

# Town of Ocean City, Maryland

## Comprehensive Annual Financial Report

### For Fiscal Year Ending June 30, 2017



(cover and facing page)

Summer camps, offered by the Town of Ocean City Department of Recreation and Parks include paddleboarding on the Sinepuxent Bay at Northside Park as well as surfing and junior beach patrol camps which are held on the beach. Summer camps are very popular with residents and visitors and offer children, adults and families a positive environment, encourage physical activity and promote healthy lifestyles while having fun.

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

For Fiscal Year Ended  
June 30, 2017



*Prepared by:*  
Finance Department

Douglas R. Miller  
City Manager

Martha J. Bennett, CPA  
Finance Administrator



**Town of Ocean City, Maryland  
Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2017**

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# **INTRODUCTORY SECTION**

LOCATION MAP

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

OFFICIALS AND DIRECTORS



BINGHAMTON, NY

MASSACHUSETTS  
CONNECTICUT

HARTFORD, CT

NEW YORK  
PENNSYLVANIA

WILLIAMSPORT, PA

SCRANTON, PA



PITTSBURGH, PA



HARRISBURG, PA



ALLENTOWN, PA

NEW YORK

PHILADELPHIA, PA



WILMINGTON, DE

PENNSYLVANIA  
MARYLAND



BALTIMORE, MD



WEST VIRGINIA  
VIRGINIA



WASHINGTON  
D.C.



OCEAN CITY, MD

ROANOKE, VA



RICHMOND, VA



**Location Map**

HAMPTON ROADS, VA

NORTH CAROLINA



RALEIGH, NC



# TOWN OF OCEAN CITY

*The White Marlin Capital of the World*

September 30, 2017

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

Always a tourist destination, Ocean City is also an active residential community of citizens that enjoy living on a slender barrier island between the Atlantic Ocean and wide coastal bays. Many of the Town government's efforts in the 2017 fiscal year addressed the quality of life for residents in a vibrant tourist resort. This report, which summarizes the financial results for the 2017 fiscal year, also identifies those efforts.

I respectfully submit the Comprehensive Annual Financial Report (CAFR) for the Town of Ocean City (the Town) for the fiscal year ended June 30, 2017. 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 government. 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).

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. However, because the cost of internal control should not exceed the estimated benefit of the control, the purpose of this report is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

In accordance with auditing standards generally accepted in the United States, SB & Company, LLC, independent public accountants, have issued an unmodified ("clean") opinion. The independent public accountant concluded that the Town of Ocean City's financial statements for the year ended June 30, 2017, 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

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

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

MAYOR  
RICHARD W. MEEHAN

**CITY COUNCIL MEMBERS**

LLOYD MARTIN  
*President*

MARY P. KNIGHT  
*Secretary*

DENNIS W. DARE  
ANTHONY J. DELUCA  
JOHN F. GEHRIG, JR.  
WAYNE A. HARTMAN  
MATTHEW M. JAMES

DOUGLAS R. MILLER  
*City Manager*

DIANA L. CHAVIS  
*City Clerk*

Ocean City, MD



*Town of Ocean City*  
*Letter of Transmittal*

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.

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 implemented Government Accounting Standards Board Statement 74 (GASB 74) in this fiscal year and has provided required disclosures which improve understanding of other post-employment benefits fund assets and liabilities. The Town's reporting entity is explained in Note 1.B. 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 7,000 permanent residents, with over 6,000 registered voters 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 Council is required to adopt a budget for the fiscal year no later than June 1 preceding the fiscal year beginning July 1. The City Manager and Finance Administrator may approve transfers of appropriations within a department or

*Town of Ocean City  
Letter of Transmittal*

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 four classifications: 1) hotels, motels, and condominium rentals; 2) restaurants and nightclubs; 3) retail shops, the boardwalk and malls; and 4) sport and recreational activities. On busy summer weekends, it is estimated that over 300,000 people visit the resort. 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 at non-peak visitor times with the use of festivals, entertainment, and sporting events. The largest events are Sunfest, Winterfest of Lights, Springfest, the Ocean City Air Show, auto rallies, and motorcycle events which attract thousands of visitors. Youth and family sporting events are encouraged and the Town hosts various tournaments and competitions such as softball, lacrosse, cheerleading, soccer, and skateboarding. 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 Roland E. Powell Convention Center and the Performing Arts Center have also maintained room occupancy levels and restaurant and retail sales.

The Town widely uses advertising, promotions, and social media to publicize the vacation and leisure opportunities in Ocean City, increasing from \$2.1 million a decade ago to \$6.8 million in 2017. For the year ended June 30, 2017, room sales were 5.6% above the prior year and food and beverage sales were up 5%.

There were 1,810 construction permits issued in 2017, compared to 1,855 in 2016. However, the estimated value of construction in 2017 was \$86,385,559 compared to \$61,003,886 in 2016. The following projects are under construction or in the permitting process:

<u>Location</u>	<u>Number of units</u>	<u>Building</u>	<u>Construction value</u>
208 Baltimore Avenue	13 unit add-on, additional floor and pool	Park Place	\$ 4,541,300
13 St Louis Avenue	131	Cambria	17,000,000
11 <sup>th</sup> Street	57	Royalton	6,598,000
16 <sup>th</sup> Street	165	Hyatt (Sea Scape)(east building)	15,090,000
26 <sup>th</sup> Street	63 redevelopment	Crystal Beach	7,484,598
45 <sup>th</sup> Street	120	45 <sup>th</sup> St Village	10,100,000
61st Street	150	Marriott Residence	15,927,045
67 <sup>th</sup> Street	100	Hilton Home 2 Suites	8,127,850
123 <sup>rd</sup> Street	74	Country Inn & Suites	6,547,637

*Town of Ocean City  
Letter of Transmittal*

The Town relies on property taxes for 50% of its general fund revenues. Property tax revenues are directly impacted by the value of homes and new construction. Although the Town has a 0% 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 which is highly sensitive to changing market conditions. As properties in the State of Maryland are assessed on a triennial system, stable property values were anticipated for the 2017 fiscal year. Properties were reassessed for the 2018 fiscal year with a modest increase of 1.5% as increases in values have lagged behind other improvements in the economy. However, as the Town has maintained sound budgeting practices with a focus on multiyear planning, the Town's financial position remains favorable.

**MAJOR INITIATIVES AND DEPARTMENTAL ACTIVITIES**

***Comprehensive Parks Master Plan***

As part of the Town of Ocean City's strategic plan, and its leadership's continued desire to provide an enhanced quality of life for the people of Ocean City, a Comprehensive Parks Master Plan was placed as a priority under the 2016 Policy Agenda. In an effort to collect input from the community as to what amenities and services are important to Ocean City's residents and visitors, the Recreation and Parks Department partnered with Salisbury University's BEACON (Business Economic and Community Outreach Network) program of the Franklin P. Perdue School of business in the creation and conducting of a Vision Survey in April 2016. The survey, offered both online and in hard-copy formats, helped gather the expressed needs and interests of the Town's residents and property owners and their opinions as to how they would like to see the Ocean City Parks System grow.



As the next step in the process, the Recreation and Parks staff scheduled a series of public meetings in the fall of 2016 to provide Ocean City residents and property owners another opportunity to give feedback on what they'd like to see in their neighborhood parks. Five meetings were held at various locations to discuss the Town's various parks and recreational amenities, enticing interested park users to share their thoughts with Recreation and Parks Department staff members.

The Vision Survey results, along with the public comments shared at the Community meetings, were reviewed by the Recreation and Parks Committee, a legislative body established to provide policy guidance to the Recreation and Parks and Special Events Departments. Monthly planning meetings were established to work through the collected data and evaluate practical options with the goal of creating a proposed plan to present to the full Mayor and Council for future funding consideration.

The Comprehensive Parks Master Plan continues to be a work in progress and is scheduled for further discussion at the Town's fall Strategic Planning sessions.

***Spray irrigation system at Eagles Landing Golf Course***



Due to an aging irrigation equipment and the expected costs of repairs, The Town of Ocean City entered into a memorandum of understanding (MOU) with Worcester County to install a new spray irrigation system at Eagle’s Landing Golf Course in August 2016. The MOU allows the treated wastewater effluent from the Mystic Harbour Wastewater Treatment Facility to be stored and spray irrigated on the lands of Eagle’s Landing Golf Course.

The MOU includes the planning, construction, installation and utilization of the holding ponds and spray irrigation system and will remain in effect unless earlier terminated by either party for cause, and not for convenience. It also grants the County an easement for a term of 40 years, at which time the County may renew the easement for an additional 40 years with the same terms and conditions contained in the MOU, except that there will be no additional payment for the spray rights. Due to the seasonal nature of irrigation, the Town has agreed to allow treated effluent redirection on an “as needed basis only”. During the “off season” months when irrigation is not needed at the Golf Course, the effluent will be periodically redirected to the Town through the West Ocean City Sanitary Service Area.

When necessary, and if financially and engineering feasible, the County will complete dredging of the golf course ponds for storage of excess treated effluent and any improvements. The County will pay for the wastewater lines to the Town’s property lines for the golf course and the Humane Society facility, with the Town constructing all piping for the airport connection. Costs for maintenance, repair and replacement including labor for repairs of the spray irrigation system, including any permit required groundwater monitoring, shall be the sole expense of the County. The Town will receive a credit for water and wastewater equivalent dwelling unit equity contribution charges and future capital improvement charges as well as provide compensation for future wastewater equivalent dwelling unit charges at the Town facilities. This agreement is a cost savings to the Town because the Town will not be required to replace the aging equipment or maintain the new system.

***700 mHz Radio System and Communications Department Upgrade***

The Communications Department located at the Public Safety Building is responsible for dispatching fire and police to various types of calls. For this fiscal year, the Communications Department processed an excess of 100,000 calls and of that total over 91,000 calls for service, which includes Police, Fire/EMS, and Beach Patrol. The system that is presently in use was installed in 1993 & 1994. A complete remodel and upgrade was needed in order to service the growing population. The present system is an Enhanced Digital Access Communications System (EDACS) and its outdated technology is no longer supported.



A committee was formed consisting of both internal and external users in 2014 to review the options and products and to solidify and convey recommendations to the Mayor and City Council. The Mayor and City

*Town of Ocean City  
Letter of Transmittal*

Council voted 6-0 and approved to replace the outdated and non-vendor supported 800MHz radio system with digital technology which would also provide interoperability with supporting agencies on May 10, 2016. In August 2016, lease financing was obtained by the Banc of America Public Capital Corporation for the \$5,500,000 project and work began approximately a month later.

The project consists of a complete remodel of communications and radio equipment so that it is fully integrated with Worcester County as well as other local government agencies. The upgrade will be completed in phases and will take two or more years to complete. It will run concurrent with the upgrade of the 911 system. Phase 1 will consist of the 911 system's foundation hardware and will include technology, hardware and console modifications in the communications dispatch center. Phase 2 will consist of mobile radio installations in all emergency vehicles and city buses. Phase 3 will consist of the installation of the system hardware to be totally operational for the spring/summer season of 2018. Supplemental expenses to the project are: 1) new flooring in the Communications Dispatch Center, 2) replacement of the fire station alerting system and 3) ancillary project funding to cover supplementary expenses associated with the project.



***Mobile Command Center***



The Mobile Command Center provides mobile/remote communications as well as command and control for emergencies and planned events. The mobile command center was designed and purchased to allow redundant equipment on the vehicle and as a backup for the Town's 911 Dispatch Center. It is used for a variety of emergency responses from law enforcement activities, fires and other related emergencies and thus, is maintained in a constant state of readiness by the

trained Public Safety personnel. Additionally, a group of reserve personnel are available to supplement manpower resources to the unit.

Personnel assigned to the Mobile Command Group are responsible for meeting minimum training requirements including weekly ramp-up assignments. When activated, the Mobile Command group personnel remain on duty for 12 hour shifts until the emergency is terminated; however, relief crews will be assigned in cases of extended operations. Once the emergency is terminated, the Mobile Command Center is responsible for it being returned to a state of readiness. The Procurement Office ensures all supplies used are replenished. All personnel assigned to the Mobile Command Center as a driver must complete a defensive driving course and are then allowed to operate the Mobile Command Center in an emergency capacity. All other personnel will be able to utilize the Mobile Command Center in a non-emergency capacity.

The Town and its emergency responders have responded to aircraft incidents, search missions, law activities, hazardous material incidents, storms, command and control for fire houses and numerous planned events in Worcester, Wicomico and Sussex Counties. They have traveled throughout Maryland, Virginia and Delaware for communication exercises with other command units in government, non-government and military.

**FINANCIAL INFORMATION AND PLANNING**

**Capital planning.** The Town has adopted a capital improvement plan in conjunction with its strategic plan that includes scheduled replacement of infrastructure and improvements to public facilities. The following improvements are of high priority: park improvements, public works campus plan, street paving, a public works tram storage building and expansion of the Convention Center.

**General fund reserve.** The Town has a policy of maintaining a reserve of 15% of general fund expenditures to handle potential revenue shortfalls, cash flows during peak employment in the summer season, and for emergencies. As of June 30, 2017, that reserve, unassigned fund balance, was 25.7% or \$20,313,783 compared to 23.1% and \$16,968,006 in 2016.

**Bond ratings.** Fitch Ratings upgraded the Town's bond rating from AA- to AA on November 16, 2016, "based on the town's solid financial profile which is underscored by a superior degree of inherent budget flexibility in the form of revenue and spending control." On March 31, 2017, Standard & Poor's Rating Services upgraded the rating on the Town's existing GO debt from AA to AA+. Per their report, "The rating upgrade reflects the Town's continued access to a broad and diverse economy which supports very strong economic metrics, and the Town's strong financial performance." On May 18, 2017, Moody's Investors Service maintained its ratings of Aa2 of the Town.

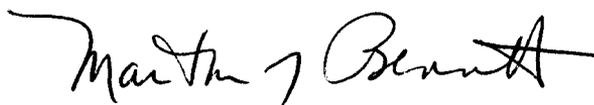
**AWARDS AND ACKNOWLEDGEMENTS**

**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, 2016. This is the 29<sup>th</sup> consecutive year that the Town 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.** The preparation of this report depends on the skill and professionalism of the entire Finance Department. They performed their work for the year following the highest standards of governmental accounting. The Finance Department works very hard to maintain strong internal controls to provide accurate financial reporting to keep the public informed and to assist management decision making.

Respectfully submitted,



Martha J. Bennett, CPA, CGFM, CGMA  
Finance Administrator



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

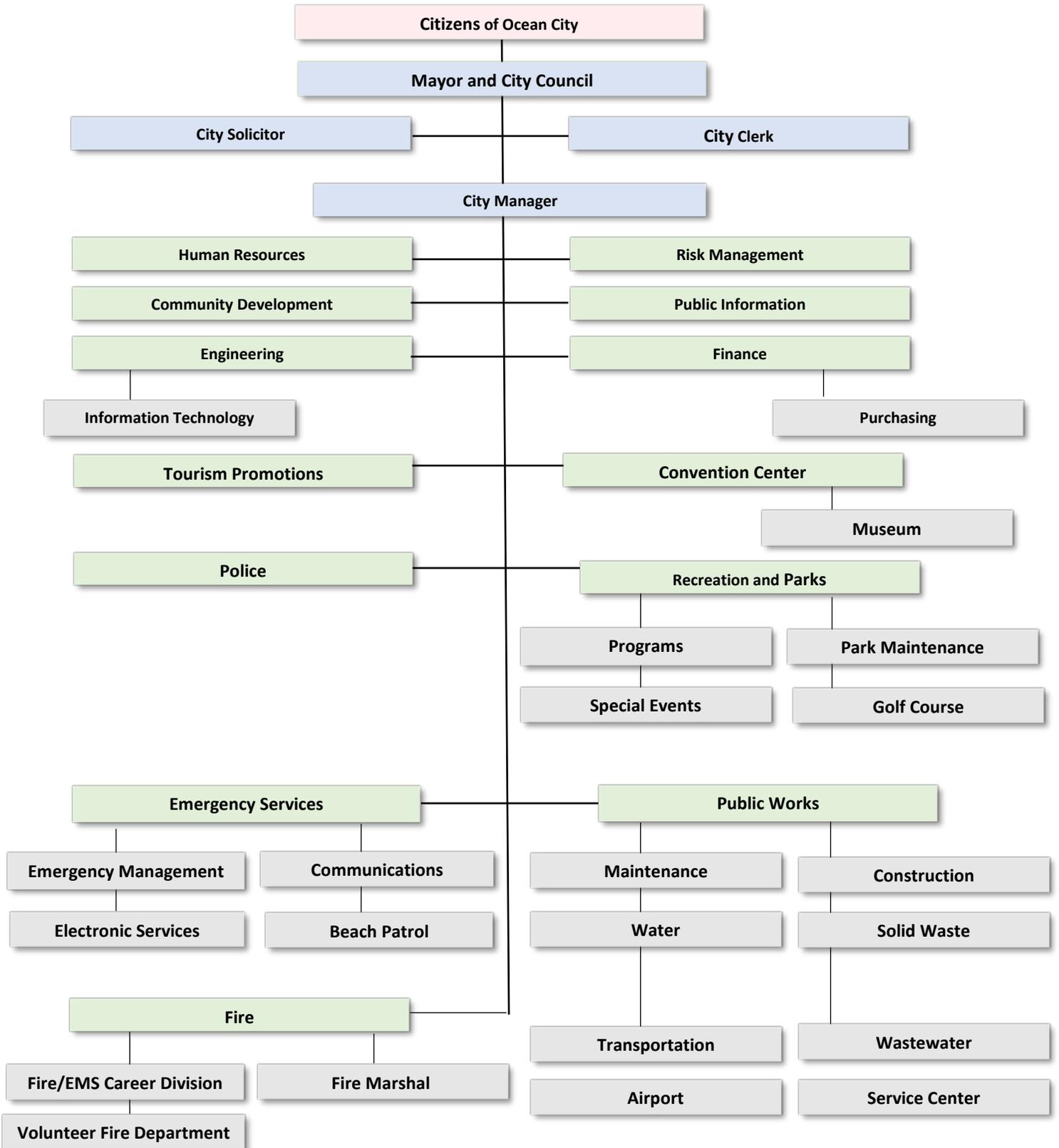
**Town of Ocean City  
Maryland**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2016**

Executive Director/CEO

Town of Ocean City Organizational Chart  
2017



**Town of Ocean City  
List of Principal Officials and Directors  
June 30, 2017**

<u><b>Title</b></u>	<u><b>Name</b></u>
Mayor	Richard W. Meehan
President of Council	Lloyd Martin
Secretary of Council	Mary P. Knight
Council Member	Dennis W. Dare
Council Member	Anthony J. DeLuca
Council Member	John F. Gehrig, Jr.
Council Member	Wayne A. Hartman
Council Member	Matthew M. James
City Manager	Douglas R. Miller
City Solicitor	Guy R. Ayres III
City Clerk	Diana L. Chavis
Finance Administrator	Martha J. Bennett, CPA
City Engineer	Terence J. McGean, PE
Emergency Services Director	Joseph J. Theobald
Chief of Police	Ross C. Buzzuro
Fire Chief	Christopher Larmore
Fire Marshal	David W. Hartley
Public Works Director	Hal O. Adkins
Recreation and Parks Director	Susan L. Petito, CPRP

**General Employees of Ocean City, Maryland Pension Plan  
Public Safety Employees of Ocean City, Maryland Pension Plan  
Other Post Employment Benefits Trust**

**Trustees**

Guy R. Ayres III	Timothy J. King
Lloyd Martin	Michael S. Maykrantz
Richard W. Meehan	Jeff M. Thaler
Karin A. Scott	

## **FINANCIAL SECTION**



**S B & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

## **REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Honorable Mayor  
And Town Council of the Town of Ocean City, Maryland

### **Report on the Financial Statements**

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 and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, of the Town of Ocean City, Maryland, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability and related ratios for the General Employees and Public Safety Employees Pension Plans, the schedule of changes in net OPEB liability and related ratios, and schedules of employer contributions for the OPEB Trust Fund, General Employees and Public Safety Employees Pension Plans be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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 fund statements and schedules and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.



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

The accompanying combining and individual fund statements and schedules are the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Hunt Valley, Maryland  
September 26, 2017

*SB & Company, LLC*

**MANAGEMENT'S DISCUSSION AND ANALYSIS**



Town of Ocean City  
*Management's Discussion and Analysis*  
June 30, 2017

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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, 2017, provided by management. 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 2017**

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the 2017 fiscal year resulting in a net position of \$166,300,267. Of this amount, \$26,749,156 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's overall financial position improved \$9,426,741 or 6.01%. Revenues increased 3.56%. Although the property tax rate was set to maintain the same level of taxes as the prior year, other taxes and services increased \$2,105,769. Expenses decreased \$3,137,356 or 2.74%. There were energy performance improvements, reduced repair costs, and a gain of \$443,225 for the risk management fund compared to losses of \$1,259,788 in 2016. There were gains from governmental activities of \$10,330,113 before transfers of \$2,627,828 to other funds, a net of \$7,702,285. Business-type activities contributed \$1,724,456 to net position.
- As of June 30, 2017 the Town's governmental funds reported a combined fund balance of \$24,340,083, an increase of \$2,013,611 from the prior year. Of the total amount in fund balance, \$652,635 is committed for capital projects, \$2,237,944 is assigned to the fiscal year 2018 budget \$1,135,721 is assigned to purchases on order, and \$20,313,783 is available to meet the Town's current and future needs, and is unassigned fund balance. Unassigned general fund balance at year-end was 25.7% of general fund expenditures, compared to the percentage in FY-2016 of 23.1%, and is in excess of the Town's reserve policy of 15%.
- The Town's net debt decreased by \$1,168,731 in 2017. The Town issued general obligation bonds for \$2,950,000 to purchase land and obtained a capital lease of \$5,500,000 for a new 700mHz radio system. Net debt was decreased by scheduled principal retirements and amortization of bond premiums of \$9,618,731 during the current fiscal year of general obligation bonds and loans, and capital leases.
- As of June 30, 2017, net pension liability of \$23,732,880, related deferred outflows of \$11,527,684 and deferred inflows of \$3,054,274 are recorded in the Statement of Net Position. The Town recognized pension expense of \$4,358,615 in the current fiscal year, comprising of \$4,506,620 for contributions to the pension trust funds and a \$148,005 decrease in the net pension liability. The funded ratio is 85.1% for the General Employees Pension Plan and is 79.9% for the Public Safety Employees Pension Plan. The Town implemented GASB 74 for the Other Post-Employment Benefits Trust (OPEB) in 2017, which was established in 2008. The Town's net OPEB liability was \$27,874,352 at June 30, 2017, with a funded ratio of 51.38%. The Town will record the net OPEB liability in the statement of net position in the next fiscal year upon implementation of GASB 75.

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## **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 the Town finances as a whole in a manner similar to a private sector business.

The *statement of net position* presents information on all the Town's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as *net position*. Increases or decreases in net position, over time, is an indicator as to whether the financial position of the Town is improving or declining.

The *statement of activities* presents information showing how the Town's net position changed during the past fiscal year. All changes in net position 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, expensed but not paid interest, and pension related expenses.

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

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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 is used to report the funding and expenditures for the purchase or construction of capital assets, other than those reported in proprietary funds. The construction may span over more than one fiscal year.

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

The basic governmental fund financial statements can be found on pages 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 transportation (buses and boardwalk trams) which are major funds, and two nonmajor funds, which account for the operations of the municipal airport and the 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 for the non-major fund. Internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for 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. 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 52-83 of this report.

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**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 and OPEB benefits to its employees. Required supplementary information can be found on pages 86-95 of this report.

The combining statements referred to earlier in connection with internal service funds are presented immediately following the required supplementary information on pensions and OPEB. Combining and individual fund statements and schedules can be found on pages 104-109 of this report.

**Government-wide Financial Analysis**

The following tables, graphs and analysis discuss the financial position and changes to the financial position for the Town as a whole as of and for the year ended June 30, 2017 with comparative information for the previous year.

**Statement of Net Position**

Net position may serve over time as a useful indicator of a government's financial position and condition. In the case of the Town, assets and deferred outflows exceeded liabilities by \$166,300,267 at the close of the fiscal year for June 30, 2017, compared to \$156,873,526 for the year ended June 30, 2016, an increase of \$9,426,741.

By far the largest portion of the Town's net position, 82%, 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
	2017	2016	2017	2016	2017	2016	
Current and other assets	\$ 44,101,373	\$ 36,751,735	\$27,278,782	\$ 33,634,074	\$ 71,380,155	\$ 70,385,809	1.3 %
Capital assets	102,355,191	97,226,580	123,066,796	120,044,426	225,421,987	217,271,006	3.8
Total assets	146,356,244	133,978,315	150,445,898	153,678,500	296,802,142	287,656,815	3.1
Deferred Outflows of Resources	10,386,056	12,715,034	1,672,817	2,362,500	12,058,873	15,077,534	-20.0
Long-term liabilities outstanding	71,614,255	72,131,015	53,116,461	59,306,100	124,730,716	131,437,115	-5.1
Other liabilities	11,231,519	9,980,087	3,544,239	3,613,744	14,775,758	13,593,831	8.7
Total liabilities	82,845,774	82,111,102	56,660,700	62,919,844	139,506,474	145,030,946	-3.8
Deferred Inflows of Resources	2,354,177	641,863	700,097	188,014	3,054,274	829,877	268.0
Net position:							
Net investment in capital assets	58,962,839	55,670,509	77,976,227	77,730,796	136,939,066	133,401,305	2.7
Restricted	-	-	2,612,045	2,289,651	2,612,045	2,289,651	14.1
Unrestricted	12,679,830	8,269,875	14,069,326	12,912,695	26,749,156	21,182,570	26.3
Total net position	\$ 71,642,669	\$ 63,940,384	\$94,657,598	\$ 92,933,142	\$ 166,300,267	\$ 156,873,526	6.0 %

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 position, \$2,612,045, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$26,749,156, may be used to meet the Town's ongoing obligations to citizens and creditors. This is an increase of \$5,566,586 from 2016, largely due to increases in revenues from governmental activities.

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For the year ended June 30, 2017, the Town reported positive balances in all three categories of net position, for the Town as a whole, as well as its separate governmental activities. For business-type activities, balances were positive as a whole, however, a nonmajor fund, the golf course fund which reported an unrestricted net deficit of (\$69,846).

As shown in the following chart, the Town's net position increased \$9,426,741 for the year ending June 30, 2017. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

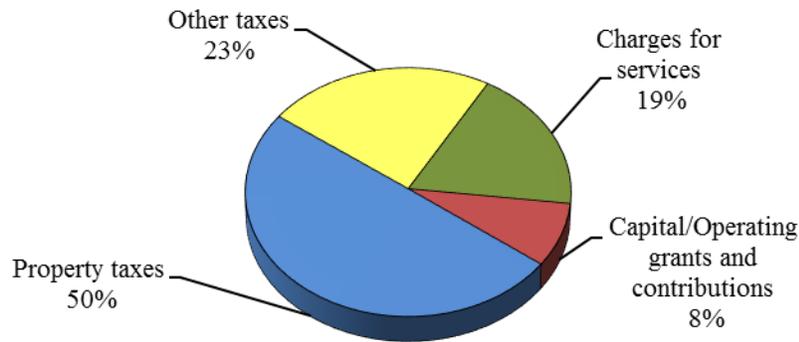
	Governmental Activities		Business-type Activities		Total Primary Government		%
	2017	2016	2017	2016	2017	2016	Change
<b>REVENUES</b>							
<b>Program Revenues:</b>							
Charges for current services	\$ 15,989,689	\$ 15,323,925	\$ 29,235,669	\$ 28,769,084	\$ 45,225,358	\$ 44,093,009	2.57%
Operating grants and contributions	3,370,747	3,301,092	3,823,027	3,652,214	7,193,774	6,953,306	3.46
Capital grants and contributions	335,711	152,732	1,705,045	2,894,257	2,040,756	3,046,989	(33.02)
<b>General revenues:</b>							
Property taxes	42,938,816	42,717,221	-	-	42,938,816	42,717,221	0.52
Other taxes	18,645,893	17,205,888	-	-	18,645,893	17,205,888	8.37
Grants and contributions not restricted to specific programs	3,419,106	3,354,162	-	-	3,419,106	3,354,162	1.94
Other revenues	1,252,210	(706,513)	82,619	(13,705)	1,334,829	(720,218)	(285.34)
<b>Total revenues</b>	<b>85,952,172</b>	<b>81,348,507</b>	<b>34,846,360</b>	<b>35,301,850</b>	<b>\$ 120,798,532</b>	<b>116,650,357</b>	<b>3.56</b>
<b>EXPENSES:</b>							
General government	1,117,684	1,019,892	-	-	1,117,684	1,019,892	9.59
Public safety	35,363,774	35,138,306	-	-	35,363,774	35,138,306	0.64
General public works and beach	7,026,384	7,261,653	-	-	7,026,384	7,261,653	(3.24)
Sanitation and waste removal	6,104,169	6,256,386	-	-	6,104,169	6,256,386	(2.43)
Highways and streets	7,660,939	10,501,844	-	-	7,660,939	10,501,844	(27.05)
Economic development - Tourism	8,813,147	8,343,211	-	-	8,813,147	8,343,211	5.63
Recreation and culture	8,234,584	7,862,344	-	-	8,234,584	7,862,334	4.73
Interest on long-term debt	1,301,378	1,307,810	-	-	1,301,378	1,307,810	(0.49)
Water	-	-	5,751,275	5,869,793	5,751,275	5,869,793	(2.02)
Transportation	-	-	7,929,546	8,228,957	7,929,546	8,228,957	(3.63)
Wastewater	-	-	12,331,189	12,740,636	12,331,189	12,740,636	(3.21)
Convention Center	-	-	5,670,317	6,364,714	5,670,317	6,364,714	(10.91)
Airport	-	-	1,985,010	1,506,936	1,985,010	1,506,936	31.72
Golf Course	-	-	2,082,395	2,106,675	2,082,395	2,106,675	(1.15)
<b>Total expenses</b>	<b>75,622,059</b>	<b>77,691,436</b>	<b>35,749,732</b>	<b>36,817,711</b>	<b>111,371,791</b>	<b>114,509,147</b>	<b>(2.74)</b>
Increase in net position before transfers	10,330,113	3,657,071	(903,372)	(1,515,861)	9,426,741	2,141,210	340.25
Transfers	(2,627,828)	(3,158,019)	2,627,828	3,158,019	-	-	-
Increase in net position	7,702,285	499,052	1,724,456	1,642,158	9,426,741	2,141,210	340.25
Net position, prior year	63,940,384	63,441,332	92,933,142	91,290,984	156,873,526	154,732,316	-
<b>Net position, current year</b>	<b>\$ 71,642,669</b>	<b>\$ 63,940,384</b>	<b>\$ 94,657,598</b>	<b>\$ 92,933,142</b>	<b>\$ 166,300,267</b>	<b>\$ 156,873,526</b>	<b>6.01%</b>

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**Governmental activities:** The economy in the mid-Atlantic region is robust and the Town's continued advertising and tourism promotions have improved sales tax revenues. Employees received increments in January 2016 and January 2017 which resulted in a 2.1% increase in wages. There was a substantial decrease in risk management claims of \$1,444,738. Also, some variances occurred for specific revenue and expense types. Key elements in the net position increase of \$7,702,285 for governmental activities are as follows:

- Property tax revenues and tax penalties and interest increased only 0.52% or \$221,595 due to assessment increase of 1.7% offset by a decrease in the real property tax rate from \$0.478 in 2016 to \$0.4727 per \$100 of assessed value in 2017, or a rate decrease of 1.1%. Property taxes comprised 50% of revenue for governmental activities in 2017 compared to 53% in 2016 and were 36.6% of all Town revenues in 2017.

**GOVERNMENTAL ACTIVITIES  
REVENUE BY SOURCE**



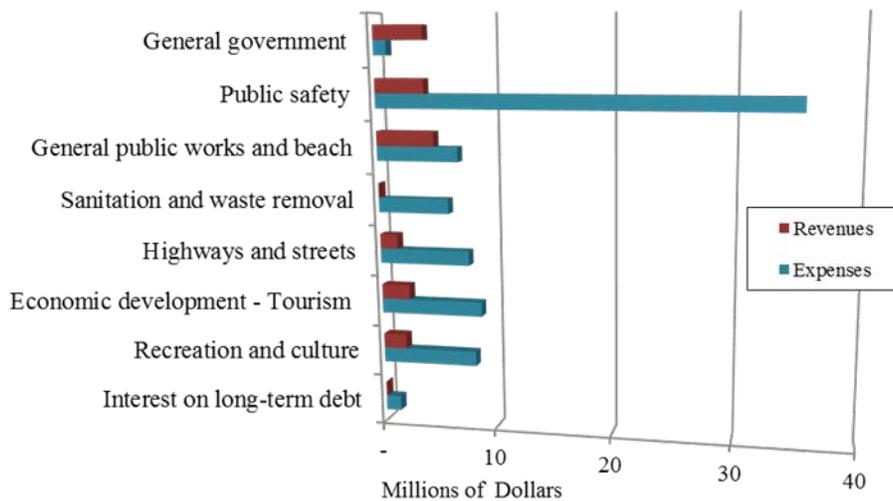
- The largest revenue increase in 2017 was in the category, "Other Taxes". It increased \$1,440,005 or 8.37%. This category includes admissions taxes, income taxes, highway user taxes, and room taxes. Room taxes, the largest revenue source in this category with receipts of \$15,385,278 had an increase of \$810,651, or 5.6% above the prior year. Hotel sales in the resort have increased annually throughout the past decade. Income taxes were \$475,045 above 2016, an increase of 55.5%. In 2017, the State of Maryland made additional income tax distributions of \$76,847 from a correction of a prior year error and \$319,079 and from a reconciliation of 2015 taxes.
- Revenue from charges for services increased \$665,764 in governmental activities. Parking rates and hours of operation were increased on city parking lots and street meters resulting in \$644,717 in additional revenue. A new fee schedule for private events held on city property and labor charges resulted in an increase of \$28,449.
- Revenue from capital grants and contributions increased \$182,979. The Department of Natural Resources awarded the Town a grant of \$225,959 for the new boat ramp at 64<sup>th</sup> Street. A grant of \$109,752 was received for the beach playground at North Division Street from Program Open Space. There was a decrease of \$140,085 in grants from FEMA as the 2016 grants were from damages occurred in 2016 from winter storm Jonas.

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- The category “Other revenue (expense)” increased \$1,958,723 above the prior year. In 2016, a loss was recorded from the exchange of land for amounts less than their recorded value in capital assets. The former Police Department land and other lots were exchanged with the Ocean City Development Company (OCDC) for the land on which the Beach Patrol Headquarters was built, which resulted in a loss of \$1,856,974. The Town also received \$278,232 from Crown Castle for the use of the Town’s right of ways along streets for the installation of cell towers.

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 26.04% of governmental expenses in FY-2017 compared to 24.3% in FY-2016.

**GOVERNMENTAL ACTIVITIES  
EXPENSES AND PROGRAM REVENUES**



- Personnel costs for wages and employee benefits are 63.1% of total expenses for governmental activities. Salaries increased 2.7%, or \$845,618, as increments were given to employees January 1, 2017 and police officers received a 2% cost of living adjustment. The cost of employee benefits decreased 1.6% or \$264,881. In 2016, the increase in net pension liabilities resulted in a pension expense of \$392,290 above the amount of the contribution to the pension funds compared to a credit of \$16,282 in 2017 for the net decrease in pension liabilities.
- Other operating expenses decreased \$2,505,771 or 8.6%. The Town installed new energy efficient street lights and building controls in 2016 for a cost of \$2,731,028, compared to \$107,430 in 2017. Due to the improved lighting systems and lower fuel prices, energy costs were 4.7% lower in 2017, a savings of \$62,985. Repairs to buildings increased \$456,776, which included repairs to Northside park facilities and the Public Safety building. The Town made non-capital repairs and asphalt overlays of streets of \$259,290 compared to \$623,658 in 2016, a decrease of \$364,368 and capitalized \$1,531,485 in street renovations in 2017. Also, canal dredging expense was \$235,222 less in 2017 than in 2016.

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- The Town paid claims of \$1,670,911 in the 2016 fiscal year compared to \$1,066,197 in 2017. Based on an actuarial valuation performed as of July 1, 2015, the claims liability was increased \$563,081 in 2016 compared to a decrease of \$269,380 in 2017 for claims reserves. There was a \$990,250 loss in the risk management fund in 2016. In 2017 the fund reported a gain of \$423,225, with \$338,457 allocated to governmental funds and \$84,768 allocated to business-type activities.
- Transfers to other funds decreased \$530,191 or 16.8%. The subsidy for the transportation fund decreased \$424,345 due to lower operating expenses for fuel and repairs and a local match for capital contributions by the state and federal transportation agencies in 2016 of \$100,000 was not made in 2017. The Town's contribution to subsidize the Convention Center was reduced \$55,176 due to revenue increases at the center of \$135,041 from additional events. The transfer to the airport was \$73,484 less in 2017 than in 2016 as there was a local match for capital contribution from the FAA and MTA of \$100,000 in 2016 compared to \$47,000 in 2017 for the west ramp rehabilitation project.

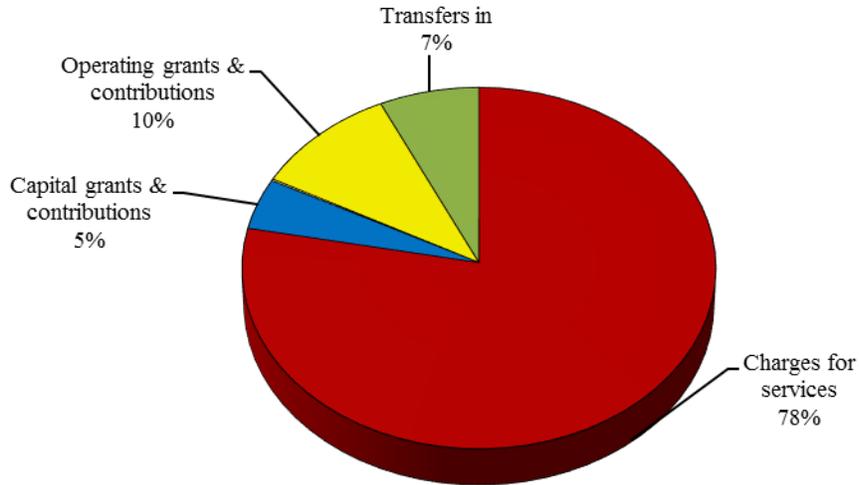
**Business-type activities.** There was an increase of \$1,724,456 in the Town's net position in FY-2017 attributed to business-type activities. Key elements of this increase are as follows:

- Charges for services for business-type activities increased 1.62%, or \$466,585. Revenue from water fees was \$284,920 above the prior year and wastewater revenue increased \$129,382 due to rate increases as scheduled from a 5-year rate study adopted in 2015 to fund capital improvements. Boardwalk tram revenue increased \$27,954 from additional weeks of operation in the spring and fall and bus and tram advertising revenue increased \$54,825. However, these increases did not offset a \$146,784 decrease in bus fare revenue resulting in an overall decrease of \$60,548. The convention center revenue from service fees increased \$135,041 due to an increase of \$61,358 for events in the Performing Arts Center, \$45,256 in concession sales commissions and \$21,957 in service charges from fee rate increases.
- There was a total of \$1,705,045 in capital grants and contributions for business-type activities. State and federal capital grants for new buses and the transportation portion of the campus plan were \$596,750. Capital improvements at the airport of \$508,046 were funded with \$128,611 additional in federal and state grants in 2017 than was received in 2016. Capital contributions from impact fees of \$357,938 was \$256,369 more in 2017 than in 2016 from new hotel and residential construction.
- Expenses decreased 2.9% or \$1,067,979 in 2017 for business-type operations compared to 2016. There were significant decreases in operation costs of \$136,771 in the water fund, \$393,598 in the wastewater fund, and \$526,087 for the convention center fund as there were costs for scheduled repairs and maintenance and energy improvements incurred in 2016 that were not spent in 2017. The adjustment to reflect the consolidation of internal service funds activities to enterprise funds decreased \$416,033 from the adjustment for 2016.

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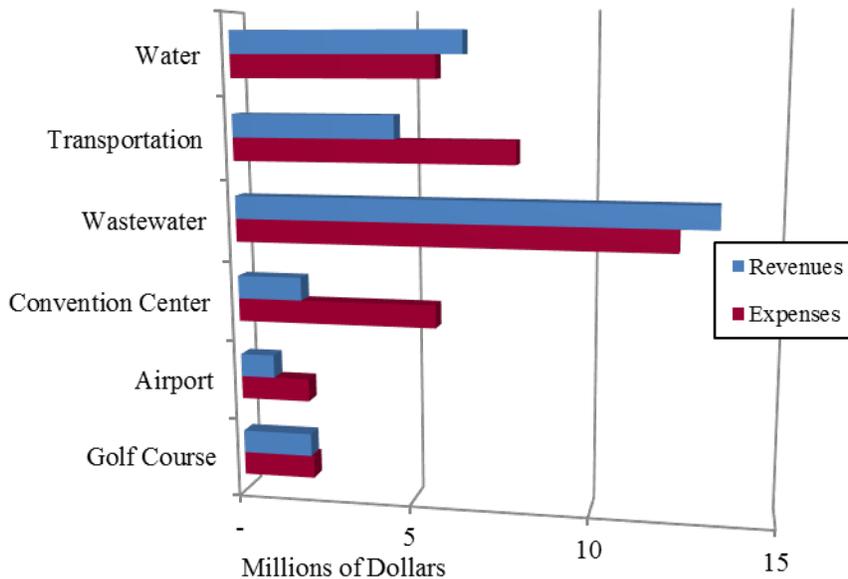
Charges for services were 78% of revenue for business-type activities in 2017, with operating grants and contributions making up 10% of revenue, and capital grants 5% of revenue as shown in the following graph:

**BUSINESS-TYPE ACTIVITIES – REVENUES BY SOURCE**



The following graph indicates the portion of expenses that are covered by charges for services 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, convention center, and airport recovered 47.5% of expenses from user charges in 2017 compared to 45.5% in 2016.

**BUSINESS-TYPE ACTIVITIES – EXPENSES AND PROGRAM REVENUES**



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## **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.

As of June 30, 2017, the Town's governmental funds reported a combined ending fund balance of \$24,340,083 compared to \$22,326,472 in 2016. The fund balance for the governmental funds increased \$2,013,611 primarily due to revenue increases of \$3,247,121 and a decrease of \$3,241,873 in transfers to other funds which offset increases in expenditures.

The General Fund unassigned fund balance, which is available for spending, increased \$3,345,777 from \$16,968,006 in 2016, to \$20,313,783, although the City Council assigned \$2,237,944 to the 2018 fiscal year budget for capital improvements. Total general fund balance increased \$3,889,493 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 decreased from \$0.4740 to \$0.4727 per \$100 of valuation, an assessment increase of 1.75% resulted in only a small increase in property tax receipts of \$660,325. Total General Fund revenues increased 3.95% or \$3,247,121 compared to 2016 primarily due to the increases in the category "Other taxes" of \$1,351,441 and "Charges for current services" of \$667,572. The increase in other taxes for room taxes of \$810,651 is an indicator of the strength in the tourism economy. State-shared income tax increased \$475,045 due to a final release of \$319,079 of 2015 tax receipts and an additional income tax distribution of \$76,847 from a correction of a prior year error. Service fees increased \$667,572 for parking and recreation fees due to rate increases. Revenue from "licenses and Permits" increased \$50,380 due to an increase in cable television franchise fees permits for new construction of \$251,144. There were also increases in the number of room licenses and fees from the cable television franchise.
- The category "Revenue from other agencies" increased \$48,607. There was a decrease of \$190,976 in federal grants for police training and emergency management. However, state grants for police aid, energy improvements and from program open space for the boardwalk playground increased \$246,017 above 2016. Revenue increased a substantial \$45,856 from parking fines in the category "Fines and forfeitures", other fines and forfeiture of funds decreased \$82,914. The category, "Other revenue" increased \$505,854 or 68.2% primarily due to donations for the police mounted and K-9 units and boardwalk benches \$155,539 above 2016 and \$278,232 received from Crown Castle for the use of the Town's right of ways along streets for the installation of cell towers. Impact fees revenue applicable to the general fund increased \$107,066 for new construction.
- General Fund expenditures of \$78,909,251, before other financing sources and uses, were 7.5% or \$5,491,342 more in 2017 compared to 2016. The highest percentage change was for general public

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works of 9%, or \$433,596 for wages and benefits and repairs to city hall, before capital outlay of \$3,366,108 for the purchase of new properties.

- Expenditures were 3.7% higher in 2017 than 2016 for highways and streets, or \$199,444 for lease of heavy equipment for road repairs and construction. Expenditures increased \$570,599 for economic development - tourism as, by policy, the Town dedicates approximately 44% of all revenue from room occupancy taxes to tourism promotion.
- Principal in the amount of \$4,117,460 was retired in 2017, \$550,946 more than in 2016. Interest expenses were \$128,348 below 2016 due to lower principal balances. General obligation bonds of \$2,950,000 were issued in 2017 to purchase two properties for public works facilities.
- Transfers to other funds were \$7,665,882 in 2017 compared to \$5,852,078 in 2016, a decrease of \$1,813,804. Transfers to enterprise funds decreased \$530,191. The subsidy to transportation decreased \$424,345 as it did not include a local share of new buses in 2017. The transfer to capital projects decreased \$1,199,759 as less was spent on street construction and dredging of canals in 2017. Additionally, in 2016, \$83,854 was transferred to the Information Technology Fund to purchase a new town telephone system.
- In 2017, the City Council voted to assign \$2,237,944 of fund balance to provide resources for the 2018 fiscal year budget for canal dredging and street paving.

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. As of June 30, 2017, unassigned general fund balance was \$20,313,783 which represents 25.7% of general fund expenditures compared to 23.1% in 2016. Total general fund balance represents 29% of total expenditures at year-end. At the prior year end, the percentage was 25.9%.

The fund balance for the capital projects fund decreased \$1,875,882 primarily due to expenditures for the following projects which were funded by bond proceeds in 2013, a grant of \$225,959 from the Department of Natural Resources for the boat ramp, energy rebates from Delmarva Power of \$173,758 and a transfer of \$3,224,250 in 2017 from the general fund:

Street paving, sidewalks and storm drains	\$ 1,790,775
Northside park improvements	497,092
Fire station construction	434,290
Energy improvements	162,814
Canal dredging	280,268
Information technology improvements	292,421
Boat ramp	724,848
Public works campus plan	1,256,352
Public safety building repairs	146,869
Comfort station	<u>52,437</u>
Total	<u>\$ 5,638,166</u>

Remaining fund balance of \$1,436,499 is committed for capital projects.

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

- A change in net position of \$848,430 was reported in the water fund compared to \$421,020 in 2016. Rates for water usage were increased April 2016 based on a scheduled rate increase which increased sales by \$164,155. The Town was paid \$118,712 for a water main break caused by a private contractor. Impact fees from new construction were \$130,042, an increase of \$93,052 above the amount received in 2016. Operating expenses decreased \$136,711 or 2.3% due to decreases in repairs to wells and water mains in 2016. Cash flows from operations of \$1,657,430 enabled the purchase of capital assets of \$83,384 for a generator and \$838,582 for a disinfection system. Bond proceeds were used for the construction of a new water tower at 1<sup>st</sup> Street completed in 2017 for \$5,590,662, which replaced two water towers built in the 1950's.
- The wastewater fund had a gain of \$1,306,388 in 2017 compared to a gain of \$594,872 in 2016. Revenues from service charges increased \$129,382 as rates were increased in April 2016 to fund future capital improvements and related debt service. Expenses decreased 393,598 as there were major repairs to the treatment plant and pumping stations in 2016. Capital assets of \$5,230,204 were added for a new clarifier, disinfection system, electrical relocation, and wastewater mains funded by the sale of bonds in 2015.
- The convention center fund had an operating loss of \$3,736,353 in 2017 compared to a loss of \$4,397,481 in 2016. Increased events in the Performing Arts Center and concession commissions caused operating revenue to increase \$135,041. Expenses decreased \$526,087 as \$529,853 was spent on energy improvements in 2016. The convention center fund received subsidies of \$1,349,730 from the Maryland Stadium Authority and \$1,382,007 from the Town, permitting an increase in the net position of the convention center of \$376,612. Debt service for the fund is supported by a tax on food and beverages in Ocean City which contributed \$1,422,769 in 2017, an increase of \$68,263. The debt sinking fund had a balance of \$2,612,045 at year-end and is shown as a restricted portion of net position.
- The weeks of operation were increased during the summer for the boardwalk tram resulting in \$27,954 additional revenue. Advertising panels were increased resulting in \$54,825 in additional revenue. However, revenue from bus fares decreased \$146,784 from the prior year, resulting in total revenue of \$60,548 less than in 2016. Operating expenses were \$168,769 less than in 2016 due to lower personnel costs of \$48,289 and a reduction in building repairs of \$100,462. The fund had an operating loss of \$2,316,226, which was \$108,221 less than the operating loss in 2016, but received \$825,782 in operating grants, capital grants of \$1,863,253, and a transfer from the general fund of \$1,310,013. The fund had an unrestricted net position of \$1,446,541 in 2017 compared to \$1,211,380 in 2016.
- A non-major fund, the golf course fund, reported a deficits in unrestricted net position of \$251,291 in 2016, but due to a gain of \$190,415 in 2017, the deficit in unrestricted net position was \$69,846 in 2017. Due to an agreement with Worcester County to use the golf course for a spray irrigation system of treated wastewater from the Mystic Harbor development, the golf course recognized \$192,311 from Worcester County for a right of way. The County is also installing the new irrigation system which replaces the existing system installed in 1991. The airport fund, a non-major fund, had a loss in net position of \$213,959 in 2017. Expenses increased \$473,829 due to an expense of \$345,450 for an environmental study. The general fund contribution was \$73,484 less than in 2016.

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**Fiduciary funds.**

In 2017, the pension funds had an average money weighted rate of return on investments of 9.64% compared to (3.6%) in 2016. The actuarial value of assets is fair value as of June 30, 2017. The recommended contribution calculation methodology uses a 10-year, level dollar, closed gain/loss basis.

The General Employees Pension Plan funded ratio based on GASB 67, an indicator of funding status, increased from 77.9% to 85.14%. Employees contribute 5% of pay to the plan and the Town contributed \$2,012,896, or 14.1% of pay, to the plan with a 10-year amortization of the unfunded actuarial liability.

The funded ratio increased from 77.5% to 79.9% for the Public Safety Employees Pension Plan. Employees contribute 8% of pay to the plan. The Town contributed \$2,493,724 to the plan, or 23.5% of pay, which includes a closed 10-year amortization of the unfunded liabilities for the plans. Additional information on the pension plans can be found on pages 76-83 of this report.

The General Employees Pension Plan was closed to new entrants in April 2011 and all new general and non-police public safety employees were 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 76 of this report.

In 2008, 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 March 2016. The plan had investment gains of 9.2% for the year. The net liability for the plan is \$27,874,352 and it is being amortized over 21 years. The funded ratio is 48.6% of the total OPEB liability. The Town contributed \$2,965,000 to the plan in 2017 which was 11.9% of covered payroll. Additional information on the OPEB Trust can be found on pages 73-75 of this report.

**General Fund Budgetary Highlights**

Amendments to the adopted budget may occur during the year by ordinance (see Note 1.F. on page 55). Two amendments were made in FY-2017. Differences between the original budget and final amended budget for the general fund resulted in recognition of \$3,647,803 in additional revenues and decreased the amount appropriated from fund balance in the original budget by \$930,807. Appropriations were increased \$5,578,496 for operations, and increased \$88,500 for transfers to other funds. Significant appropriation changes were made as follows:

- Recognized federal, state and county grants of \$988,738 and expended grant proceeds which included grants of \$120,500 for the boardwalk playground, \$41,260 for a bike path; \$460,560 state tourism grant; \$91,343 in grants for the police department for a license plate reader, school bus safety, and highway safety; \$25,978 for hazard mitigation; and \$35,000 for ambulance services.
- Increased anticipated revenue to recognize an additional \$430,390 in room taxes, \$398,172 for income taxes, \$50,000 for admissions taxes and \$25,535 for state-shared casino revenue, and a decrease in anticipated highway user taxes of \$25,535, in the category "Other taxes" and \$525,348 in "Other revenue" for donations of \$88,391 for boardwalk benches and \$54,360 for paramedic training, and \$278,000 for use of town right of ways. Anticipated revenue from "Charges for Current

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Services” was increased \$816,549 for parking fees of \$676,549 due to rate changes and a longer time of meters being in effect, \$110,000 for special event fees, and \$30,000 from higher bids for beach franchise fees. The issuance of bonds for \$2,950,000 was recognized in the category “Other financing sources and uses.

- The budget amendments increased expenditures \$124,395 for workers compensation, \$45,068 for repairs at City Hall, \$3,371,685 to purchase two properties, \$76,695 for design of a new maintenance facility on one of the properties.
- The budget was increased for the category “Economic development-tourism” for advertising and promotion by \$1,479,931. A total of \$1,044,484 was for the above state grant and to follow the Town’s advertising funding policy. Expenses for festivals were increased by \$248,391 for labor and \$179,000 for a new lighted tree and replacement festival structures. The budgets for other categories were reduced primarily due to lower contributions to pension and less cost for energy, and vehicle fuel than was anticipated in the original budget.
- Increase appropriations to capital projects for \$50,000 for information technology improvements and \$450,000 for the public works campus plan, reducing the project cost from the transfer to the Transportation fund. Increase the transfer to the Airport Fund by \$47,000 to fund the local share of the west ramp rehabilitation project. Decrease the appropriation to the Convention Center Fund by \$30,500 also due to lower energy costs.

During the year, revenues were more than final budget estimates by \$1,960,804. Expenditures were \$2,120,369 less than anticipated. Other sources and uses variances were a favorable \$113,318. This resulted in a favorable variance from the budget of \$4,194,491. The key elements of this variation were:

- The category of “Property taxes” was \$521,180 more than anticipated due to additions in prior year taxes and corporate tax. The category of “Other taxes” was \$567,040 above budget due to additional room taxes of \$354,888 from increased hotel occupancy and rates. Income taxes, highway user, and admission taxes also exceeded the final budget by \$212,152 due to additional distributions from the State of Maryland.
- Revenue from “Charges for current services” was \$321,281 above the final budget primarily due to additional parking fees which were \$202,129 above the budget and recreation program fees of \$93,854 above budget due to fee increases.
- The largest variance to the final budget for expenditures was for “Public safety”, which was \$738,733 under budget due to lower costs for part-time salaries, as some positions were not filled; energy and operation of vehicles due to lower fuel costs; and unspent grant funds. The category of “General public works and beach” had expenditures \$246,233 less than anticipated also due to lower energy and fuel costs, \$65,146 of the design of a new maintenance facility that was not completed, and purchase and repair of boardwalk benches of \$72,628 that was not completed by year end.
- The category “Economic Development – Tourism” was under budget by \$432,247. Expenses for advertising were \$293,468, but are anticipated to be expended in the 2018 fiscal year. The special event display was \$79,250 under the final budget and expenses for supplies and energy were \$42,811 less than anticipated. Other functional divisions also had reductions in employee benefits,

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vehicle fuel, and had unspent grant funds. Additionally, spending was less for repairs, supplies, and purchased services.

- The category in other financing sources and uses, "Transfer in", was above budget by \$160,164 for reimbursements to the General Fund from the capital improvement fund for debt service for land purchases paid through a portion of the inlet parking lot revenues dedicated to land purchases by the Ocean City Development Company.

**Capital Assets**

The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2017, was \$225,421,987 (net of accumulated depreciation) compared to \$217,271,006 in 2016. 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 3.8% comprised of a 5.28% increase for governmental activities and 2.52% increase for business-type activities. Additions exceeded depreciation of \$12,482,849 in FY-2017 by \$8,234,380. The total value of all capital assets has been reduced 49.2% by depreciation.

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 pages 66-67 of this report.

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

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2017	2016	2017	2016	2017	2016	
Land	\$ 26,075,318	\$ 22,925,910	\$ 14,552,782	\$ 14,552,782	\$ 40,628,100	\$ 37,478,692	8.4%
Buildings	26,411,289	25,176,958	45,870,052	48,464,494	72,281,341	73,641,452	(1.8)
Other improvements	9,798,334	9,733,662	3,169,699	3,214,971	12,968,033	12,948,633	0.1
Streets and infrastructure	19,199,967	19,319,736	22,982,800	18,526,903	42,182,767	37,846,639	11.5
Machinery and equipment	17,139,792	17,057,343	32,194,706	26,954,753	49,334,498	44,012,096	12.1
Construction in progress	3,730,491	3,012,971	4,296,757	8,330,523	8,027,248	11,343,494	(29.2)
	<u>\$ 102,355,191</u>	<u>\$ 97,226,580</u>	<u>\$ 123,066,796</u>	<u>\$ 120,044,426</u>	<u>\$ 225,421,987</u>	<u>\$ 217,271,006</u>	3.8

**Debt Administration**

At June 30, 2017, the Town had total general obligation bonded debt, backed by the full faith and credit of the Town, outstanding of \$83,626,810. The remainder of the Town's debt is comprised of notes payable to the State of Maryland for \$410,725 and capital leases of \$11,042,660.

The Town issued two 10-year general obligation bonds totaling \$2,950,000 in 2017 to fund the purchase of two properties to be used for public works facilities and a capital lease of \$5,500,000 for a 700mHz radio system and a new dispatch center. The Town paid current maturities of \$9,057,278 in 2017. Outstanding general obligation debt represents 0.95% of the assessed valuation of property in the Town. The debt limit is 5.2% of assessments, leaving a legal debt margin of \$371,400,981.

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The Town received upgrades in its bond ratings from Standard and Poor's Rating Services, on March 31, 2017, from "AA" to "AA+"; and from Fitch Ratings on November 16, 2016, from "AA-" to "AA". Moody's Investor Services Inc. affirmed their rating of "Aa2" on May 18, 2017. Additional information on the Town's debt can be found in Note 8 on pages 68-71 of this report.

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

- The Town sought to keep real property tax revenues at the same level as 2017 by reducing the tax rate from \$.4727 to \$.4656 per \$100 of assessed value. This was accomplished through a combination of increased fees, reductions in expenses, and appropriation of \$2,237,944 of fund balance in the 2018 fiscal year.
- Hotel and rental sales increased 5.56% in 2017. Food and beverage sales increased 5.04% for the fiscal year. Ocean City remains a premier mid-Atlantic resort that is convenient from metropolitan areas. The Town has continued to dedicate over 44% of hotel room taxes to increased advertising of Ocean City as a resort destination.
- Service is a primary function of a Town government in a resort community. Funding for four full-time public safety positions was included in the 2018 budget. Non-union employees are budgeted to receive an increment on January 1, 2018. Firefighter union employees receive a step increment and 1.5% cost of living adjustment (COLA) on July 1, 2017 and police union employees receive a step increase and 2% COLA on January 1, 2018.
- The Town works closely with state and federal emergency agencies and preparedness continues to be a major focus for the Town. All town departments have written disaster, post-disaster, and continuity of operations plans. The 2018 budget invests \$2.1 million into maintaining the beach and boardwalk and the Town has funded its share of the beach replenishment project for 2018. The federally managed project is scheduled to begin in September 2017.
- To continue to maintain infrastructure, property values and pedestrian safety, the 2018 budget funded \$2,200,000 for street paving, \$450,000 for canal dredging, and \$170,000 for street cameras.

All of these factors were considered in preparing the Town's budget for the 2018 fiscal year.

**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 POSITION  
JUNE 30, 2017

	Primary Government		Total
	Governmental	Business-type	
	Activities	Activities	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 6,474,961	\$ 11,739,089	\$ 18,214,050
Investments	26,564,210	7,123,031	33,687,241
Restricted investments	3,318,786	2,994,035	6,312,821
Receivables (net of allowance for uncollectibles)	2,626,353	2,633,417	5,259,770
Interest receivable	49,866	9,661	59,527
Intergovernmental receivable	5,383,204	852,323	6,235,527
Internal balances	(1,107,838)	1,107,838	-
Inventories	791,831	815,888	1,607,719
Other	-	3,500	3,500
Capital assets not being depreciated			
Land	26,075,318	14,552,782	40,628,100
Construction in progress	3,730,491	4,296,757	8,027,248
Capital assets, net of accumulated depreciation			
Buildings	26,411,289	45,870,052	72,281,341
Machinery and equipment	17,139,792	32,194,706	49,334,498
Streets and infrastructure	19,199,967	22,982,800	42,182,767
Other improvements	9,798,334	3,169,699	12,968,033
Total capital assets	<u>102,355,191</u>	<u>123,066,796</u>	<u>225,421,987</u>
Total assets	<u>146,456,564</u>	<u>150,345,578</u>	<u>296,802,142</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred charge on refunding	227,509	303,680	531,189
Deferred outflows related to pensions	10,158,547	1,369,137	11,527,684
Total deferred outflows of resources	<u>10,386,056</u>	<u>1,672,817</u>	<u>12,058,873</u>
<b>LIABILITIES</b>			
Accounts payable and other accrued liabilities	2,485,347	1,381,807	3,867,154
Accrued expenses	3,772,357	551,102	4,323,459
Compensated absences	2,069,660	526,418	2,596,078
Unearned revenue	2,014,533	827,180	2,841,713
Other	889,622	257,732	1,147,354
Long-Term liabilities:			
Due within one year:			
Claims payable	1,155,114	-	1,155,114
Bonds and notes payable	4,870,149	4,456,417	9,326,566
Due in more than one year:			
Claims payable	2,221,029	-	2,221,029
Bonds and notes payable	42,296,004	45,999,123	88,295,127
Net pension liability	21,071,959	2,660,921	23,732,880
Total long-term liabilities	<u>71,614,255</u>	<u>53,116,461</u>	<u>124,730,716</u>
Total liabilities	<u>82,845,774</u>	<u>56,660,700</u>	<u>139,506,474</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	2,354,177	700,097	3,054,274
Total deferred inflows of resources	<u>2,354,177</u>	<u>700,097</u>	<u>3,054,274</u>
<b>NET POSITION</b>			
Net investment in capital assets	58,962,839	77,976,227	136,939,066
Restricted for debt service	-	2,612,045	2,612,045
Unrestricted	12,679,830	14,069,326	26,749,156
Total net position	<u>\$ 71,642,669</u>	<u>\$ 94,657,598</u>	<u>\$ 166,300,267</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, 2017

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary government:</b>			
Governmental activities:			
General government	\$ 1,117,684	\$ 4,285,248	\$ -
Public safety	35,363,774	2,130,314	2,116,707
General public works and beach	7,026,384	4,704,486	64,831
Sanitation and waste removal	6,104,169	116,257	-
Highways and streets	7,660,939	1,355,098	173,758
Economic development - Tourism	8,813,147	1,593,428	860,560
Recreation and culture	8,234,584	1,804,858	102,000
Interest on long-term debt	1,301,378	-	52,891
Total governmental activities	<u>75,622,059</u>	<u>15,989,689</u>	<u>3,370,747</u>
Business-type activities:			
Water	5,751,275	6,494,646	-
Transportation	7,929,546	4,589,633	905,782
Wastewater	12,331,189	13,332,083	113,083
Convention Center	5,670,317	1,840,823	2,804,162
Airport	1,985,010	969,381	-
Golf Course	2,082,395	2,009,103	-
Total business-type activities	<u>35,749,732</u>	<u>29,235,669</u>	<u>3,823,027</u>
Total primary government	<u>\$ 111,371,791</u>	<u>\$ 45,225,358</u>	<u>\$ 7,193,774</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, transfers and other
Change in net position
Net position - beginning
Net position - 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 Position		
	Primary Government		Total
	Governmental Activities	Business-type Activities	
\$ -	\$ 3,167,564	\$ -	\$ 3,167,564
-	(31,116,753)	-	(31,116,753)
225,959	(2,031,108)	-	(2,031,108)
-	(5,987,912)	-	(5,987,912)
-	(6,132,083)	-	(6,132,083)
-	(6,359,159)	-	(6,359,159)
109,752	(6,217,974)	-	(6,217,974)
-	(1,248,487)	-	(1,248,487)
<u>335,711</u>	<u>(55,925,912)</u>	<u>-</u>	<u>(55,925,912)</u>
130,042	-	873,413	873,413
596,750	-	(1,837,381)	(1,837,381)
227,896	-	1,341,873	1,341,873
50,000	-	(975,332)	(975,332)
508,046	-	(507,583)	(507,583)
192,311	-	119,019	119,019
<u>1,705,045</u>	<u>-</u>	<u>(985,991)</u>	<u>(985,991)</u>
<u>\$ 2,040,756</u>	<u>(55,925,912)</u>	<u>(985,991)</u>	<u>(56,911,903)</u>
	42,714,574	-	42,714,574
	224,242	-	224,242
	18,645,893	-	18,645,893
	655,254	-	655,254
	2,763,852	-	2,763,852
	111,056	82,619	193,675
	1,141,154	-	1,141,154
	(2,627,828)	2,627,828	-
	<u>63,628,197</u>	<u>2,710,447</u>	<u>66,338,644</u>
	7,702,285	1,724,456	9,426,741
	63,940,384	92,933,142	156,873,526
	<u>\$ 71,642,669</u>	<u>\$ 94,657,598</u>	<u>\$ 166,300,267</u>

TOWN OF OCEAN CITY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General	Capital Project	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 3,553,020	\$ 140,887	\$ 3,693,907
Investments	21,501,146	1,469,018	22,970,164
Accounts receivable (net of allowances for uncollectibles)	2,601,858	6,163	2,608,021
Intergovernmental receivable	5,281,933	101,271	5,383,204
Due from other funds	155,000	-	155,000
Interest receivable	40,134	476	40,610
	<u>33,133,091</u>	<u>1,717,815</u>	<u>34,850,906</u>
Total assets	<u>\$ 33,133,091</u>	<u>\$ 1,717,815</u>	<u>\$ 34,850,906</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 1,450,219	\$ 281,088	\$ 1,731,307
Accrued liabilities	5,341,894	228	5,342,122
Other	889,622	-	889,622
Unearned revenues	2,014,533	-	2,014,533
	<u>9,696,268</u>	<u>281,316</u>	<u>9,977,584</u>
Total liabilities	<u>9,696,268</u>	<u>281,316</u>	<u>9,977,584</u>
<b>Deferred inflows of resources</b>			
Unavailable revenue-property and income taxes	533,239	-	533,239
Total deferred inflow of resources	<u>533,239</u>	<u>-</u>	<u>533,239</u>
<b>FUND BALANCES</b>			
Committed:			
Capital projects - purchases on order	-	783,864	783,864
Capital projects	-	652,635	652,635
Assigned:			
Purchases on order	351,857	-	351,857
Subsequent year's budget: appropriation of fund balance	2,237,944	-	2,237,944
Unassigned	20,313,783	-	20,313,783
Total fund balances	<u>22,903,584</u>	<u>1,436,499</u>	<u>24,340,083</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 33,133,091</u>	<u>\$ 1,717,815</u>	

Reconciliation to the Statement of Net Position:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.	85,742,835
Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred revenue in the governmental funds.	533,239
Internal service funds are used by management to charge the costs of equipment replacement, and insured risks; and, therefore, the assets and liabilities of the internal service fund are included in governmental activities in the Statement of Net Position, net of portion assigned to business-type activities, \$1,262,838	14,041,794
Long-term liabilities, including bonds payable and net pension liability and related deferred inflows and outflows, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.	(53,015,282)
Net position of governmental activities	<u>\$ 71,642,669</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, 2017

	General	Capital Projects	Total Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 43,211,192	\$ -	\$ 43,211,192
Other taxes	19,301,147	-	19,301,147
Licenses and permits	4,537,307	-	4,537,307
Fines and forfeitures	657,703	-	657,703
Charges for current services	10,515,430	279,249	10,794,679
Revenue from other agencies	6,070,593	225,959	6,296,552
Other revenue	1,247,286	192,990	1,440,276
<b>Total revenues</b>	<b>85,540,658</b>	<b>698,198</b>	<b>86,238,856</b>
<b>EXPENDITURES</b>			
Current:			
General government	3,711,253	292,421	4,003,674
Public safety	33,680,938	156,869	33,837,807
General public works and beach	8,617,726	280,268	8,897,994
Sanitation and waste removal	5,650,586	-	5,650,586
Highways and streets	5,578,687	366,720	5,945,407
Economic development - Tourism	8,664,640	-	8,664,640
Recreation and culture	7,555,865	363,062	7,918,927
Capital outlay	-	4,178,826	4,178,826
Debt service:			
Principal	4,117,460	-	4,117,460
Interest	1,309,827	-	1,309,827
Bond issuance costs	22,269	-	22,269
<b>Total expenditures</b>	<b>78,909,251</b>	<b>5,638,166</b>	<b>84,547,417</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>6,631,407</b>	<b>(4,939,968)</b>	<b>1,691,439</b>
<b>OTHER FINANCING SOURCES (USES)</b>			
Bonds and notes issued	2,950,000	-	2,950,000
Transfers in	160,164	3,224,250	3,384,414
Transfers out	(5,852,078)	(160,164)	(6,012,242)
<b>Total other financing sources and (uses)</b>	<b>(2,741,914)</b>	<b>3,064,086</b>	<b>322,172</b>
<b>Net change in fund balance</b>	<b>3,889,493</b>	<b>(1,875,882)</b>	<b>2,013,611</b>
Fund balances - beginning	19,014,091	3,312,381	22,326,472
Fund balances - ending	<u>\$ 22,903,584</u>	<u>\$ 1,436,499</u>	<u>\$ 24,340,083</u>

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

TOWN OF OCEAN CITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

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

Net change in fund balances for total governmental funds (page 39) \$ 2,013,611

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 exceeded depreciation in the current period by: 3,873,860

Revenues in the statement of activities that do not provide current financial resources  
are not reported as revenues in governmental funds. (277,784)

The repayment of the principal of long term debt consumes the current financial  
resources of governmental funds. The issuance of debt provides current financial  
resources. They do not have any effect on net assets.

Net of principal payments and issuance of general obligation debt 1,145,191

Some expenses and credits reported in the statement of activities do not require the  
use of current financial resources and are not reported as expenditures or credits in  
governmental funds. 120,384

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. 827,023

Change in net position of governmental activities (page 37) \$ 7,702,285

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  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 42,538,210	\$ 42,690,012	\$ 43,211,192	\$ 521,180
Other taxes	17,855,545	18,734,107	19,301,147	567,040
Licenses and permits	4,174,882	4,421,686	4,537,307	115,621
Fines and forfeitures	602,000	642,000	657,703	15,703
Charges for current services	9,377,600	10,194,149	10,515,430	321,281
Revenue from other agencies	4,838,102	5,826,840	6,070,593	243,753
Other revenue	545,712	1,071,060	1,247,286	176,226
<b>Total revenues</b>	<b>79,932,051</b>	<b>83,579,854</b>	<b>85,540,658</b>	<b>1,960,804</b>
<b>EXPENDITURES</b>				
Current:				
General government	3,757,507	3,766,619	3,711,253	55,366
Public safety	33,885,767	34,419,671	33,680,938	738,733
General public works and beach	4,924,404	8,863,959	8,617,726	246,233
Sanitation and waste removal	5,854,954	5,796,995	5,650,586	146,409
Highways and streets	5,660,746	5,760,291	5,578,687	181,604
Economic development - Tourism	7,616,956	9,096,887	8,664,640	432,247
Recreation and culture	7,694,464	7,690,557	7,555,865	134,692
Debt service:				
Principal	4,644,997	4,223,312	4,117,460	105,852
Interest	1,411,329	1,389,060	1,309,827	79,233
Bond issuance costs	-	22,269	22,269	-
<b>Total expenditures</b>	<b>75,451,124</b>	<b>81,029,620</b>	<b>78,909,251</b>	<b>2,120,369</b>
<b>Excess of revenues over expenditures</b>	<b>4,480,927</b>	<b>2,550,234</b>	<b>6,631,407</b>	<b>4,081,173</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds and notes issued	-	2,950,000	2,950,000	-
Transfers in	-	-	160,164	160,164
Transfers out	(5,716,732)	(5,805,232)	(5,852,078)	(46,846)
<b>Total other financing sources (uses)</b>	<b>(5,716,732)</b>	<b>(2,855,232)</b>	<b>(2,741,914)</b>	<b>113,318</b>
<b>Net change in fund balances</b>	<b>(1,235,805)</b>	<b>(304,998)</b>	<b>3,889,493</b>	<b>4,194,491</b>
Fund balances, beginning	19,014,091	19,014,091	19,014,091	-
<b>Fund balances, ending</b>	<b>\$ 17,778,286</b>	<b>\$ 18,709,093</b>	<b>\$ 22,903,584</b>	<b>\$ 4,194,491</b>

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

TOWN OF OCEAN CITY  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2017

	Business-type Activities - Enterprise Funds	
	Water	Wastewater
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 1,884,787	\$ 6,360,654
Investments	2,000,000	5,123,031
Receivables, net	1,169,646	1,033,780
Interest receivable	-	4,579
Intergovernmental receivable	-	2
Inventories	-	657,544
Other	-	-
Total current assets	<u>5,054,433</u>	<u>13,179,590</u>
Noncurrent assets:		
Restricted investments	-	-
Capital assets:		
Land	755,019	2,636,905
Buildings	18,674,452	45,278,400
Other improvements	4,181,727	1,314,357
Streets and infrastructure	29,298,561	10,060,122
Machinery and equipment	4,947,375	54,274,897
Construction in progress	1,552,698	2,090,562
Less accumulated depreciation	(39,204,611)	(59,038,544)
Total noncurrent assets	<u>20,205,221</u>	<u>56,616,699</u>
Total assets	<u>25,259,654</u>	<u>69,796,289</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred charge on refunding	70,975	232,705
Deferred outflows related to pensions	428,888	299,683
Total deferred outflows of resources	<u>499,863</u>	<u>532,388</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	223,835	676,891
Accrued expenses	49,409	338,829
Compensated absences	89,649	186,498
Due to other funds	-	-
Deferred revenue	-	-
Claims and judgments	-	-
Other	240,232	17,500
Current portion of long-term debt	605,198	2,921,823
Total current liabilities	<u>1,208,323</u>	<u>4,141,541</u>
Noncurrent liabilities:		
Claims and judgments	-	-
Bonds, notes, and loans payable	6,235,206	32,366,910
Net pension liability	816,162	563,965
Total noncurrent liabilities	<u>7,051,368</u>	<u>32,930,875</u>
Total liabilities	<u>8,259,691</u>	<u>37,072,416</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflows related to pensions	222,951	140,665
Total deferred inflows of resources	<u>222,951</u>	<u>140,665</u>
<b>NET POSITION</b>		
Net investment in capital assets	13,435,793	26,490,971
Restricted for debt service	-	-
Unrestricted	3,841,082	6,624,625
Total net position	<u>\$ 17,276,875</u>	<u>\$ 33,115,596</u>

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

Business-type Activities - Enterprise Funds				Governmental Activities
Convention Center	Transportation	Nonmajor Enterprise Funds	Total	Internal Service
\$ 1,590,473	\$ 1,545,943	\$ 357,232	\$ 11,739,089	\$ 2,781,054
-	-	-	7,123,031	3,594,046
205,160	127,058	97,773	2,633,417	18,332
5,082	-	-	9,661	9,256
295,906	127,418	428,997	852,323	-
-	-	158,344	815,888	791,831
-	-	3,500	3,500	-
<u>2,096,621</u>	<u>1,800,419</u>	<u>1,045,846</u>	<u>23,176,909</u>	<u>7,194,519</u>
2,612,045	-	381,990	2,994,035	3,318,786
7,456,616	-	3,704,242	14,552,782	-
40,746,535	2,835,349	5,264,396	112,799,132	1,447,083
190,728	81,837	627,874	6,396,523	31,545
-	-	9,799,565	49,158,248	-
1,469,069	1,812,688	830,877	63,334,906	46,336,605
405,795	63,056	184,646	4,296,757	2,474,139
<u>(17,014,731)</u>	<u>(2,442,539)</u>	<u>(9,771,127)</u>	<u>(127,471,552)</u>	<u>(33,677,016)</u>
<u>35,866,057</u>	<u>2,350,391</u>	<u>11,022,463</u>	<u>126,060,831</u>	<u>19,931,142</u>
<u>37,962,678</u>	<u>4,150,810</u>	<u>12,068,309</u>	<u>149,237,740</u>	<u>27,125,661</u>
-	-	-	303,680	-
<u>328,057</u>	<u>143,467</u>	<u>169,042</u>	<u>1,369,137</u>	<u>529,428</u>
<u>328,057</u>	<u>143,467</u>	<u>169,042</u>	<u>1,672,817</u>	<u>529,428</u>
160,921	19,959	300,201	1,381,807	754,040
57,832	83,465	21,567	551,102	78,525
133,399	53,020	63,852	526,418	134,785
-	-	155,000	155,000	-
160,897	-	666,283	827,180	-
-	-	-	-	1,155,114
-	-	-	257,732	-
<u>834,501</u>	<u>-</u>	<u>94,895</u>	<u>4,456,417</u>	<u>682,886</u>
<u>1,347,550</u>	<u>156,444</u>	<u>1,301,798</u>	<u>8,155,656</u>	<u>2,805,350</u>
-	-	-	-	2,221,029
6,410,002	-	987,005	45,999,123	6,097,042
<u>698,071</u>	<u>275,191</u>	<u>307,532</u>	<u>2,660,921</u>	<u>950,874</u>
<u>7,108,073</u>	<u>275,191</u>	<u>1,294,537</u>	<u>48,660,044</u>	<u>9,268,945</u>
<u>8,455,623</u>	<u>431,635</u>	<u>2,596,335</u>	<u>56,815,700</u>	<u>12,074,295</u>
<u>175,958</u>	<u>65,710</u>	<u>94,813</u>	<u>700,097</u>	<u>276,162</u>
<u>175,958</u>	<u>65,710</u>	<u>94,813</u>	<u>700,097</u>	<u>276,162</u>
26,140,499	2,350,391	9,558,573	77,976,227	13,151,213
2,612,045	-	-	2,612,045	-
906,610	1,446,541	(12,370)	12,806,488	2,153,419
<u>\$ 29,659,154</u>	<u>\$ 3,796,932</u>	<u>\$ 9,546,203</u>	<u>93,394,760</u>	<u>\$ 15,304,632</u>
			1,262,838	
			<u>\$ 94,657,598</u>	

TOWN OF OCEAN CITY  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities	
	Water	Wastewater
Operating revenues:		
Charges for sales and services	\$ 6,494,646	\$ 13,332,083
Miscellaneous	-	-
Total operating revenues	<u>6,494,646</u>	<u>13,332,083</u>
Operating expenses:		
Personal services	1,989,751	3,957,699
Contractual services	575,167	601,849
Utilities	411,062	537,431
Repairs and maintenance	270,867	1,083,383
Other supplies and expenses	512,425	877,761
Internal services	806,984	1,095,421
Insurance claims and expenses	-	-
Depreciation	1,019,658	3,134,124
Total operating expenses	<u>5,585,914</u>	<u>11,287,668</u>
Operating income (loss)	<u>908,732</u>	<u>2,044,415</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	23,602	33,934
Operating grants	-	113,083
Interest expense	(213,946)	(1,060,522)
Gain (loss) on disposal of assets	-	(52,418)
Total nonoperating revenues (expenses)	<u>(190,344)</u>	<u>(965,923)</u>
Income (loss) before capital contributions and transfers	718,388	1,078,492
Capital contributions	130,042	227,896
Transfers in	-	-
Change in net position	<u>848,430</u>	<u>1,306,388</u>
Net position - beginning	<u>16,428,445</u>	<u>31,809,208</u>
Net position - ending	<u>\$ 17,276,875</u>	<u>\$ 33,115,596</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.  
Change in net position of business-type activities (page 37)

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

Business-type Activities				Governmental Activities
Convention Center	Transportation	Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 1,840,823	\$ 4,589,633	\$ 2,978,484	\$ 29,235,669	\$ 11,500,003
-	-	-	-	272
<u>1,840,823</u>	<u>4,589,633</u>	<u>2,978,484</u>	<u>29,235,669</u>	<u>11,500,275</u>
2,849,357	3,801,223	1,361,028	13,959,058	2,889,077
99,156	149,352	786,115	2,211,639	1,174,532
532,129	73,013	92,630	1,646,265	123,998
366,722	1,977,504	123,346	3,821,822	562,189
350,927	48,035	840,268	2,629,416	2,595,942
339,527	639,176	299,159	3,180,267	909,802
-	-	-	-	775,307
1,039,358	217,556	509,662	5,920,358	2,540,645
<u>5,577,176</u>	<u>6,905,859</u>	<u>4,012,208</u>	<u>33,368,825</u>	<u>11,571,492</u>
<u>(3,736,353)</u>	<u>(2,316,226)</u>	<u>(1,033,724)</u>	<u>(4,133,156)</u>	<u>(71,217)</u>
11,679	8,537	4,867	82,619	(1,426)
2,804,162	905,782	-	3,823,027	-
(163,685)	-	(55,197)	(1,493,350)	(99,769)
28,802	151	-	(23,465)	135,343
<u>2,680,958</u>	<u>914,470</u>	<u>(50,330)</u>	<u>2,388,831</u>	<u>34,148</u>
(1,055,395)	(1,401,756)	(1,084,054)	(1,744,325)	(37,069)
50,000	596,750	700,357	1,705,045	-
1,382,007	885,668	360,153	2,627,828	-
376,612	80,662	(23,544)	2,588,548	(37,069)
<u>29,282,542</u>	<u>3,716,270</u>	<u>9,569,747</u>		<u>15,341,701</u>
<u>\$ 29,659,154</u>	<u>\$ 3,796,932</u>	<u>\$ 9,546,203</u>		<u>\$ 15,304,632</u>
			(864,092)	
			<u>\$ 1,724,456</u>	

TOWN OF OCEAN CITY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities	
	Water	Wastewater
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers and users	\$ 6,335,779	\$ 13,389,512
Payments to suppliers	(1,851,177)	(3,310,010)
Payments to employees	(2,020,188)	(3,878,985)
Payments for interfund services used	(806,984)	(1,095,421)
Net cash provided (used) by operating activities	<u>1,657,430</u>	<u>5,105,096</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
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	-	113,083
Capital contributions	130,042	227,896
Acquisition and construction of capital assets	(3,184,369)	(5,345,092)
Insurance claim payment	-	-
Bond issuance costs	-	-
Principal paid on capital debt	(845,005)	(1,192,141)
Interest paid on capital debt	(251,900)	(2,821,543)
Proceeds from sales of capital assets	-	-
Net cash provided (used) by capital and related financing activities	<u>(4,151,232)</u>	<u>(9,017,797)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales and maturities of investments	-	-
Purchase of investments	-	(2,013,085)
Interest and dividends received	23,602	33,217
Net cash provided (used) by investing activities	<u>23,602</u>	<u>(1,979,868)</u>
Net increase (decrease) in cash and cash equivalents	(2,470,200)	(5,892,569)
Cash and cash equivalents at beginning of the year	4,354,987	12,253,223
Cash and cash equivalents at end of the year	<u>\$ 1,884,787</u>	<u>\$ 6,360,654</u>

(Continued)

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

Enterprise Funds				Governmental
Convention		Nonmajor	Total	Activities
Center	Transportation	Enterprise		Internal
		Funds		Service
				Funds
\$ 1,878,477	\$ 4,580,978	\$ 3,253,326	\$ 29,438,072	\$ 11,570,981
(1,231,099)	(2,373,114)	(1,764,926)	(10,530,326)	(5,227,462)
(2,866,801)	(3,807,479)	(1,375,732)	(13,949,185)	(2,922,128)
(339,527)	(639,176)	(299,159)	(3,180,267)	(909,802)
(2,558,950)	(2,238,791)	(186,491)	1,778,294	2,511,589
-	-	(145,000)	(145,000)	(175,000)
2,832,403	1,359,465	-	4,191,868	-
1,382,007	885,668	360,153	2,627,828	-
4,214,410	2,245,133	215,153	6,674,696	(175,000)
50,000	875,725	-	1,038,808	-
-	-	645,229	1,003,167	-
(526,969)	(63,056)	(187,018)	(9,306,504)	1,935,274
28,802	-	-	28,802	-
-	-	(142,920)	(142,920)	-
(806,563)	-	-	(2,843,709)	(375,555)
(304,002)	-	-	(3,377,445)	(62,752)
-	151	-	151	135,343
(1,558,732)	812,820	315,291	(13,599,650)	1,632,310
1,422,000	-	-	1,422,000	2,328,000
(1,744,394)	-	(1,976)	(3,759,455)	(5,678,346)
12,435	8,537	4,867	82,658	54,879
(309,959)	8,537	2,891	(2,254,797)	(3,295,467)
(213,231)	827,699	346,844	(7,401,457)	673,432
1,803,704	718,244	10,388	19,140,546	2,107,622
\$ 1,590,473	\$ 1,545,943	\$ 357,232	\$ 11,739,089	\$ 2,781,054

TOWN OF OCEAN CITY  
STATEMENT OF CASH FLOWS (Continued)  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Business-type Activities	
	Water	Wastewater
<b>RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS</b>		
Operating income (loss)	\$ 908,732	\$ 2,044,415
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	1,019,658	3,134,124
<b>EFFECT OF CHANGES IN OPERATING ASSETS &amp; LIABILITIES:</b>		
Accounts receivable	(163,298)	50,928
Inventories	-	(16,787)
Deferred outflows - related to pensions	193,500	119,417
Compensated absences	6,482	3,185
Customer deposits	4,431	6,500
Accounts payable	(81,656)	(192,798)
Accrued expenses	5,300	101,584
Unearned revenue	-	-
Claims liability	-	-
Net pension liability	(399,848)	(246,763)
Deferred inflows - related to pensions	164,129	101,291
Total adjustments	748,698	3,060,681
Net cash provided (used) by operating activities	\$ 1,657,430	\$ 5,105,096

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

Borrowing under capital lease	\$ -	\$ -
Increase (Decrease) in fair value of investments	-	-
Gain (Loss) on disposal of asset	-	(52,417)

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

Convention Center	Transportation	Enterprise Funds		Governmental
		Nonmajor Enterprise Funds	Total	Activities Internal Service Funds
\$ (3,736,353)	\$ (2,316,226)	\$ (1,033,724)	\$ (4,133,156)	(71,217)
1,039,357	217,555	509,662	5,920,356	2,540,647
(8,755)	(8,655)	50,632	(79,148)	70,708
-	-	(35,703)	(52,490)	(28,477)
151,483	55,286	84,034	603,720	218,576
8,422	(9,525)	(326)	8,238	15,993
-	-	-	10,931	-
117,836	(125,209)	113,136	(168,691)	302,359
7,185	15,331	3,957	133,357	1,136
46,409	-	224,210	270,619	-
-	-	-	-	(269,380)
(313,024)	(114,242)	(173,648)	(1,247,525)	(475,248)
128,490	46,894	71,279	512,083	206,492
1,177,403	77,435	847,233	5,911,450	2,582,806
\$ (2,558,950)	\$ (2,238,791)	\$ (186,491)	\$ 1,778,294	\$ 2,511,589

\$ -	\$ -	\$ -	\$ -	\$ 5,500,000
(24,023)	-	-	(24,023)	(52,805)
-	-	-	(52,417)	-

TOWN OF OCEAN CITY  
STATEMENT OF NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	Pension Trust Funds	OPEB Trust Fund
<b>ASSETS</b>		
Cash and cash equivalents	\$ 4,577,628	\$ 664,221
Interest and dividends receivable	135,768	20,492
Investments:		
Domestic equities	37,116,167	10,684,548
Domestic fixed income	24,148,782	6,543,073
International equities	21,664,139	6,156,757
International fixed income	1,714,780	440,007
Alternative investments	21,669,487	5,070,646
Total assets	111,026,751	29,579,744
<b>LIABILITIES</b>		
Accounts payable	9,522	128,096
Total liabilities	9,522	128,096
<b>NET POSITION</b>		
Net position held in trust for pension benefits and other purposes	\$ 111,017,229	\$ 29,451,648

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

TOWN OF OCEAN CITY  
STATEMENT OF CHANGES IN NET POSITION  
FIDUCIARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Pension Trust Funds	OPEB Trust Fund
<b>Additions</b>		
Contributions:		
Employer	\$ 4,506,620	\$ 2,965,000
Plan members	1,627,997	264,541
Total contributions	<u>6,134,617</u>	<u>3,229,541</u>
Miscellaneous Income	-	<u>51,271</u>
Investment earnings:		
Net increase		
in fair value of investments	8,580,745	2,109,162
Interest	483,729	109,254
Dividends	1,735,868	479,537
Total investment income	<u>10,800,342</u>	<u>2,697,953</u>
Less investment expense	<u>725,221</u>	<u>184,417</u>
Net investment income	<u>10,075,121</u>	<u>2,513,536</u>
Total additions	<u>16,209,738</u>	<u>5,794,348</u>
<b>Deductions</b>		
Benefits and refunds paid	6,173,373	1,441,197
Administrative expenses	110,291	-
Total deductions	<u>6,283,664</u>	<u>1,441,197</u>
Change in net position	9,926,074	4,353,151
Net Position - beginning	<u>101,091,155</u>	<u>25,098,497</u>
Net Position - ending	<u>\$ 111,017,229</u>	<u>\$ 29,451,648</u>

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

TOWN OF OCEAN CITY  
*Notes to the Financial Statements*  
June 30, 2017

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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 (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. Description of government-wide financial statements**

The government-wide financial statements, the statement of net position and the statement of activities, report information on all of the nonfiduciary activities of the Town. Fiduciary activities are reported only in the fund financial statements. Governmental activities, which are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities that are supported primarily by fees and charges to external customers.

**B. 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, General Employees Pension Plan and Trust (EPPT) hired before July 1, 2011, which is 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.

*Town of Ocean City*  
*Notes to the Financial Statements*  
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The Town provides a 401(a) self-directed defined contribution plan for non-police 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.

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.

**C. Basis of presentation - government-wide financial statements**

Although separate government-wide and fund financial statements are presented in the report, they are interconnected. The governmental activities column includes data from governmental and internal services funds, while business-type activities includes data from the Town's enterprise funds. 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.

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.

**D. Basis of presentation – fund financial statements**

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category; governmental, proprietary, and fiduciary are presented. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are combined and included in a single column and reported as nonmajor funds.

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.

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 and the transportation fund accounts for the operations of the Town's bus system and boardwalk trams. The Town has two non-major proprietary funds, the airport fund and the golf course fund. The airport fund accounts for the operations of the Ocean City Municipal Airport and the golf course fund accounts for the operations of Eagle's Landing Golf Course.

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.

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

During the course of operations, the Town has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds, the non-current portion of interfund loans. 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.

While these balances are reported in the fund financial statements, eliminations are made in the presentation of the government-wide financial statements. Balances between governmental and internal service funds are eliminated so that only the net amount is included in the governmental activities column. Balances between the funds in business-type activities and internal service funds are eliminated so that only the net amount is included in the business-type activities column.

Transfers of resources occur between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in or transfers out. Eliminations are made in the preparation of government-wide statements so that only the net amounts are included as transfers in the government activities column and the business-type activities column.

**E. Measurement focus and basis of accounting**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis for accounting. Measurement focus determines the type of resource measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions for recognition in the financial statements.

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.

Governmental fund statements are presented using the 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. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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. Revenue from grants based on expenditures is recognized when the qualifying expenditures have incurred and all eligibility requirements have been met, the amount is received in the within 60 days of year end.

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

**F. Budgetary basis of accounting**

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. All annual appropriations lapse at fiscal year-end even if they have been encumbered. Encumbrances are commitments to buy goods and services that have not been executed or performed yet. Encumbrance accounting is used as necessary to assure effective budgetary control and accountability while enabling control of cash. While appropriations and encumbrances lapse at year end, encumbrances for goods and services expected to be received in the next year are re-appropriated and become part of the next year's budget.
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.
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, 2017 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 which sometimes span more than one fiscal year.

**G. Assets, liabilities, deferred outflows/inflows of resources, and net position/fund balance**

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

*Town of Ocean City*  
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Maryland Local Government Investment Pool (MLGIP) created by the State of Maryland and subject to regulatory oversight of the state treasurer. The MLGIP operates in a manner consistent with the requirements of the Securities and Exchange Commission Rule 2a7 of the Investment Company Act of 1940, as amended. The MLGIP operates as a 2a7-like pool and reports all investments at amortized cost (carrying value).

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. Assets available for benefits used to calculate the unfunded pension benefit obligation in the Pension Trust Funds are reported at their actuarial value that reflects a five-year phase-in of actual versus expected return.

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

*2. Inventories and prepaid items*

Inventories are recorded in proprietary funds and are valued at the lower of average cost or market, adjusted for obsolescence, using the first-in/first-out method and 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. The cost of such inventories is recorded as expenditures/expenses when consumed, not when purchased.

Prepaid items record payments to vendors that apply to future accounting periods in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than purchased.

*3. 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 major fund, the airport fund, and are invested at the Maryland Local Government Investment Pool.

Proceeds from a capital lease agreement set aside for the purchase of radios and communication equipment in an internal service fund, the Vehicle & Equipment Trust Fund comprised of cash and cash equivalents in the Town's name and recorded as a restricted asset, capital lease escrow account.

*4. 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 using the producer price index to deflate the cost to the actual or estimated

*Town of Ocean City*  
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acquisition year. Donated assets are stated at their fair market value on the date donated unless received in a service concession agreement, which are reported at acquisition value. 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 primary government are depreciated, which is charged as an expense against their operations. Land and construction in progress are not depreciated. 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

*5. Deferred outflows/inflows of resources*

The statement of financial position reports a separate section for deferred outflows of resources representing a consumption of net position that applies to a future period and is not recognized as an outflow of resources in the current period. The Town has two items that qualify for reporting in this category. The deferred charge on refunding is reported in the government-wide statement of net position and the proprietary funds statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of refunded debt. Changes in total pension liability arising from the differences between expected and actual experience and changes of assumption of future economic and demographic factors are recognized as deferred outflows or inflows of resources. They are amortized over five years and included in pension expenses.

The statement of financial position reports a separate section of deferred inflows of resources which represents an acquisition of net position that applies to a future period and is not recognized as an inflow of resources or revenue until that time. The Town has one type of resource, which occurs under a modified accrual basis of accounting in this category, unavailable revenue, reported in the governmental funds balance sheet. The governmental funds report unavailable revenue from property and income taxes. These amounts are deferred and recognized as an inflow of revenue in the period that the amounts become available.

*6. Long-term obligations*

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, net pension liability and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position.

Bond premiums, discounts, and issuance costs, are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of amounts for bond premiums and discounts. 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 in the period they are incurred.

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*Notes to the Financial Statements*  
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The measurement of net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Town's two employee pension plans (EPPT) and (PSEPP) and additions and deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms.

7. *Net position, fund balance policies, and fund balance flow assumptions*

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

- *Net investment in capital assets* – This category groups all capital assets including infrastructure into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted* – This category presents external restrictions imposed by creditors, grantors, or laws and regulations of other governments.
- *Unrestricted* – This category presents the net position 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 an ordinance approved by a majority vote 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 in the general fund 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.

## H. Revenues and expenditures/expenses

1. *Program revenues*

Direct revenues and 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.

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2. *Property taxes*

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 Notification
Owner-occupied residential: Property taxes payable:		
Delinquent	Oct. 1 & Feb. 1	After 30 days
Terms	60 days	60 days
Delinquent interest	12.0%	18.0%

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 and August, and monthly from September 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.

3. *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. Full-time, permanent employees earn annual vacation leave at the following rates: 1-5 years of service, 10 days; 6-10 years of service, 15 days; 11-19 years of service, 20 days; 20 years of 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, if applicable.

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, no monetary obligation exists.

4. *Proprietary funds operating and nonoperating revenues and expenses*

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.

*Town of Ocean City*  
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**Note 2: Reconciliation of government-wide and fund financial statements**

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position

The governmental fund balance sheet includes a reconciliation between *fund balances – total governmental funds* and *net positions – governmental activities* as reported in the government-wide statement of net position. One aspect of that reconciliation on page 38 explains that “capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.” The details of this \$85,742,835 adjustment are as follows:

Land	\$ 26,075,318
Construction in progress	1,256,352
Buildings	45,541,321
Less: Accumulated depreciation-buildings	(19,298,926)
Machinery and equipment	7,634,048
Less: Accumulated depreciation-machinery, and equipment	(4,458,716)
Streets and infrastructure	49,117,036
Less: Accumulated depreciation-infrastructure	(29,917,069)
Other improvements	23,846,932
Less: Accumulated depreciation- other improvements	<u>(14,053,461)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at new position- governmental activities	<u>\$ 85,742,835</u>

The reconciliation also explains that “internal service funds are used by management to charge the costs of replacement; and, therefore, the assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.” The details of this \$14,041,794 difference are as follows:

Net position of the internal service funds	\$ 15,304,632
Less: Internal payable representing charges in excess of cost to business-type activities – prior years	(2,126,930)
Add: Internal payable representing costs in less than charges to business-type activities – current year	<u>864,092</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 14,041,794</u>

*Town of Ocean City*  
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The final element of that reconciliation explains that “long-term liabilities, including bonds payable and net pension liability, and related deferred inflows and outflows are not due and payable in the current period and therefore are not reported in the funds.” The detail of this \$53,015,282 difference is as follows:

Bonds payable	\$ 35,642,285
Less: Deferred charge on refunding (to be amortized as interest expense)	(227,509)
Add: issuance premium (to be amortized over life to debt)	752,520
Notes payable	410,725
Capital leases	3,580,695
Accrued interest payable	286,585
Net pension liability	20,121,085
Less: Deferred outflow of resources – difference between projected and actual earnings on pension plan investments	(8,134,284)
Deferred outflow of resources - changes in assumptions and benefits	(1,494,835)
Add: Deferred inflow of resources – difference between expected and actual experience	1,390,358
Deferred inflow of resources - changes in assumptions	687,657
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 53,015,282</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenue, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. One component of that reconciliation explains that “governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.”

Capital outlay	\$ 7,895,706
Depreciation expense	(4,021,846)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position - governmental activities	<u>\$ 3,873,860</u>

Another component of that reconciliation states that “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 position. 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. The net effect of these differences in the treatment of long-term debt and related items of \$1,145,191 is as follows:

Principal repayments on general obligation debt	\$ 4,117,460
Issuance of long-term debt	(2,950,000)
Issuance costs	(22,269)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position - governmental activities	<u>\$ 1,145,191</u>

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Also, the reconciliation states that “some expenses and credits reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures or credits in governmental funds.” The details of this \$120,334 difference are as follows:

Accrued interest on debt	\$	7,491
Amortization of bond premiums		183,601
Amortization of deferred charge on refunding		(36,810)
Change in net pension liability		3,545,516
Amortization of effect of difference between projected and actual earnings on pension plan investments		(3,568,427)
Amortization of difference between expected and actual experience		(818,165)
Amortization of changes in pension plan assumptions and benefits		807,178
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position - governmental activities	\$	120,384

Another component of that reconciliation states that “internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of certain activities of internal service funds is reported with governmental activities.” The details of this \$827,023 difference are as follows:

Change in net position of the internal service funds	\$	(37,069)
Net expenses from charges to business-type activities		864,092
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$	827,023

**C. Explanation of certain differences between the proprietary fund statement of net position and the government-wide statement of net position**

The proprietary fund statement of net position includes reconciliation between net position – total enterprise funds and net position of business-type activities as reported in the government-wide statement of net position. The description of the sole element of that reconciliation is “adjustment to report the cumulative internal balance for the net effect of the activity between the internal service funds and the enterprise funds over time.” The details of the \$1,262,838 difference are as follows:

Internal receivable representing in excess of cost to business-type activities – prior years	\$	2,126,930
Internal receivable representing costs in excess of charges to business-type activities – current year		(864,092)
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	\$	1,262,838

***Note 3: Stewardship, compliance, and accountability***

For year ended June 30, 2017, the Council approved two budget amendments to recognize additional revenues of \$6,597,803 to increase appropriations by \$5,489,996 and to decrease the amount of appropriated prior year fund balance by \$930,807, from \$1,235,805 to \$304,998.

***Note 4: Deposits and investments***

**A. Cash on hand**

At year-end, cash on hand for petty cash and change funds was \$46,755.

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**B. Deposits**

At year-end, the carrying amount of the Town's deposits was \$9,350,585 and the bank balance was \$9,477,050. The deposits of the Town were not exposed to custodial credit risk as of June 30, 2017.

**C. Investments**

As of June 30, 2017, 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	\$ 3,795,540	\$ 2,067,563	\$ 1,727,977	-	1.33 %
State investment pool	15,732,752	15,732,752	-	-	.95
U.S. government money market	5,124,500	5,124,500	-	-	.42
Money market mutual fund	3,866,441	3,866,441	-	-	.26
U.S. treasuries	14,305,718	6,205,025	6,006,067	2,094,626	1.47
U.S. agencies	29,406,249	11,568,866	17,167,739	669,644	1.52
Domestic equities	47,800,715	47,800,715	-	-	-
Domestic fixed income	12,519,275	546,534	6,444,157	5,528,581	3.44
International equities	27,820,896	27,820,896	-	-	-
International fixed income	2,154,787	2,154,787	-	-	2.61
Alternative investments	26,740,134	-	26,740,134	-	-
	<u>\$ 189,267,007</u>	<u>\$ 122,888,079</u>	<u>\$ 58,086,077</u>	<u>\$ 8,292,851</u>	

Reconciliation of cash and investments as shown on statement of net position:

Cash on hand	\$ 46,755
Carrying amount of deposits	9,350,585
Carrying amount of investments - (above)	<u>189,267,007</u>
Total cash and investments	198,664,347
Less: amounts in fiduciary funds	<u>(140,450,235)</u>
Total cash and investments per statement of net position	<u>\$ 58,214,112</u>
Cash and cash equivalents	\$ 18,214,050
Investments	33,687,241
Restricted investments	<u>6,312,821</u>
Total cash and investments per statement of net position	<u>\$ 58,214,112</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 70.0% of investments mature in less than one year and permits 30.0% 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 as of June 30, 2017, met the Town's investment policy as of that date.

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Investment income includes the following for the year ended June 30, 2017:

Net interest and dividends	\$	3,309,725
Net increase in fair value of investments		10,382,245
Total investment gain		13,691,970
Less: investment gain in fiduciary funds		(13,498,295)
Total net investment income per statement of activities	\$	193,675

*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. As of June 30, 2017, \$8,783,588 of fiduciary fund investments were rated “BBB” and \$2,478,348 were unrated, with 34.3% of total fixed income securities below single “A” quality.

The \$58,386,029 in fixed income investments as of June 30, 2017, are listed below using the Standard and Poor’s rating scale:

Investment Type	Credit Rating	Domestic Amount	International Amount	Total
US treasuries	AA	\$ 14,305,718	\$ -	\$ 14,305,718
US agencies	AA	29,406,249	-	29,406,249
Corporate and international bonds	AAA	264,275	-	264,275
	AA	219,092	-	219,092
	A	2,928,759	-	2,928,759
	BBB	8,783,588	-	8,783,588
Bond Mutual Funds	Unrated	323,561	2,154,787	2,478,348
Totals		\$ 56,231,242	\$ 2,154,787	\$ 58,386,029

*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 102.0%. As of June 30, 2017, 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.* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The investment policy for the fiduciary, pension trust and OPEB trust funds, permits up to 65.0% of total investments in foreign currency denominated equities, fixed income and natural resource investments. The investment position was 4.9% at year-end, or \$6,882,427.

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The foreign currency risk as of June 30, 2017 is presented in the following table:

Currency	U.S. Dollars
Chinese Yuan	\$ 1,417,940
South African Rand	1,051,735
Brazilian Real	881,354
Indonesian Rupiah	651,785
Russian Ruble	567,209
South Korean Won	431,302
Argentine Peso	421,492
Turkish Lira	352,537
Taiwanese Dollar	321,845
Mexican Peso	316,084
Hong Kong Dollar	189,946
Egyptian Pound	99,920
Philippine Peso	89,655
Thai Baht	89,623
Total foreign currencies	<u>\$ 6,882,427</u>

**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, 2017, was \$8,750,534,443. The Town's real property tax rate was \$0.4727 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 98.1% of current year property taxes levied in the current year. Total property tax collections were 100.4% of current taxes levied.

**B. Receivables**

Receivables as of June 30, 2017 for the government's major and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	Governmental Activities	Business-type Activities	Total
Taxes	\$ 947,686	\$ -	\$ 947,686
Emergency medical	277,316	-	277,316
Accounts	<u>1,448,546</u>	<u>2,633,417</u>	<u>4,081,963</u>
Gross receivables	2,673,548	2,633,417	5,306,965
Less allowance	<u>(47,195)</u>	-	<u>(47,195)</u>
Total	<u>\$ 2,626,353</u>	<u>\$ 2,633,417</u>	<u>\$ 5,259,770</u>

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

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**Note 6: Capital assets**

The following is a summary of governmental capital assets activity for the year ended June 30, 2017:

	Beginning <u>Balance</u>	Transfers and <u>Increases</u>	Transfers and <u>Deletions</u>	Ending <u>Balance</u>
<b>Governmental activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 22,925,910	\$ 3,149,408	\$ -	26,075,318
Construction in progress	<u>3,012,971</u>	<u>3,458,402</u>	<u>(2,740,882)</u>	<u>3,730,491</u>
Total capital assets, not being depreciated	<u>25,938,881</u>	<u>6,607,810</u>	<u>(2,740,882)</u>	<u>29,805,809</u>
<i>Capital assets, being depreciated:</i>				
Buildings	44,515,133	2,473,271	-	46,988,404
Machinery and equipment	51,797,784	3,018,800	(845,931)	53,970,653
Streets and infrastructure	48,800,888	1,549,520	(1,233,372)	49,117,036
Other improvements	<u>23,046,879</u>	<u>831,598</u>	<u>-</u>	<u>23,878,477</u>
Total capital assets, being depreciated	<u>168,160,684</u>	<u>7,873,189</u>	<u>(2,079,303)</u>	<u>173,954,570</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(19,338,175)	(1,238,940)	-	(20,577,115)
Machinery and equipment	(34,740,441)	(2,905,371)	814,951	(36,830,861)
Streets and infrastructure	(29,481,152)	(1,651,254)	1,215,337	(29,917,069)
Other improvements	<u>(13,313,217)</u>	<u>(766,926)</u>	<u>-</u>	<u>(14,080,143)</u>
Total accumulated depreciation	<u>(96,872,985)</u>	<u>(6,562,491)</u>	<u>2,030,288</u>	<u>(101,405,188)</u>
Total capital assets being depreciated, net	<u>71,287,699</u>	<u>1,310,698</u>	<u>(49,015)</u>	<u>72,549,382</u>
Governmental activities capital assets, net	<u>\$ 97,226,580</u>	<u>\$ 7,918,508</u>	<u>\$ (2,789,897)</u>	<u>\$ 102,355,191</u>

The following is a summary of business-type capital assets activity for the year ended June 30, 2017:

	Beginning <u>Balance</u>	Transfers and <u>Increases</u>	Transfers and <u>Deletions</u>	Ending <u>Balance</u>
<b>Business-type activities:</b>				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 14,552,782	\$ -	\$ -	\$ 14,552,782
Construction in progress	<u>8,330,523</u>	<u>3,131,067</u>	<u>(7,164,833)</u>	<u>4,296,757</u>
Total capital assets, not being depreciated	<u>22,883,305</u>	<u>3,131,067</u>	<u>(7,164,833)</u>	<u>18,849,539</u>
<i>Capital assets, being depreciated:</i>				
Buildings	112,860,632	42,900	(104,400)	112,799,132
Machinery and equipment	56,163,030	7,193,107	(21,231)	63,334,906
Streets and infrastructure	43,365,346	5,792,903	-	49,158,249
Other improvements	<u>6,396,523</u>	<u>-</u>	<u>-</u>	<u>6,396,523</u>
Total capital assets, being depreciated	<u>218,785,531</u>	<u>13,028,910</u>	<u>(125,631)</u>	<u>231,688,810</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(64,396,138)	(2,584,924)	51,982	(66,929,080)
Machinery and equipment	(29,208,277)	(1,953,196)	21,233	(31,140,200)
Streets and infrastructure	(24,838,443)	(1,337,006)	-	(26,175,449)
Other improvements	<u>(3,181,552)</u>	<u>(45,272)</u>	<u>-</u>	<u>(3,226,824)</u>
Total accumulated depreciation	<u>(121,624,410)</u>	<u>(5,920,358)</u>	<u>73,215</u>	<u>(127,471,553)</u>
Total capital assets being depreciated, net	<u>97,161,121</u>	<u>7,108,552</u>	<u>(52,416)</u>	<u>104,217,257</u>
Business-type activities capital assets, net	<u>\$ 120,044,426</u>	<u>\$ 10,239,619</u>	<u>\$ (7,217,249)</u>	<u>\$ 123,066,796</u>

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

General government	\$ 154,018
Public safety	498,379
General public works and beach	1,186,008
Highways and streets	1,661,039
Sanitation and waste removal	296,594
Economic development	5,824
Recreation and culture	<u>219,984</u>
	4,021,846
Capital assets held by the Town's internal service funds are charged to the various functions based on usage	<u>2,540,645</u>
Total depreciation – governmental activities	<u>\$ 6,562,491</u>

Depreciation expense was charged to business type activities as follows:

Water fund	\$ 1,019,658
Wastewater fund	3,134,124
Convention Center fund	1,039,358
Transportation fund	217,556
Airport fund	475,731
Golf Course fund	<u>33,931</u>
Total depreciation – business-type activities	<u>\$ 5,920,358</u>

The Town has on-going construction projects as of June 30, 2017. The projects include the radio system; street improvement; water, wastewater plant and airport improvements. At year-end, the Town's obligations with contractors were as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Street paving	1,531,485	783,864
Public works campus plan	1,319,407	166,708
700 MHz radio system	2,474,138	3,025,862
Airport improvements	184,646	322,162
Water mains	1,552,698	77,565
Wastewater pumping stations	191,810	318,155
Wastewater plant improvements	<u>1,898,752</u>	<u>243,730</u>
Total	<u>\$ 9,152,936</u>	<u>\$ 4,938,046</u>

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

Interfund balances exist between the general fund and a minor fund, the airport fund for \$155,000 until grants are received from other governments. The airport fund had intergovernmental receivables of \$428,704 at June 30, 2017.

In governmental funds, a transfer was made from the General Fund of \$3,224,250 to the Capital Projects Fund for capital expenditures.

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Net transfers of \$2,627,828 are shown in the statement of activities. Transfers were made from the general fund to subsidize operations and for capital expenditures.

Convention Center fund	\$ 1,382,007
Transportation fund	885,668
Airport fund	291,307
Golf Course fund	<u>68,846</u>
Total	<u>\$ 2,627,828</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 in prior years in the amount of \$126,306,000. In December 2016, the town issued a general obligation taxable bond of \$1,350,000 to Taylor Bank with an interest rate of 2.70% maturing in 2027 to purchase property at 410 Philadelphia Ave. In March 2017, the Town issued a general obligation bond for \$1,600,000 at 2.50%, maturing in 2027 to purchase property at 200 St. Louis Ave. 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, 2017</u>
Airport Improvement Bond of 2005	2024	3.20%	\$ 1,025,000	\$ 522,500
Airport Improvement Bond of 2006	2016	3.50%	4,100,000	2,585,000
Municipal Refunding Bonds of 2007	2027	3.50 – 5.00%	22,320,000	2,260,000
Municipal Refunding Bonds of 2009	2021	2.00 – 4.00%	12,745,000	5,690,000
Airport Improvement Bond of 2010	2020	5.82%	725,000	559,400
Municipal Purpose Bonds of 2010	2028	1.00 – 5.60%	18,105,000	9,820,000
Municipal Refunding Bonds of 2012	2032	0.50 – 3.08%	33,560,000	28,185,000
Municipal Purpose Bonds of 2013	2023	0.20 – 2.85%	12,700,000	9,300,000
Municipal Purpose Bond of 2014B	2020	2.00%	600,000	308,910
Municipal Purpose Bond of 2015	2035	2.89%	16,760,000	16,180,000
Municipal Refunding Bonds of 2016A	2027	1.92%	5,266,000	5,266,000
Municipal Purpose Bond of 2016B	2027	2.70%	1,350,000	1,350,000
Municipal Purpose Bond of 2017A	2027	2.50%	<u>1,600,000</u>	<u>1,600,000</u>
Total			<u>\$ 130,856,000</u>	<u>\$ 83,626,810</u>

Annual debt service requirements to maturity for general obligation bonds are below. Future federal subsidy for Build America Bonds issued in 2010 of \$1,420,753 is not netted with interest.

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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>
2018	\$ 3,957,628	\$ 1,142,951	\$ 4,421,916	\$ 1,762,236
2019	3,178,780	1,014,779	4,062,280	1,584,865
2020	3,219,940	918,885	4,614,436	1,426,949
2021	3,320,394	815,233	4,339,987	1,239,879
2022-2026	13,220,718	2,480,541	15,262,257	3,958,378
2027-2031	6,864,599	832,435	9,273,873	1,781,000
2031-2036	1,880,226	58,651	6,009,776	434,521
	<u>\$ 35,642,285</u>	<u>\$ 7,263,475</u>	<u>\$ 47,984,525</u>	<u>\$ 12,187,828</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.

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, 2017</u>
Soil erosion control 1 <sup>st</sup> Street	2018	-	\$ 106,112	\$ 4,244
Soil erosion control South Ocean Drive	2023	-	548,115	197,050
Soil erosion control Robin Drive	2029	-	297,171	209,431
Total intergovernmental loans			<u>\$ 951,398</u>	<u>\$ 410,725</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>
2018	\$ 48,504
2019	44,260
2020	44,260
2021	44,260
2022	44,260
2023-2026	<u>185,181</u>
Total	<u>\$ 410,725</u>

**C. Capital leases**

The Town entered into a lease agreements as lessee with Bank of America for financing the acquisition of radio equipment in 2017. Equipment and services with a 10-year estimated useful life is valued at \$5,500,000. The Town also has leases with Bank of America for construction equipment valued at \$1,655,483 and an energy performance contract valued at \$4,460,000.

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These lease agreements qualify as capital leases for accounting purposes and have been recorded at the present value of future minimum lease payments as of June 30, 2017 as follows:

Year ending June 30	Governmental Activities	Business-type Activities
2018	\$ 864,017	\$ 34,501
2019	910,401	36,751
2020	939,852	38,804
2021	970,382	41,232
2022	990,361	41,629
2023-2027	4,409,763	246,101
2028-2031	<u>1,275,847</u>	<u>243,019</u>
	<u>\$ 10,360,623</u>	<u>\$ 682,037</u>

**D. Legal debt margin**

The Town's legal debt margin as of June 30, 2017 based on 5.2% of assessable property was \$371,400,981. As of June 30, 2017 the total outstanding debt applicable to the limit was \$83,626,810 which is 0.96% of assessable property.

**E. Changes in long-term liabilities**

During the year ended June 30, 2017, 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	\$ 36,592,696	\$ 2,950,000	\$ (3,900,411)	\$ 35,642,285	\$ 3,957,628
Intergovernmental loans	462,069	-	(51,344)	410,725	48,504
Premium	<u>936,121</u>	<u>-</u>	<u>(183,601)</u>	<u>752,520</u>	<u>-</u>
Total bonds and loans payable	37,990,886	2,950,000	(4,135,356)	36,805,530	4,006,132
Capital leases	5,401,883	5,500,000	(541,260)	10,360,623	864,017
Claims and losses	<u>3,645,523</u>	<u>796,817</u>	<u>(1,066,197)</u>	<u>3,376,143</u>	<u>1,155,114</u>
Governmental activities Long-term liabilities	<u>\$ 47,038,292</u>	<u>\$ 9,246,817</u>	<u>\$ (5,742,813)</u>	<u>\$ 50,542,296</u>	<u>\$ 6,025,263</u>
<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	\$ 52,517,225	\$ -	\$ (4,532,700)	\$ 47,984,525	\$ 4,421,916
Premium	<u>2,166,829</u>	<u>-</u>	<u>(377,852)</u>	<u>1,788,977</u>	<u>-</u>
Total bonds payable	54,684,054	-	(4,910,552)	49,773,502	4,421,916
Capital lease	<u>713,600</u>	<u>-</u>	<u>(31,563)</u>	<u>682,037</u>	<u>34,501</u>
Business-type activities Long-term liabilities	<u>\$ 55,397,654</u>	<u>\$ -</u>	<u>\$ (4,942,115)</u>	<u>\$ 50,455,539</u>	<u>\$ 4,456,417</u>

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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.A. 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 80.0% of insurance cost and business-type activities 20.0%.

**Note 9: Other information**

**A. Risk management**

The Town is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, and acts of God. The Town established the risk management fund (an internal service fund) to account for and finance its uninsured risks of loss.

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

All funds of the Town participate in the program and make payments to the risk management fund based on estimates of the amounts needed to pay prior and current year claims, pay premiums to insurance carriers for excess coverage and to establish a reserve for catastrophic losses. The fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. Liabilities for worker's compensation losses incurred are estimated at the fixed or reasonably determinable payment expected to be incurred over a long period of time discounted at their present value using a 3.5% discount rate. The worker's compensation and property and casualty costs are based on separately determined actuarial valuations performed as of July 1, 2016.

Changes in the fund's claims liability amount over two years since 2015 were:

Claims liability as of June 30, 2015	\$	3,082,442
Current year claims		872,034
Changes in estimates		1,361,958
Claim payments		<u>(1,670,911)</u>
Claims liability as of June 30, 2016		3,645,523
Current year claims		748,537
Changes in estimates		48,280
Claim payments		<u>(1,066,197)</u>
Claims liability as of June 30, 2017	\$	<u>3,376,143</u>

As of June 30, 2017, the risk management fund had cash and investments of \$4,130,921 to pay claims.

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**B. 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.

As of year-end, the amount of encumbrances expected to be paid in the following year totaled \$365,845 in the General Fund and \$783,864 in the capital projects fund.

**C. Intergovernmental assistance**

In 1995, 2010, and 2013 the Mayor and City Council entered into agreements with the State of Maryland for the construction, operation, and contributions for the expansion and improvement of the Roland E. Powell Convention Center through the Maryland Stadium Authority (the Authority). The Authority pays 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, 2017, the amount of the contribution was \$1,349,730.

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. The County implemented a 1.0% 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 and \$8,470,000 in 2013 for the expansion of the convention center. Sales tax receipts of \$1,422,768 were \$364,060 more than debt service for year ended June 30, 2017. Cumulative receipts and interest of \$2,612,045 in excess of debt service is shown on the statement of net position for proprietary funds as net position, restricted for debt service. The balance of the debt was \$6,200,000 as of June 30, 2017.

**D. New accounting pronouncements**

The GASB has issued Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plan*, GASB Statement No. 76; entitled, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*; and GASB Statement No. 77; entitled, *Tax Abatement and* GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*, which the Town has implemented in the current year. The GASB has issued Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits (OPEB) Other Than Pensions*; which is effective for the next fiscal year. Implementation of GASB 75 will result in recording of a net OPEB liability of \$27,874,352 in the statement of net position.

The GASB has also issued *Statement No. 83, Certain Asset Retirement Obligations*, *Statement No. 84, Fiduciary Activities*, *Statement No. 85, Omnibus 2017*, *Statement No. 86, Certain Debt Extinguishment Issues*, and *Statement No. 87, Leases* which will require adoption in the future, if applicable. These statements may or will have a material effect on the Town's financial statements once implemented. The Town will be analyzing the effects of these pronouncements and plans to adopt them as applicable by their effective date.

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**Note 10: Other Post Employment Benefits (OPEB)**

**A. General Information and Plan Description**

*Plan administration.* In 2008, the Town established a 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. There are seven trustees: the mayor, City Council president, four trustees appointed by the Mayor and approved by the City Council and two trustees elected by active plan members. The City Council has the authority to establish and amend benefits. Separate financial statements are not issued for the OPEB Trust.

*Plan membership:* At June 30, 2017, OPEB Trust membership consisted of the following:

Active employees	500
Retirees and beneficiaries receiving benefits	142
Inactive plan members entitled to but not receiving benefits	<u>12</u>
Total	<u>654</u>

*Summary of significant accounting policies:* Contributions are recognized in the period in which the contributions are contributed to the plan. 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 market value.

*Benefits provided.* The OPEB Trust offers post-retirement medical, dental, vision, and prescription coverage for employees. Benefits are provided through a third-party insurer. 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 Worcester County in 1994 receive post-retirement health benefits for retirees and their dependents. The Plan subsidizes a portion of the health insurance premiums. For wastewater fund employees, the subsidy is 90.0%. Employees who have retired after January 1, 1998 with 15 years of service receive an 80.0% subsidy. Employees who have a date of hire from July 1, 2006 to June 30, 2011, have a 25 year service requirement to receive an 80.0% subsidy. Employees hired after July 1, 2011, who retire after 25 years of service, receive the current benefit amount of \$644 increased a maximum of 3.0% per year until they reach age 65. The Town's retirees under age 65 pay a higher rate based on the retirees' 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 retirees' experience, there is no implicit subsidy.

**B. Funding policy and contributions**

In 2014, the City Council adopted a funding policy for the OPEB Trust to make annual contributions based on projected pay-as-you-go financing requirements, with an additional amount to amortize the unfunded actuarial accrued liability (UAAL) as determined biannually by an actuarial valuation. The transitional UAAL is being amortized over a closed 21 year period beginning in 2017 and each new incremental UAAL will be amortized over a closed 10 year period beginning with the year it is incurred. For the year ended June 30, 2017, the Town's contribution rate was \$2,965,000, which was 11.9% of covered-employee payroll. The contribution included \$1,251,000 for current premiums, and an additional \$1,714,000 to amortize the UAAL. Active employees are not required to contribute to the plan. Plan members receiving benefits contributed \$264,540, or 18.4% of total premiums through their required contribution.

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C. Investments

*Investment policy.* The Trustees establish and can amend the investment policy for the plans' assets by a majority vote of the members. The policy defines various major asset classes, asset allocations and acceptable ranges that are to be employed. The policy requires asset classes with low correlations to each other to provide sufficient diversification to minimize overall portfolio volatility. The following was the Trustees' adopted asset policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	40%
International equity	20
Fixed income	30
Alternatives	<u>10</u>
Total	<u>100%</u>

*Rate of return.* For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 9.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

D. Net OPEB Liability

The components of the net OPEB liability of the Town at June 30, 2017, were as follows:

Total OPEB liability	\$ 57,326,000
Plan fiduciary net position	<u>(29,451,648)</u>
Town's net OPEB liability	<u>\$ 27,874,352</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 51.38%

E. Actuarial assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016 using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate	2.2%
Salary increases	5 to 10 percent, including inflation
Investment rate of return	7.0 percent, net of OPEB plan investment expense, including inflation
Mortality	RP 2014 fully generational combined mortality table projected from 2014 using scale MP 2014
Health care cost trend rates:	5.3% for 2017, increasing to 5.5% in 2020, then Decreasing to an ultimate rate of 3.8% in 2075

The long-term expected rate of return on OPEB plan investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation.

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Best estimates of arithmetic real rates of return for each major asset class included in the pension plans target asset allocation as of June 30, 2017 is as follows:

Asset Class	% of Portfolio	Assumed Rate of Return	Inflation	Real Rate of Return
Domestic equities	40.0%	9.1%	2.0%	7.1%
Developed international equities	15.0	8.7	2.0	6.7
Emerging markets equities	5.0	10.5	2.0	8.5
US investment grade fixed	25.5	4.9	2.0	2.9
International fixed	1.5	4.5	2.0	2.5
TIPS	3.0	5.3	2.0	3.3
Alternative investments	10.0	5.5	2.0	3.5
Total	100.0%	7.5%	2.0%	5.5%

*Discount rate.* The discount rate used to measure the total OPEB liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that Town contributions will be made at rates determined by the funding policy, equal to the actuarially determined contribution rate. Based on those assumptions, the OPEB plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. The discount rate determination does not use a municipal bond rate.

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability of the plan, calculated using the discount rate of 7.0%, as well as what the plan's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1.0% decrease (6.0%)	Current rate 7.0%	1.0% increase (8.0%)
Net OPEB liability	\$ 36,197,633	\$ 27,874,352	\$ 21,131,547

*Sensitivity of the net OPEB liability to changes in the health care trend rate.* The following presents the net OPEB liability of the plan, calculated using the trend rate of 5.56%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (4.56%) or 1-percentage point higher (6.56%) than the current rate:

	1.0% decrease (4.56%)	Current trend rate 5.56%	1.0% increase (6.56%)
Net OPEB liability	\$ 20,294,315	\$ 27,874,352	\$ 37,417,793

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**Note 11: Employee retirement systems**

**A. Defined contribution plan**

Effective July 1, 2011, the Town established an IRC 401(a) plan for employees hired after April 1, 2011 except sworn police officers. 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.

The Town provides a 5.0% match of the employees required contribution to the 401(a) plan and up to an additional 2.0% to the plan for a potential total contribution of 7.0% of base annual salary, if the employee contributes the additional 2.0%. For the year ended June 30, 2017, there were 147 employees in the plan. Employee contributions totaled \$314,962 and the Town recognized pension expense of \$314,962. The market value of the 401(a) plan assets totaled \$2,525,824 as of June 30, 2017.

Employees are immediately vested in their own contributions and earnings on those contributions. Employer contributions vest at 20.0% per year with vesting of 100.0% 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.

**B. Single employer 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 and all police sworn officers; the Employees of Ocean City, Maryland Pension Plan and Trust (EPPT) and the Ocean City, Maryland Public Safety Employees Pension Plan and Trust (PSEPP). Descriptions of the two plans and their net pension liabilities are provided separately below. Separate reports for the pension plans are not available. Disclosures for accounting policies, administration, investments, and actuarial assumptions for the Town's two single employer plans are as follows:

*Summary of significant accounting policies:* The accounts of the two single employer 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.

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*Administration:* Per Code Chapter §C-1006 of the Town of Ocean City, the Trustees of Employees of Ocean City, Maryland Pension Plans function as the investment and administrative agent for the Town with respect to the single-employer defined benefit plans, the EPPT and PESPP. There are seven trustees: the mayor, City Council president, four trustees appointed by the Mayor and approved by the City Council and one trustee elected by active plan members. The City Council has the authority to establish and amend benefits.

*Investments:* The Trustees establish and can amend the investment policy for the plans' assets by a majority vote of the members. The policy defines various major asset classes, asset allocations and acceptable ranges that are to be employed. The policy requires asset classes with low correlations to each other to provide sufficient diversification to minimize overall portfolio volatility. The following was the Trustees' adopted asset policy as of June 30, 2017:

<u>Asset Class</u>	<u>Target Allocation</u>
Domestic equity	30%
International equity	19
Fixed income	28
Alternatives	<u>23</u>
Total	<u>100%</u>

For the year ended June 30, 2017, the annual money weighted rate of return on pension plan investments, net of investment expense was 9.74% for the EPPT and 9.53% for the PSEPP. The money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Actuarial Assumptions.* Total pension liability was determined by an actuarial valuation as of April 1, 2017 and rolled forward using appropriate techniques to June 30, 2017, utilizing the Entry Age Normal actuarial funding method. Since the previous valuations, various economics and demographic assumptions have been revised to reflect the results of the experience investigation for the five-year period ending April 1, 2016. The changes adopted by the Board on May 30, 2017, include various demographic and economic assumptions summarized below:

- The investment return assumption decreased from 7.50% to 7.00%.
- The price inflation assumption decreased from 3.00% to 2.75%.
- The wage inflation assumption decreased from 3.50% to 3.25%.
- The mortality assumption changed from the RP-2000 Combined Mortality Table, with mortality improvements projected to 2018 using Scale AA to the more recent RP-2014 Blue Collar Mortality Table, with mortality improvements projected to 2020 using Scale BB, adjusted 130% for males and 100% for females.
- The rates of Withdrawal were changed to a service based table to more closely reflect experience since this is a closed plan.
- The rates of Retirement were changed to more closely reflect actual experience.
- The salary scale merit and promotion rates were decreased to more closely reflect actual experience.

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The long-term expected rate of return on pension plan investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans target asset allocation as of June 30, 2016 is as follows:

Asset Class	% of Portfolio	Assumed Rate of Return	Inflation	Real Rate of Return
Domestic equities	37.0%	10.3%	2.3%	8.0%
Developed international equities	17.0	9.9	2.3	7.6
Emerging markets equities	3.0	11.8	2.3	9.5
US investment grade fixed	22.0	5.0	2.3	2.7
International fixed	5.0	5.5	2.3	3.2
TIPS	3.0	4.7	2.3	2.4
Hedge funds	10.0	6.1	2.3	3.8
Private equity	3.0	14.3	2.3	12.0
Total	100.0%	8.40%	2.3%	6.1%

*Discount rate.* The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Town contributions will be made at rates determined by the funding policy, a rate equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determination does not use a municipal bond rate.

The condensed financial statements of the plans are as follows:

Condensed statement of net position

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
Assets:			
Cash and receivables	\$ 2,430,600	\$ 2,282,796	\$ 4,713,396
Investments	52,488,681	53,824,674	106,313,355
Total assets	54,919,281	56,107,470	111,026,751
Liabilities:			
Total liabilities	3,621	5,901	9,522
Net position:			
Held in trust for pension benefits	\$ 54,915,660	\$ 56,101,569	\$ 111,017,229

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Condensed statement of changes in fiduciary net position

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
Additions:			
Contributions	\$ 2,761,617	\$ 3,373,000	\$ 6,134,617
Investment gain	5,007,901	5,067,220	10,075,121
Total additions	<u>7,769,518</u>	<u>8,440,220</u>	<u>16,209,738</u>
Deductions:			
Benefits and refunds paid	2,724,322	3,449,051	6,173,373
Administrative expenses	49,226	61,065	110,291
Total deductions	<u>2,773,548</u>	<u>3,510,116</u>	<u>6,283,664</u>
Change in net position	4,995,970	4,930,104	9,926,074
Net position - beginning of year	49,919,690	51,171,465	101,091,155
Net position - end of year	<u>\$ 54,915,660</u>	<u>\$ 56,101,569</u>	<u>\$ 111,017,229</u>

1. General Employees Pension Plan (EPPT)

- a. *Membership.* The plan covers all non-public safety employees and wastewater employees hired after July 1, 1994. The plan was closed to new entrants as of April 1, 2011. The following table summarizes the membership of the system as of April 1, 2017, the valuation date:

Retirees and survivors currently receiving benefits	183
Terminated vested employees entitled to but not yet receiving benefits	46
Inactive nonvested members	13
Active members	<u>241</u>
Total	483

- b. *Benefits.* 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 provides retirement benefits which are a monthly income payable for life in an amount equal to 50.0% 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. Participants contribute 5.0% of pay. 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 1.0% of other service.

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- c. *Funding policy and contributions.* The City Council adopted a funding policy for the EPPT in 2014 that provides for annual Town contributions based upon an annual actuarial valuation. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance the unfunded liability over a closed ten-year period. All administrative costs are paid by the EPPT. The contribution for the 2017 fiscal year was determined using the projected unit credit actuarial cost method. The contribution to the EPPT for 2017 was \$2,012,896 computed through an actuarial valuation performed as of April 1, 2016 and represented 14.05% of covered payroll. Members contributed \$748,721, a rate of 5.0% of annual base pay.
- d. *Net Pension Liability of the Town for the EPPT.* The changes in the net pension liability for year ended June 30, 2017 is as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2016	\$ 64,075,646	\$ 49,919,690	\$ 14,155,956
Changes for the year:			
Service cost	1,033,828	-	1,033,828
Interest	4,705,358	-	4,705,358
Differences between expected and actual experience	(1,208,856)	-	(1,208,856)
Changes in assumptions	(1,379,730)	-	(1,379,730)
Contributions - employer	-	2,012,896	(2,012,896)
Contributions - employee	-	748,721	(748,721)
Net investment income	-	5,007,901	(5,007,901)
Benefit payments, including refunds of employee contributions	(2,724,322)	(2,724,322)	-
Administrative expense	-	(49,226)	49,226
Net changes	426,278	4,995,970	(4,569,692)
Balance as of June 30, 2017	\$ 64,501,924	\$ 54,915,660	\$ 9,586,264

EEPT net position as a percentage of total pension liability      85.14%

- e. *Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the plan, calculated using the discount rate of 7.0%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1.0% decrease (6.0%)	Current rate 7.0%	1.0% increase (8.0%)
Net pension liability	\$ 16,207,798	\$ 9,586,264	\$ 3,870,581

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- f. *Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.* For the year ended June 30, 2017, the Town recognized pension expense of \$1,530,394 for the EEPT. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to the EEPT from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,453,842
Changes in assumptions		1,103,784
Net difference between projected actual earnings on pension plan investments	4,957,761	-
Total	\$ 4,957,761	\$ 2,557,626

The above amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending June 30
2018	\$ 1,196,062
2019	1,196,062
2020	586,238
2021	(578,227)
Total	\$ 2,400,135

The schedule of changes in the net pension liability, schedule of Town contributions, and a schedule of investment returns is presented as Required Supplementary Information (RSI) following the notes to the financial statements on pages 86 and 88-89.

## 2. Public Safety Employees Pension Plan (PSEPP)

- a. *Membership.* 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). The following table summarizes the membership of the system as of April 1, 2017, the valuation date:

Retirees and survivors currently receiving benefits	74
Terminated vested employees entitled to but not yet receiving benefits	3
Inactive nonvested members	9
Active members	148
Total	234

- b. *Benefits.* The pension 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 60.0% of final average monthly compensation, reduced for years of service less than 25 at exit age. 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

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credit for each 176 hours of unused sick leave for the benefit amount, not retirement eligibility, with a credit assumption equal to 3.0% of other service.

- c. *Deferred Retirement Option Program (DROP).* Participants can elect to enter DROP when they reach 25 years of service, continue making employee contributions and retire within the next three years. At retirement, the benefit is the 25-year benefit plus the lump sum (or annuity equivalent) of the monthly benefits not received during the DROP period.
- d. *Funding policy and contributions.* The City Council adopted a funding policy for the PSEPP in 2014 that provides for annual Town contributions based upon an annual actuarial valuation. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, with an additional amount to finance the unfunded liability over a closed ten-year period. All administrative costs are paid by the EPPT. The contribution for the 2017 fiscal year was determined using the projected unit credit actuarial cost method. The contribution to the PSEPP for 2017 was \$2,493,724 computed through an actuarial valuation performed as of April 1, 2016 and represented 23.54% of covered payroll. Members contributed \$879,276, a rate of 8.0% of annual base pay.
- e. *Net Pension Liability of the Town for the PSEPP.* The changes in the net pension liability for year ended June 30, 2017 is as follows:

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2016	\$ 66,016,678	\$ 51,171,465	\$ 14,845,213
Changes for the year:			
Service cost	1,476,450	-	1,476,450
Interest	4,824,250	-	4,824,250
Differences between expected and actual experience	(488,687)	-	(488,687)
Changes in assumptions	979,444	-	979,444
Changes in benefit terms	889,100	-	889,100
Contributions - employer	-	2,493,724	(2,493,724)
Contributions – employee	-	879,276	(879,276)
Net investment income (loss)	-	5,067,220	(5,067,220)
Benefit payments, including refunds of employee contributions	(3,449,052)	(3,449,052)	-
Administrative expense	-	(61,064)	61,064
Net changes	4,231,505	4,930,104	(698,599)
Balance as of June 30, 2017	\$ 70,248,183	\$ 56,101,569	\$ 14,146,614

PSEPP net position as a percentage of total pension liability      79.86%

*Town of Ocean City*  
*Notes to the Financial Statements*  
*June 30, 2017*

- f. *Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the plan, calculated using the discount rate of 7.0%, as well as what the plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	<u>1.0% decrease (6.0%)</u>	<u>Current rate 7.0%</u>	<u>1.0% increase (8.0%)</u>
Net pension liability	\$ 22,210,621	\$ 14,146,614	\$ 7,358,082

- g. *Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.* For the year ended June 30, 2017, the Town recognized pension expense of \$2,635,587 for the PSEPP. As of June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to the PSEPP from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 485,237
Changes in assumptions	783,555	-
Changes in benefit terms	711,280	-
Net difference between projected actual earnings on pension plan investments	<u>5,063,676</u>	<u>-</u>
Total	<u>\$ 6,558,511</u>	<u>\$ 485,237</u>

The above amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	Year Ending June 30
2018	\$ 2,169,982
2019	2,169,982
2020	1,505,932
2021	<u>227,378</u>
Total	<u>\$ 6,073,274</u>

The schedule of changes in the net pension liability, schedule of Town contributions, and a schedule of investment returns is presented as Required Supplementary Information (RSI) on pages 87 and 90-91.



## **REQUIRED SUPPLEMENTARY INFORMATION**

### **PENSION TRUST FUNDS**

Schedule of Changes in Net Pension Liability and Related Ratios  
General Employees Pension Fund

Schedule of Changes in Net Pension Liability and Related Ratios  
Public Safety Employees Pension Fund

Schedule of Employer Contributions  
General Employees Pension Fund

Schedule of Employer Contributions  
Public Safety Employee Pension Fund

### **OPEB TRUST FUNDS**

Schedule of Changes in Net OPEB Liability and Related Ratios

Schedules of Employer Contributions

Town of Ocean City, Maryland  
Schedule of Changes in General Employees Pension Fund Net Pension Liability and Related Ratios  
For Fiscal Years Ended June 30, 2017, 2016, 2015 and 2014

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 1,033,828	\$ 1,044,701	\$ 1,106,267	\$ 1,106,190
Interest	4,705,358	4,528,555	4,352,810	4,137,554
Differences between expected and actual experiences	(1,208,856)	(482,721)	(492,667)	-
Changes of assumptions	(1,379,730)	-	-	-
Benefit payments, including refunds of member contributions, deaths, & terminations	(2,724,322)	(2,741,672)	(2,508,830)	(2,283,852)
<b>Net change in total pension liability</b>	<b>426,278</b>	<b>2,348,863</b>	<b>2,457,580</b>	<b>2,959,892</b>
Total pension liability - beginning	64,075,646	61,726,783	59,269,203	56,309,311
Total pension liability - ending (a)	<u>\$ 64,501,924</u>	<u>\$ 64,075,646</u>	<u>\$ 61,726,783</u>	<u>\$ 59,269,203</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 2,012,896	\$ 1,927,595	\$ 2,036,678	\$ 2,351,375
Contributions - member	748,721	743,259	755,591	781,220
Net investment income (loss)	5,007,901	(1,776,489)	810,888	6,750,912
Benefit payments, including refunds of member contributions	(2,724,322)	(2,741,672)	(2,508,830)	(2,283,852)
Administrative expense	(49,226)	(54,980)	(42,686)	(75,228)
<b>Net change in plan fiduciary net position</b>	<b>4,995,970</b>	<b>(1,902,287)</b>	<b>1,051,641</b>	<b>7,524,427</b>
Plan fiduciary net position - beginning	49,919,690	51,821,977	50,770,336	43,245,909
Plan fiduciary net position - ending (b)	<u>\$ 54,915,660</u>	<u>\$ 49,919,690</u>	<u>\$ 51,821,977</u>	<u>\$ 50,770,336</u>
<b>Town's net pension - liability - ending (a) - (b)</b>	<u>\$ 9,586,264</u>	<u>\$ 14,155,956</u>	<u>\$ 9,904,806</u>	<u>\$ 8,498,867</u>
Plan fiduciary net position as a percentage of total pension liability	85.14%	77.91%	83.95%	85.66%
Covered employee payroll	\$ 14,324,756	\$ 14,515,114	\$ 15,091,207	\$ 15,073,776
Net liability as a percentage of covered payroll	66.92%	97.53%	65.63%	56.38%
Annual money-weighted rate of return, net of investment expense	9.74%	-3.72%	2.16%	15.77%

Notes to schedule:

This information is not available for previous years.

The General Employees Pension Plan was closed to new entrants effective April 1, 2011.

Effective April 1, 2017, the following assumption changes were made:

- The investment return assumption decreased from 7.50% to 7.00%.
- The price inflation assumption decreased from 3.00% to 2.75%.
- The wage inflation assumption decreased from 3.50% to 3.25%.
- The mortality assumption changed from the RP-2000 Combined Mortality Table, with mortality improvements projected to 2018 using Scale AA to the more recent RP-2014 Blue Collar Mortality Table, with mortality improvements projected to 2020 using Scale BB, adjusted 130% for males and 100% for females.
- The rates of Withdrawal were changed to a service based table to more closely reflect experience since this is a closed plan.
- The rates of Retirement were changed to more closely reflect actual experience.
- The salary scale merit and promotion rates were decreased to more closely reflect actual experience.

Town of Ocean City, Maryland  
Schedule of Changes in Public Safety Employees Pension Fund Net Pension Liability and Related Ratios  
For Fiscal Year Ended June 30, 2017, 2016, 2015 and 2014

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 1,476,450	\$ 1,517,325	\$ 1,541,283	\$ 1,559,854
Interest	4,824,250	4,599,559	4,392,574	4,165,353
Differences between expected and actual experiences	(488,687)	65,842	(334,481)	-
Changes of assumptions	979,444	-	-	-
Changes of benefit terms	889,100	-	-	-
Benefit payments, including refunds of member contributions, deaths, & terminations	(3,449,052)	(2,933,975)	(2,748,521)	(2,692,361)
<b>Net change in total pension liability</b>	<b>4,231,505</b>	<b>3,248,751</b>	<b>2,850,855</b>	<b>3,032,846</b>
Total pension liability - beginning	66,016,678	62,767,927	59,917,072	56,884,226
Total pension liability - ending (a)	<u>\$ 70,248,183</u>	<u>\$ 66,016,678</u>	<u>\$ 62,767,927</u>	<u>\$ 59,917,072</u>
<b>Plan fiduciary net position</b>				
Contributions - employer	\$ 2,493,724	\$ 2,390,758	\$ 2,588,214	\$ 3,331,311
Contributions - member	879,276	875,258	854,139	1,007,839
Net investment income (loss)	5,067,220	(1,727,374)	737,843	6,828,365
Benefit payments, including refunds of member contributions	(3,449,051)	(2,933,975)	(2,748,521)	(3,049,533)
Administrative expense	(61,065)	(50,915)	(37,506)	(77,691)
<b>Net change in plan fiduciary net position</b>	<b>4,930,104</b>	<b>(1,446,248)</b>	<b>1,394,169</b>	<b>8,040,291</b>
Plan fiduciary net position - beginning	51,171,465	52,617,713	51,223,544	43,183,253
Plan fiduciary net position - ending (b)	<u>\$ 56,101,569</u>	<u>\$ 51,171,465</u>	<u>\$ 52,617,713</u>	<u>\$ 51,223,544</u>
<b>Town's net pension - liability - ending (a) - (b)</b>	<u>\$ 14,146,614</u>	<u>\$ 14,845,213</u>	<u>\$ 10,150,214</u>	<u>\$ 8,693,528</u>
Plan fiduciary net position as a percentage of total pension liability	79.86%	77.51%	83.83%	85.49%
Covered employee payroll	\$ 10,591,890	\$ 10,835,080	\$ 10,671,545	\$ 10,540,564
Net liability as a percentage of covered payroll	133.56%	137.01%	95.11%	82.48%
Annual money-weighted rate of return, net of investment expense	9.53%	-3.63%	2.29%	14.96%

Notes to schedule:

This information is not available for previous years.

Effective April 1, 2017, the following assumption changes were made:

- The investment return assumption decreased from 7.50% to 7.00%.
- The price inflation assumption decreased from 3.00% to 2.75%.
- The wage inflation assumption decreased from 3.50% to 3.25%.
- The mortality assumption changed from the RP-2000 Combined Mortality Table, with mortality improvements projected to 2018 using Scale AA to the more recent RP-2014 Blue Collar Mortality Table, with mortality improvements projected to 2020 using Scale BB, adjusted 130% for males and 100% for females.
- The rates of Withdrawal were changed to a service based table to more closely reflect experience since this is a closed plan.
- The rates of Retirement were changed to more closely reflect actual experience.
- The salary scale merit and promotion rates were decreased to more closely reflect actual experience.

Town of Ocean City, Maryland  
 General Employees Pension Plan Schedule of Employer Contributions  
 Last Ten Fiscal Years

	2017	2016	2015
Actuarially determined contribution	\$ 2,012,896	\$ 1,927,595	\$ 2,036,678
Contributions in relation to the actuarially determined contribution	2,012,896	1,927,595	2,036,678
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 14,324,756	\$ 14,515,114	\$15,091,207
Contributions as a percentage of covered employee payroll	14.05%	13.28%	13.50%

Notes to schedule:

Valuation date

Actuarially determined contribution rates are calculated as of March 31,  
 15 months prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Amortization method	Level dollar open
Remaining amortization period	8.2 years
Asset valuation method	Five-year smoothed market value
Inflation	3.00%
Salary increases	5.00 to 10.00 percent including inflation
Investment rate of return	7.5% , net of investment expenses, including inflation
Retirement age	25% of employees eligible for unreduced benefits before age 65 are assumed to retire in the year when eligible (30 years of service), 50% by age 65 and 100% by age 70.
Mortality	RP2000 Combined Healthy Table
Other information:	
Sick leave credit	Retiring employees receive an additional one month of benefit service, but not eligibility service, for each 176 hours of unused sick leave
Cost of living adjustment	None

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2014	2013	2012	2011	2010	2009	2008
\$ 2,351,375	\$ 2,468,399	\$ 2,473,662	\$ 2,135,538	\$ 2,472,916	\$ 2,474,479	\$ 2,348,529
<u>2,351,375</u>	<u>2,468,399</u>	<u>2,473,662</u>	<u>2,135,538</u>	<u>2,472,916</u>	<u>2,474,479</u>	<u>2,348,529</u>
<u>\$ -</u>						
\$15,073,776	\$15,370,687	\$ 16,162,237	\$17,316,053	\$19,517,323	\$ 20,595,416	\$20,666,347
15.60%	16.06%	15.31%	12.33%	12.67%	12.01%	11.36%

Town of Ocean City, Maryland  
Public Safety Employees Pension Plan Schedule of Employer Contributions  
Last Ten Fiscal Years

	2017	2016	2015
Actuarially determined contribution	\$ 2,493,724	\$ 2,390,758	\$ 2,588,214
Contributions in relation to the actuarially determined contribution	2,493,724	2,390,758	2,588,214
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 10,591,890	\$ 10,835,080	\$ 10,671,545
Contributions as a percentage of covered employee payroll	23.54%	22.06%	24.25%

Notes to schedule:

Valuation date

Actuarially determined contribution rates are calculated as of March 31,  
15 months prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Projected unit credit
Amortization method	Level dollar open
Remaining amortization period	10 years
Asset valuation method	Five-year smoothed market value
Inflation	3.00%
Salary increases	Varies (ultimately 5.0%)
Investment rate of return	7.5% , net of investment expenses, including inflation
Retirement age	75% of police employees and 25% of non-police employees eligible for unreduced benefits are assumed to retire in the year when eligible (25 years of service); and 100% by age 62.
Mortality	RP2000 Combined Healthy Table
Other information:	
Sick leave credit	Retiring employees receive an additional one month of benefit service, but not eligibility service, for each 176 hours of unused sick leave at 3.0% of other service
Cost of living adjustment	None
DROP Interest Assumption	3.5% per year interest on DROP balances for those in DROP

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2014	2013	2012	2011	2010	2009	2008
\$ 3,331,311	\$3,228,530	\$ 3,380,743	\$ 2,917,210	\$ 2,771,852	\$ 2,721,333	\$ 2,709,034
<u>3,331,311</u>	<u>3,228,530</u>	<u>3,380,743</u>	<u>2,917,210</u>	<u>2,771,852</u>	<u>2,721,333</u>	<u>2,709,034</u>
<u>\$ -</u>						
\$ 10,540,564	\$9,690,975	\$10,248,502	\$11,260,790	\$12,119,371	\$ 12,064,994	\$11,367,218
31.60%	33.31%	32.99%	25.91%	22.87%	22.56%	23.83%



Town of Ocean City, Maryland  
Schedule of Changes in Other Post Employment Benefits (OPEB) Trust Fund Net Liability and Related Ratios  
For Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Total OPEB liability		
Service cost	\$ 1,251,000	\$ 1,251,000
Interest	3,775,299	3,566,000
Differences between expected and actual experiences	(191,945)	(1,127,000)
Benefit payments	(1,441,197)	(1,404,157)
<b>Net change in total OPEB liability</b>	<b>3,393,157</b>	<b>2,285,843</b>
Total OPEB liability - beginning	53,932,843	51,647,000
Total OPEB liability - ending (a)	<u>\$ 57,326,000</u>	<u>\$ 53,932,843</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 2,965,000	\$ 3,207,000
Contributions - member	264,541	312,537
Net investment income (loss)	2,513,536	(341,661)
Benefit payments	(1,441,197)	(1,404,157)
Administrative expense and other addition (deduction)	51,271	-
<b>Net change in plan fiduciary net position</b>	<b>4,353,151</b>	<b>1,773,719</b>
Plan fiduciary net position - beginning	25,098,497	23,324,778
Plan fiduciary net position - ending (b)	<u>\$ 29,451,648</u>	<u>\$ 25,098,497</u>
<b>Town's net OPEB - liability - ending (a) - (b)</b>	<u>\$ 27,874,352</u>	<u>\$ 28,834,346</u>
Plan fiduciary net position as a percentage of total OPEB liability	51.38%	46.54%
Covered employee payroll	\$ 24,915,966	\$ 25,350,194
Net liability as a percentage of covered payroll	111.87%	113.74%
Annual money-weighted rate of return, net of investment expense	9.20%	-1.70%

Notes to schedule:  
This information is not available for previous years.

Town of Ocean City, Maryland  
 Other Post Employment Benefit Trust Plan Schedule of Employer Contributions  
 Last Nine Fiscal Years

Plan was established in fiscal year 2009

	2017	2016
Actuarially determined contribution	\$ 2,965,000	\$ 3,207,000
Contributions in relation to the actuarially determined contribution	2,965,000	3,207,000
Contribution deficiency	\$ -	\$ -
Covered employee payroll	\$ 24,915,966	\$ 26,642,752
Contributions as a percentage of covered employee payroll	11.90%	12.04%

Notes to schedule:

Valuation date: March 7, 2016

Actuarially determined contribution rates are calculated as of July 1  
 12 months prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal
Amortization method	Closed, level percentage of payroll
Remaining amortization period	22 years for initial transitional UAAL, 15 for new experience gains and losses
Asset valuation method	Fair value of assets at year end
Inflation	2.20%
Salary increases	5.00%
Investment rate of return	7.0% , net of investment expenses, including inflation
Mortality	RP2014 fully generational combined mortality table projected from 2014 using using scale MP 2014
Health care cost trend rates	Initial 5.3%, increasing to 5.5% in 2020, decreasing to ultimate rate of 3.8% in 2075

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2015	2014	2013	2012	2011	2010	2009
\$ 3,083,000	\$ 3,617,000	\$ 3,475,000	\$ 3,675,000	\$ 3,516,000	\$ 3,104,000	\$ 3,104,000
<u>3,083,000</u>	<u>3,617,000</u>	<u>3,475,000</u>	<u>3,675,000</u>	<u>3,516,000</u>	<u>3,104,000</u>	<u>3,104,000</u>
<u>\$ -</u>						
\$ 26,484,340	\$ 25,951,662	\$ 27,310,739	\$ 29,451,843	\$ 32,511,694	\$ 33,535,410	\$ 32,883,565
11.64%	13.94%	12.72%	12.48%	10.81%	9.26%	9.44%



## **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 is accounted for in such a manner as to show a profit of loss similar to comparable private enterprises.

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

### **AIRPORT FUND**

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

### **GOLF COURSE FUND**

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

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF NET POSITION  
 NONMAJOR ENTERPRISE FUNDS  
 JUNE 30, 2017

	Business-type Activities - Enterprise Funds		
	Airport	Golf Course	Total
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 17,331	\$ 339,901	\$ 357,232
Receivables, net	9,309	88,464	97,773
Intergovernmental receivable	428,704	293	428,997
Inventories	83,223	75,121	158,344
Other	-	3,500	3,500
Total current assets	<u>538,567</u>	<u>507,279</u>	<u>1,045,846</u>
Noncurrent assets:			
Restricted investments	381,990	-	381,990
Capital assets:			
Land	1,174,102	2,530,140	3,704,242
Buildings	4,587,345	677,051	5,264,396
Other improvements	-	627,874	627,874
Streets and infrastructure	9,799,565	-	9,799,565
Machinery and equipment	164,637	666,240	830,877
Construction in progress	184,646	-	184,646
Less accumulated depreciation	(8,055,838)	(1,715,289)	(9,771,127)
Total noncurrent assets	<u>8,236,447</u>	<u>2,786,016</u>	<u>11,022,463</u>
Total assets	<u>8,775,014</u>	<u>3,293,295</u>	<u>12,068,309</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions	23,655	145,387	169,042
Total deferred outflows of resources	<u>23,655</u>	<u>145,387</u>	<u>169,042</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	271,373	28,828	300,201
Accrued expenses	8,451	13,116	21,567
Compensated absences	13,321	50,531	63,852
Due to other funds	155,000	-	155,000
Deferred revenue	381,990	284,293	666,283
Current portion of long-term debt	94,895	-	94,895
Total current liabilities	<u>925,030</u>	<u>376,768</u>	<u>1,301,798</u>
Noncurrent liabilities:			
Bonds, notes, and loans payable	987,005	-	987,005
Net pension liability	43,970	263,562	307,532
Total noncurrent liabilities	<u>1,030,975</u>	<u>263,562</u>	<u>1,294,537</u>
Total liabilities	<u>1,956,005</u>	<u>640,330</u>	<u>2,596,335</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	12,631	82,182	94,813
Total deferred inflows of resources	<u>12,631</u>	<u>82,182</u>	<u>94,813</u>
<b>NET POSITION</b>			
Net investment in capital assets	6,772,557	2,786,016	9,558,573
Unrestricted	57,476	(69,846)	(12,370)
Total net position	<u>\$ 6,830,033</u>	<u>\$ 2,716,170</u>	<u>\$ 9,546,203</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
Operating revenues:			
Charges for sales and services	\$ 969,381	\$ 2,009,103	\$ 2,978,484
Miscellaneous	-	-	-
Total operating revenues	<u>969,381</u>	<u>2,009,103</u>	<u>2,978,484</u>
Operating expenses:			
Personal services	321,502	1,039,526	1,361,028
Contractual services	569,281	216,834	786,115
Utilities	41,129	51,501	92,630
Repairs and maintenance	73,000	50,346	123,346
Other supplies and expenses	358,073	482,195	840,268
Internal services	91,097	208,062	299,159
Depreciation	475,731	33,931	509,662
Total operating expenses	<u>1,929,813</u>	<u>2,082,395</u>	<u>4,012,208</u>
Operating income (loss)	<u>(960,432)</u>	<u>(73,292)</u>	<u>(1,033,724)</u>
Nonoperating revenues (expenses)			
Interest and investment revenue	2,317	2,550	4,867
Interest expense	(55,197)	-	(55,197)
Total nonoperating revenues (expenses)	<u>(52,880)</u>	<u>2,550</u>	<u>(50,330)</u>
Income (loss) before capital contributions and transfers	(1,013,312)	(70,742)	(1,084,054)
Capital contributions	508,046	192,311	700,357
Transfers in	291,307	68,846	360,153
Change in net position	<u>(213,959)</u>	<u>190,415</u>	<u>(23,544)</u>
Total net position - beginning	<u>7,043,992</u>	<u>2,525,755</u>	<u>9,569,747</u>
Total net position - ending	<u>\$ 6,830,033</u>	<u>\$ 2,716,170</u>	<u>\$ 9,546,203</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Airport	Golf Course	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 969,294	\$ 2,284,032	\$ 3,253,326
Payments to suppliers	(963,051)	(801,875)	(1,764,926)
Payments to employees	(323,759)	(1,051,973)	(1,375,732)
Payments for interfund services used	(91,097)	(208,062)	(299,159)
Net cash provided (used) by operating activities	<u>(408,613)</u>	<u>222,122</u>	<u>(186,491)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Advances to other funds	(35,000)	(110,000)	(145,000)
Transfers from other funds	291,307	68,846	360,153
Net cash provided (used) by noncapital financing activities	<u>256,307</u>	<u>(41,154)</u>	<u>215,153</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital contributions	452,918	192,311	645,229
Acquisition and construction of capital assets	(144,118)	(42,900)	(187,018)
Bond issuance costs	(142,920)	-	(142,920)
Net cash provided by capital and related financing activities	<u>165,880</u>	<u>149,411</u>	<u>315,291</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of investments	(1,976)	-	(1,976)
Interest and dividends received	2,317	2,550	4,867
Net cash provided by investing activities	<u>341</u>	<u>2,550</u>	<u>2,891</u>
Net increase in cash and cash equivalents	13,915	332,929	346,844
Cash and cash equivalents at beginning of the year	<u>3,416</u>	<u>6,972</u>	<u>10,388</u>
Cash and cash equivalents at end of the year	<u><u>\$ 17,331</u></u>	<u><u>\$ 339,901</u></u>	<u><u>\$ 357,232</u></u>

(Continued)

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS (Continued)  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS			
Operating loss	\$ (960,432)	\$ (73,292)	\$ (1,033,724)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	475,732	33,930	509,662
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:			
Accounts receivable	(87)	50,719	50,632
Inventories	(37,000)	1,297	(35,703)
Deferred outflows - related to pensions	11,057	72,977	84,034
Compensated absences	(663)	337	(326)
Accounts payable	115,431	(2,295)	113,136
Accrued expenses	818	3,139	3,957
Unearned revenue	-	224,210	224,210
Net pension liability	(22,848)	(150,800)	(173,648)
Deferred inflows - related to pensions	9,379	61,900	71,279
Total adjustments	<u>551,819</u>	<u>295,414</u>	<u>847,233</u>
Net cash provided (used) by operating activities	<u>\$ (408,613)</u>	<u>\$ 222,122</u>	<u>\$ (186,491)</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 worker's 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 POSITION  
 INTERNAL SERVICE FUNDS  
 JUNE 30, 2017

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 472,925	\$ 12,880	\$ 1,758,374	\$ 536,875	\$ 2,781,054
Investments	-	-	-	3,594,046	3,594,046
Receivables, net	-	-	18,332	-	18,332
Interest receivable	-	-	-	9,256	9,256
Inventories	-	791,831	-	-	791,831
Total current assets	<u>472,925</u>	<u>804,711</u>	<u>1,776,706</u>	<u>4,140,177</u>	<u>7,194,519</u>
Noncurrent assets:					
Restricted investments	-	-	3,318,786	-	3,318,786
Capital assets:					
Buildings	-	1,373,223	73,860	-	1,447,083
Other improvements	-	31,545	-	-	31,545
Machinery and equipment	624,123	203,219	45,509,263	-	46,336,605
Construction in progress	-	-	2,474,139	-	2,474,139
Less accumulated depreciation	(564,642)	(1,430,327)	(31,682,047)	-	(33,677,016)
Total capital assets	<u>59,481</u>	<u>177,660</u>	<u>16,375,215</u>	<u>-</u>	<u>16,612,356</u>
Total noncurrent assets	<u>59,481</u>	<u>177,660</u>	<u>19,694,001</u>	<u>-</u>	<u>19,931,142</u>
Total assets	<u>532,406</u>	<u>982,371</u>	<u>21,470,707</u>	<u>4,140,177</u>	<u>27,125,661</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred outflows related to pensions	157,789	317,814	-	53,825	529,428
Total deferred outflows of resources	<u>157,789</u>	<u>317,814</u>	<u>-</u>	<u>53,825</u>	<u>529,428</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	143,606	327,321	243,838	39,275	754,040
Accrued expenses	10,259	17,144	51,122	-	78,525
Compensated absences	40,586	70,106	-	24,093	134,785
Claims and judgments	-	-	-	1,155,114	1,155,114
Current portion of long-term debt	-	-	682,886	-	682,886
Total current liabilities	<u>194,451</u>	<u>414,571</u>	<u>977,846</u>	<u>1,218,482</u>	<u>2,805,350</u>
Noncurrent liabilities:					
Claims and judgments	-	-	-	2,221,029	2,221,029
Loans payable	-	-	6,097,042	-	6,097,042
Net pension liability	259,280	596,368	-	95,226	950,874
Total noncurrent liabilities	<u>259,280</u>	<u>596,368</u>	<u>6,097,042</u>	<u>2,316,255</u>	<u>9,268,945</u>
Total liabilities	<u>453,731</u>	<u>1,010,939</u>	<u>7,074,888</u>	<u>3,534,737</u>	<u>12,074,295</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pensions	95,601	150,659	-	29,902	276,162
Total deferred inflows of resources	<u>95,601</u>	<u>150,659</u>	<u>-</u>	<u>29,902</u>	<u>276,162</u>
<b>NET POSITION</b>					
Net investment in capital assets	59,480	177,661	12,914,072	-	13,151,213
Unrestricted	81,383	(39,074)	1,481,747	629,363	2,153,419
Total net position	<u>\$ 140,863</u>	<u>\$ 138,587</u>	<u>\$ 14,395,819</u>	<u>\$ 629,363</u>	<u>\$ 15,304,632</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 INTERNAL SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
Operating revenues:					
Charges for sales and services	\$ 2,117,175	\$ 4,296,039	\$ 2,580,487	\$ 2,506,302	\$ 11,500,003
Miscellaneous	-	-	272	-	272
Total operating revenues	<u>2,117,175</u>	<u>4,296,039</u>	<u>2,580,759</u>	<u>2,506,302</u>	<u>11,500,275</u>
Operating expenses:					
Personal services	953,940	1,673,825	-	261,312	2,889,077
Contractual services	81,378	77,697	100,354	915,103	1,174,532
Utilities	83,394	39,154	-	1,450	123,998
Repairs and maintenance	499,451	61,887	-	851	562,189
Other supplies and expenses	323,554	2,169,593	85,889	16,906	2,595,942
Internal services	58,541	258,313	482,226	110,722	909,802
Insurance claims and expenses	-	-	-	775,307	775,307
Depreciation	11,614	38,568	2,490,463	-	2,540,645
Total operating expenses	<u>2,011,872</u>	<u>4,319,037</u>	<u>3,158,932</u>	<u>2,081,651</u>	<u>11,571,492</u>
Operating income (loss)	<u>105,303</u>	<u>(22,998)</u>	<u>(578,173)</u>	<u>424,651</u>	<u>(71,217)</u>
Nonoperating revenues (expenses)					
Interest and investment revenue	-	-	-	(1,426)	(1,426)
Interest expense	-	-	(99,769)	-	(99,769)
Gain (loss) on disposal of assets	-	-	135,343	-	135,343
Total nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>35,574</u>	<u>(1,426)</u>	<u>34,148</u>
Change in net position	105,303	(22,998)	(542,599)	423,225	(37,069)
Net position - beginning	<u>35,560</u>	<u>161,585</u>	<u>14,938,418</u>	<u>206,138</u>	<u>15,341,701</u>
Net position - ending	<u>\$ 140,863</u>	<u>\$ 138,587</u>	<u>\$ 14,395,819</u>	<u>\$ 629,363</u>	<u>\$ 15,304,632</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS  
 INTERNAL SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Information Technology
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Receipts from customers and users	\$ 2,117,175
Payments to suppliers	(857,743)
Payments to employees	(960,961)
Payments for interfund services used	(58,541)
	239,930
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Advances to other funds	-
	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(30,050)
Principal paid on capital debt	-
Interest paid on capital debt	-
Proceeds from sales of capital assets	-
	(30,050)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Purchase of investments	-
Proceeds from sales and maturities of investments	-
Interest and dividends received	-
	-
Net increase in cash and cash equivalents	209,880
Cash and cash equivalents at beginning of the year	263,045
Cash and cash equivalents at end of the year	\$ 472,925

(Continued)

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ 4,296,039	\$ 2,651,465	\$ 2,506,302	\$ 11,570,981
(2,158,175)	(186,241)	(2,025,303)	(5,227,462)
(1,696,541)	-	(264,626)	(2,922,128)
(258,313)	(482,226)	(110,722)	(909,802)
183,010	1,982,998	105,651	2,511,589
(175,000)	-	-	(175,000)
(175,000)	-	-	(175,000)
-	1,965,324	-	1,935,274
-	(375,555)	-	(375,555)
-	(62,752)	-	(62,752)
-	135,343	-	135,343
-	1,662,360	-	1,632,310
-	(3,318,786)	(2,359,560)	(5,678,346)
-	-	2,328,000	2,328,000
-	-	54,879	54,879
-	(3,318,786)	23,319	(3,295,467)
8,010	326,572	128,970	673,432
4,870	1,431,802	407,905	2,107,622
<u>\$ 12,880</u>	<u>\$ 1,758,374</u>	<u>\$ 536,875</u>	<u>\$ 2,781,054</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CASH FLOWS (Continued)  
 INTERNAL SERVICE FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

		Information Technology
<b>RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS</b>		
Operating income (loss)	\$	105,303
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation		11,614
<b>EFFECT OF CHANGES IN OPERATING ASSETS &amp; LIABILITIES:</b>		
Accounts receivable		-
Inventories		-
Deferred outflows - related to pensions		63,776
Compensated absences		6,900
Accounts payable		130,033
Accrued expenses		2,485
Claims liability		-
Net pension liability		(155,370)
Deferred inflows - related to pensions		75,189
Total adjustments		134,627
Net cash provided by operating activities	\$	239,930

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

Borrowing under capital lease	\$	-
Decrease in fair value of investments		-

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ (22,998)	\$ (578,173)	\$ 424,651	\$ (71,217)
38,569	2,490,464	-	2,540,647
-	70,707	-	70,707
(28,477)	-	-	(28,477)
128,263	-	26,537	218,576
2,379	-	6,715	15,994
218,632	-	(46,306)	302,359
2,890	-	(4,239)	1,136
-	-	(269,380)	(269,380)
(265,042)	-	(54,836)	(475,248)
108,794	-	22,509	206,492
206,008	2,561,171	(319,000)	2,582,806
<u>\$ 183,010</u>	<u>\$ 1,982,998</u>	<u>\$ 105,651</u>	<u>\$ 2,511,589</u>
\$ -	\$ 5,500,000	\$ -	\$ 5,500,000
-	-	(52,805)	(52,805)



## **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 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 POSITION  
 FIDUCIARY FUNDS  
 PENSION TRUST FUNDS  
 JUNE 30, 2017

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,364,597	\$ 2,213,031	\$ 4,577,628
Interest and dividends receivable	66,003	69,765	135,768
Investments, at fair value:			
Domestic equities	18,294,815	18,821,352	37,116,167
Domestic fixed income	11,848,251	12,300,531	24,148,782
International equities	10,701,863	10,962,276	21,664,139
International fixed income	857,009	857,771	1,714,780
Alternative investments	10,786,743	10,882,744	21,669,487
Natural resources	-	-	-
Total investments	<u>52,488,681</u>	<u>53,824,674</u>	<u>106,313,355</u>
Total assets	<u>54,919,281</u>	<u>56,107,470</u>	<u>111,026,751</u>
<b>LIABILITIES</b>			
Accounts payable	<u>3,621</u>	<u>5,901</u>	<u>9,522</u>
Total liabilities	<u>3,621</u>	<u>5,901</u>	<u>9,522</u>
<b>NET POSITION</b>			
Net position held in trust for pension benefits	<u>\$ 54,915,660</u>	<u>\$ 56,101,569</u>	<u>\$ 111,017,229</u>

TOWN OF OCEAN CITY  
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 PENSION TRUST FUNDS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
<b>Additions</b>			
Contributions:			
Employer	\$ 2,012,896	\$ 2,493,724	\$ 4,506,620
Members	748,721	879,276	1,627,997
	<u>2,761,617</u>	<u>3,373,000</u>	<u>6,134,617</u>
Total contributions			
Investment earnings:			
Net appreciation			
in fair value of investments	4,247,895	4,332,850	8,580,745
Interest	233,440	250,289	483,729
Dividends	887,027	848,841	1,735,868
	<u>5,368,362</u>	<u>5,431,980</u>	<u>10,800,342</u>
Total investment income			
Less investment expense	<u>360,461</u>	<u>364,760</u>	<u>725,221</u>
Net investment income			
	<u>5,007,901</u>	<u>5,067,220</u>	<u>10,075,121</u>
Total additions			
	<u>7,769,518</u>	<u>8,440,220</u>	<u>16,209,738</u>
<b>Deductions</b>			
Benefits and refunds paid	2,724,322	3,449,051	6,173,373
Administrative expenses	49,226	61,065	110,291
	<u>2,773,548</u>	<u>3,510,116</u>	<u>6,283,664</u>
Total deductions			
Change in net position	4,995,970	4,930,104	9,926,074
Net Position - beginning	<u>49,919,690</u>	<u>51,171,465</u>	<u>101,091,155</u>
Net Position - ending	<u>\$ 54,915,660</u>	<u>\$ 56,101,569</u>	<u>\$ 111,017,229</u>



## STATISTICAL SECTION

This part of the Town of Ocean City, Maryland 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.

<b><u>Contents</u></b>	<b><u>Page(s)</u></b>
<b>Financial Trends</b> These schedules contain trend information to help the reader understand how the town's financial performance and well-being have changed over time.	<b>116-124</b>
<b>Revenue Capacity</b> These schedules contain information to help the reader assess the Town's most significant local revenue sources, the property tax, and the room tax.	<b>126-130</b>
<b>Debt Capacity</b> 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.	<b>131-134</b>
<b>Economic and Demographic Information</b> These schedules offer economic and demographic indicators to help the reader understand the environment within which the Town's financial activities take place.	<b>135-136</b>
<b>Operating Information</b> 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.	<b>137-141</b>

**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 Position by Component  
Last Ten Fiscal Years  
*(accrual basis of accounting)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Governmental Activities</b>			
Net investment in capital assets	\$ 58,962,839	\$ 55,670,509	\$ 57,685,894
Restricted	-	-	-
Unrestricted	<u>12,679,830</u>	<u>8,269,875</u>	<u>5,755,438</u>
<i>Total Governmental Activities Net Position</i>	<u>71,642,669</u>	<u>63,940,384</u>	<u>63,441,332</u>
<b>Business-Type Activities</b>			
Net investment in capital assets	77,976,227	77,730,796	73,668,728
Restricted	2,612,045	2,289,651	4,284,817
Unrestricted	<u>14,069,326</u>	<u>12,912,695</u>	<u>13,337,439</u>
<i>Total Business-Type Activities Net Position</i>	<u>94,657,598</u>	<u>92,933,142</u>	<u>91,290,984</u>
<b>Primary government</b>			
Net investment in capital assets	136,939,066	133,401,305	131,354,622
Restricted	2,612,045	2,289,651	4,284,817
Unrestricted	<u>26,749,156</u>	<u>21,182,570</u>	<u>19,092,877</u>
<i>Total Primary Government Net Position</i>	<u><u>\$166,300,267</u></u>	<u><u>\$156,873,526</u></u>	<u><u>\$154,732,316</u></u>

2014	2013	2012	2011	2010	2009	2008
\$ 57,349,894	\$ 1,131,125	\$ 35,032,961	\$ 47,390,589	\$ 46,393,277	\$ 44,851,930	\$ 43,313,477
115,000	165,000	16,140,004	1,713,579	1,222,022	1,543,521	4,383,493
13,700,802	1,114,460	15,420,770	16,213,407	15,742,899	16,823,057	13,601,386
<u>71,165,696</u>	<u>2,410,585</u>	<u>66,593,735</u>	<u>17,926,986</u>	<u>63,358,198</u>	<u>63,218,508</u>	<u>61,298,356</u>
70,435,192	65,917,836	55,645,888	58,001,891	60,260,847	58,489,349	55,116,392
6,272,857	7,474,542	8,551,119	9,638,746	9,667,139	9,406,011	8,199,752
13,594,642	10,158,004	17,520,679	11,466,523	4,659,855	6,860,798	11,832,112
<u>90,302,691</u>	<u>83,550,382</u>	<u>81,717,686</u>	<u>79,107,160</u>	<u>74,587,841</u>	<u>74,756,158</u>	<u>75,148,256</u>
127,785,086	119,685,879	90,678,849	58,001,891	106,654,124	103,341,279	98,429,869
6,387,857	7,639,542	24,691,123	11,352,325	10,889,161	10,949,532	12,583,245
27,295,444	25,706,348	32,941,449	27,679,930	20,402,754	23,683,855	25,433,498
<u>\$161,468,387</u>	<u>\$153,031,769</u>	<u>\$148,311,421</u>	<u>\$ 97,034,146</u>	<u>\$137,946,039</u>	<u>\$137,974,666</u>	<u>\$136,446,612</u>

**Town of Ocean City, Maryland**

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	2017	2016	2015
<b>Expenses</b>			
Governmental Activities:			
General Government	\$ 1,117,684	\$ 1,019,892	\$ 852,529
Public Safety	35,363,774	35,138,306	32,782,621
General Public Works and Beach	7,026,384	7,261,653	7,240,368
Sanitation and Waste Removal	6,104,169	6,256,386	5,787,086
Highways and Streets	7,660,939	10,501,844	7,102,511
Economic Development - Tourism	8,813,147	8,343,211	8,139,166
Recreation and Culture	8,234,584	7,862,334	7,479,558
Interest on Long-Term Debt	1,301,378	1,307,810	1,335,105
<i>Total Governmental Activities Expenses</i>	<u>75,622,059</u>	<u>77,691,436</u>	<u>70,718,944</u>
Business-Type Activities:			
Water	5,751,275	5,869,793	5,532,561
Wastewater	7,929,546	12,740,636	11,299,812
Convention Center	12,331,189	6,364,714	5,341,279
Transportation	5,670,317	8,228,957	8,213,299
Airport	1,985,010	1,506,936	1,832,178
Golf	2,082,395	2,106,675	2,050,051
<i>Total Business-Type Activities Expenses</i>	<u>35,749,732</u>	<u>36,817,711</u>	<u>34,269,180</u>
<i>Total Primary Government Expenses</i>	<u>\$ 111,371,791</u>	<u>\$ 114,509,147</u>	<u>\$ 104,988,124</u>
<b>Program Revenues</b>			
Governmental Activities:			
Charges for Services:			
General government	\$ 4,285,248	\$ 4,207,093	\$ 3,892,295
Public safety	2,130,314	2,171,345	2,038,976
General public works and beach	4,704,486	4,238,386	4,314,242
Sanitation and waste removal	116,257	134,390	115,232
Highways and streets	1,355,098	1,129,247	1,054,220
Economic development - Tourism	1,593,428	1,652,093	1,589,455
Recreation and culture	1,804,858	1,791,371	1,627,668
Operating Grants and Contributions	3,370,747	3,301,092	3,026,042
Capital Grants and Contributions	335,711	152,732	190,351
<i>Total Governmental Activities Program Revenues</i>	<u>19,696,147</u>	<u>18,777,749</u>	<u>17,848,481</u>
Business-Type Activities:			
Charges for Services:			
Water	6,494,646	6,209,726	7,107,376
Wastewater	13,332,083	13,202,701	12,771,316
Convention Center	1,840,823	1,705,782	1,745,001
Transportation	4,589,633	4,650,181	4,558,857
Airport	969,381	978,545	1,108,590
Golf	2,009,103	2,022,149	2,022,992
Operating Grants and Contributions	3,823,027	3,652,214	3,680,145
Capital Grants and Contributions	1,705,045	2,894,257	1,530,415
<i>Total Business-Type Activities Program Revenues</i>	<u>34,763,741</u>	<u>35,315,555</u>	<u>34,524,692</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 54,459,888</u>	<u>\$ 54,093,304</u>	<u>\$ 52,373,173</u>

2014	2013	2012	2011	2010	2009	2008
\$ 1,314,758	\$ 1,118,606	\$ 335,703	\$ 751,333	\$ 1,621,071	\$ 1,673,926	\$ 2,299,373
36,112,813	34,030,231	35,440,373	34,297,859	33,961,816	34,517,293	32,345,385
6,329,540	5,315,570	6,257,840	6,205,643	6,055,716	6,675,942	6,090,271
6,230,810	6,034,146	6,776,510	6,193,273	7,081,833	7,587,896	7,127,947
7,787,410	7,157,008	7,250,787	6,763,540	7,036,697	8,008,372	7,338,573
7,998,815	8,055,355	7,692,558	6,671,972	6,243,797	5,739,043	5,600,101
7,654,518	7,685,116	7,873,652	7,783,123	7,890,492	8,795,235	8,109,675
1,462,237	1,640,586	1,352,400	1,296,137	1,261,803	1,397,984	1,449,018
<u>74,890,901</u>	<u>71,036,618</u>	<u>72,979,823</u>	<u>69,962,880</u>	<u>71,153,225</u>	<u>74,395,691</u>	<u>70,360,343</u>
6,251,720	6,428,575	6,419,219	7,597,787	6,978,781	7,333,521	7,193,221
11,966,765	11,710,740	11,642,169	11,045,110	10,337,839	11,075,781	9,622,464
5,438,689	5,221,549	5,173,147	5,533,018	5,669,798	6,265,962	6,003,335
8,036,903	8,007,909	7,936,422	7,493,620	7,715,464	8,324,858	8,036,740
1,615,099	1,906,293	1,681,333	1,503,697	1,449,538	1,749,959	1,614,880
2,069,805	2,071,155	2,092,046	1,981,914	1,978,188	2,260,550	2,164,803
<u>35,378,981</u>	<u>35,346,221</u>	<u>34,944,336</u>	<u>35,155,146</u>	<u>34,129,608</u>	<u>37,010,631</u>	<u>34,635,443</u>
<u>\$ 110,269,882</u>	<u>\$ 106,382,839</u>	<u>\$ 107,924,159</u>	<u>\$ 105,118,026</u>	<u>\$ 105,282,833</u>	<u>\$ 111,406,322</u>	<u>\$ 104,995,786</u>
\$ 3,870,984	\$ 3,748,747	\$ 3,647,286	\$ 3,758,744	\$ 3,464,313	\$ 3,699,975	\$ 3,987,939
2,056,556	2,068,706	2,005,130	1,965,631	1,859,508	1,696,096	1,745,958
4,044,925	3,810,298	3,662,776	3,651,107	3,123,547	2,888,571	3,007,666
99,350	85,418	91,608	109,543	312,364	430,535	552,864
1,126,770	1,108,543	1,086,162	982,101	926,911	715,568	823,938
1,465,927	1,465,695	1,600,439	1,321,806	1,294,913	1,675,547	1,452,035
1,573,586	1,555,940	1,382,413	1,334,262	1,610,682	1,606,662	1,575,344
3,432,044	3,223,755	2,805,472	2,807,769	2,705,797	2,932,577	2,810,084
105,000	551,735	-	75,000	80,000	218,551	292,244
<u>17,775,142</u>	<u>17,618,837</u>	<u>16,281,286</u>	<u>16,005,963</u>	<u>15,378,035</u>	<u>15,864,082</u>	<u>16,248,072</u>
7,050,007	7,020,705	6,846,684	6,772,436	6,926,482	7,204,163	7,162,687
12,551,066	12,161,493	11,761,802	11,311,636	10,466,562	10,274,178	9,746,366
1,792,680	1,678,397	1,663,028	1,758,112	1,630,172	1,691,850	1,638,928
4,100,681	3,934,859	3,854,314	3,558,571	3,363,679	3,439,218	3,605,466
1,146,509	1,181,550	1,307,014	1,034,475	837,533	1,139,331	1,038,623
1,983,132	1,959,709	2,105,886	1,962,632	1,979,205	2,017,988	2,055,393
3,593,254	3,627,269	3,413,436	3,414,926	3,401,683	4,539,925	4,606,116
6,501,328	1,988,370	3,269,491	5,960,662	671,195	756,286	3,607,552
<u>38,718,657</u>	<u>33,552,352</u>	<u>34,221,655</u>	<u>35,773,450</u>	<u>29,276,511</u>	<u>31,062,939</u>	<u>33,461,131</u>
<u>\$ 56,493,799</u>	<u>\$ 51,171,189</u>	<u>\$ 50,502,941</u>	<u>\$ 51,779,413</u>	<u>\$ 44,654,546</u>	<u>\$ 46,927,021</u>	<u>\$ 49,709,203</u>

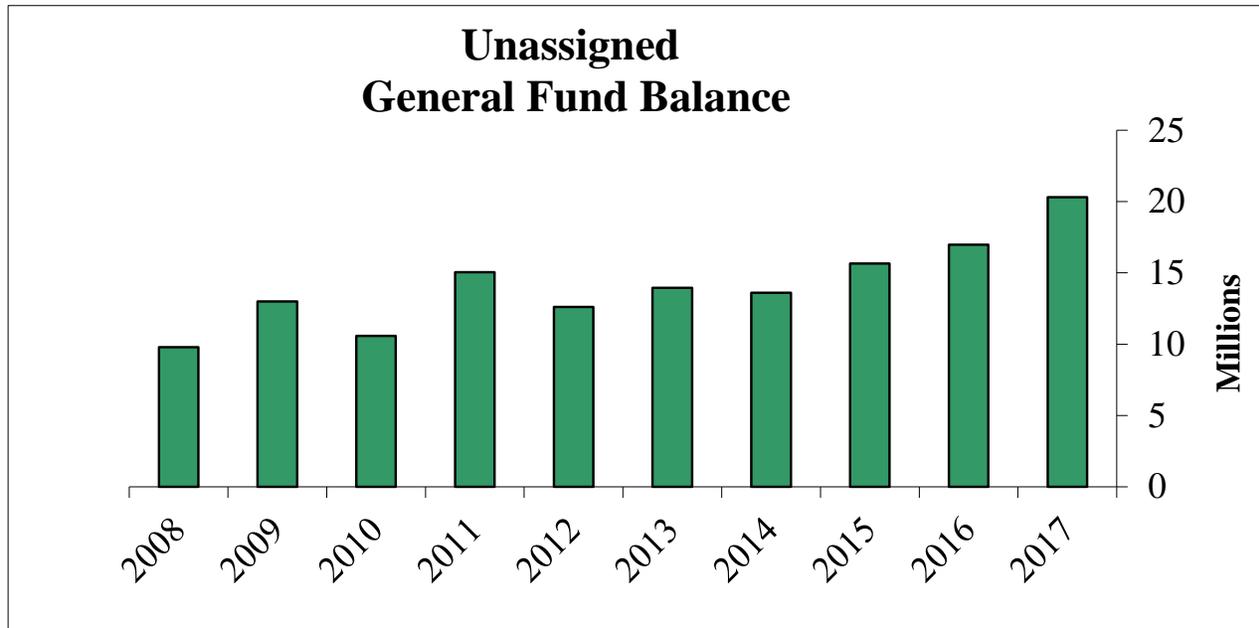
**Town of Ocean City, Maryland**  
Changes in Net Position (continued)  
Last Ten Fiscal Years  
*(accrual basis of accounting)*

	2017	2016	2015
<b>Net (Expense)/Revenue</b>			
Governmental Activities	\$ (55,925,912)	\$ (58,913,687)	\$ (52,870,463)
Business-Type Activities	(985,991)	(1,502,156)	255,512
<i>Total Primary Government Net Expense</i>	<u>\$ (56,911,903)</u>	<u>\$ (60,415,843)</u>	<u>\$ (52,614,951)</u>
 <b>General Revenues and Other Changes in Net Position</b>			
Governmental Activities:			
Taxes:			
Property and Other Local Taxes Levied For:			
General Purposes	\$ 42,938,816	\$ 42,717,221	\$ 42,444,386
Sales and Income Taxes	18,645,893	17,205,888	16,454,632
State gaming contributions	655,254	633,268	563,517
Grants and Entitlements not Restricted to Specific Programs	2,763,852	2,720,894	2,576,103
Investment Earnings	111,056	192,920	199,294
Loss on Sale of Capital Assets	-	(1,482,918)	-
Other Revenue	1,141,154	583,485	769,305
Transfers	(2,627,828)	(3,158,019)	(3,022,929)
<i>Total Governmental Activities</i>	<u>63,628,197</u>	<u>59,412,739</u>	<u>59,984,308</u>
Business-Type Activities:			
Investment Earnings	82,619	47,816	49,470
Gain (loss) on Sale of Capital Assets	-	(61,521)	-
Other Revenue	-	-	14,568
Transfers	2,627,828	3,158,019	3,022,929
<i>Total Business-Type Activities</i>	<u>2,710,447</u>	<u>3,144,314</u>	<u>3,086,967</u>
<i>Total Primary Government</i>	<u>\$ 66,338,644</u>	<u>\$ 62,557,053</u>	<u>\$ 63,071,275</u>
 <b>Change in Net Position</b>			
Governmental Activities	\$ 7,702,285	\$ 499,052	\$ 7,113,845
Business-Type Activities	1,724,456	1,642,158	3,342,479
<i>Total Primary Government</i>	<u>\$ 9,426,741</u>	<u>\$ 2,141,210</u>	<u>\$ 10,456,324</u>

2014	2013	2012	2011	2010	2009	2008
\$ (57,115,759)	\$ (53,417,781)	\$ (56,698,537)	\$ (53,956,917)	\$ (55,775,190)	\$ (58,531,609)	\$ (54,112,271)
3,339,676	(1,793,869)	(722,681)	618,304	(4,853,097)	(5,947,692)	(1,174,312)
<u>\$ (53,776,083)</u>	<u>\$ (55,211,650)</u>	<u>\$ (57,421,218)</u>	<u>\$ (53,338,613)</u>	<u>\$ (60,628,287)</u>	<u>\$ (64,479,301)</u>	<u>\$ (55,286,583)</u>
\$ 42,199,671	\$ 41,425,378	\$ 42,509,186	\$ 42,660,709	\$ 43,900,041	\$ 48,025,233	\$ 44,320,692
16,042,019	15,069,904	14,649,416	13,703,686	13,031,401	13,757,540	13,789,976
469,430	454,949	433,060	224,791	-	-	-
2,586,297	2,372,735	2,660,866	2,411,597	2,436,638	2,509,917	628,833
181,668	(45,412)	163,704	124,288	297,072	683,113	1,175,057
-	-	-	-	-	-	-
684,250	508,084	764,234	587,179	538,205	621,324	936,421
<u>(3,363,267)</u>	<u>(3,480,205)</u>	<u>(3,205,769)</u>	<u>(3,795,956)</u>	<u>(4,288,477)</u>	<u>(5,145,366)</u>	<u>(5,340,728)</u>
<u>58,800,068</u>	<u>56,305,433</u>	<u>57,974,697</u>	<u>55,916,294</u>	<u>55,914,880</u>	<u>60,451,761</u>	<u>55,510,251</u>
56,399	60,354	124,938	100,789	310,128	410,228	872,247
-	-	-	-	-	-	-
(7,033)	86,006	2,500	4,270	86,175	-	7,579
<u>3,363,267</u>	<u>3,480,205</u>	<u>3,205,769</u>	<u>3,795,956</u>	<u>4,288,477</u>	<u>5,145,366</u>	<u>5,340,728</u>
<u>3,412,633</u>	<u>3,626,565</u>	<u>3,333,207</u>	<u>3,901,015</u>	<u>4,684,780</u>	<u>5,555,594</u>	<u>6,220,554</u>
<u>\$ 62,212,701</u>	<u>\$ 59,931,998</u>	<u>\$ 61,307,904</u>	<u>\$ 59,817,309</u>	<u>\$ 60,599,660</u>	<u>\$ 66,007,355</u>	<u>\$ 61,730,805</u>
\$ 1,684,309	\$ 2,887,652	\$ 1,276,160	\$ 1,959,377	\$ 139,690	\$ 1,920,152	\$ 1,397,980
<u>6,752,309</u>	<u>1,832,696</u>	<u>2,610,526</u>	<u>4,519,319</u>	<u>(168,317)</u>	<u>(392,098)</u>	<u>5,046,242</u>
<u>\$ 8,436,618</u>	<u>\$ 4,720,348</u>	<u>\$ 3,886,686</u>	<u>\$ 6,478,696</u>	<u>\$ (28,627)</u>	<u>\$ 1,528,054</u>	<u>\$ 6,444,222</u>

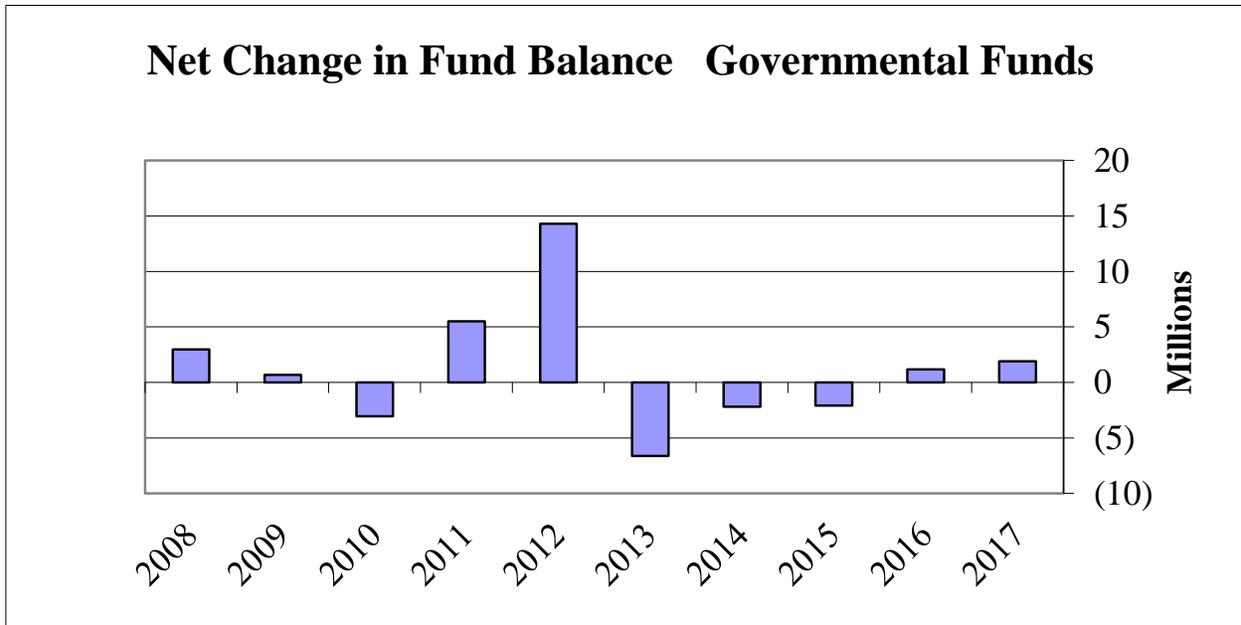
**Town of Ocean City, Maryland**  
**Fund Balances of Governmental Funds**  
**Last Ten Fiscal Years**  
*(modified accrual basis of accounting)*

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>General Fund</b>			
Nonspendable advances to other funds	\$ -	\$ -	\$ -
Assigned - purchases on order	351,857	810,280	302,139
Assigned - subsequent year's budget	2,237,944	1,235,805	1,640,027
Assigned - other purposes	-	-	-
Unassigned	<u>20,313,783</u>	<u>16,968,006</u>	<u>15,648,548</u>
<i>Total General Fund</i>	<u>\$ 22,903,584</u>	<u>\$ 19,014,091</u>	<u>\$ 17,590,714</u>
<b>All Other Governmental Funds</b>			
Restricted for capital projects	\$ -	\$ -	\$ 3,020,069
Committed - purchases on order	783,864	1,389,255	-
Committed for capital projects	<u>652,635</u>	<u>1,923,126</u>	<u>537,914</u>
<b>Total All Other Governmental Funds</b>	<u>1,436,499</u>	<u>3,312,381</u>	<u>3,557,983</u>
<i>Total Governmental Funds</i>	<u><u>\$ 24,340,083</u></u>	<u><u>\$ 22,326,472</u></u>	<u><u>\$ 21,148,697</u></u>
 Unassigned General Fund Balance as a Percentage of Expenditures	 25.7%	 23.1%	 21.6%



2014	2013	2012	2011	2010	2009	2008
\$ 115,000	\$ 165,000	\$ 235,000	\$ 130,000	\$ 250,000	\$ 250,000	\$ 260,000
498,539	427,271	566,585	998,595	446,430	762,998	456,351
931,828	247,066	2,749,395	-	-	-	-
-	465,000	-	-	-	-	-
13,602,038	13,949,931	12,605,645	15,049,478	10,590,252	13,005,682	9,795,646
<b>\$ 15,147,405</b>	<b>\$ 15,254,268</b>	<b>\$ 16,156,625</b>	<b>\$ 16,178,073</b>	<b>\$ 11,286,682</b>	<b>\$ 14,018,680</b>	<b>\$ 10,511,997</b>
\$ 5,333,799	\$ 8,656,416	\$ 14,031,244	\$ 747,437	\$ 129,990	\$ 166,068	\$ 3,138,153
-	-	1,272,334	52,343	61,546	118,881	785,960
2,758,897	1,517,524	601,426	783,799	780,486	1,008,572	199,380
8,092,696	10,173,940	15,905,004	1,583,579	972,022	1,293,521	4,123,493
<b>\$ 23,240,101</b>	<b>\$ 25,428,208</b>	<b>\$ 32,061,629</b>	<b>\$ 17,761,652</b>	<b>\$ 12,258,704</b>	<b>\$ 15,312,201</b>	<b>\$ 14,635,490</b>

18.2%      19.3%      17.5%      20.2%      13.4%      16.9%      12.8%



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

	2017	2016	2015
<b>Revenues</b>			
Property Taxes	\$ 43,211,192	\$ 42,550,867	\$ 42,429,988
Other Taxes	19,301,147	17,949,706	17,024,793
Licenses and Permits	4,537,307	4,486,927	4,327,809
Fines and Forfeitures	657,703	694,761	583,087
Charges for Services	10,794,679	10,142,237	9,721,191
Revenue from Other Agencies	6,296,552	6,066,514	5,602,145
Other Revenue	1,440,276	860,055	974,121
<i>Total Revenues</i>	<u>86,238,856</u>	<u>82,751,067</u>	<u>80,663,134</u>
<b>Expenditures</b>			
Current:			
General Government	4,003,674	3,803,848	3,817,132
Public Safety	33,837,807	33,479,223	32,728,554
General Public Works and Beach	8,897,994	5,545,600	5,919,839
Sanitation and Waste Removal	5,650,586	5,635,304	5,353,919
Highways and Streets	5,945,407	8,733,929	5,560,206
Economic Development - Tourism	8,664,640	8,094,041	7,889,134
Recreation and Culture	7,918,927	7,268,485	7,090,260
Capital Outlay	4,178,826	4,507,498	6,082,562
Debt service:			
Principal Retirement	4,117,460	3,566,514	3,636,266
Interest and Fiscal Charges	1,309,827	1,438,175	1,563,318
Bond Issuance Costs	22,269	33,585	-
<i>Total Expenditures</i>	<u>84,547,417</u>	<u>82,106,202</u>	<u>79,641,190</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>1,691,439</u>	<u>644,865</u>	<u>1,021,944</u>
<b>Other Financing Sources (Uses)</b>			
Bonds and notes issued	2,950,000	6,689,567	-
Premium on bonds issued	-	-	-
Payment to refunded bond escrow agent	-	(2,914,784)	-
Transfers In	3,384,414	4,609,257	2,592,610
Transfers Out	(6,012,242)	(7,851,130)	(5,705,958)
<i>Total Other Financing Sources (Uses)</i>	<u>322,172</u>	<u>532,910</u>	<u>(3,113,348)</u>
<i>Net Change in Fund Balances</i>	<u>\$ 2,013,611</u>	<u>\$ 1,177,775</u>	<u>\$ (2,091,404)</u>
Debt Service as a Percentage of Noncapital Expenditures	6.8%	6.4%	7.1%

	2014	2013	2012	2011	2010	2009	2008
\$	42,334,031	\$ 41,618,457	\$ 42,555,644	\$ 42,731,367	\$ 43,808,149	\$ 47,881,933	\$ 44,112,396
	16,498,162	15,611,879	15,069,260	13,909,064	13,062,376	13,922,143	13,831,745
	4,183,957	4,061,716	4,050,517	3,921,106	3,858,142	3,811,003	4,072,860
	714,142	785,979	856,672	780,018	741,763	612,431	632,554
	9,339,999	8,995,653	8,568,625	8,422,070	7,992,333	8,289,520	8,440,330
	6,048,341	6,073,225	5,466,338	5,294,366	5,222,435	5,521,329	3,640,661
	735,727	653,618	743,082	664,892	714,825	1,128,148	1,911,742
	79,854,359	77,800,527	77,310,138	75,722,883	75,400,023	81,166,507	76,642,288
	3,824,796	3,860,291	3,051,546	3,320,277	3,990,472	3,869,464	4,401,856
	34,620,629	32,546,489	33,355,683	32,301,718	32,223,500	32,467,482	31,104,717
	5,169,305	5,109,638	5,026,883	4,908,045	4,698,501	5,063,642	4,973,218
	5,613,364	5,389,174	5,871,647	5,332,518	6,423,476	6,784,236	6,659,892
	6,280,506	5,867,104	5,621,764	5,263,430	5,684,270	6,319,490	6,084,432
	7,737,415	7,792,309	7,428,498	6,420,490	5,999,877	5,507,535	5,400,974
	7,131,635	7,259,523	7,239,149	7,167,738	7,359,074	8,048,173	7,544,679
	6,586,308	8,301,432	5,468,269	1,145,147	3,764,227	3,718,202	4,350,085
	3,694,110	2,872,330	3,160,956	3,416,907	3,282,636	2,164,178	2,245,407
	1,646,570	1,596,699	1,279,997	1,295,164	1,306,084	1,402,028	1,361,330
	36,516	-	149,245	43,746	73,711	-	118,485
	82,341,154	80,594,989	77,653,637	70,615,180	74,805,828	75,344,430	74,245,075
	(2,486,795)	(2,794,462)	(343,499)	5,107,703	594,195	5,822,077	2,397,213
	4,895,483	103,889	22,018,939	4,159,350	4,388,662	-	12,642,381
	99,578	-	1,738,770	-	180,873	-	406,051
	(992,858)	-	(5,908,464)	-	(4,495,824)	-	(7,125,224)
	2,431,000	2,000,000	1,737,430	1,548,567	1,181,198	916,016	2,064,944
	(6,134,515)	(5,942,848)	(4,943,199)	(5,312,672)	(4,902,601)	(6,061,382)	(7,405,672)
	298,688	(3,838,959)	14,643,476	395,245	(3,647,692)	(5,145,366)	582,480
\$	(2,188,107)	\$ (6,633,421)	\$ 14,299,977	\$ 5,502,948	\$ (3,053,497)	\$ 676,711	\$ 2,979,693
	7.0%	6.2%	6.2%	6.8%	6.5%	5.0%	5.2%

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

Fiscal Year	Property Taxes	Room Occupancy Taxes	Admission & Amusement Taxes	Income Taxes	Shared Taxes	Total
2017	\$ 43,211,192	\$ 15,385,278	\$ 1,454,882	\$ 1,329,862	\$ 1,131,125	\$ 62,512,339
2016	42,550,867	14,574,627	1,405,802	854,817	1,114,460	60,500,573
2015	42,429,988	13,845,675	1,329,978	843,596	975,483	59,424,720
2014	42,334,031	13,367,715	1,383,833	832,644	913,970	58,832,193
2013	41,618,457	12,910,772	1,296,619	814,384	590,104	57,230,336
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
Change 2008-2017	-1.2%	43.5%	11.7%	44.8%	26.9%	5.8%

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

Fiscal Year	Real Property	Personal Property	Corporate Property	Total	Total Direct Tax Rate	Estimated Actual Taxable Value	Percentage Of Change
2017	\$ 8,574,801,497	\$ 15,043,721	\$ 160,689,225	\$ 8,750,534,443	\$ 0.4727	\$ 8,750,534,443	1.8 %
2016	8,430,184,989	13,595,814	156,230,465	8,600,011,268	0.4780	8,600,011,268	(1.0)
2015	8,526,614,796	13,646,124	147,557,519	8,687,818,439	0.4740	8,687,818,439	0.7
2014	8,481,052,332	12,670,775	133,532,093	8,627,255,200	0.4720	8,627,255,200	(0.8)
2013	8,551,832,279	12,670,775	133,532,093	8,698,035,147	0.4585	8,698,035,147	(16.0)
2012	10,209,869,114	13,553,101	129,845,969	10,353,268,184	0.3950	10,353,268,184	(0.6)
2011	10,268,325,607	13,650,155	131,517,984	10,413,493,746	0.3950	10,413,493,746	(2.2)
2010	10,501,239,662	14,338,062	133,172,636	10,648,750,360	0.3950	10,648,750,360	(13.0)
2009	12,090,447,495	16,500,853	135,247,984	12,242,196,332	0.3800	12,242,196,332	17.0
2008	10,309,041,337	15,670,379	140,104,253	10,464,815,969	0.4100	10,464,815,969	21.1

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2008-2017.

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

Fiscal Year	Taxes Levied for the Fiscal Year *	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2017	\$ 43,211,192	\$ 42,391,814	98.10 %	\$ -	\$ 42,391,814	98.10 %
2016	42,550,867	41,471,737	97.46	980,794	42,452,531	99.77
2015	42,429,988	41,277,350	97.28	876,645	42,153,995	99.35
2014	41,916,584	41,005,847	97.83	887,438	41,893,285	99.94
2013	41,096,168	40,149,344	97.70	933,852	41,083,196	99.97
2012	42,178,831	41,115,724	97.48	1,058,781	42,174,505	99.99
2011	42,451,063	41,381,958	97.48	1,065,691	42,447,649	99.99
2010	43,222,775	42,215,437	97.67	1,004,983	43,220,420	99.99
2009	47,645,761	46,401,667	97.39	1,241,335	47,643,002	99.99
2008	43,751,440	42,264,998	96.60	1,486,442	43,751,440	100.00

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2008 - 2017.

\* "Taxes Levied for the Fiscal Year" 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 Property Taxpayers  
Current Fiscal Year and Nine Years Ago

Taxpayer	2017	
	Taxable Assessed Value (1)	Percentage of Total Taxable Assessed Value
Harrison Inn Stardust Inc	\$ 59,969,590	0.69
Americana Stowaway Motel, Inc.	55,147,111	0.63
Delmarva Power	38,837,020	0.44
91st Street Joint Venture	33,885,483	0.39
Genesar	24,199,073	0.28
Harrison HI 18 LLC	23,101,837	0.26
Harrison Inn Ocean View	21,117,767	0.24
LPBOC Hotel Limited Partnership	20,752,220	0.24
Harrison Inn 66	20,721,587	0.24
Harrison QI 17 LLC	16,584,733	0.19
	<u>\$ 314,316,421</u>	<u>3.60%</u>
Total Assessed Valuation	<u>\$ 8,750,534,443</u>	
Taxpayer	2008	
	Taxable Assessed Value (1)	Percentage of Total Taxable Assessed Value
Harrison Inn Stardust Inc	\$ 64,146,948	0.61%
Americana Stowaway Motel, Inc.	57,201,704	0.55
91st Street Joint Venture	41,136,512	0.39
Shark Finn LLC	34,504,902	0.33
Ocean View, Inc.	26,701,066	0.26
Genesar, Inc.	25,239,262	0.24
Harrison Inn Sixty Six Inc	24,498,495	0.00
Harrison HI 18 LLC	23,013,054	0.22
Delmarva Power	21,641,660	0.21
LPBOC Hotel Limited Partnership	21,103,264	0.20
	<u>\$ 339,186,867</u>	<u>3.01%</u>
Total Assessed Valuation	<u>\$ 10,464,815,969</u>	

(1) Assessed valuation based on the valuation of property for taxes collected in 2017 and 2008 respectively, and a review of the ten largest taxpayers for the City.

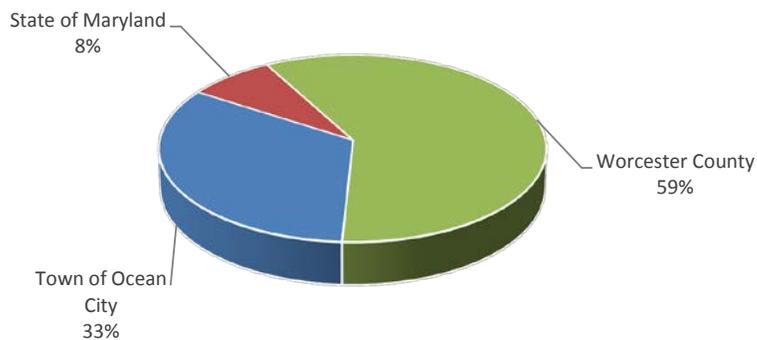
Source: Town of Ocean City Finance Department

**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	
2017	\$ 0.4727		\$ 0.835	\$ 0.112	\$ 1.4197
2016	0.4780		0.84	0.112	1.4250
2015	0.4740		0.77	0.112	1.3560
2014	0.4720		0.77	0.112	1.3540
2013	0.4585		0.77	0.112	1.3405
2012	0.3950		0.70	0.112	1.2070
2011	0.3950		0.70	0.112	1.2070
2010	0.3950		0.70	0.112	1.2070
2009	0.3800		0.70	0.112	1.1920
2008	0.4100		0.70	0.112	1.2220
2007	0.4300		0.70	0.112	1.2420

Source: Town of Ocean City Finance Department

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



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

Tax Year	Governmental Activities			Business-type Activities			Total Primary	% 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				
2017	\$ 35,642,285	\$ 410,725	\$ 10,360,623	\$ 47,984,525	\$ 1,114,460	\$ 682,037	\$ 96,194,655	1.10%	13,545	22.7 %
2016	37,528,817	462,069	5,401,883	54,684,054	-	713,600	98,790,423	0.01	13,910	36.2
2015	41,085,034	503,283	-	42,847,362	-	-	84,435,679	0.97	11,906	31.3
2014	44,917,522	538,517	-	49,227,772	-	-	94,683,811	1.10	13,351	35.6
2013	44,868,111	639,403	-	43,860,933	-	-	89,368,447	1.03	12,459	34.4
2012	47,564,219	674,638	-	48,526,364	4,718	-	96,769,939	0.93	13,626	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

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**  
Ratios of General Obligation Bonds Outstanding  
Last Ten Fiscal Years

Tax Year	General Obligation Bonds Outstanding	% of Actual Property Value	Per Capita
2017	\$ 83,626,810	0.96%	11,775
2016	92,212,871	1.07	12,984
2015	83,932,396	0.97	11,835
2014	94,145,294	1.09	13,275
2013	88,729,044	1.02	12,370
2012	96,090,583	0.93	13,530
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

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, 2017

Jurisdiction	Debt Outstanding	Percentage Applicable to City *	Amount Applicable to Town of Ocean City
<b>Direct</b>			
Town of Ocean City	<u>\$ 96,194,655</u>	100.0%	<u>\$ 96,194,655</u>
<b>Overlapping</b>			
Worcester County	<u>86,271,999</u>	57.6%	<u>49,692,671</u>
Total Direct and Overlapping Debt	<u><u>\$ 182,466,654</u></u>		<u><u>\$ 145,887,326</u></u>

Source: Town of Ocean City Finance and Worcester County Finance Departments

\* Percentages were determined by dividing each overlapping subdivision's assessed valuation within the Town by its total assessed valuation.

**Town of Ocean City, Maryland**

Legal Debt Margin Calculation

As of June 30, 2017

Assessed Value		<u>\$ 8,750,534,443</u>
Maximum general obligation debt limited to 5.2% of assessed valuation *		\$ 455,027,791
Outstanding bonds	<u>\$ 83,626,810</u>	
Net Chargeable to Bond Limit		<u>83,626,810</u>
LEGAL DEBT MARGIN at JUNE 30, 2017		<u>\$ 371,400,981</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

2008 - 2017

Fiscal Year	Assessed Value	Legal Debt Limitation	Legal Borrowing Limitation	Debt Subject to Limitation	Legal Debt Margin
2017	\$ 8,750,534,443	5.2 %	\$ 455,027,791	\$ 83,626,810	\$ 371,400,981
2016	8,600,011,268	5.2	447,200,586	92,212,871	354,987,715
2015	8,687,818,439	5.2	451,766,559	83,932,396	367,834,163
2014	8,627,255,200	5.2	448,617,270	94,145,294	354,471,976
2013	8,698,035,147	5.2	452,297,828	88,729,044	363,568,784
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

**Town of Ocean City, Maryland**  
Demographic and Economic Statistics  
Calendar Years 2007 - 2016

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Year	(1) Population	(2) Median Household Income	(3) Worcester County Personal Income	(4) Median Age	(5) School Enrollment	(6) Unemployment Rate
2016	7,102	\$ 52,276	\$ 2,490,404	54.0	6,660	7.7 %
2015	7,102	58,820	2,348,795	54.0	6,649	7.8
2014	7,092	56,279	2,541,372	48.1	6,684	7.9
2013	7,092	58,138	2,493,986	48.1	6,649	8.1
2012	7,110	49,943	1,938,695	54.2	6,643	8.2
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

- (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) Maryland Department of Labor, Licensing and Regulation.

**Town of Ocean City, Maryland**  
Principal Employers  
Current Fiscal Year and Nine Years Ago  
Number of employees for quarter ending June 30, 2017

2017		
Employer	Employees	Percentage of Total County Employment
Harrison Group	1,291	5.13 %
Bayshore Development	518	2.06
OC Seacrets, Inc.	510	2.03
Clarion Resort Fontaine Bleu	360	1.43
KTG LLC	331	1.32
Fagers Island, Ltd.	295	1.17
91st St. Joint Venture	266	1.06
Trimpers Rides, Inc.	250	0.99
Candy Kitchen	250	0.99
Phillips	217	0.86
<b>Total</b>	<b>4,288</b>	<b>17.05 %</b>
Total Worcester County Employees (Data available for county only)	<u>25,154</u>	

2008		
Employer	Employees	Percentage of Total County Employment
Harrison Group	1,130	3.67 %
Phillips	650	2.11
OC Seacrets, Inc.	510	1.66
Bayshore Development	500	1.63
KTG LLC	400	1.30
Clarion Resort Fontaine Bleu	300	0.98
Fagers Island, Ltd.	270	0.88
Trimpers Rides, Inc.	250	0.81
91st St. Joint Venture	240	0.78
Castle in the Sand, Inc.	155	0.50
<b>Total</b>	<b>4,405</b>	<b>14.32 %</b>
Total Worcester County Employees (Data available for county only)	<u>30,753</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.

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

<b>Function/program</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
General Government	36	36	37	37	36	36	37	38	39	39
Public Safety	213	213	213	213	207	211	210	215	218	223
General Public Works	47	47	47	45	45	45	46	49	55	54
Solid Waste	21	21	21	22	23	23	25	40	44	44
Highway and Streets	23	23	23	23	23	22	22	33	36	36
Tourism	4	4	4	4	4	4	4	8	9	9
Recreation	42	42	43	42	42	42	42	48	51	51
Water	21	21	21	21	21	21	21	23	24	25
Transportation	13	13	13	13	13	13	13	16	17	17
Wastewater	46	46	46	46	46	45	45	46	49	48
Convention Center	34	34	33	32	32	33	34	35	40	40
Airport	3	3	3	3	3	3	3	3	4	4
Internal Service	30	30	30	30	30	30	30	33	36	36
Full-Time Employee Totals:	533	533	534	531	525	528	532	587	622	626
Part-Time Employees	904	850	911	874	867	837	814	755	799	871
Total Employees	<u>1,437</u>	<u>1,383</u>	<u>1,445</u>	<u>1,405</u>	<u>1,392</u>	<u>1,365</u>	<u>1,346</u>	<u>1,342</u>	<u>1,421</u>	<u>1,497</u>

**Source:** Town of Ocean City, Maryland 2008-2017 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

<b>Function/program</b>	2017	2016	2015	2014
<b>General Information</b>				
Area in Square Miles	5	5	5	5
Year-round Residents	7,102	7,102	7,092	7,092
Registered Voters	6,067	5,703	6,141	5,267
Average Summer Population	275,509	258,330	242,611	253,561
<b>General Government</b>				
Construction Permits Issued	1,810	1,855	1,472	1,564
Estimated Value of Construction	\$ 86,385,559	\$ 61,003,886	\$ 57,890,098	\$ 51,755,670
<b>Public Safety - Police</b>				
Total Arrests	2,252	2,312	3,568	2,921
Parking Violations	9,619	9,344	7,934	10,460
Classified Officers	105	105	105	105
Seasonal Officers	80	100	100	100
<b>Fire and Emergency Services</b>				
Fire responses	1,323	1,158	1,278	1,262
Ambulance responses	5,006	4,698	4,518	4,157
Fire Safety Inspections/Re-Inspections	2,269	2,308	2,659	2,423
Fire Investigations	26	45	65	98
Classified Fire Personnel	3	3	3	3
Volunteer Officers, Firemen, Life Honor, Gold Badge	215	226	231	235
Classified Emergency Medical Technicians	44	42	41	44
Seasonal Emergency Medical Technicians	67	69	65	67
<b>Solid Waste</b>				
Trash Processed (tons)	35,823	33,794	32,603	32,814
Trash Recycled (tons)	229	279	202	185
<b>Tourism and Recreation</b>				
Seasonal Beach Patrol Personnel	194	175	186	190
<b>Water</b>				
Daily Average Consumption (gallons)	4,278,040	4,179,104	4,156,608	4,637,616
Plants Daily Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000
<b>Transportation</b>				
Bus Passengers	2,554,385	2,495,014	2,588,189	2,737,568
<b>Wastewater</b>				
Daily Average Treatment (gallons)	5,699,000	5,528,000	5,378,000	5,445,000
Summer Daily Treatment Average (gallons)	9,743,000	9,330,000	9,194,000	9,603,000
Plants Daily Treatment Capacity (gallons)	14,000,000	14,000,000	14,000,000	14,000,000
Number of Customer Accounts	28,417	28,698	28,804	28,739
<b>Airport</b>				
Based Aircraft	67	76	67	64
Aircraft Fueled	3,100	2,900	2,900	3,165

Source: Town of Ocean City Finance Department

2013	2012	2011	2010	2009	2008
5	5	5	5	5	5
7,173	7,102	7,102	7,715	7,638	7,562
6,184	6,034	5,166	6,549	5,417	6,550
254,906	276,809	263,765	257,479	256,169	258,726
1,660	1,525	1,622	1,501	1,407	1,795
\$ 36,287,285	\$ 35,460,786	\$ 25,521,294	\$ 36,525,292	\$ 49,378,207	\$ 69,597,628
3,614	3,879	3,572	4,213	3,515	3,599
11,237	13,045	14,705	13,859	12,871	11,749
105	103	102	107	107	107
100	96	102	90	82	110
1,190	1,303	1,224	1,254	1,429	1,344
4,634	6,025	5,935	5,776	5,529	5,680
1,935	2,050	2,068	2,010	2,310	3,176
107	115	136	144	202	257
3	4	4	4	4	3
135	235	221	219	220	230
37	36	36	40	42	42
65	54	74	58	54	41
39,640	36,069	34,253	33,149	28,959	31,635
190	205	283	2,742	3,285	3,603
194	182	189	189	194	208
4,891,890	5,243,506	5,591,287	5,026,025	5,434,695	5,555,219
18,000,000	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000
2,852,639	2,872,472	2,997,578	3,099,117	3,315,614	3,481,330
5,700,000	5,747,000	5,731,000	5,766,000	5,428,814	5,442,071
9,200,000	1,050,000	9,986,000	9,595,000	9,237,300	9,720,000
14,000,000	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
28,775	28,772	28,781	28,792	28,777	28,481
77	75	67	67	66	68
3,544	4,092	4,081	3,838	3,738	3,661

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

<b>Function/program</b>	2017	2016	2015	2014
<b>Public Safety - Police</b>				
Stations	2	2	2	2
Vehicles	83	81	84	84 #
<b>Public Safety - Fire and Emergency Services</b>				
Stations	5	5	5	5 #
Ambulances	10	10	10	9
<b>Highways and Streets</b>				
Streets (miles)	69	69	69	69
Number of Streetlights	3,078	3,078	3,078	3,054
Storm Sewers (miles)	43	43	43	43
Catch Basins	2,315	2,315	2,315	2,315
Heavy Equipment	48	48	48	48
<b>Solid Waste</b>				
Heavy Equipment	32	32	32	32
<b>Economic Development - Tourism, Recreation, and Culture</b>				
Number of Parks / Playgrounds	13 / 7	13 / 6	13 / 6	13 / 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	150	150	150
Treatment Plants	3	3	3	3
Service Connections	7,074	7,074	7,068	7,237
Fire Hydrants	847	847	847	847
<b>Transportation</b>				
Buses	62	62	61	62
Handicapped Buses	3	3	3	3
Trolleys	-	-	-	-
Boardwalk Trams	8	8	8	8
<b>Wastewater</b>				
Sanitary sewers (miles)	152	152	152	152
Treatment Plants	1	1	1	1
Pumping Stations	10	10	10	10
<b>Convention Center</b>				
Convention Center (7,000 seats)	1	1	1	1
<b>Airport</b>				
Runway (2) (feet)	7,273	7,273	7,273	7,270
Square feet of Hangars	115,064	115,064	115,064	115,064

Source: Town of Ocean City Finance Department

2013	2012	2011	2010	2009	2008
2	2	2	2	2	2
82	83	84	83	84	81
5	5	5	5	5	5
10	9	9	9	9	9
69	69	69	69	69	69
3,054	3,024	3,024	3,024	3,024	3,006
43	43	43	43	43	43
2,315	2,315	2,310	2,307	2,307	2,307
48	48	48	50	50	50
32	32	32	28	28	30
13 / 6	14 / 6	14 / 6	14 / 6	14 / 6	14 / 6
77	77	77	77	77	77
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	141	150	150	150
3	3	3	3	3	3
7,143	7,584	7,131	7,125	7,121	7,121
847	847	847	846	915	915
60	62	69	55	56	55
3	3	4	4	3	3
-	4	8	8	8	8
8	8	8	8	8	8
152	152	150	150	150	150
1	1	1	1	1	1
9	9	9	9	9	9
1	1	1	1	1	1
7,270	7,270	7,270	7,270	7,270	7,270
115,064	140,080	140,080	120,860	120,860	120,860