
Domestic equities	24,626,370	24,626,370	-	-	-
Domestic fixed income	12,152,821	5,862,870	5,582,055	707,896	5.19
International equities	8,678,424	8,678,424	-	-	-
International fixed income	4,205,444	4,205,444	-	-	7.41
Natural resources	3,310,053	3,310,053	-	-	-
Real estate investment trust	11,851,111	-	11,851,111	-	-
Alternative investments	2,814,076	2,814,076	-	-	-
	<u>\$ 152,479,554</u>	<u>\$ 108,867,677</u>	<u>\$ 35,141,710</u>	<u>\$ 8,470,167</u>	

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

Cash on hand	\$ 49,129
Carrying amount of deposits	836,779
Carrying amount of investments - (above)	<u>152,479,554</u>
Total cash and investments	153,365,462
Less: amounts in fiduciary funds	<u>(88,604,910)</u>
Total cash and investments per statement of net assets	<u>\$ 64,760,552</u>
Cash and cash equivalents	\$ 15,645,316
Investments	37,782,446
Restricted investments	<u>11,332,790</u>
Total cash and investments per statement of net assets	<u>\$ 64,760,552</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, 2012, met the Town's investment policy as of that date.

Investment income (loss) includes the following for the year ended June 30, 2012:

Net interest and dividends	\$ 3,041,701
Net decrease in fair value of investments	<u>(4,764,237)</u>
Total investment loss	(1,722,536)
Less: investment loss in fiduciary funds	<u>(2,011,178)</u>
Total net investment income per statement of activities	<u>\$ 288,642</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 Poor's, 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 "B" or above. The trustees permit the purchase of international fixed income securities below a rating of "B" or to be unrated. At June 30, 2012, \$2,709,487 of fiduciary fund investments were rated "BB" or "B" and \$1,813,363 were unrated, with 21.8% of total fixed income securities below single "A" quality.

The remaining \$44,403,047 in investments on June 30, 2012, are listed below using the Standard and Poor's rating scale:

Investment Type	Credit Rating	Domestic Amount	International Amount	Total
Repurchase agreements	Unrated	\$ 4,416,118	\$ -	\$ 4,416,118
US Treasuries	AA	10,779,338	-	10,779,338
US agencies	AA	17,054,770	-	17,054,770
Corporate and international bonds	AA	1,000,392	-	1,000,392
	A	6,215,852	-	6,215,852
	BBB	4,619,171	-	4,619,171
	BB	317,406	-	317,406
	B	-	2,392,081	2,392,081
	Unrated	-	1,813,363	1,813,363
Totals		<u>\$ 44,403,047</u>	<u>\$ 4,205,444</u>	<u>\$ 48,608,491</u>

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 \$4,416,118 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, 2012 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 18.51% at year-end, or \$16,193,922. The investments were in 190 international firms with 17.45% of the value of these investments in firms that are rated A- to AA+ and 49.38% in firms that are rated B- to BBB by Standard and Poor's and the remainder in firms that are unrated.

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**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, 2012, was \$10,353,268,184. 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 99.8% 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>Wastewater</u>	<u>Convention Center</u>	<u>Airport</u>	<u>Non-major Funds</u>	<u>Total</u>
Taxes	\$ 1,293,827	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,293,827
Emergency medical	871,082	-	-	-	-	-	871,082
Accounts	1,266,598	1,301,491	1,127,600	205,528	15,256	212,945	4,129,418
Gross receivables	3,431,507	1,301,491	1,127,600	205,528	15,256	212,945	6,294,327
Less allowance	(565,253)	-	-	(3,794)	-	-	(569,047)
	<u>\$ 2,866,254</u>	<u>\$ 1,301,491</u>	<u>\$ 1,127,600</u>	<u>\$ 201,734</u>	<u>\$ 15,256</u>	<u>\$ 212,945</u>	<u>\$ 5,725,280</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, 2012 is summarized as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property tax receivables	\$ 967,035	\$ -	\$ 967,035
Income tax	190,934	-	190,934
Grants	-	110,147	110,147
Mitigation fees	-	210,414	210,414
Rental and program advances	-	734,856	734,856
Franchise payments	-	640,900	640,900
	<u>\$ 1,157,969</u>	<u>\$ 1,696,317</u>	<u>\$ 2,854,286</u>

**Note 6: Capital assets**

The following is a summary of governmental capital assets activity for the year ended June 30, 2012:

<b>Governmental activities:</b>	<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	\$ 22,207,960	\$ 1,617,311	\$ -	\$ 23,825,271
Construction in progress	<u>-</u>	<u>280,907</u>	<u>-</u>	<u>280,907</u>
Total capital assets, not being depreciated	<u>22,207,960</u>	<u>1,898,218</u>	<u>-</u>	<u>24,106,178</u>
<i>Capital assets, being depreciated:</i>				
Buildings	37,512,090	326,036	-	37,838,126
Other improvements	21,542,633	2,083,346	(3,316,802)	20,309,177
Streets and infrastructure	39,293,502	1,122,966	(464,272)	39,952,196
Machinery and equipment	<u>46,819,509</u>	<u>2,951,972</u>	<u>(3,577,249)</u>	<u>46,194,232</u>
Total capital assets, being depreciated	<u>145,167,734</u>	<u>6,484,320</u>	<u>(7,358,323)</u>	<u>144,293,731</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(14,527,753)	(1,080,990)	-	(15,608,743)
Other improvements	(13,540,982)	(644,372)	3,019,509	(11,165,845)
Streets and infrastructure	(26,205,190)	(1,056,935)	464,272	(26,797,853)
Machinery and equipment	<u>(32,124,696)</u>	<u>(2,883,381)</u>	<u>3,452,427</u>	<u>(31,555,650)</u>
Total accumulated depreciation	<u>(86,398,621)</u>	<u>(5,665,678)</u>	<u>6,936,209</u>	<u>(85,128,091)</u>
Total capital assets being depreciated, net	<u>58,769,113</u>	<u>818,642</u>	<u>(422,115)</u>	<u>59,165,640</u>
Governmental activities capital assets, net	<u>\$ 80,977,073</u>	<u>\$ 2,716,860</u>	<u>\$ (422,115)</u>	<u>\$ 83,271,818</u>

The following is a summary of business-type capital assets activity for the year ended June 30, 2012:

<b>Business-type activities:</b>	<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	\$ 14,194,409	\$ -	\$ -	\$ 14,194,409
Construction in progress	<u>2,294,374</u>	<u>7,959,972</u>	<u>(953,966)</u>	<u>9,300,380</u>
Total capital assets, not being depreciated	<u>16,488,783</u>	<u>7,959,972</u>	<u>(953,966)</u>	<u>23,494,789</u>
<i>Capital assets, being depreciated:</i>				
Buildings	95,344,959	179,841	(104,002)	95,420,798
Other improvements	4,899,046	-	-	4,899,046
Infrastructure	32,402,673	3,435,265	-	35,837,938
Machinery and equipment	<u>42,882,531</u>	<u>2,463,191</u>	<u>(59,660)</u>	<u>45,286,062</u>
Total capital assets, being depreciated	<u>175,529,209</u>	<u>6,078,297</u>	<u>(163,662)</u>	<u>181,443,844</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(52,331,423)	(2,387,388)	75,185	(54,643,626)
Other Improvements	(3,000,331)	(28,077)	-	(3,028,408)
Infrastructure	(18,721,834)	(1,125,231)	-	(19,847,065)
Machinery and equipment	<u>(21,608,514)</u>	<u>(1,693,710)</u>	<u>59,660</u>	<u>(23,242,564)</u>
Total accumulated depreciation	<u>(95,662,102)</u>	<u>(5,234,406)</u>	<u>134,845</u>	<u>(100,761,663)</u>
Total capital assets being depreciated, net	<u>79,867,107</u>	<u>843,891</u>	<u>(28,817)</u>	<u>80,682,181</u>
Business-type activities capital assets, net	<u>\$ 96,355,890</u>	<u>\$ 8,803,863</u>	<u>\$ (982,783)</u>	<u>\$ 104,176,970</u>

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

General government	\$ 109,090
Public safety	472,776
General public works and beach	817,479
Highways and streets	1,070,110
Sanitation and waste removal	317,240
Economic development	5,824
Recreation and culture	<u>224,979</u>
	3,017,498
Capital assets held by the Town's internal service funds are charged to the various functions based on usage	<u>2,648,180</u>
Total depreciation – governmental activities	<u>\$ 5,665,678</u>

Depreciation expense was charged to business type activities as follows:

Water fund	\$ 1,306,695
Transportation fund	90,605
Wastewater fund	2,736,942
Convention Center fund	752,410
Airport fund	315,440
Golf Course fund	<u>32,314</u>
Total depreciation – business-type activities	<u>\$ 5,234,406</u>

The Town has on-going construction projects as of June 30, 2012. The projects include the Art League building, shoreline improvements, St. Louis Ave street improvements, 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>
Art league building	\$ 134,693	\$ 632,115
Shoreline improvements Robin Dr	106,214	210,945
Wastewater plant improvements	2,721,620	940,034
Wastewater pumping stations	173,013	30,280
Wastewater main	709,671	1,734,424
Water main	205,200	296,739
St Louis Ave improvements	105,155	35,986
Convention Center expansion	4,051,827	2,181,706
Airplane runway	<u>2,235,818</u>	<u>2,156,809</u>
Total	<u>\$ 10,443,211</u>	<u>\$ 8,219,038</u>

***Note 7: Interfund receivables, payables and transfers***

The General Fund made an advance of \$125,000 to the Golf Course Fund and \$110,000 to the Transportation fund, non-major business-type activities. It is anticipated that the advances will be repaid within three years. Interfund balances also exist between the General Fund and the Convention Center Fund of \$25,000, the Transportation Fund of \$400,000 and the Airport Fund of \$770,000 for working capital until grant funded expenditures are reimbursed; between the General Fund and an Internal Service Fund, the Service Center Fund, of \$400,000 to purchase inventory.

Net transfers of \$3,205,769 are shown in the Statement of Activities. Transfers were made from the General Fund to subsidize operations and for capital expenditures.

Convention Center fund	\$ 1,287,530
Transportation fund	1,537,171
Airport fund	332,964
Golf Course fund	<u>48,104</u>
Total	<u>\$ 3,205,769</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 \$112,595,000. In May 2012, the Town issued \$33,560,000 of general obligation bonds to advance refund bonds and for the reconstruction of the boardwalk, wastewater improvements, the purchase of land, and for street and fire station improvements. The tax exempt bonds were sold at an average coupon interest rate of 3.39%. The true interest rate with the premium was 2.4%.

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>Maturity</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Amount Outstanding June 30, 2012</u>
Recreation Complex Bond of 1998	2014	4.64%	\$ 1,200,000	\$ 210,764
Municipal Refunding Bonds of 2004	2017	4.13 – 5.00%	31,325,000	8,700,000
Municipal Purpose Bonds of 2005	2025	2.00 – 5.00%	21,050,000	2,900,000
Airport Improvement Bond of 2005	2015	5.43%	1,025,000	811,233
Airport Improvement Bond of 2006	2016	3.50%	4,100,000	3,580,000
Municipal Refunding Bonds of 2007	2027	3.50 – 5.00%	22,320,000	16,140,000
Municipal Refunding Bonds of 2009	2021	2.00 – 4.00%	12,745,000	11,895,000
Airport Improvement Bond of 2010	2020	5.82%	725,000	685,300
Municipal Purpose Bonds of 2010	2028	1.00 – 5.60%	18,105,000	16,585,000
Municipal Refunding Bonds of 2012	2032	2.00 – 4.00%	<u>33,560,000</u>	<u>33,560,000</u>
Total General Obligation Bonds			146,155,000	95,067,297
Less deferred amounts:				
For issuance premiums			1,952,718	1,794,871
On refunding			<u>(2,188,282)</u>	<u>(771,585)</u>
Total			<u>\$ 145,919,436</u>	<u>\$ 96,090,583</u>

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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.

Year Ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,837,096	\$ 1,596,735	\$ 5,244,231	\$ 1,738,833
2014	3,658,842	1,584,038	5,385,751	1,634,377
2015	3,255,061	1,440,339	5,907,217	1,448,374
2016	3,156,426	1,339,011	5,055,174	1,236,477
2017	3,526,285	1,209,973	2,986,815	1,069,689
2018-2022	13,385,044	4,347,536	12,424,356	3,788,780
2023-2027	9,974,386	2,075,231	7,305,614	1,694,325
2028-2032	5,762,289	618,892	3,937,710	436,217
2033	955,215	14,925	309,785	24,606
Deferred amounts:				
For premiums	1,212,491	-	582,380	-
On refunding	(158,916)	-	(612,669)	-
Total	<u>\$ 47,564,219</u>	<u>\$ 14,226,680</u>	<u>\$ 48,526,364</u>	<u>\$ 13,071,678</u>

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%. 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, 2012</u>
Soil erosion control 1 <sup>st</sup> Street	2017	-	\$ 106,112	\$ 25,467
Soil erosion control 6 <sup>th</sup> Street	2016	-	71,000	14,200
Soil erosion control South Ocean Drive	2023	-	548,115	337,800
Soil erosion control Robin Drive	2026	-	297,171	297,171
Community energy loan program	2013	2.00%	45,132	4,718
Total intergovernmental loans			<u>\$ 1,067,530</u>	<u>\$ 679,356</u>

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

Year Ending <u>June 30,</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>		<u>Principal</u>	<u>Interest</u>
2013	\$ 44,286		\$ 4,718	\$ 950
2014	55,814		-	-
2015	55,814		-	-
2016	55,814		-	-
2017	55,814		-	-
2018-2022	247,896		-	-
2023-2027	<u>159,200</u>		<u>-</u>	<u>-</u>
Total	<u>\$ 674,638</u>		<u>\$ 4,718</u>	<u>\$ 950</u>

**C. Advance refunding of debt and prior years defeasance of debt**

On May 17, 2012, the Town issued \$33,560,000 in general obligation bonds at 2.39% with \$12,165,000 of the bonds with bond premium received was used to advance refund \$12,300,000 of general obligation bonds issued in 2005. The amount of \$13,703,369 was used to purchase direct obligations of the U.S. government that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$13,825,706 of the 2005 general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$135,000, and is reported in the accompanying financial statements as an addition to bonds payable. It is being credited to operations through 2025 using the effective interest method. This advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$858,377 and resulted in an economic gain of \$687,614 which includes bond premium.

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 2025 using the effective-interest method. The unamortized amount of the deferred amount for refunding in prior years is \$158,916 in governmental activities and \$612,669 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 \$442,279,363.

**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, 2012, the following changes occurred in long term liabilities reported for governmental and business-type activities:

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 32,915,849	\$ 22,013,371	\$ (8,418,576)	\$ 46,510,644	\$ 2,837,096
Intergovernmental loans	720,392	-	(45,754)	674,638	44,285
Deferred amounts:					
Bond issuance premium	201,903	1,037,248	(26,660)	1,212,491	-
On refunding	<u>(251,660)</u>	<u>57,827</u>	<u>34,917</u>	<u>(158,916)</u>	<u>-</u>
Total long-term debt	33,586,484	23,108,446	(8,456,073)	48,238,857	2,881,381
Claims and losses	<u>3,413,148</u>	<u>1,324,969</u>	<u>(1,069,214)</u>	<u>3,668,903</u>	<u>1,012,844</u>
Governmental activities					
Long-term liabilities	<u>\$ 36,999,632</u>	<u>\$ 24,433,415</u>	<u>\$ (9,525,287)</u>	<u>\$ 51,907,760</u>	<u>\$ 3,894,225</u>

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<u>Business-type activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 49,284,758	\$ 11,546,629	\$ (12,274,734)	\$ 48,556,653	\$ 5,244,230
Intergovernmental loans	14,014	-	(9,296)	4,718	4,718
Deferred amounts:					
Bond issuance premium	340,028	286,234	(43,882)	582,380	-
On refunding	<u>(802,275)</u>	<u>77,174</u>	<u>112,432</u>	<u>(612,669)</u>	<u>-</u>
Total long-term debt	<u>48,836,525</u>	<u>11,910,037</u>	<u>(12,215,480)</u>	<u>48,531,082</u>	<u>5,248,948</u>
Business-type activities					
Long-term liabilities	<u>\$ 48,836,525</u>	<u>\$ 11,910,037</u>	<u>\$ (12,215,480)</u>	<u>\$ 48,531,082</u>	<u>\$ 5,248,948</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**

Interfund advances in the amount of \$235,000 are reported in the General Fund. The advances are to the non-major business type activities, Transportation Fund of \$110,000 and Golf Course Fund of \$125,000. The advances are reported as a non-current liability in the statement of net assets of business-type activities and have been offset by a nonspendable component of General Fund balance as it is not anticipated that the amounts will be repaid within one year.

**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 worker's 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% 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, 2010 were:

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	3,413,148
Current year claims	853,082
Changes in estimates	471,887
Claim payments	<u>(1,069,214)</u>
Claims liability as of June 30, 2012	<u>\$ 3,668,903</u>

At June 30, 2012, the Risk Management Fund had cash and investments of \$3,786,339 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. At year end, the amount of encumbrances expected to be paid in the following year totaled \$566,855 in the General Fund and \$601,426 in the Capital Projects Fund.

### 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, 2012 the amount of the contribution was \$1,237,530.

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 \$1,154,882 were \$1,169,850 less than debt service for year ended June 30, 2012. Cumulative receipts and interest of \$8,551,119 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 \$8,585,000 at June 30, 2012.

E. New accounting pronouncements

In December 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 62 (GASB 62) *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* which intended to enhance the usefulness of the Codification of Governmental Accounting and Financial Reporting Standards by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The requirements of the GASB 62 are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The Town has evaluated the impact of the GASB 62 and does not expect a material impact on the financial statements.

During the year ended June 30, 2012, GASB issued statement no. 65, entitled *Items Previously Reported as Assets and Liabilities*; statement no. 66, entitled *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*; statement no. 67, entitled *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*; and statement no. 68 entitled *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27*. The Town is analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective dates.

**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 from July 1, 2006 to June 30, 2011, have a 25 year service requirement to receive the 80% subsidy. Employees hired after July 1, 2011, who retire after 25 years of service, 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.

Plan membership at June 30, 2012 consisted of the following:

Active employees	528
Retirees and beneficiaries receiving benefits	<u>111</u>
Total	<u>639</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 2012, the Town contributed \$3,675,000 to the plan, including \$796,077 for current premiums, 81.6% of total premiums, and an additional \$2,878,923 to prefund benefits. Plan members receiving benefits contributed \$178,872, or 18.3% 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 2012 was based on an actuarial valuation for fiscal year beginning July 1, 2010 and ending June 30, 2010, dated May 16, 2011. The ARC and the net OPEB obligation as of July 1, 2009, for fiscal year 2010; July 1, 2010, for fiscal year 2011; and July 1, 2011, for fiscal year 2012, are as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Annual required contribution (ARC)	\$ 3,104,000	\$ 3,516,000	\$ 3,675,000
Contribution made 100%	<u>(3,104,000)</u>	<u>(3,516,000)</u>	<u>(3,675,000)</u>
Net OPEB obligation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**C. Funding status and funding progress**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 23.1% funded. The actuarial accrued liability for benefits was \$40,674,000 and the actuarial value of assets, at market, was \$9,384,092, resulting in an unfunded actuarial liability (UAAL) of \$31,289,908. The covered payroll (annual payroll of active employees covered by the plan) was \$26,410,739, and the ratio of the UAAL to the covered payroll was 118.5%.

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 2010, 2011 and 2012.

**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.

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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
Inflation rate	3.0%
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 6.5%
	Ultimate 2.9%

**Note 11: Employee retirement systems**

**Defined benefit pension plans**

The Town contributes to two single employer pension plans in which all eligible employees participate who were hired before April 1, 2011, 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, 2011. 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. 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.

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	\$ 1,677,333	\$ 1,446,060	\$ 3,123,393
Investments	<u>36,882,330</u>	<u>36,687,705</u>	<u>73,570,035</u>
Total assets	<u>38,559,663</u>	<u>38,133,765</u>	<u>76,693,428</u>
Liabilities:			
Total liabilities	<u>10,916</u>	<u>9,916</u>	<u>20,832</u>
Net assets:			
Held in trust for pension benefits	<u>\$ 38,548,747</u>	<u>\$ 38,123,849</u>	<u>\$ 76,672,596</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	\$ 3,306,164	\$ 4,251,386	\$ 7,557,550
Investment income	<u>(1,172,700)</u>	<u>(1,211,281)</u>	<u>(2,383,981)</u>
Total additions	2,133,464	3,040,105	5,173,569
Deductions:			
Benefits and refunds paid	1,944,926	2,191,355	4,136,281
Administrative expenses	<u>35,240</u>	<u>62,909</u>	<u>98,149</u>
Total deductions	<u>1,980,166</u>	<u>2,254,264</u>	<u>4,234,430</u>
Change in net assets	153,298	785,841	939,139
Net assets - beginning of year	<u>38,395,449</u>	<u>37,338,008</u>	<u>75,733,457</u>
Net assets - end of year	<u>\$ 38,548,747</u>	<u>\$ 38,123,849</u>	<u>\$ 76,672,596</u>

**Defined contribution plan**

Effective July 1, 2011, the Town established an IRC 401(a) plan for employees hired after April 1, 2011. The contribution and funding requirements of the plan are established by the Town and may be amended by the Town. The plan is administered by the International City Management Retirement Corporation (ICMA-RC). The assets are held in the name of each participant with the ICMA-RC. All administrative fees are borne by the participants.

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The Town provides a 5% match of the employees required contribution to the 401(a) plan and up to an additional 2% to the plan for a potential total contribution of 7% of base annual salary, if the employee contributes the additional 2%. For the year ended June 30, 2012, there were 46 employees in the plan. Employee contributions totaled \$51,146 and the Town recognized pension expense of \$51,146. The market value of the 401(a) plan assets totaled \$ 102,589 as of June 30, 2012.

Employees are immediately vested in their own contributions and earnings on those contributions. Employer contributions vest at 20% per year with vesting of 100% at five years. Nonvested Town contributions are forfeited upon termination of employment and used to pay administrative expenses of the plan, with any remainder being applied to reduce employer contributions.

**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, 2012, the plan's actuarial value of assets was \$40,299,108, using a five-year phase-in smoothing of expected versus actual return. The market value of the assets was \$39,846,573. The actuarial accrued liability was \$48,899,240. The unfunded actuarial liability was \$8,600,132. The plan was 82.4% funded. The annual covered payroll was \$16,162,237 and the unfunded actuarial liability was 53.2% 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 2012 of \$2,473,662 was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of April 1, 2011 and represented 14.3% of covered payroll. Employee contributions of 5% of pay totaled \$832,502. 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 \$2,473,662, \$2,135,538, and \$2,472,916 for the years ended June 30, 2012, 2011 and 2010, 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, 2012, the plan's actuarial value of assets was \$39,797,428, using a five-year phase-in smoothing of expected versus actual return. The market value of assets was \$39,339,623. The actuarial accrued liability was \$51,926,379 and the unfunded actuarial liability was \$12,128,951. The plan was 76.6% funded. The annual covered payroll was \$10,248,502 and the unfunded actuarial liability was 118.3% 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 \$3,380,743 were made in 2012 in accordance with actuarially determined requirements computed through an actuarial valuation performed as of April 1, 2011, and represented 30% of current covered payroll. Participants are required to contribute 8% of pay. Employee contributions totaled \$870,643. 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 \$3,380,743, \$2,917,210, and \$2,771,852 for the years ended June 30, 2012, 2011 and 2010, 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, 2012, the total covered payroll was \$1,217,651. 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 2012 contribution was 7.16% 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, 2011. 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, 2011, for the plan as a whole, determined by an actuarial valuation performed on that date, was \$5,334,563. The actuarial value of assets, at fair value, as of that date was \$7,015,088 with assets in excess of the actuarial accrued liability by \$1,680,525.

### 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 2012.

Employee contributions totaled \$48,706. The Town's actuarially determined contribution as the employer was \$87,243 or 7.16% of covered payroll for the plan year beginning July 1, 2011. This contribution covers the Town's total liability for funding, as determined by Worcester County. The Town's contribution for its employees represents 50% 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 \$87,243, \$95,257, and \$88,033 for the years ended June 30 for 2012, 2011 and 2010, respectively.

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

Schedules of Funding Progress

Schedules of Employer Contributions

TOWN OF OCEAN CITY  
GENERAL EMPLOYEE PENSION TRUST FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
2003 - 2012

<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 Liability as a Percentage of Covered Payroll</u>
4/1/2012	\$ 40,299,108	\$ 48,899,240	\$ 8,600,132	82.4 %	\$ 16,162,237	53.2 %
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**	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

Source: "The Employees of Ocean City, Maryland Pension Plan Report of the Actuary on the Annual Valuation prepared as of April 1, 2012", Cavanaugh Macdonald Consulting, LLC

\*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.

\*\* In 2004, the benefit formula was changed, see Note 10a.

TOWN OF OCEAN CITY  
GENERAL EMPLOYEE PENSION TRUST FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
2003 - 2012

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 2,473,662	100 %
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

TOWN OF OCEAN CITY  
PUBLIC SAFETY EMPLOYEE PENSION TRUST FUND  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF FUNDING PROGRESS  
2003 - 2012

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
4/1/2012	\$ 39,797,428	\$ 51,926,379	\$ 12,128,951	76.6 %	\$ 10,248,502	118.3 %
4/1/2011	36,240,860	49,478,774	13,237,914	73.2	11,260,790	117.6
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

Source: "Ocean City, Maryland Public Safety Employees Pension Plan Report of the Actuary on the Annual Valuation prepared as of April 1, 2012" , Cavanaugh Macdonald Consulting, LLC

\*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  
2003 - 2012

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2012	\$ 3,380,743	100 %
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

TOWN OF OCEAN CITY  
 OPEB TRUST FUND  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF FUNDING PROGRESS  
 2009 - 2012

<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 Liability as a Percentage of Covered Payroll</u>
7/1/2011	\$ 9,384,092	\$ 40,674,000	\$ 31,289,908	23.1 %	\$ 26,410,739	118.5 %
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	-	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 - 2012

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 3,675,000	100 %
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:

### **TRANSPORTATION FUND**

To accounts for the operations of the Town's bus system and boardwalk trams.

### **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, 2012

	Business-type Activities - Enterprise Funds		
	Transportation	Golf Course	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 3,471	\$ 8,394	\$ 11,865
Receivables, net	69,228	143,717	212,945
Intergovernmental receivable	482,243	219	482,462
Inventories	-	56,854	56,854
Other	-	2,500	2,500
Total current assets	<u>554,942</u>	<u>211,684</u>	<u>766,626</u>
Noncurrent assets:			
Capital assets:			
Land	-	2,530,140	2,530,140
Buildings	2,835,349	634,151	3,469,500
Other improvements	81,837	627,874	709,711
Machinery and equipment	275,256	653,691	928,947
Less accumulated depreciation	<u>(1,936,101)</u>	<u>(1,531,213)</u>	<u>(3,467,314)</u>
Total noncurrent assets	<u>1,256,341</u>	<u>2,914,643</u>	<u>4,170,984</u>
Total assets	<u>1,811,283</u>	<u>3,126,327</u>	<u>4,937,610</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	25,498	39,841	65,339
Accrued expenses	213,871	37,414	251,285
Compensated absences	55,172	53,018	108,190
Due to other funds	400,000	-	400,000
Deferred revenue	-	61,484	61,484
Other	4,246	-	4,246
Total current liabilities	<u>698,787</u>	<u>191,757</u>	<u>890,544</u>
Noncurrent liabilities:			
Advanced from other funds	<u>110,000</u>	<u>125,000</u>	<u>235,000</u>
Total noncurrent liabilities	<u>110,000</u>	<u>125,000</u>	<u>235,000</u>
Total liabilities	<u>808,787</u>	<u>316,757</u>	<u>1,125,544</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,256,341	2,914,643	4,170,984
Unrestricted	<u>(253,845)</u>	<u>(105,073)</u>	<u>(358,918)</u>
Total net assets	<u>\$ 1,002,496</u>	<u>\$ 2,809,570</u>	<u>\$ 3,812,066</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, 2012

	<u>Transportation</u>	<u>Golf Course</u>	<u>Total</u>
Operating revenues:			
Charges for sales and services	\$ 3,854,314	\$ 2,105,886	\$ 5,960,200
Total operating revenues	<u>3,854,314</u>	<u>2,105,886</u>	<u>5,960,200</u>
Operating expenses:			
Personal services	3,485,121	1,044,910	4,530,031
Contractual services	61,695	236,613	298,308
Utilities	69,454	51,271	120,725
Repairs and maintenance	2,275,987	112,103	2,388,090
Other supplies and expenses	60,020	423,454	483,474
Internal services	861,734	191,381	1,053,115
Depreciation	90,605	32,314	122,919
Total operating expenses	<u>6,904,616</u>	<u>2,092,046</u>	<u>8,996,662</u>
Operating income (loss)	<u>(3,050,302)</u>	<u>13,840</u>	<u>(3,036,462)</u>
Nonoperating revenues (expenses)			
Interest and investment revenue	33	97	130
Operating grants	811,790	-	811,790
Miscellaneous revenue	2,500	-	2,500
Total nonoperating revenues	<u>814,323</u>	<u>97</u>	<u>814,420</u>
Income (loss) before contributions and transfers	(2,235,979)	13,937	(2,222,042)
Capital contributions	496,829	-	496,829
Transfers in	1,537,171	48,104	1,585,275
Change in net assets	(201,979)	62,041	(139,938)
Total net assets - beginning	<u>1,204,475</u>	<u>2,747,529</u>	<u>3,952,004</u>
Total net assets - ending	<u>\$ 1,002,496</u>	<u>\$ 2,809,570</u>	<u>\$ 3,812,066</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Transportation	Golf Course	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 3,906,156	\$ 2,108,475	\$ 6,014,631
Payments to suppliers	(2,487,112)	(799,399)	(3,286,511)
Payments to employees	(3,447,989)	(1,029,229)	(4,477,218)
Payments for interfund services used	(861,734)	(191,381)	(1,053,115)
Net cash provided (used) by operating activities	<u>(2,890,679)</u>	<u>88,466</u>	<u>(2,802,213)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Advances from other funds	400,000	-	400,000
Advances to other funds	-	(5,000)	(5,000)
Subsidy from county, state and federal grants	836,244	-	836,244
Transfers from other funds	1,537,171	48,104	1,585,275
Net cash provided (used) by noncapital financing activities	<u>2,773,415</u>	<u>43,104</u>	<u>2,816,519</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Proceeds from capital grant	117,699	-	117,699
Acquisition and construction of capital assets	-	(129,451)	(129,451)
Net cash provided (used) by capital and related financing activities	<u>117,699</u>	<u>(129,451)</u>	<u>(11,752)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest and dividends received	33	97	130
Net cash provided (used) by investing activities	<u>33</u>	<u>97</u>	<u>130</u>
Net increase (decrease) in cash and cash equivalents	468	2,216	2,684
Cash and cash equivalents at beginning of the year	3,003	6,178	9,181
Cash and cash equivalents at end of the year	<u>\$ 3,471</u>	<u>\$ 8,394</u>	<u>\$ 11,865</u>

(Continued)

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS (Continued)  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Transportation</u>	<u>Golf Course</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Operating income (loss)	\$ (3,050,302)	\$ 13,840	\$ (3,036,462)
Adjustments to reconcile operating income to net cash provided (used)			
by operating activities:			
Depreciation	90,605	32,314	122,919
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:			
Accounts receivable	51,842	(1,640)	50,202
Inventories	-	10,154	10,154
Compensated absences	4,225	9,702	13,927
Accounts payable	(19,956)	13,888	(6,068)
Accrued expenses	32,907	5,979	38,886
Deferred revenue	-	4,229	4,229
Total adjustments	<u>159,623</u>	<u>74,626</u>	<u>234,249</u>
Net cash provided (used) by operating activities	<u>\$ (2,890,679)</u>	<u>\$ 88,466</u>	<u>\$ (2,802,213)</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, 2012

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 1,246	\$ 3,703	\$ 958	\$ 6,130	\$ 12,037
Investments	160,000	-	959,796	3,780,209	4,900,005
Receivables, net	-	-	30,099	-	30,099
Interest receivable	-	-	-	9,229	9,229
Inventories	-	841,459	-	-	841,459
Prepaid items	-	-	234,000	-	234,000
Total current assets	<u>161,246</u>	<u>845,162</u>	<u>1,224,853</u>	<u>3,795,568</u>	<u>6,026,829</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	203,219	40,423,866	-	41,237,042
	609,957	1,607,987	40,497,726	-	42,715,670
Less accumulated depreciation	(609,957)	(1,195,095)	(27,516,973)	-	(29,322,025)
Total capital assets	<u>-</u>	<u>412,892</u>	<u>12,980,753</u>	<u>-</u>	<u>13,393,645</u>
Total noncurrent assets	<u>-</u>	<u>412,892</u>	<u>12,980,753</u>	<u>-</u>	<u>13,393,645</u>
Total assets	<u>161,246</u>	<u>1,258,054</u>	<u>14,205,606</u>	<u>3,795,568</u>	<u>19,420,474</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	41,700	157,103	1,200	94,099	294,102
Accrued expenses	28,698	53,960	-	11,400	94,058
Compensated absences	26,833	69,745	-	15,558	112,136
Due to other funds	-	400,000	-	-	400,000
Claims and judgments	-	-	-	1,012,844	1,012,844
Total current liabilities	<u>97,231</u>	<u>680,808</u>	<u>1,200</u>	<u>1,133,901</u>	<u>1,913,140</u>
Noncurrent liabilities:					
Claims and judgments	-	-	-	2,656,060	2,656,060
Total noncurrent liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,656,060</u>	<u>2,656,060</u>
Total liabilities	<u>97,231</u>	<u>680,808</u>	<u>1,200</u>	<u>3,789,961</u>	<u>4,569,200</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	-	412,892	12,980,753	-	13,393,645
Unrestricted	64,015	164,354	1,223,653	5,607	1,457,629
Total net assets	<u>\$ 64,015</u>	<u>\$ 577,246</u>	<u>\$ 14,204,406</u>	<u>\$ 5,607</u>	<u>\$ 14,851,274</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, 2012

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
Operating revenues:					
Charges for sales and services	\$ 1,771,920	\$ 5,019,568	\$ 2,226,786	\$ 2,403,165	\$ 11,421,439
Total operating revenues	<u>1,771,920</u>	<u>5,019,568</u>	<u>2,226,786</u>	<u>2,403,165</u>	<u>11,421,439</u>
Operating expenses:					
Personal services	899,967	1,783,612	-	231,925	2,915,504
Contractual services	47,815	12,810	336,490	798,698	1,195,813
Utilities	27,665	30,086	-	1,037	58,788
Repairs and maintenance	463,448	73,418	-	623	537,489
Other supplies and expenses	293,455	2,869,446	535,082	1,894	3,699,877
Internal services	69,288	294,739	525,438	111,180	1,000,645
Insurance claims and expenses	-	-	-	1,324,360	1,324,360
Depreciation	-	50,833	2,597,347	-	2,648,180
Total operating expenses	<u>1,801,638</u>	<u>5,114,944</u>	<u>3,994,357</u>	<u>2,469,717</u>	<u>13,380,656</u>
Operating loss	<u>(29,718)</u>	<u>(95,376)</u>	<u>(1,767,571)</u>	<u>(66,552)</u>	<u>(1,959,217)</u>
Nonoperating revenues					
Interest and investment revenue	-	-	-	71,307	71,307
Gain (loss) on disposal of assets	-	-	410,842	-	410,842
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>410,842</u>	<u>71,307</u>	<u>482,149</u>
Income (loss) before contributions and transfers	(29,718)	(95,376)	(1,356,729)	4,755	(1,477,068)
Capital contributions	-	-	1,525,311	-	1,525,311
Change in net assets	<u>(29,718)</u>	<u>(95,376)</u>	<u>168,582</u>	<u>4,755</u>	<u>48,243</u>
Total net assets - beginning, as previously reported	<u>93,733</u>	<u>672,622</u>	<u>14,035,824</u>	<u>852</u>	<u>14,803,031</u>
Total net assets - ending	<u>\$ 64,015</u>	<u>\$ 577,246</u>	<u>\$ 14,204,406</u>	<u>\$ 5,607</u>	<u>\$ 14,851,274</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	Information Technology
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers and users	\$ 1,771,920
Payments to suppliers	(825,592)
Payments to employees	(893,703)
Payments for interfund services used	(69,288)
	(16,663)
Net cash provided (used) by operating activities	(16,663)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Advances to other funds	-
	-
Net cash provided (used) by noncapital financing activities	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Proceeds from capital grant	-
Purchases of capital assets	-
Acquisition and construction of capital assets	-
Proceeds from sales of capital assets	-
	-
Net cash provided (used) by capital and related financing activities	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Proceeds from sales and maturities of investments	17,000
Purchase of investments	-
Interest and dividends received	-
	-
Net cash provided (used) by investing activities	17,000
Net increase (decrease) in cash and cash equivalents	337
Cash and cash equivalents at beginning of the year	909
Cash and cash equivalents at end of the year	\$ 1,246

(Continued)

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ 5,019,568	\$ 2,226,786	\$ 2,403,165	\$ 11,421,439
(2,888,181)	(1,105,572)	(1,864,469)	(6,683,814)
(1,775,822)	-	(223,687)	(2,893,212)
(294,739)	(525,438)	(103,579)	(993,044)
<u>60,826</u>	<u>595,776</u>	<u>211,430</u>	<u>851,369</u>
(40,000)	(4,085,000)	-	(4,125,000)
(40,000)	(4,085,000)	-	(4,125,000)
-	6,785,759	-	6,785,759
-	(2,778,557)	-	(2,778,557)
(19,065)	-	-	(19,065)
-	440,833	-	440,833
<u>(19,065)</u>	<u>4,448,035</u>	<u>-</u>	<u>4,428,970</u>
-	-	5,782,000	5,799,000
-	(959,796)	(6,115,645)	(7,075,441)
-	-	74,909	74,909
-	(959,796)	(258,736)	(1,201,532)
1,761	(985)	(47,306)	(46,193)
<u>1,942</u>	<u>1,943</u>	<u>53,436</u>	<u>58,230</u>
<u>\$ 3,703</u>	<u>\$ 958</u>	<u>\$ 6,130</u>	<u>\$ 12,037</u>

(Continued)  
TOWN OF OCEAN CITY  
COMBINING STATEMENT OF CASH FLOWS (Continued)  
INTERNAL SERVICE FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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	<u>Information Technology</u>
<b>RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS</b>	
Operating income (loss)	\$ <u>(29,718)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	-
<b>EFFECT OF CHANGES IN OPERATING ASSETS &amp; LIABILITIES:</b>	
Inventories	-
Prepaid expenses	-
Compensated absences	736
Accounts payable	6,791
Accrued expenses	5,528
Claims liability	<u>-</u>
Total adjustments	<u>13,055</u>
Net cash provided (used) by operating activities	<u>\$ (16,663)</u>

**NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES**

Increase (Decrease) in fair value of investments	\$ <u><u>-</u></u>
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Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ (95,376)	\$ (1,767,571)	\$ (66,552)	\$ (1,959,217)
50,833	2,597,347	-	2,648,180
46,087	-	-	46,087
-	(234,000)	-	(234,000)
(2,020)	-	-	(1,284)
51,492	-	21,066	79,349
9,810	-	1,160	16,498
-	-	255,756	255,756
156,202	2,363,347	277,982	2,810,586
\$ 60,826	\$ 595,776	\$ 211,430	\$ 851,369
\$ -	\$ -	\$ 9,169	\$ 9,169



## ***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  
 COMBINING STATEMENT OF NET ASSETS  
 FIDUCIARY FUNDS  
 PENSION TRUST FUNDS  
 JUNE 30, 2012

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,575,374	\$ 1,343,276	\$ 2,918,650
Interest and dividends receivable	101,959	102,784	204,743
Investments, at fair value:			
Domestic equities	10,695,794	10,624,736	21,320,530
Domestic fixed income	12,440,741	12,427,326	24,868,067
Real estate investment trusts	1,266,774	1,233,660	2,500,434
International equities	3,822,553	3,874,862	7,697,415
International fixed income	1,978,242	1,738,931	3,717,173
Alternative investments	5,273,888	5,272,907	10,546,795
Natural resources	1,404,338	1,515,283	2,919,621
Total investments	<u>36,882,330</u>	<u>36,687,705</u>	<u>73,570,035</u>
Total assets	<u>38,559,663</u>	<u>38,133,765</u>	<u>76,693,428</u>
<b>LIABILITIES</b>			
Accounts payable	<u>10,916</u>	<u>9,916</u>	<u>20,832</u>
Total liabilities	<u>10,916</u>	<u>9,916</u>	<u>20,832</u>
<b>NET ASSETS</b>			
Held in trust for pension benefits or other purposes	<u>\$ 38,548,747</u>	<u>\$ 38,123,849</u>	<u>\$ 76,672,596</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 PENSION TRUST FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
<b>Additions</b>			
Contributions:			
Employer	\$ 2,473,662	\$ 3,380,743	\$ 5,854,405
Members	832,502	870,643	1,703,145
Total contributions	3,306,164	4,251,386	7,557,550
Investment earnings:			
Net appreciation (depreciation) in fair value of investments	(2,130,199)	(2,088,910)	(4,219,109)
Interest	775,757	757,294	1,533,051
Dividends	456,158	393,768	849,926
Total investment income (loss)	(898,284)	(937,848)	(1,836,132)
Less investment expense	274,416	273,433	547,849
Net investment income (loss)	(1,172,700)	(1,211,281)	(2,383,981)
Total additions (deductions)	2,133,464	3,040,105	5,173,569
<b>Deductions</b>			
Benefits and refunds paid	1,944,926	2,191,355	4,136,281
Administrative expenses	35,240	62,909	98,149
Total deductions	1,980,166	2,254,264	4,234,430
Changes in net assets	153,298	785,841	939,139
Total net assets - beginning	38,395,449	37,338,008	75,733,457
Total net assets - ending	\$ 38,548,747	\$ 38,123,849	\$ 76,672,596



## ***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.

### **Contents**

### **Page(s)**

#### **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.

100-107

#### **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.

108-114

#### **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.

115-118

#### **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.

119-120

#### **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.

121-125

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)

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	<u>2012</u>	<u>2011</u>	<u>2010</u>
Governmental Activities			
Invested in capital assets, net of related debt	\$ 35,032,961	\$ 47,390,589	\$ 46,393,277
Restricted	16,140,004	1,713,579	1,222,022
Unrestricted	<u>15,420,770</u>	<u>16,213,407</u>	<u>15,742,899</u>
<i>Total Governmental Activities Net Assets</i>	<u>66,593,735</u>	<u>65,317,575</u>	<u>63,358,198</u>
Business-type Activities			
Invested in capital assets, net of related debt	55,645,888	58,001,891	60,260,847
Restricted	8,551,119	9,638,746	9,667,139
Unrestricted	<u>17,520,679</u>	<u>11,466,523</u>	<u>4,659,855</u>
<i>Total Business-type Activities Net Assets</i>	<u>81,717,686</u>	<u>79,107,160</u>	<u>74,587,841</u>
Primary government			
Invested in capital assets, net of related debt	90,678,849	105,392,480	106,654,124
Restricted	24,691,123	11,352,325	10,889,161
Unrestricted	<u>32,941,449</u>	<u>27,679,930</u>	<u>20,402,754</u>
<i>Total Primary Government Net Assets</i>	<u>\$ 148,311,421</u>	<u>\$ 144,424,735</u>	<u>\$ 137,946,039</u>

2009	2008	2007	2006	2005	2004	2003
\$ 44,851,930	\$ 43,313,477	\$ 44,411,771	\$ 41,652,909	\$ 35,404,193	\$ 37,237,850	\$ 37,862,154
1,543,521	4,383,493	1,406,804	3,690,935	7,055,810	2,359,090	1,683,025
16,823,057	13,601,386	14,081,801	11,491,400	10,933,461	11,015,099	8,870,904
63,218,508	61,298,356	59,900,376	56,835,244	53,393,464	50,612,039	48,416,083
58,489,349	55,116,392	52,958,492	49,172,981	43,074,509	54,280,575	52,188,549
9,406,011	8,199,752	7,094,064	5,852,828	5,699,656	4,039,108	3,138,088
6,860,798	11,832,112	10,049,458	13,255,951	16,067,294	5,038,860	8,025,419
74,756,158	75,148,256	70,102,014	68,281,760	64,841,459	63,358,543	63,352,056
103,341,279	98,429,869	97,370,263	90,825,890	78,478,702	91,518,425	90,050,703
10,949,532	12,583,245	8,500,868	9,543,763	12,755,466	6,398,198	4,821,113
23,683,855	25,433,498	24,131,259	24,747,351	27,000,755	16,053,959	16,896,323
<u>\$ 137,974,666</u>	<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>

**Town of Ocean City, Maryland**

Changes in Net Assets

Last Ten Fiscal Years

(accrual basis of accounting)

	2012	2011	2010
<b>Expenses</b>			
Governmental Activities:			
General government	\$ 335,703	\$ 751,333	\$ 1,621,071
Public safety	35,440,373	34,297,859	33,961,816
General public works and beach	6,257,840	6,205,643	6,055,716
Sanitation and waste removal	6,776,510	6,193,273	7,081,833
Highways and streets	7,250,787	6,763,540	7,036,697
Economic development - Tourism	7,692,558	6,671,972	6,243,797
Recreation and culture	7,873,652	7,783,123	7,890,492
Interest on long-term debt	1,352,400	1,296,137	1,261,803
<i>Total Governmental Activities Expenses</i>	<u>72,979,823</u>	<u>69,962,880</u>	<u>71,153,225</u>
Business-type Activities:			
Water	6,419,219	7,597,787	6,978,781
Wastewater	11,642,169	11,045,110	10,337,839
Convention Center	5,173,147	5,533,018	7,715,464
Airport	1,681,333	1,503,697	1,449,538
Transportation	7,936,422	7,493,620	5,669,798
Golf	2,092,046	1,981,914	1,978,188
<i>Total Business-type Activities Expenses</i>	<u>34,944,336</u>	<u>35,155,146</u>	<u>34,129,608</u>
<i>Total Primary Government Expenses</i>	<u>\$ 107,924,159</u>	<u>\$ 105,118,026</u>	<u>\$ 105,282,833</u>
<b>Program Revenues</b>			
Governmental Activities:			
Charges for services:			
General government	\$ 3,647,286	\$ 3,758,744	\$ 3,464,313
Public safety	2,005,130	1,965,631	1,859,508
General public works and beach	3,662,776	3,651,107	3,123,547
Sanitation and waste removal	91,608	109,543	312,364
Highways and streets	1,086,162	982,101	926,911
Economic development - Tourism	1,600,439	1,321,806	1,294,913
Recreation and culture	1,382,413	1,334,262	1,610,682
Operating grants and contributions	2,805,472	2,807,769	2,705,797
Capital grants and contributions	-	75,000	80,000
<i>Total Governmental Activities Program Revenues</i>	<u>16,281,286</u>	<u>16,005,963</u>	<u>15,378,035</u>
Business-type Activities:			
Charges for Services:			
Water	6,846,684	6,772,436	6,926,482
Transportation	3,854,314	3,558,571	3,363,679
Wastewater	11,761,802	11,311,636	10,466,562
Convention Center	1,663,028	1,758,112	1,630,172
Airport	1,307,014	1,034,475	837,533
Golf	2,105,886	1,962,632	1,979,205
Operating grants and contributions	3,413,436	3,414,926	3,401,683
Capital grants and contributions	3,269,491	5,960,662	671,195
<i>Total Business-type Activities Program Revenues</i>	<u>34,221,655</u>	<u>35,773,450</u>	<u>29,276,511</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 50,502,941</u>	<u>\$ 51,779,413</u>	<u>\$ 44,654,546</u>

2009	2008	2007	2006	2005	2004	2003
\$ 1,673,926	\$ 2,299,373	\$ 2,354,011	\$ 2,260,255	\$ 2,210,767	\$ 1,239,176	\$ 1,269,701
34,517,293	32,345,385	29,202,378	25,347,862	22,603,945	20,741,305	18,470,579
6,675,942	6,090,271	6,175,410	5,795,271	5,319,516	4,771,177	4,438,373
7,587,896	7,127,947	6,849,196	6,195,897	5,894,297	5,476,452	5,436,051
8,008,372	7,338,573	6,964,317	6,112,945	5,818,748	5,601,371	4,529,054
5,739,043	5,600,101	4,227,250	4,067,088	3,995,845	3,631,068	3,663,523
8,795,235	8,109,675	7,098,691	6,580,404	6,386,759	5,556,411	5,193,597
1,397,984	1,449,018	1,538,808	1,638,477	1,376,678	1,240,314	1,692,600
<u>74,395,691</u>	<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>
7,333,521	7,193,221	7,045,220	6,994,515	6,125,859	5,654,993	5,756,055
11,075,781	9,622,464	8,839,617	8,499,404	8,228,078	8,022,887	7,388,163
8,324,858	8,036,740	8,014,968	5,038,307	5,124,371	4,779,005	4,717,868
1,749,959	1,614,880	1,627,726	1,515,485	1,120,307	976,559	1,014,601
6,265,962	6,003,335	5,896,177	7,387,915	6,661,378	6,026,428	5,340,275
2,260,550	2,164,803	2,124,943	2,046,530	2,034,905	2,041,027	2,061,708
<u>37,010,631</u>	<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>\$ 111,406,322</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>
\$ 3,699,975	\$ 3,987,939	\$ 4,555,293	\$ 4,854,842	\$ 4,948,199	\$ 4,318,966	\$ 4,012,359
1,696,096	1,745,958	1,701,398	1,629,703	1,649,218	1,449,006	1,369,093
2,888,571	3,007,666	3,118,017	3,079,825	3,030,546	2,730,553	2,251,321
430,535	552,864	306,433	166,076	175,918	163,223	190,935
715,568	823,938	753,772	721,049	661,496	658,007	637,637
1,675,547	1,452,035	1,359,916	1,346,673	1,234,497	940,819	1,166,254
1,606,662	1,575,344	1,496,451	1,525,757	1,488,875	1,468,705	1,405,025
2,932,577	2,810,084	2,794,189	2,429,558	2,681,396	2,256,497	1,404,388
218,551	292,244	787,782	683,127	906,195	263,406	493,704
<u>15,864,082</u>	<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>
7,204,163	7,162,687	6,840,989	6,937,909	6,095,087	5,930,548	5,958,881
3,439,218	3,605,466	3,511,131	3,543,393	3,226,897	3,118,675	3,084,148
10,274,178	9,746,366	9,129,355	8,808,583	8,162,626	7,663,559	7,560,447
1,691,850	1,638,928	1,923,673	1,742,303	1,619,021	1,466,416	1,413,910
1,139,331	1,038,623	1,070,152	995,840	848,819	608,093	518,180
2,017,988	2,055,393	1,931,502	2,152,506	2,199,883	2,324,673	2,240,263
4,539,925	4,606,116	4,309,687	4,195,060	3,911,853	3,870,590	4,005,436
756,286	3,607,552	885,908	2,601,934	1,661,427	161,322	1,052,812
<u>31,062,939</u>	<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>\$ 46,927,021</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>

**Town of Ocean City, Maryland**

Changes in Net Assets (continued)

Last Ten Fiscal Years

*(accrual basis of accounting)*

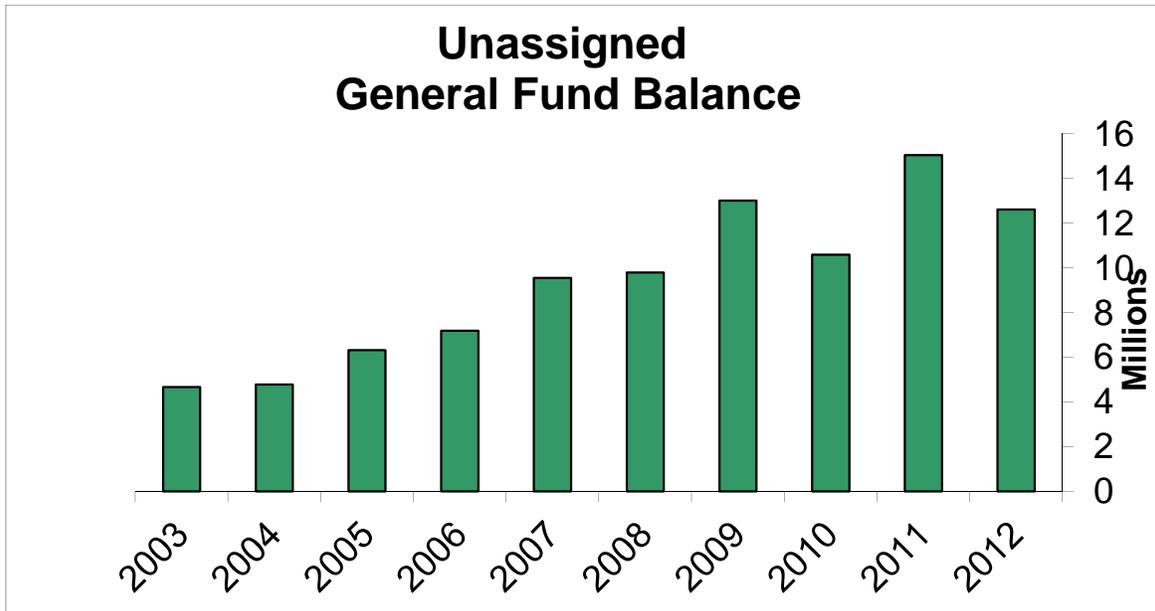
	2012	2011	2010
<b>Net (Expense)/Revenue</b>			
Governmental Activities	\$ (56,698,537)	\$ (53,956,917)	\$ (55,775,190)
Business-type Activities	(722,681)	618,304	(4,853,097)
<i>Total Primary Government Net Expense</i>	<u>\$ (57,421,218)</u>	<u>\$ (53,338,613)</u>	<u>\$ (60,628,287)</u>
 <b>General Revenues and Other Changes in Net Assets</b>			
Governmental Activities:			
Taxes:			
Property and other local taxes levied for:			
General purposes	\$ 42,509,186	\$ 42,660,709	\$ 43,900,041
Sales and income taxes	14,649,416	13,703,686	13,031,401
State gaming contributions	433,060	224,791	-
Grants and entitlements not restricted to specific programs	2,660,866	2,411,597	2,436,638
Investment earnings	163,704	124,288	297,072
Loss on sale of capital assets	-	-	-
Other revenue	764,234	587,179	538,205
Transfers	(3,205,769)	(3,795,956)	(4,288,477)
<i>Total Governmental Activities</i>	<u>57,974,697</u>	<u>55,916,294</u>	<u>55,914,880</u>
 Business-type Activities:			
Investment earnings	124,938	100,789	310,128
Gain (loss) on sale of capital assets	-	-	-
Other revenue	2,500	4,270	86,175
Transfers	3,205,769	3,795,956	4,288,477
<i>Total Business-type Activities</i>	<u>3,333,207</u>	<u>3,901,015</u>	<u>4,684,780</u>
<i>Total Primary Government</i>	<u>\$ 61,307,904</u>	<u>\$ 59,817,309</u>	<u>\$ 60,599,660</u>
 <b>Change in Net Assets</b>			
Governmental Activities	\$ 1,276,160	\$ 1,959,377	\$ 139,690
Business-type Activities	2,610,526	4,519,319	(168,317)
<i>Total Primary Government Change in Net Assets</i>	<u>\$ 3,886,686</u>	<u>\$ 6,478,696</u>	<u>\$ (28,627)</u>

2009	2008	2007	2006	2005	2004	2003
\$ (58,531,609)	\$ (54,112,271)	\$ (47,536,810)	\$ (41,561,589)	\$ (36,830,215)	\$ (34,008,092)	\$ (31,762,762)
(5,947,692)	(1,174,312)	(3,946,254)	(504,628)	(1,569,285)	(2,357,023)	(444,593)
<u>\$ (64,479,301)</u>	<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>
\$ 48,025,233	\$ 44,320,692	\$ 38,714,874	\$ 33,317,113	\$ 29,232,197	\$ 26,126,491	\$ 21,986,998
13,757,540	13,789,976	13,696,456	12,836,646	12,587,732	11,659,670	12,065,800
-	-	-	-	-	-	-
2,509,917	628,833	704,624	483,032	157,080	142,808	155,872
683,113	1,175,057	1,498,827	1,023,963	552,485	153,722	344,434
-	-	-	-	(374,265)	-	-
621,324	936,421	914,535	705,999	362,460	381,001	549,882
(5,145,366)	(5,340,728)	(4,927,374)	(3,363,384)	(2,906,049)	(2,259,644)	(1,642,137)
<u>60,451,761</u>	<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>
410,228	872,247	839,134	581,545	221,788	103,866	144,750
-	-	-	-	(75,636)	-	247,000
-	7,579	-	-	-	-	-
5,145,366	5,340,728	4,927,374	3,363,384	2,906,049	2,259,644	1,642,137
<u>5,555,594</u>	<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>\$ 66,007,355</u>	<u>\$ 61,730,805</u>	<u>\$ 56,368,450</u>	<u>\$ 48,948,298</u>	<u>\$ 42,663,841</u>	<u>\$ 38,567,558</u>	<u>\$ 35,494,736</u>
\$ 1,920,152	\$ 1,397,980	\$ 3,065,132	\$ 3,441,780	\$ 2,781,425	\$ 2,195,956	\$ 1,698,087
(392,098)	5,046,242	1,820,254	3,440,301	1,482,916	6,487	1,589,294
<u>\$ 1,528,054</u>	<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>

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

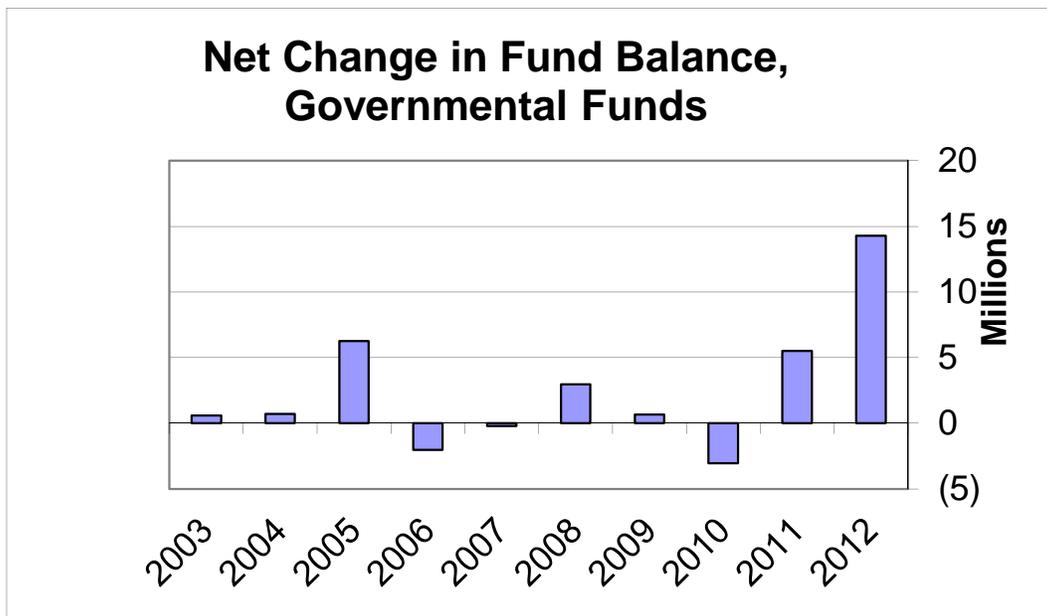
	2012	2011	2010	2009
<b>General Fund</b>				
Nonspendable advances to other funds	\$ 235,000	\$ 130,000	\$ 250,000	\$ 250,000
Assigned - purchases on order	566,585	998,595	446,430	762,998
Assigned - subsequent year's budget	2,749,395	-	-	-
Unassigned	12,605,645	15,049,478	10,590,252	13,005,682
<b>Total general fund</b>	<b>\$ 16,156,625</b>	<b>\$ 16,178,073</b>	<b>\$ 11,286,682</b>	<b>\$ 14,018,680</b>
<b>All other governmental funds</b>				
Restricted for capital projects	\$ 15,303,578	\$ 747,437	\$ 129,990	\$ 166,068
Assigned - purchases on order	-	52,343	61,546	118,881
Committed for capital projects	601,426	783,799	780,486	1,008,572
<b>Total all other governmental funds</b>	<b>15,905,004</b>	<b>1,583,579</b>	<b>972,022</b>	<b>1,293,521</b>
<b>Total governmental funds</b>	<b>\$ 32,061,629</b>	<b>\$ 17,761,652</b>	<b>\$ 12,258,704</b>	<b>\$ 15,312,201</b>

Unassigned general fund balance as a percentage of expenditures	17.5%	20.2%	13.4%	16.9%
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2008	2007	2006	2005	2004	2003
\$ 260,000	\$ 270,000	\$ 715,000	\$ 530,000	\$ 288,727	\$ 301,447
456,351	699,721	983,295	524,370	499,915	262,975
-	-	-	-	-	-
9,795,646	9,549,272	7,179,410	6,311,281	4,771,502	4,659,944
<u>\$ 10,511,997</u>	<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>
\$ 3,138,153	\$ 450,319	\$ 2,521,307	\$ 4,328,931	\$ 1,025,736	\$ 1,119,750
785,960	166,548	474,628	2,196,879	635,074	199,056
199,380	519,937	-	-	409,553	364,219
4,123,493	1,136,804	2,995,935	6,525,810	2,070,363	1,683,025
<u>\$ 14,635,490</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>

12.8%      13.7%      11.6%      11.2%      9.2%      10.0%



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

	2012	2011	2010
<b>Revenues</b>			
Property taxes	\$ 42,555,644	\$ 42,731,367	\$ 43,808,149
Other taxes	15,069,260	13,909,064	13,062,376
Licenses and permits	4,050,517	3,921,106	3,858,142
Fines and forfeitures	856,672	780,018	741,763
Charges for services	8,568,625	8,422,070	7,992,333
Revenue from other agencies	5,466,338	5,294,366	5,222,435
Other revenue	743,082	664,892	714,825
<i>Total Revenues</i>	<u>77,310,138</u>	<u>75,722,883</u>	<u>75,400,023</u>
<b>Expenditures</b>			
Current:			
General government	3,051,546	3,320,277	3,990,472
Public safety	33,374,478	32,301,718	32,223,500
General public works and beach	5,026,883	4,908,045	4,698,501
Sanitation and waste removal	5,871,647	5,332,518	6,423,476
Highways and streets	5,621,764	5,263,430	5,684,270
Economic development - tourism	7,428,498	6,420,490	5,999,877
Recreation and culture	7,513,921	7,167,738	7,359,074
Capital Outlay	5,174,702	1,145,147	3,764,227
Debt service:			
Principal retirement	3,160,956	3,416,907	3,282,636
Interest and fiscal charges	1,279,997	1,295,164	1,306,084
Bond issuance costs	149,245	43,746	73,711
<i>Total Expenditures</i>	<u>77,653,637</u>	<u>70,615,180</u>	<u>74,805,828</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(343,499)</u>	<u>5,107,703</u>	<u>594,195</u>
<b>Other Financing Sources (Uses)</b>			
Bonds and notes issued	22,018,939	4,159,350	4,388,662
Premium on bonds issued	1,738,770	-	180,873
Payment to refunded bond escrow agent	(5,908,464)	-	(4,495,824)
Transfers in	1,737,430	1,548,567	1,181,198
Transfers out	(4,943,199)	(5,312,672)	(4,902,601)
<i>Total Other Financing Sources (Uses)</i>	<u>14,643,476</u>	<u>395,245</u>	<u>(3,647,692)</u>
<i>Net Change in Fund Balances</i>	<u>\$ 14,299,977</u>	<u>\$ 5,502,948</u>	<u>\$ (3,053,497)</u>
Debt service as a percentage of noncapital expenditures	6.2%	6.8%	6.5%

	2009	2008	2007	2006	2005	2004	2003
\$	47,881,933	\$ 44,112,396	\$ 38,553,222	\$ 33,281,605	\$ 29,097,429	\$ 26,157,957	\$ 22,117,440
	13,922,143	13,831,745	13,706,607	12,751,463	12,561,124	11,682,536	11,998,532
	3,811,003	4,072,860	4,711,672	4,895,070	5,017,242	4,407,455	4,089,698
	612,431	632,554	570,709	614,863	523,136	586,518	560,924
	8,289,520	8,440,330	8,008,899	8,118,187	8,429,121	6,885,403	6,382,002
	5,521,329	3,640,661	4,015,590	3,291,522	2,963,921	2,512,614	2,053,964
	1,128,148	1,911,742	2,488,030	1,752,771	747,846	535,614	677,625
	81,166,507	76,642,288	72,054,729	64,705,481	59,339,819	52,768,097	47,880,185
	3,869,464	4,401,856	4,336,014	3,607,775	3,892,257	2,865,191	2,023,593
	32,467,482	31,104,717	28,185,979	24,517,032	21,756,557	19,794,752	17,626,862
	5,063,642	4,973,218	4,984,240	4,711,047	4,016,271	3,531,469	3,325,515
	6,784,236	6,659,892	6,328,058	5,873,562	5,606,629	5,207,178	5,331,082
	6,319,490	6,084,432	5,448,588	4,588,339	4,160,215	3,983,490	3,423,427
	5,507,535	5,400,974	4,053,155	3,946,216	3,861,408	3,495,989	3,495,288
	8,048,173	7,544,679	6,580,642	6,147,126	6,182,466	5,081,905	4,828,920
	3,718,202	4,350,085	3,242,665	6,408,284	6,586,267	1,976,492	900,326
	2,164,178	2,245,407	2,750,168	3,077,627	1,878,426	2,757,452	3,033,997
	1,402,028	1,361,330	1,435,689	1,502,910	1,208,203	1,243,195	1,665,365
	-	118,485	-	-	100,217	99,331	-
	75,344,430	74,245,075	67,345,198	64,379,918	59,248,916	50,036,444	45,654,375
	5,822,077	2,397,213	4,709,531	325,563	90,903	2,830,984	2,225,810
	-	12,642,381	-	1,020,000	9,076,100	11,990,767	-
	-	406,051	-	-	-	-	-
	-	(7,125,224)	-	-	-	(11,739,660)	-
	916,016	2,064,944	623,463	1,492,722	1,353,440	1,897,676	35,000
	(6,061,382)	(7,405,672)	(5,550,837)	(4,856,106)	(4,259,489)	(4,157,320)	(1,677,137)
	(5,145,366)	582,480	(4,927,374)	(2,343,384)	6,170,051	(2,107,868)	(1,642,137)
\$	676,711	\$ 2,979,693	\$ (217,843)	\$ (2,017,821)	\$ 6,260,954	\$ 723,116	\$ 583,673
	5.0%	5.2%	6.5%	7.9%	5.9%	8.3%	10.5%

**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
2012	\$ 42,555,644	\$ 12,566,287	\$ 1,162,299	\$ 694,774	\$ 645,900	\$ 57,624,904
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
Change 2003-2012	93.9%	36.1%	-9.7%	-1.3%	-16.7%	69.8%

\* 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
2012	\$10,209,869,114	\$ 13,553,101	\$ 129,845,969	\$10,353,268,184	\$ 0.395	\$ 10,353,268,184	-0.6 %
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

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2003-2012.

**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
2012	\$42,178,831	\$ 41,115,724	97.48 %	-	\$41,115,724	97.48	1,063,107	2.52 %
2011	42,451,063	41,381,958	97.48	982,927	42,364,885	99.80	86,178	0.20
2010	43,222,775	42,215,437	97.67	940,687	43,156,124	99.85	66,651	0.15
2009	47,645,761	46,401,667	97.39	1,196,274	47,597,941	99.90	47,820	0.10
2008	43,751,440	42,264,998	96.60	1,456,451	43,721,449	99.93	29,991	0.07
2007	38,257,770	37,639,139	98.38	618,551	38,257,690	100.00	80	0.00
2006	33,014,184	32,495,310	98.43	518,874	33,014,184	100.00	-	0.00
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

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2003 - 2012.

\* "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	2012	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Harrison Inn Stardust Inc	\$ 65,293,590	0.63%
Americana Stowaway Motel, Inc.	51,684,473	0.50
Genesar	30,636,640	0.30
91st Street Joint Venture	29,902,640	0.29
Delmarva Power	25,070,180	0.24
Harrison Inn 66	24,338,630	0.24
LPBOC Hotel Limited Partnership	22,859,070	0.22
Harrison HI 18 LLC	21,053,190	0.20
Harrison Inn Ocean View	19,168,500	0.19
Harrison QI 17 LLC	16,113,800	0.16
	<u>\$ 306,120,713</u>	<u>2.97%</u>
<b>Total Assessed Valuation</b>	<b>\$ 10,353,268,184</b>	
Taxpayer	2003	
	Property Assessed Valuation (1)	Percentage of Total Assessed Valuation
Americana Stowaway Motel, Inc.	\$ 37,410,280	0.93%
Connectiv	22,644,870	0.56
Ocean View Inc.	21,265,572	0.53
Genesar, Inc.	17,029,400	0.42
LPBOC Hotel Limited Partnership	16,532,600	0.41
Verizon - Maryland	15,848,950	0.39
Harrison QI 17 LLC	14,478,650	0.36
Altantic Hotel Inc.	11,431,626	0.28
Timothy Mark Corp.	11,291,380	0.28
Harrison QI 54 LLC	10,688,570	0.27
	<u>\$ 178,621,898</u>	<u>4.43%</u>
<b>Total Assessed Valuation</b>	<b>\$ 4,014,732,506</b>	

(1) Assessed valuation based on the valuation of property for taxes collected in 2012 and 2003 respectively, and a review of the ten largest taxpayers for the City.

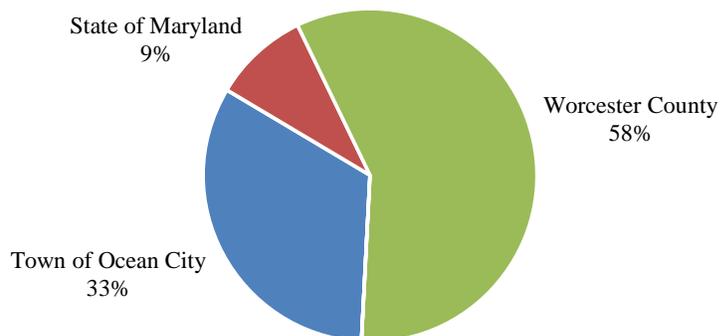
Source: Town of Ocean City Finance Department

**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	
2012	\$	0.395	\$	0.70	\$ 1.207
2011		0.395		0.70	1.207
2010		0.395		0.70	1.207
2009		0.380		0.70	1.192
2008		0.410		0.70	1.222
2007		0.430		0.70	1.242
2006		0.470		0.73	1.332
2005		0.480		0.73	1.342
2004		0.510		0.73	1.372
2003		0.516		0.73	1.330

Source: Town of Ocean City Finance Department

**Percentage of Total Tax Bill by Overlapping Governments**



**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	Estimated Percentage of Personal Income*
	General Obligation Bonds	Inter-Governmental Loans	Loans & Capital Leases	General Obligation Bonds	Inter-Governmental Loans	Capital Leases				
2012	\$ 47,564,219	\$ 674,638	\$ -	\$ 48,526,364	\$ 4,718	\$ -	\$ 96,769,939	0.93%	13,610	43.6 %
2011	32,866,092	720,393	-	48,822,511	14,014	-	82,423,010	0.79	11,606	49.2
2010	31,573,155	766,148	593,389	38,671,516	23,127	-	71,627,335	0.67	9,284	36.0
2009	30,228,391	502,400	1,459,247	45,696,736	32,061	-	77,918,835	0.64	10,304	28.3
2008	32,369,874	672,150	2,498,372	48,954,815	40,819	-	84,536,030	0.81	10,249	28.8
2007	29,496,156	173,855	3,610,632	48,532,564	45,132	-	81,858,339	0.95	10,933	21.7
2006	31,952,059	203,459	5,398,554	48,226,831	-	-	85,780,903	1.26	10,400	28.6
2005	34,730,583	468,716	3,985,354	52,149,050	-	-	91,333,703	1.58	12,443	30.0
2004	27,356,573	740,868	5,111,382	42,909,983	-	34,616	76,153,422	1.57	10,481	37.5
2003	29,613,860	1,077,666	2,657,412	45,471,198	-	66,741	78,886,877	1.96	10,964	35.1

Source: Town of Ocean City Finance Department

\*Ocean City residents occupy 8% of total properties

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>
2012	\$ 96,090,583	0.93%	13,515
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

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**  
 Direct and Overlapping Governmental Activities Debt  
 June 30, 2012

Jurisdiction	Total Debt Outstanding	Percentage Applicable to City *	Amount Applicable to Town of Ocean City
<b>Direct</b>			
Town of Ocean City	<u>\$ 48,238,857</u>	100.0%	<u>\$ 48,238,857</u>
<b>Overlapping</b>			
Worcester County	<u>71,402,612</u>	60.2%	<u>42,341,749</u>
Total direct and overlapping debt	<u><u>\$ 119,641,469</u></u>		<u><u>\$ 90,580,606</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.

**Town of Ocean City, Maryland**  
 Computation of Legal Debt Margin  
 As of June 30, 2012

Assessed Value	<u>\$ 10,353,268,184</u>
Maximum general obligation debt limited to 5.2% of assessed valuation *	\$ 538,369,946
Outstanding bonds	<u>\$ 96,090,583</u>
Net chargeable to bond limit	<u>96,090,583</u>
<b>LEGAL DEBT MARGIN at JUNE 30, 2012</b>	<u><b>\$ 442,279,363</b></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
2012	\$ 10,353,268,184	5.2 %	\$ 538,369,946	\$ 96,090,583	\$ 442,279,363
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

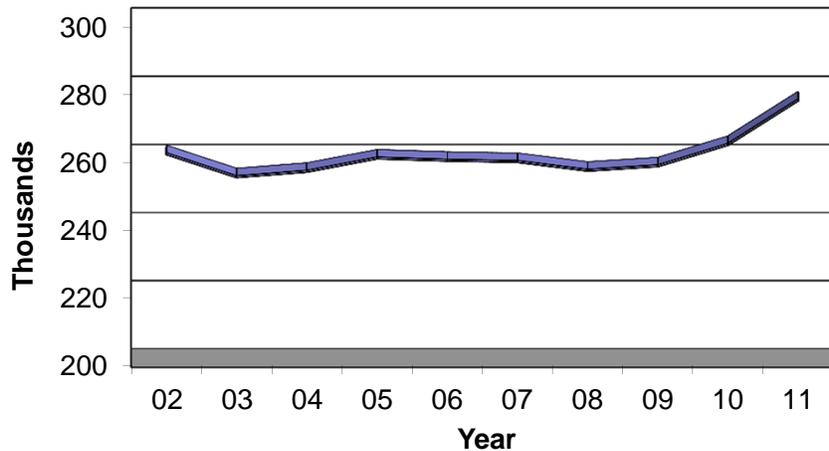
## Town of Ocean City, Maryland

Demographic Statistics  
Calendar Years 2002 - 2011

Year	(1) Population	(2) Median Household Income	(3) Worcester County Personal Income	(4) Median Age	(5) School Enrollment	(6) Unemployment Rate
2011	7,110	\$ 55,492	\$ 2,154,123	54.2	6,699	10.4 %
2010	7,102	54,750	2,036,635	54.2	6,659	9.8
2009	7,715	54,750	2,013,834	47.2	6,673	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	6,830	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

- (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 Weekend Population



**Town of Ocean City, Maryland**  
Principal Employers  
Current Fiscal Year  
Number of employees for quarter ending June 30, 2012

<b>2012</b>		
<u>Employer</u>	<u>Employees</u>	<u>Percentage of Total County Employment</u>
Harrison Group	1,097	3.89 %
Phillips	500	1.77
Bayshore Development	500	1.77
OC Seacrets, Inc.	496	1.76
Clarion Resort Fontaine Bleau	350	1.24
KTG LLC	331	1.17
Fagers Island, Ltd.	297	1.05
Trimpers Rides, Inc.	250	0.89
91st St. Joint Venture	231	0.82
Castle in the Sand, Inc.	<u>184</u>	<u>0.65</u>
Total	<u><u>4,236</u></u>	<u><u>15.03 %</u></u>
Total Worcester County Employees (Data available for county only)	<u><u>28,192</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 2003 is unavailable.

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

<b><u>Function/program</u></b>	<u>2012</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>
General government	36	37	38	39	39	40	40	39	37	36
Public safety	211	210	215	218	223	213	196	187	187	180
General public works	45	46	49	55	54	53	52	50	50	48
Solid waste	23	25	40	44	44	44	44	44	44	44
Highway and streets	22	22	33	36	36	36	36	34	34	34
Tourism	4	4	8	9	9	9	11	11	11	11
Recreation	42	42	48	51	51	48	50	48	47	47
Water	21	21	23	24	25	25	25	25	25	25
Transportation	13	13	16	17	17	17	17	13	13	13
Wastewater	45	45	46	49	48	48	48	47	47	47
Convention center	33	34	35	40	40	40	40	35	35	35
Airport	3	3	3	4	4	3	3	3	3	3
Internal service	30	30	33	36	36	36	36	35	31	30
Full-time employee totals:	528	532	587	622	626	612	598	571	564	553
Part-time employees	837	814	755	799	871	841	793	808	809	863
Total Employees	<u>1,365</u>	<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>

**Source:** Town of Ocean City, Maryland 2003-2012 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	2012	2011	2010	2009
<b>General Information</b>				
Area in square miles	5	5	5	5
Year-round residents	7,110	7,102	7,715	7,638
Registered voters	6,034	5,166	6,549	5,417
Average summer population	276,809	263,765	257,479	256,169
<b>General Government</b>				
Construction permits issued	1,525	1,622	1,501	1,407
Estimated value of construction	\$ 35,460,786	\$ 25,521,294	\$ 36,525,292	\$ 49,378,207
<b>Public Safety - Police</b>				
Total arrests	3,879	3,572	4,213	3,515
Parking violations	13,045	14,705	13,859	12,871
Classified officers	103	102	107	107
Seasonal officers	96	102	90	82
<b>Fire and Emergency Services</b>				
Fire responses	1,303	1,224	1,254	1,429
Ambulance responses	6,025	5,935	5,776	5,529
Fire safety inspections/re-inspections	2,050	2,068	2,010	2,310
Fire investigations	115	136	144	202
Classified fire personnel	4	4	4	4
Volunteer officers, firemen, life honor, gold badge	235	221	219	220
Classified emergency medical technicians	36	36	40	42
Seasonal emergency medical technicians	54	74	58	54
<b>Solid Waste</b>				
Trash processed (tons)	36,069	34,253	33,149	28,959
Trash recycled (tons)	205	283	2,742	3,285
<b>Tourism and Recreation</b>				
Seasonal beach patrol personnel	182	189	189	194
<b>Water</b>				
Daily average consumption (gallons)	5,243,506	5,591,287	5,026,025	5,434,695
Plants Daily Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000
<b>Transportation</b>				
Bus passengers	2,872,472	2,997,578	3,099,117	3,315,614
<b>Wastewater</b>				
Daily average treatment (gallons)	5,747,000	5,731,000	5,766,000	5,428,814
Summer daily treatment average (gallons)	1,050,000	9,986,000	9,595,000	9,237,300
Plants daily treatment capacity (gallons)	14,000,000	14,000,000	14,000,000	14,000,000
Number of customer accounts	28,772	28,781	28,792	28,777
<b>Airport</b>				
Based aircraft	75	67	67	66
Aircraft fueled	4,092	4,081	3,838	3,738

Source: Town of Ocean City Finance Department

2008	2007	2006	2005	2004	2003
5	5	5	5	5	5
7,562	7,487	7,413	7,340	7,266	7,195
6,550	5,447	6,783	5,718	6,251	5,565
258,726	259,105	259,761	255,858	254,251	261,014
1,795	2,065	1,837	1,545	1,245	1,335
\$ 69,597,628	\$ 164,614,258	\$ 184,582,285	\$ 123,622,811	\$ 133,358,845	\$ 104,643,832
3,599	3,925	3,287	4,258	4,450	4,817
11,749	9,284	12,728	10,309	14,153	13,859
107	107	104	96	96	96
110	110	94	105	105	105
1,344	1,460	1,589	1,428	1,621	1,451
5,680	5,580	5,244	5,030	4,981	5,108
3,176	2,990	3,042	4,067	2,110	2,173
257	171	142	251	368	162
3	3	3	3	3	3
230	237	229	218	234	234
42	42	42	33	32	35
41	34	29	32	27	28
31,635	33,447	33,656	33,027	33,941	33,567
3,603	3,096	3,049	3,106	3,283	3,095
208	190	198	185	181	166
5,555,219	5,582,958	5,117,781	4,572,410	4,706,273	4,900,000
18,000,000	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000
3,481,330	3,423,798	3,476,654	3,275,891	3,224,130	3,280,193
5,442,071	5,691,945	5,514,000	5,484,652	5,587,333	5,611,000
9,720,000	9,795,522	9,762,000	9,737,000	10,080,000	10,070,000
14,000,000	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
28,481	28,284	27,964	28,708	28,720	28,717
68	63	48	48	45	45
3,661	7,500	6,936	6,960	6,913	6,975

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

Function/program	2012	2011	2010	2009
<b>Public Safety - Police</b>				
Stations	2	2	2	2
Vehicles	83	84	83	84
<b>Public Safety - Fire and Emergency Services</b>				
Stations	5	5	5	5
Ambulances	9	9	9	9
<b>Highways and Streets</b>				
Streets (miles)	69	69	69	69
Number of streetlights	3,024	3,024	3,024	3,024
Storm sewers (miles)	43	43	43	43
Catch basins	2,315	2,310	2,307	2,307
Heavy equipment	48	48	50	50
<b>Solid Waste</b>				
Heavy equipment	32	32	28	28
<b>Economic Development - Tourism, Recreation, and Culture</b>				
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
<b>Water</b>				
Water mains (miles)	150	141	150	150
Treatment plants	3	3	3	3
Service connections	7,584	7,582	7,077	7,121
Fire hydrants	847	847	846	915
<b>Transportation</b>				
Buses	62	69	55	56
Handicapped buses	3	4	4	3
Trolleys	4	8	8	8
Boardwalk trams	8	8	8	8
<b>Wastewater</b>				
Sanitary sewers (miles)	152	150	150	150
Treatment plants	1	1	1	1
Pumping stations	9	9	9	9
<b>Convention Center</b>				
Convention Center (7,000 seats)	1	1	1	1
<b>Airport</b>				
Runway (2) (feet)	7,270	7,270	7,270	7,270
Square feet of hangars	140,080	140,080	120,860	120,860

Source: Town of Ocean City Finance Department

2008	2007	2006	2005	2004	2003
2	2	2	2	2	2
81	81	85	79	78	75
5	5	5	5	5	5
9	9	9	9	9	9
69	69	69	67	67	67
3,006	2,997	2,942	2,906	2,884	2,884
43	43	43	43	42	42
2,307	2,305	2,289	2,286	2,284	2,284
50	50	50	50	50	49
30	28	28	28	28	28
14 / 6	14 / 6	13 / 6	13 / 7	13 / 7	13 / 7
77	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
7,121	7,096	7,093	7,069	7,073	7,030
915	915	912	817	699	699
55	56	56	56	54	58
3	3	2	3	3	2
8	8	7	-	-	-
8	8	8	8	8	8
150	150	150	150	150	150
1	1	1	1	1	1
9	9	9	9	10	9
1	1	1	1	1	1
7,270	7,270	7,270	7,270	7,270	7,270
120,860	120,860	90,860	90,860	90,860	90,860

