

**Town of
Ocean City, Maryland
Comprehensive Annual Financial
Report
For Fiscal Year Ending
June 30, 2016**

(cover photo by Dawn Leonard Webb)

Ocean City's new iconic landmark stands tall above the downtown area at 1st Street. The water tower features a beach ball splashing down with the Town's logo on the front which can be seen by visitors traveling into Ocean City on Route 50.

(facing page)

Private First Class Kevin Flower of the Ocean City Police Department's K-9 unit poses with his partner, Uno.

Town of Ocean City, Maryland
Comprehensive Annual Financial Report

For Fiscal Year Ended
June 30, 2016



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, 2016**

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INTRODUCTORY SECTION

LOCATION MAP

LETTER OF TRANSMITTAL

GFOA CERTIFICATE OF ACHIEVEMENT

ORGANIZATIONAL CHART

OFFICIALS AND DIRECTORS



Location Map



TOWN OF OCEAN CITY

The White Marlin Capital of the World

September 30, 2016

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

In the years since the recession in 2009, and in spite of the subsequent decline in real estate values, Ocean City has retained its status as a premier beach resort and second home community. The recession created challenges for the town government to provide and improve infrastructure and services while retaining a commitment to sound financial management. This report, which summarizes the financial results for the 2016 fiscal year, reflects that commitment.

I respectfully submit the Comprehensive Annual Financial Report (CAFR) for the Town of Ocean City (the Town) for the fiscal year ended June 30, 2016. 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, 2016, 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.

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

www.oceancitymd.gov

MAYOR
RICHARD W. MEEHAN

CITY COUNCIL MEMBERS

LLOYD MARTIN
President

MARY P. KNIGHT
Secretary

DOUGLAS S. CYMEK
DENNIS W. DARE
ANTHONY J. DELUCA
WAYNE A. HARTMAN
MATTHEW M. JAMES

Ocean City, MD



Town of Ocean City
Letter of Transmittal

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

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

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 67 (GASB 67) and Statement 68 (GASB 68) in the prior fiscal year and has provided required disclosures which improve understanding of pension 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 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 125th Street and at Sunset Park located on the bay front in downtown Ocean City. There are 19 golf courses in the Ocean City area. Group business, meetings, and events held at the 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 \$6.5 million in 2016. For the year ended June 30, 2016, room sales were 5.3% above the prior year and food and beverage sales were up 5%.

There were 1,855 construction permits issued in 2016, compared to 1,472 in 2015. The estimated value of construction in 2016 was \$61,003,886 compared to \$58,888,098 in 2015. 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>
16 th Street	165	Hyatt (Sea Scape)(east building)	\$ 15,090,000
25 th Street	109	Fairfield	7,424,600
26 th Street	63 redevelopment	Crystal Beach	7,484,598
45 th Street	120	45 th St Village	10,100,000
61st Street	150	Marriott Residence	15,927,045
67 th Street	100	Hilton Home 2 Suites	8,076,000

*Town of Ocean City
Letter of Transmittal*

The Town relies on property taxes for 52% 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 2016 fiscal year. Properties will be reassessed for the 2018 fiscal year and increases in values may lag behind other improvements in the economy. However, as the Town has maintained sound budgeting practices with a focus on multiyear planning, the Town's financial position remains favorable.

MAJOR INITIATIVES AND DEPARTMENTAL ACTIVITIES

Ocean Bowl Skate Park



In 2016, the Ocean Bowl Skate Park celebrated its 40th Anniversary. The Ocean Bowl is located on 3rd Street and St. Louis Avenue and is the oldest operating municipally owned skate bowl in the United States.

Skating gained popularity in the early 1950's when the surfers in California wanted something to do when the waves were flat. By the early 1970's, skateboarding had become the rage. It was around this time that the Town banned skateboarding on the streets within city limits. Left without a place to skate, skaters and their parents, requested that the Town provide a skating place. In June 1976, the Ocean Bowl Skate Park opened with a four foot deep asphalt bowl. It received overwhelming reviews and shortly thereafter, a larger bowl was constructed. In 1984 the large bowl was no longer structurally sound and therefore, was removed. Metal surfaced halfpipe measuring eleven foot high, twenty-eight foot wide took its place. The new halfpipe met the demands of the ever evolving sport of skateboarding which included vertical ramps.

In 1997, due to deterioration, the skate park was in need of renovations yet again. With the help of the City Council and the Skate Park Committee, a new skate park was constructed. The Skate Bowl offers those of all skill levels a place to sharpen their skills and a place to enjoy their passion in the sport they love. Currently, the Town offers instructional camps through the Recreation and Parks Department.



Over the years, the skate park has seen pro skaters and for several years, the Dew Tour was held in Ocean City when pro skaters such as Bucky Lasek, Steve Caballero, Tyler Mumma, Brad McClain, Daniel Cardone, Mike Rogers, Matt Dove, Michael O'Friel and more, visited the skate bowl and now hold the status that few in the sport can claim... they skated on the oldest operating municipal skate park in the United States.

Ocean City Police Department K-9 Unit

The Ocean City Police Department's K-9 Unit is an essential group of K-9 teams that have been supporting the department's mission since the unit was first introduced in 1961. The K-9's were originally used solely for patrol functions and in the late 1960's the Department added the first dog trained to detect illegal drugs. Today, the K-9 Unit is made up of five highly skilled K-9 teams trained in illegal drug detection, tracking of suspects and other high risk criminal apprehension techniques.



Each of the dogs currently assigned to the K-9 Unit underwent a rigorous selection process.

The typical breeds that the Department chooses are German Shepherds, Belgium Malinois and Dutch Shepherds. The handlers assigned to the Unit, are paired with a dog that best suits their personality. A new K-9 team trains for an initial six weeks before being certified by the North American Police Work Dog Association (NAPWDA). In addition to the initial training requirements, the K-9 Unit members attend regularly scheduled monthly training sessions and must recertify with the NAPWDA annually.

Given the high risk nature of the deployments that the dogs are often faced with, the department is currently in the process of obtaining functional ballistic and stab proof vests to better protect the dogs, which costs \$2,400 each. These vests are custom fit to each dog and allow for better mobility and functionality with day to day use. The K-9 unit is a vital part of the Ocean City Police Department.

Fire Department Headquarters Renovation



The Fire Headquarters building, located at 15th Street and Philadelphia Ave was originally constructed in 1960 as a single bay fire station. The building now serves as both an operational fire station with multiple engine bays and as headquarters for the Ocean City Fire Department. The current \$2.1 million project consists of a complete exterior renovation with new roof, siding, doors and windows and was funded by the sale of bonds in 2012. The new doors and windows have impact resistant glazing for storm protection. The engine bays were renovated with new paint, floor slabs and drain systems in the north bay and a new

direct connection vehicle exhaust ventilation system throughout. New HVAC systems have been installed in the bunk rooms and office areas. A 2,000 square foot addition was constructed to provide additional office, meeting and training areas for both the career and volunteer staff.

*Town of Ocean City
Letter of Transmittal*

1st Street Water Tower



In 2013, a study was conducted to assess the water distribution with regards to the fire flow in the downtown area of Ocean City. As a result of that study, the Town decided to erect a new water tower in the downtown area. The new water tower replaces two aging water towers. The Worcester Street water tower was constructed in 1959 and held 400,000 gallons. The 15th Street water tower was constructed in 1955 and held 500,000 gallons. The required repairs and routine maintenance became too costly to warrant keeping them in place versus replacing the two tanks with a one million gallon, more efficient water tank. The Town solicited bids for the new water tower and the bid was awarded to Chicago Bridge and Iron Constructors (CB&I) of New Castle, Delaware. The new water tower is located at 1st Street. The \$4.9M project was funded by the 2015 General Obligation Bonds. The new water tank will enhance fire flow, improve water quality as well as reduce maintenance costs. Additionally, approximately 30 parking spaces will be gained with the removal of the water tower in the Worcester Street parking lot, one of the busiest parking lots in the Town. The removal of the water tower at 15th Street allows for the future expansion of the Ocean City Volunteer Fire Company.

In June 2015, the design on the water tower was selected by the Mayor and City Council of a beach ball splashing down. The paint used on the new water tower is a Sherman Williams brand and has a life expectancy of approximate 15 years, which is double the life expectancy of the paint on the old water towers. With this design, the water tower will become an iconic Ocean City landmark for visitors for years to come and visible when traveling into Ocean City on Route 50.

FINANCIAL INFORMATION AND PLANNING

Capital planning. The Town has adopted a capital improvement plan that includes a five-year plan to repair 30 miles of town streets. Improvements to the Town’s infrastructure have been continuous for over 30 years. Of high priority, a new water tower in south Ocean City, wastewater mains, and wastewater plant improvements were funded by the sale of bonds in the 2016 fiscal year. A comprehensive water and wastewater rate study was adopted by the Council in 2015, which included a gradual increase in rates over five years to fund operating and capital costs of the two utilities. In May 2016, the Council approved a project to acquire a new 700MHz radio system and improvements to the communications center for \$5,772,088. The project will be financed by a 10-year capital lease in the 2017 fiscal year.

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, 2016, that reserve, unassigned fund balance, was 23.1% or \$16,968,006 compared to 21.6% and \$15,648,548 in 2015.

Bond ratings. The Town maintained its ratings of AA- from Fitch Ratings and Aa2 from Moody's Investors Service when it issued the General Obligation Municipal Purpose Bonds of 2015 in December 2015. Standard & Poor's Rating Services assigned its 'AA/Stable' rating to the bonds and affirmed its 'AA' rating on the Town's existing GO debt. Per their report, the rating is based on the Town's strong financial management policies and practices, strong budgetary performance and very strong liquidity.

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, 2015. This is the 28th 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

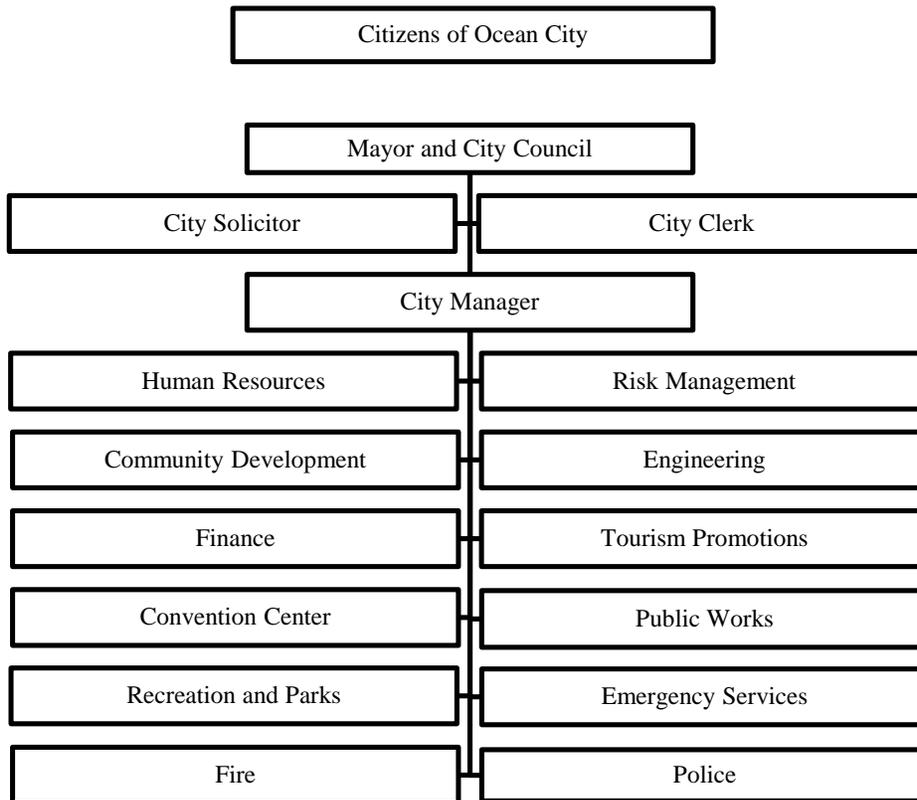
**Town of Ocean City
Maryland**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

Town of Ocean City Organizational Chart
2016



**Town of Ocean City
List of Principal Officials and Directors
June 30, 2016**

<u>Title</u>	<u>Name</u>
Mayor	Richard W. Meehan
President of Council	Lloyd Martin
Secretary of Council	Mary P. Knight
Council Member	Douglas S. Cymek
Council Member	Dennis W. Dare
Council Member	Anthony J. DeLuca
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	Geoffrey H. Robbins
Karin A. Scott	Jeff M. Thaler



FINANCIAL SECTION



SB & 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, 2016, 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 opinion.



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, 2016, 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 pension fund net pension liability and related ratios, the schedule of funding progress – OPEB Trust Fund, and schedules of employer contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with 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 30, 2016

SB & Company, LLC

MANAGEMENT'S DISCUSSION AND ANALYSIS



Town of Ocean City
Management's Discussion and Analysis
June 30, 2016

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, 2016, 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 2016

- The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows at the close of the 2016 fiscal year resulting in a net position of \$156,873,526. Of this amount, \$21,182,570 is unrestricted and may be used to meet the Town's ongoing obligations to citizens and creditors.
- The Town's overall financial position improved \$2,141,210 or 1.4%. Revenues increased only 1% as the property tax rate was set to maintain the same level of taxes as the prior year. Expenses increased \$9,521,023 or 9.1% due to salary and benefit increases of \$3,300,448, energy performance improvements of \$3,079,070, risk management losses of \$1,259,788, and a loss on sale of assets of \$1,544,439. There were gains from governmental activities of \$3,657,071 before transfers of \$3,158,019 to other funds, a net of \$499,052. Business-type activities contributed \$1,642,158 to net position.
- As of June 30, 2016, the Town's governmental funds reported a combined fund balance of \$22,326,472, an increase of \$1,177,775 from the prior year. Of the total amount in fund balance, \$3,312,381 is committed for capital projects, \$1,235,805 is assigned to the fiscal year 2017 budget \$810,280 is assigned to purchases on order, and \$16,968,006 is available to meet the Town's current and future needs, and is unassigned fund balance. Unassigned general fund balance at year-end was 23.1% of general fund expenditures, compared to the percentage in FY-2015 of 21.6%, and is in excess of the Town's reserve policy of 15%.
- The Town's net debt increased by \$14,354,744 in 2016. The Town issued general obligation bonds for \$16,760,000 with a premium of \$1,251,099 to fund water and wastewater capital projects, \$5,266,000 to refund the 2007 general obligation bonds; and capital leases of \$6,115,433 for equipment and energy improvements. Net debt was decreased by scheduled principal retirements and amortization of bond premiums of \$10,082,868 during the current fiscal year of general obligation bonds and loans, and refunding \$4,955,000 of the 2007 bonds.
- The Town implemented the Government Accounting Standards Board Statement 68 (GASB 68) in the prior fiscal year. As of June 30, 2016, net pension liability of \$29,001,169, related deferred outflows of \$14,423,572 and deferred inflows of \$829,877 are recorded in the Statement of Net Position. The Town recognized pension expense of \$4,766,296 in the current fiscal year, comprising of \$4,318,353 for contributions to the pension trust funds and \$447,943 increase in the net pension liability. Using the requirements of GASB 67 to measure the total pension liability utilizing the entry age normal actuarial funding method, the funded ratio is 77.9% for the General Employees Pension Plan and is 77.5% for the Public Safety Employees Pension Plan.

Town of Ocean City
Management's Discussion and Analysis

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 39-41 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 42-45 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 46-53 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 54-55 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 56-87 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 90-96 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 98-113 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, 2016 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 \$156,873,526 at the close of the fiscal year for June 30, 2016, compared to \$154,732,316 for the year ended June 30, 2015, an increase of \$2,141,210.

By far the largest portion of the Town's net position, 85%, 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
	2016	2015	2016	2015	2016	2015	
Current and other assets	\$ 36,751,735	\$ 35,461,905	\$ 33,634,074	\$ 24,373,448	\$ 70,385,809	\$ 59,835,353	17.6 %
Capital assets	97,226,580	96,579,348	120,044,426	115,639,287	217,271,006	212,218,635	2.4
Total assets	133,978,315	132,041,253	153,678,500	140,012,735	287,656,815	272,053,988	5.7
Deferred Outflows of Resources	12,715,034	5,071,141	2,362,500	1,116,532	15,077,534	6,187,673	143.7
Long-term liabilities outstanding	72,131,015	61,982,148	59,306,100	45,590,993	131,437,115	107,573,141	22.2
Other liabilities	9,980,087	11,136,288	3,613,744	4,138,083	13,593,831	15,274,371	(11.0)
Total liabilities	82,111,102	73,118,436	62,919,844	49,729,076	145,030,946	122,847,512	18.1
Deferred Inflows of Resources	641,863	552,626	188,014	109,207	829,877	661,833	0.3
Net position:							
Net investment in capital assets	55,670,509	57,685,894	77,730,796	73,668,728	133,401,305	131,354,622	1.6
Restricted	-	-	2,289,651	4,284,817	2,289,651	4,284,817	(46.6)
Unrestricted	8,269,875	5,755,438	12,912,695	13,337,439	21,182,570	19,092,877	10.9
Total net position	\$ 63,940,384	\$ 63,441,332	\$ 92,933,142	\$ 91,290,984	\$ 156,873,526	\$ 154,732,316	1.4 %

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, \$2,289,651, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$21,182,570, may be used to meet the Town's ongoing obligations to citizens and creditors. This is

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an increase of \$2,089,693 from 2015, largely due to the decrease in the amounts restricted in net position.

For the year ended June 30, 2016, 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 (\$251,291).

As shown in the following chart, the Town's net position increased \$2,141,210 for the year ending June 30, 2016. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

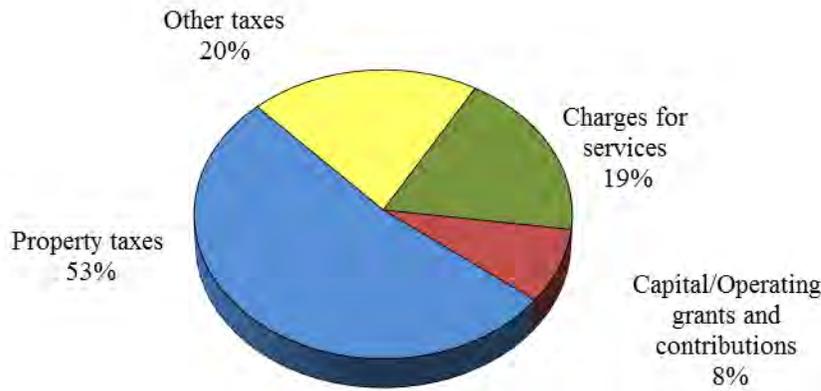
	Governmental Activities		Business-type Activities		Total Primary Government		%
	2016	2015	2016	2015	2016	2015	Change
REVENUES							
Program Revenues:							
Charges for current services	\$ 15,323,925	\$ 14,632,088	\$ 28,769,084	\$ 29,314,132	\$ 44,093,009	\$ 43,946,220	0.33%
Operating grants and contributions	3,301,092	3,026,042	3,652,214	3,680,145	6,953,306	6,706,187	3.68
Capital grants and contributions	152,732	190,351	2,894,257	1,530,415	3,046,989	1,720,766	77.07
General revenues:							
Property taxes	42,717,221	42,444,386	-	-	42,717,221	42,444,386	0.64
Other taxes	17,205,888	16,454,632	-	-	17,205,888	16,454,632	4.60
Grants and contributions not restricted to specific programs	3,354,162	3,139,620	-	-	3,354,162	3,139,620	6.83
Other revenue	(706,513)	968,599	(13,705)	64,038	(720,218)	1,032,637	(169.75)
Total revenues	81,348,507	80,855,718	35,301,850	34,588,730	116,650,357	115,444,448	1.0
EXPENSES:							
General government	1,019,892	852,529	-	-	1,019,892	852,529	19.63
Public safety	35,138,306	32,782,621	-	-	35,138,306	32,782,621	7.19
General public works and beach	7,261,653	7,240,368	-	-	7,261,653	7,240,368	0.29
Sanitation and waste removal	6,256,386	5,787,086	-	-	6,256,386	5,787,086	8.11
Highways and streets	10,501,844	7,102,511	-	-	10,501,844	7,102,511	47.86
Economic development - Tourism	8,343,211	8,139,166	-	-	8,343,211	8,139,166	2.51
Recreation and culture	7,862,334	7,479,558	-	-	7,862,334	7,479,558	5.12
Interest on long-term debt	1,307,810	1,335,105	-	-	1,307,810	1,335,105	(2.04)
Water	-	-	5,869,793	5,532,561	5,869,793	5,532,561	6.10
Transportation	-	-	8,228,957	8,213,299	8,228,957	8,213,299	0.19
Wastewater	-	-	12,740,636	11,299,812	12,740,636	11,299,812	12.75
Convention Center	-	-	6,364,714	5,341,279	6,364,714	5,341,279	19.16
Airport	-	-	1,506,936	1,832,178	1,506,936	1,832,178	(17.75)
Golf Course	-	-	2,106,675	2,050,051	2,106,675	2,050,051	2.76
Total expenses	77,691,436	70,718,944	36,817,711	34,269,180	114,509,147	104,988,124	9.07
Increase in net position before transfers	3,657,071	10,136,774	(1,515,861)	319,550	2,141,210	10,456,324	(79.52)
Transfers	(3,158,019)	(3,022,929)	3,158,019	3,022,929	-	-	0.00
Increase in net position	499,052	7,113,845	1,642,158	3,342,479	2,141,210	10,456,324	(79.52)
Net position, prior year	63,441,332	56,327,487	91,290,984	87,948,505	154,732,316	144,275,992	-
Net position, current year	<u>\$ 63,940,384</u>	<u>\$ 63,441,332</u>	<u>\$ 92,933,142</u>	<u>\$ 91,290,984</u>	<u>\$ 156,873,526</u>	<u>\$ 154,732,316</u>	<u>1.38%</u>

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Governmental activities: The Town has continued to increase advertising and tourism promotion expenses which improved sales tax revenues. Employees received increments in January 2016 which resulted in an increase in wages. The cost of benefits increased above 2015. Also, some variances occurred for specific revenue and expense types. Key elements in the net position increase of \$499,052 for governmental activities are as follows:

- Property tax revenues and tax penalties and interest increased only 0.64% or \$272,835 due to assessment decrease of 1% offset by an increase in the real property tax rate from \$0.474 in 2015 to \$0.478 per \$100 of assessed value in 2016, or a rate increase of 0.84%. Property taxes comprised 53% of revenue for governmental activities and 36.6% of all Town revenues in 2016.

**GOVERNMENTAL ACTIVITIES
REVENUE BY SOURCE**



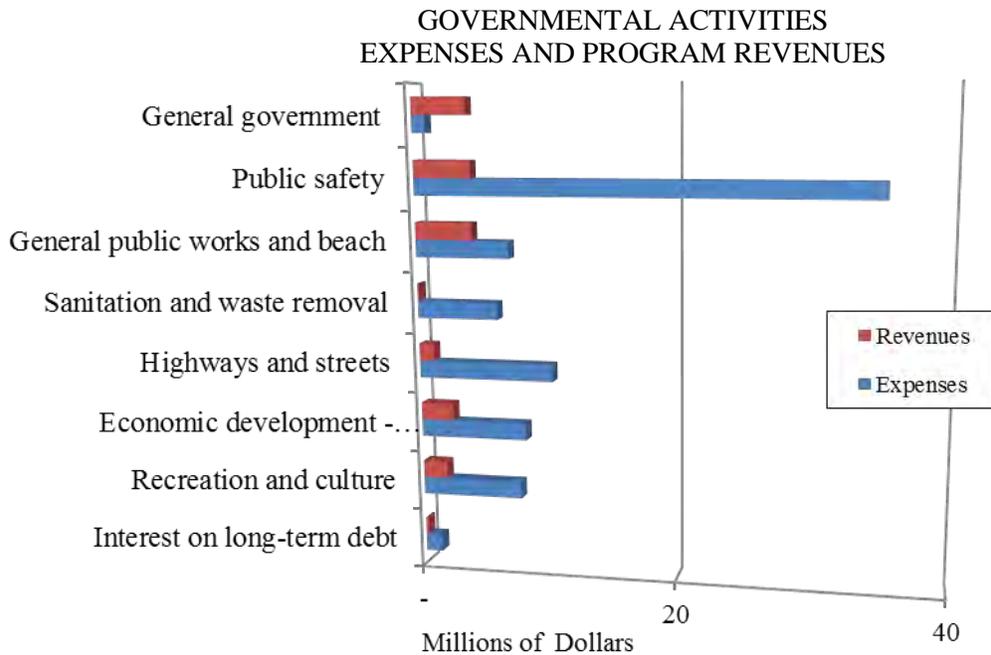
- The largest revenue increase in 2016 was in the category, “Other Taxes”. It increased \$751,256 or 4.6%. This category includes admissions taxes, income taxes, highway user taxes, and room taxes. Room taxes, the largest revenue source in this category with receipts of \$14,574,627 had an increase of \$728,951, or 5.3% above the prior year. Hotel sales in the resort have increased annually throughout the past decade. Income taxes were \$11,221 above 2015 or 1.31% and have increased 37% since 2010 due to the improvements in capital gains on real estate sales in Ocean City since the recession.
- Revenue from charges for services increased \$691,837 in governmental activities. The largest contributors to the increase were building permits and fees of \$251,144 due to new construction projects; parking fees, \$220,903, due to rate increases; and a new fee schedule for private events held on city property resulting in an increase of \$31,136.
- The revenue recognized from operating grants and other contributions increased \$275,050 from 2015. This is primarily due to the increase of \$87,768 in federal grants from FEMA for damages from winter storm Jonas and grants for emergency and hazard planning, traffic safety, a license reader, and bullet-proof vests that were \$186,593 above 2015.
- Revenue from capital grants and contributions decreased \$37,619 as contributions were received in the prior year for new lighting on St. Louis Avenue from contributions from the Ocean City

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Development Corporation. Unrestricted grants and contributions increased 6.8% or \$214,542. State-shared casino revenue increased \$69,750.

- The category "Other revenue (expense)" had a decrease due to the exchange of land for amounts less than its recorded value in capital assets. In governmental activities, the former Police Department land and other lots were exchanged with the Ocean City Development Company (OCDC) for the land for the Beach Patrol Headquarters which resulted in a loss of \$1,856,974. OCDC intends to use the land for economic development in their model block project. This losses were offset by gains on the sale of equipment of \$359,556, other land for \$14,500 and investment earnings of \$192,920 and other income of \$583,485.

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 24.3% of governmental expenses in FY-2016 compared to 25.5% in FY-2015.



- Personnel costs for wages and employee benefits are 61.3% of total expenses for governmental activities. Salaries increased 2.3%, or \$757,546, as a 2% cost of living was given to employees January 1, 2016 and a new pay plan was implemented resulting in rate changes for some positions. The cost of employee benefits increased 14.8% of \$2,088,962. The implementation of GASB 68 in the prior year resulted in a credit to pension expense in governmental activities of \$1,846,185 in 2015. 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.

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- Other operating expenses increased \$4,125,984 or 16.7%. Although fuel prices reduced energy and vehicle costs \$418,042, the town spent \$2,991,319 more on repairs and maintenance in 2016 than in 2015 which included \$2,731,028 in “Highways and Streets” for new energy efficient street lights. They are anticipated to pay for themselves in lower energy costs over 10 years. The Town made non-capital repairs and asphalt overlays of streets of \$623,658 and capitalized \$1,951,573 in street renovations in 2016.
- The Town paid claims of \$1,670,911 in the 2016 fiscal year compared to \$764,015 in the prior year. Based on an actuarial valuation performed as of July 1, 2015, the claims liability was increased from \$3,082,442 in 2015 to \$3,645,523 at June 30, 2016. Of the \$990,250 loss in the risk management fund, \$816,038 was allocated to governmental funds and \$174,212 was allocated to business-type activities.
- Transfers to other funds increased \$135,090. The subsidy for the transportation fund was increased \$209,226 for the local match for capital contributions by the state and federal transportation agencies. The town contribution to subsidize the Convention Center reduced \$125,699 due to a capital contribution of \$500,000.

Business-type activities. There was an increase of \$1,642,158 in the Town’s net position in FY-2016 attributed to business-type activities. Key elements of this increase are as follows:

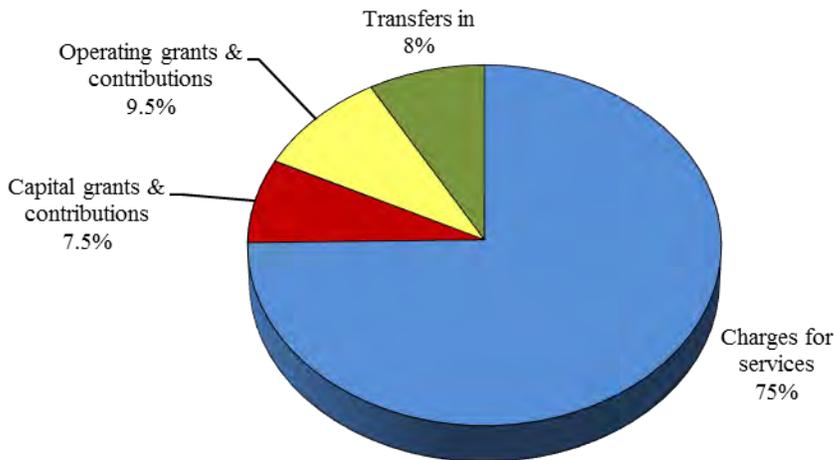
- Charges for services for business-type activities decreased 1.86%, or \$545,048. A rate study presented to the Council in February 2015 advised fee increases to be phased in over 5 years to cover capital improvements and debt service for the wastewater utility and a fee decrease for the water utility. The fee changes were effective April 1, 2015. Revenue from water fees was \$897,650 below the prior year and wastewater revenue increased \$431,385. Boardwalk tram revenue increased \$90,126 from fare increases resulting in a 2% increase in revenue for the Transportation fund. The convention center revenue from service fees decreased \$32,219 as the town has sought group business for youth sporting competitions that generate fewer fees for the building, but have more participants renting hotel rooms in the resort in the off season. Lower fuel prices at the airport resulted in \$130,045 less revenue from fuel sales collected in 2016 compared to 2015.
- There was an increase of \$1,363,842 in capital grants and contributions for business-type activities. State and federal capital grants for new buses totaled \$1,863,253 in the transportation fund in 2016 compared to \$793,769 in 2015, an increase of \$1,069,484. Capital improvements at the airport were funded with \$51,571 additional in federal and state grants in 2016 than was received in 2015. The Convention Center received a capital contribution of \$500,000 by the food service vendor, Centerplate, which entered into a new five year contract with the facility. Capital contributions from impact fees were \$257,213 less in 2016 than in 2015 as new construction replaced old structures and did not increase the impact on the water and wastewater utilities.

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- The category “Other revenue”, had \$77,743 less revenue than in 2015. A loss of \$90,821 was recorded in the Wastewater Fund, a business-type activity, due to the replacement of the old dechlorination system which was not fully depreciated. While this was offset by gains on the sale of assets of \$1,663 in the transportation fund, an insurance settlement of \$27,637 in the convention Center Fund, and interest earnings of \$47,816, there was a net loss of \$13,705 recorded for 2016.
- Expenses increased 7.4% or \$2,548,531 in 2016 for business-type operations compared to 2015. There were significant increases in operating costs of \$337,232 for the water fund and \$1,440,824 for the wastewater fund as there were costs for scheduled repairs and maintenance incurred in 2016 that were not spent in 2015. Also, depreciation expense increased \$258,563 in the wastewater fund and \$221,597 in the convention center fund on building improvements made in 2015.

Charges for services were 75% of revenue for business-type activities in 2016, with operating grants and contributions making up 9.5% of revenue, and capital grants 7.5% of revenue as shown in the following graph:

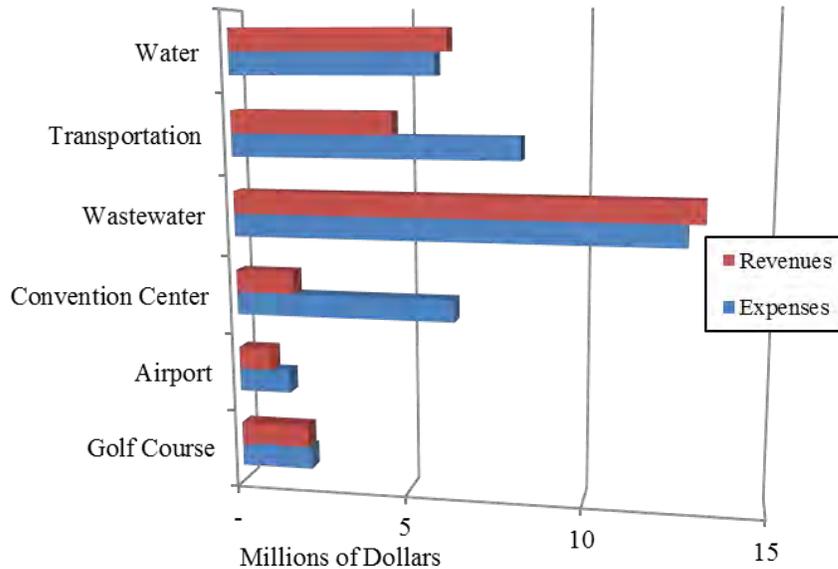
BUSINESS-TYPE ACTIVITES – REVENUES BY SOURCE



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 45.5% of expenses from user charges in 2016 compared to 48.2% in 2015.

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BUSINESS-TYPE ACTIVITIES – EXPENSES AND PROGRAM REVENUES



Financial Analysis of the Town's Funds

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

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

As of June 30, 2016, the Town's governmental funds reported a combined ending fund balance of \$22,326,472 compared to \$21,148,697 in 2015. The fund balance for the governmental funds increased \$1,177,775 primarily due to the issuance of debt and less expenditures for the construction of capital improvements and the purchase of capital equipment than in 2015.

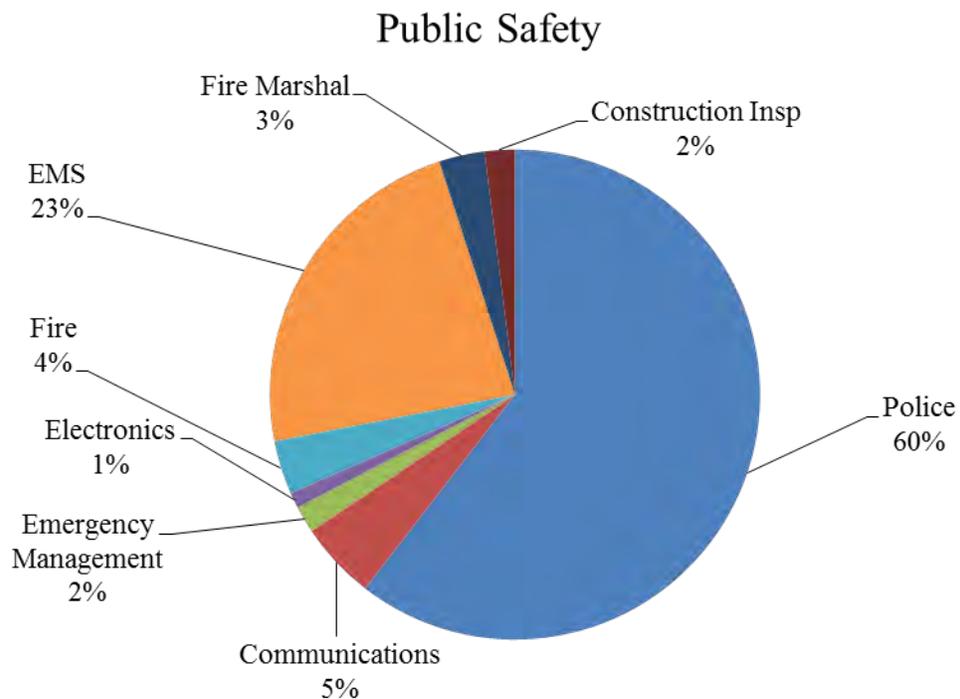
The General Fund unassigned fund balance, which is available for spending, increased \$1,319,458 from \$15,648,548 in 2015, to \$16,968,006 although the City Council assigned \$1,235,805 to the 2017 fiscal year budget for capital improvements. Total general fund balance increased \$1,423,377 during the fiscal year. The changes in both total and unassigned general fund balance are important to evaluate the fund's liquidity.

- Although the tax rate increased from \$.474 to \$.478 per \$100 of valuation, an assessment decrease of 1% resulted in only a small increase in property tax receipts of \$120,879. Total General Fund revenues increased 2.8% or \$2,229,413 compared to an increase of \$564,587 in 2015, primarily due to the increases in the category "Other taxes" of \$924,913 and "Charges for current services"

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of \$390,554. The increase in other taxes for room taxes of \$728,951 is an indicator of improvements in the tourism economy. State-shared tax from casinos increased \$69,750 as deductions were no longer being made for Baltimore City after their casino opened. Service fees increased for parking and recreation fees due to rate increases. Revenue from "licenses and Permits" increased \$296,400 from an increase in 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 \$419,841 or 7.5% due to increases in federal grants for police training and emergency management. There was an increase of \$116,405 in the state grant for tourism development above the 2015 grant, an indicator of the state's recognition of the value of tourism to the state's economy. Revenue increased a substantial 19.24% from "Fines and forfeitures" or \$111,674 due to an increase in parking fines collected and forfeiture of funds and vehicles. The category, "Other revenue" decreased \$34,848 or 4.5% primarily due to impact fees applicable to the general fund which decreased \$133,797. Fees to support infrastructure were charged to new construction in 2015, whereas most new construction in 2016 replaced existing structures, reducing their impact on town infrastructure.
- General Fund expenditures of \$73,417,909, before other financing sources and uses, were 1.6% or \$1,134,484 more in 2016 compared to 2015. The highest percentage change was for sanitation and waste removal of 5.3% due to a \$205,335 increase in disposal costs. Public safety which increased \$756,760 or 2.3% due to higher expenditures for salaries and benefits. Public safety comprised 45.5% of all general fund expenditures in 2016, or \$33,456,922 and is comprised of the following:



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- Expenditures were 2.6% higher in 2016 than 2015 for highways and streets, or \$137,838. Two message signs were purchased for \$30,920 and there was an increase of \$88,211 for repairs of streets. Expenditures increased \$204,907 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 \$3,566,514 was retired in 2016, \$69,752 less than in 2015. Interest expenses were \$125,143 below 2015 due to lower principal balances and lower interest rates due to refundings in 2015. General obligation refunding bonds \$2,943,167 were issued in June 2016 to refund the 2007 general obligation bonds which resulted in a payment of \$2,914,784 to the bond escrow agent to refund the bonds in 2017.
- Transfers to other funds were \$7,665,882 in 2016 compared to \$5,521,674 in 2015, an increase of \$2,144,208. Transfers to enterprise funds increased \$135,090 as the subsidy to transportation operations was increased for local share of new buses. The transfer to capital projects increased \$2,015,683 to fund street and building improvements. Additionally, \$83,854 was transferred to the Information Technology Fund to purchase a new town telephone system.
- In 2016, the City Council voted to assign \$1,235,805 of fund balance to provide resources for the 2017 fiscal year budget.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. As of June 30, 2016, unassigned general fund balance was \$16,968,006 which represents 23.1% of general fund expenditures compared to 21.6% in 2015. Total general fund balance represents 25.9% of total expenditures at year-end. At the prior year end, the percentage was 24.3%.

The fund balance for the capital projects fund decreased \$245,602 primarily due to expenditures for the following projects which were funded by bond proceeds in 2013, a capital lease of \$3,746,400 and a transfer of \$4,424,009 in 2016 from the general fund:

Street paving, sidewalks and storm drains	\$ 2,575,231
Northside park improvements	143,731
Fire station construction	1,428,238
Energy improvements	3,644,469
Beach patrol headquarters	60,565
Robin Drive bulkhead	10,131
Canal dredging	515,490
Fiber optic network	80,529
Public safety building improvements	22,301
Land improvements	121,428
Boat ramp	22,200
Comfort station	<u>63,980</u>
Total	<u>\$ 8,688,293</u>

Remaining fund balance of \$3,312,381 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 \$421,020 was reported in the water fund compared to \$1,678,464 in 2015. Rates for water usage were increased in 2015 based on a scheduled rate increase which increased sales by \$489,563. However, the rate for fixture charges, assigned to capital expenses, was intentionally decreased due to bond maturities and lower interest expenses. Fixture charge revenue decreased \$1,287,578. Operating expenses increased \$281,248 or 5.2% due to increases in salaries and benefits of \$301,596. Other costs decreased \$20,348 as there was less spent on repairs to wells and water mains in 2016, Cash flows from operations of \$1,715,336 enabled the purchase of capital assets of \$396,371 for a disinfection system and \$55,585 for a clarifier platform. Bond proceeds of \$5,515,483 were used for the construction of a new water tower at 1st Street, which replaces two water towers built in the 1950's.
- The wastewater fund had a gain of \$594,872 in 2016 compared to a gain of \$1,772,029 in 2015. Revenues from service charges increased \$431,385 as rates were increased in April 2015 to fund future capital improvements and related debt service. Expenses increased \$987,320 for repairs to the treatment plant and pumping stations. Capital assets of \$4,102,281 were added for a new clarifier, disinfection system, electrical relocation, and wastewater mains.
- The convention center fund had an operating loss of \$4,397,481 in 2016 compared to a loss of \$3,570,477 in 2015 due to more spent on building repairs and a full year of operation of the Performing Arts Center. The convention center fund received subsidies of \$1,343,928 from the Maryland Stadium Authority and \$1,437,183 from the Town, permitting an increase in the net position of the convention center of \$149,759. Debt service for the fund is supported by a tax on food and beverages in Ocean City which contributed \$1,354,506 in 2016, an increase of \$64,182. The debt sinking fund had a balance of \$2,289,651 at year-end and is shown as a restricted portion of net position.
- Due to fare changes and advertising on the boardwalk trams, sales for the Transportation fund increased \$91,324 above 2015. To improve service, additional buses were deployed in 2016 which increased operating costs only \$15,658 as fuel costs were lower in 2016 than in 2015. The fund had an operating loss of \$2,424,447, which was \$36,366 less than the operating loss in 2015. The fund had an unrestricted net position of \$1,211,380 in 2016 compared to \$930,995 in 2015.
- A non-major fund, the golf course fund, reported a deficits in unrestricted net position of \$251,291. The golf course fund had losses throughout the recession as leisure recreation activities such as golf were down, with losses in 2016 of \$38,427 and \$46,331 in 2015. 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 is anticipated to have an improvement in net position in the 2017 fiscal year. The airport fund, a non-major fund, had a change in net position of \$216,324 in 2016 compared to a loss of \$67,588 in 2015 due to a federal grants for airport improvements and an increase of \$36,722 in the subsidy from the general fund.

Fiduciary funds. The Town implemented GASB Statement 67, *Financial Reporting for Pension Plans* (GASB 67) in 2014 and GASB 68, *Accounting and Financial Reporting for Pensions* (GASB 68) in 2015. GASB 67 required the use of the entry age normal actuarial valuation method to determine the total pension liability. The Town had previously used the projected unit credit actuarial valuation method to determine the

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liability. Per its adopted funding policy, the Town uses the projected unit credit method to determine its annual pension contribution.

In 2016, the pension funds had an average money weighted rate of return on investments of (3.6%) compared to 2.23% in 2015. The actuarial value of assets is fair value as of June 30, 2016. 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, decreased from 83.9% to 77.9%. Employees contribute 5% of pay to the plan and the Town contributed \$1,927,595, or 13.3% of pay, to the plan with a 10-year amortization of the unfunded actuarial liability with the exception of plan improvements made in 2004 that are being amortized over 20 years.

The funded ratio decreased from 83.8% to 77.5% for the Public Safety Employees Pension Plan. Employees contribute 8% of pay to the plan. The Town contributed \$2,390,758 to the plan, or 22.1% 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 80-87 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 80 of this report.

In 2009, the Town established a trust fund to provide for retiree health insurance benefits. The Other Post-Employment Benefits Trust (OPEB Trust) is a defined benefit healthcare plan whose assets may be expended solely to pay for post-employment benefits and the costs of administering the trust fund. The Town had an actuarial study prepared in March 2016. The plan had investment losses of (1.7%) for the year. The unfunded accrued liability for the plan is \$28,322,223 and it is being amortized over 22 years. The Town made the annual required contribution to the plan of \$3,207,000 in 2016 and made the annual required contribution in 2013, 2014, and 2015. Additional information on the OPEB Trust can be found on pages 78-80 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 59). Two amendments were made in FY-2016. Differences between the original budget and final amended budget for the general fund resulted in recognition of \$2,978,286 in additional revenues and increased the amount appropriated from fund balance in the original budget by \$524,594. Appropriations were increased \$1,176,943 for operations, and increased \$2,325,937 for transfers to other funds. Significant appropriation changes were made as follows:

- Recognized federal, state and county grants of \$987,709 and expended grant proceeds which included grants of \$143,810 for a firehouse exhaust system; \$467,714 state tourism grant; 135,647 in grants for the police department for a license plate reader, bullet proof vests, and highway safety; and \$103,327 for emergency and hazardous materials training.
- Increased anticipated revenue to recognize an additional \$337,500 in room taxes, \$340,512 in highway user taxes, \$83,854 for admissions taxes and \$133,627 for state-shared casino revenue

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in the category "Other taxes" and \$136,404 in "Other revenue" for donations. Anticipated revenue from "Charges for Current Services" was increased \$404,160 for parking fees of \$240,000 due to rate changes and \$164,160 for special event revenue.

- Increase expenditures for an upgrade to the auto-visual system in the Council meeting room for \$115,000; and \$237,462 for automated external defibrillators (AED) and heart monitors; and \$175,000 to increase staffing of part-time emergency medical personnel.
- Increase the budget for the category "Economic development-tourism" for advertising and promotion by \$812,871 for the above state grant and local Tourism Advisory Board initiatives and expenses for festivals by \$300,496 for labor and \$125,000 for a new lighted tree and \$13,672 for New Year's Eve new displays. The budgets for other categories were reduced primarily due to lower contributions to pension and less for part-time wages, energy, and vehicle fuel than was anticipated in the original budget.
- Increase appropriations to capital projects for \$997,583 for street paving, \$500,000 for repair of the exterior wall of the Public Safety Building, and \$800,000 for new gym floor, bleachers, and building repairs at Northside Park; to the Airport fund for \$100,000 for the local match for the water and wastewater project; and \$83,854 to the Information Technology fund to purchase a new telephone system. Decrease the appropriation to the Transportation Fund by \$100,000 due to reductions in the cost of fuel and the Convention Center Fund by \$55,500 also due to lower energy costs.

During the year, revenues were more than final budget estimates by \$1,236,267. Expenditures were \$2,184,132 less than anticipated. Other sources and uses variances were a favorable \$167,599. This resulted in a favorable variance from the budget of \$3,587,998. The key elements of this variation were:

- The category of "Property taxes" was \$109,450 more than anticipated due to additions in prior year taxes and corporate tax. The category of "Other taxes" was \$515,407 above budget due to additional room taxes of \$399,627 from increased hotel occupancy and rates. Income taxes, highway user, and admission taxes also exceeded the final budget by \$116,203.
- Revenue from "Charges for current services" was \$220,320 above the final budget primarily due to increased ticket sales at festivals, \$37,482; an increase in private event fees, \$42,122; fire marshal fees, \$69,069; and recreation program fees, \$52,091.
- The largest variance to the final budget for expenditures was for "Public safety", which was \$755,433 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 \$365,279 less than anticipated also due to lower energy and fuel costs, repair and maintenance of the boardwalk concrete and lighting that was not completed, and carpet for City Hall that was not installed by year end.
- The category "Economic Development – Tourism" was under budget by \$507,358. Expenses for advertising were \$261,911, and the special event displays were \$179,000 under the final budget, but are anticipated to be expended in the 2017 fiscal year. Other functional divisions had also reductions in employee benefits, vehicle fuel, and had unspent grant funds. Additionally, they limited spending for repairs, supplies, and purchased services, saving \$579,268.

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- The category in other financing sources and uses, "Transfer in", was above budget by \$185,248 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, 2016, was \$217,271,006 (net of accumulated depreciation) compared to \$212,218,635 in 2015. 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 2.4% comprised of a 0.67% increase for governmental activities and 3.8% increase for business-type activities. Additions exceeded depreciation of \$11,833,941 in FY-2016 by \$10,872,576. The total value of all capital assets has been reduced 50.1% 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 71- 72 of this report.

Town of Ocean City's Capital Assets

	Governmental Activities		Business-type Activities		Total Primary Government		% Change
	2016	2015	2016	2015	2016	2015	
	Total						
Land	\$ 22,925,910	\$ 24,667,031	\$ 14,552,782	\$ 14,552,782	\$ 37,478,692	\$ 39,219,813	-4.4%
Buildings	25,176,958	26,379,379	48,464,494	51,152,338	73,641,452	77,531,717	(5.0)
Other improvements	9,733,662	10,469,632	3,214,971	3,204,983	12,948,633	13,674,615	(5.3)
Streets and infrastructure	19,319,736	16,107,911	18,526,903	19,084,436	37,846,639	35,192,347	7.5
Machinery and equipment	17,057,343	15,931,443	26,954,753	26,546,962	44,012,096	42,478,405	3.6
Construction in progress	3,012,971	3,023,952	8,330,523	1,097,786	11,343,494	4,121,738	175.2
	<u>\$ 97,226,580</u>	<u>\$ 96,579,348</u>	<u>\$ 120,044,426</u>	<u>\$ 115,639,287</u>	<u>\$ 217,271,006</u>	<u>\$ 212,218,635</u>	2.4

Debt Administration

At June 30, 2016, the Town had total general obligation bonded debt, backed by the full faith and credit of the Town, outstanding of \$89,109,921. The remainder of the Town's debt is comprised of notes payable to the State of Maryland for \$462,069 and capital leases of \$6,115,483.

The Town issued of general obligation bonds for \$16,760,000 with a premium of \$1,251,099 to fund water and wastewater capital projects, \$5,266,000 to refund the 2007 general obligation bonds; and capital leases of \$6,115,483 for equipment and energy improvements. The Town paid current maturities of \$9,615,905 in 2016 and refunded \$4,955,000 of the 2007 general obligation bonds. Outstanding general obligation debt represents 1.07% of the assessed valuation of property in the Town. The debt limit is 5.2% of assessments, leaving a legal debt margin of \$354,987,715.

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The Town obtained ratings on its bond issuance in 2015. Standard and Poors Rating Services, Moody's Investor Services Inc. and Fitch Ratings affirmed their ratings of "AA", "Aa2" and "AA-". Additional information on the Town's debt can be found in Note 8 on pages 73-76 of this report.

Economic Factors and Next Year's Budget and Rates

- The Town has experienced a slight decrease in assessments of 1% from 2015 to the 2016 fiscal year. There has been a stabilization of market values for second homes and vacation properties.
- Hotel and rental sales increased 5.3% in 2016. Food and beverage sales increased 5.0% for the fiscal year. Ocean City remains a convenient travel destination 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.
- Public safety and emergency preparedness continue to be a major focus and all town departments have written disaster, post-disaster, and continuity of operations plans. All town employees attend biannual training sessions and meetings are held quarterly with regional representatives.
- The Town will continue to promote the town as a vacation destination and support promotional events and festivals to attract visitors such as the Air Show, weekly beach concerts and fireworks for the 2017 fiscal year. These events improve business for hotels and restaurants while offering free, family centered activities.
- The \$14 million dollar performing arts center at the Roland E. Powell Convention Center opened in the 2015 fiscal year. It is anticipated to provide year-round entertainment and cultural events for local residents and resort visitors.
- Employees had not received a cost-of-living adjustment since 2008. An increase of 2% was given on January 1, 2016 and a career increment is included in the 2017 budget.

All of these factors were considered in preparing the Town's budget for the 2017 fiscal year. To maintain service levels, the real property tax rate was decreased slightly from \$0.478 per \$100 of valuation to \$0.4727, the constant yield rate.

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, 2016

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 7,748,741	\$ 19,140,546	\$ 26,889,287
Investments	22,420,411	5,109,946	27,530,357
Restricted investments	-	2,669,665	2,669,665
Receivables (net of allowance for uncollectibles)	2,751,724	2,554,271	5,305,995
Interest receivable	46,770	9,700	56,470
Intergovernmental receivable	4,845,738	1,556,117	6,401,855
Internal balances	(1,826,930)	1,826,930	-
Inventories	763,354	763,399	1,526,753
Other	1,927	3,500	5,427
Capital assets not being depreciated			
Land	22,925,910	14,552,782	37,478,692
Construction in progress	3,012,971	8,330,523	11,343,494
Capital assets, net of accumulated depreciation			
Buildings	25,176,958	48,464,494	73,641,452
Machinery and equipment	17,057,343	26,954,753	44,012,096
Streets and infrastructure	19,319,736	18,526,903	37,846,639
Other improvements	9,733,662	3,214,971	12,948,633
Total capital assets	<u>97,226,580</u>	<u>120,044,426</u>	<u>217,271,006</u>
Total assets	<u>133,978,315</u>	<u>153,678,500</u>	<u>287,656,815</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	264,319	389,643	653,962
Deferred outflows related to pensions	12,450,715	1,972,857	14,423,572
Total deferred outflows of resources	<u>12,715,034</u>	<u>2,362,500</u>	<u>15,077,534</u>
LIABILITIES			
Accounts payable and other accrued liabilities	2,157,903	1,861,862	4,019,765
Accrued expenses	3,179,739	432,316	3,612,055
Compensated absences	2,006,114	518,180	2,524,294
Unearned revenue	1,957,362	554,585	2,511,947
Other	678,969	246,801	925,770
Long-Term liabilities:			
Due within one year:			
Claims payable	1,084,568	-	1,084,568
Bonds and notes payable	4,267,015	4,564,264	8,831,279
Due in more than one year:			
Claims payable	2,560,955	-	2,560,955
Bonds and notes payable	39,125,754	50,833,390	89,959,144
Net pension liability	25,092,723	3,908,446	29,001,169
Total long-term liabilities	<u>72,131,015</u>	<u>59,306,100</u>	<u>131,437,115</u>
Total liabilities	<u>82,111,102</u>	<u>62,919,844</u>	<u>145,030,946</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	641,863	188,014	829,877
Total deferred inflows of resources	<u>641,863</u>	<u>188,014</u>	<u>829,877</u>
NET POSITION			
Net investment in capital assets	55,670,509	77,730,796	133,401,305
Restricted for debt service	-	2,289,651	2,289,651
Unrestricted	8,269,875	12,912,695	21,182,570
Total net position	<u>\$ 63,940,384</u>	<u>\$ 92,933,142</u>	<u>\$ 156,873,526</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, 2016

<u>Functions/Programs</u>	Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions
Primary government:			
Governmental activities:			
General government	\$ 1,019,892	\$ 4,207,093	\$ -
Public safety	35,138,306	2,171,345	2,252,142
General public works and beach	7,261,653	4,238,386	14,678
Sanitation and waste removal	6,256,386	134,390	-
Highways and streets	10,501,844	1,129,247	-
Economic development - Tourism	8,343,211	1,652,093	879,008
Recreation and culture	7,862,334	1,791,371	100,000
Interest on long-term debt	1,307,810	-	55,264
Total governmental activities	77,691,436	15,323,925	3,301,092
Business-type activities:			
Water	5,869,793	6,209,726	-
Wastewater	12,740,636	13,202,701	118,163
Convention Center	6,364,714	1,705,782	2,708,269
Transportation	8,228,957	4,650,181	825,782
Airport	1,506,936	978,545	-
Golf Course	2,106,675	2,022,149	-
Total business-type activities	36,817,711	28,769,084	3,652,214
Total primary government	\$ 114,509,147	\$ 44,093,009	\$ 6,953,306
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			
Loss on sale of capital asset			
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		
	Governmental Activities	Business-type Activities	Total
\$ -	\$ 3,187,201	\$ -	\$ 3,187,201
-	(30,714,819)	-	(30,714,819)
152,732	(2,855,857)	-	(2,855,857)
-	(6,121,996)	-	(6,121,996)
-	(9,372,597)	-	(9,372,597)
-	(5,812,110)	-	(5,812,110)
-	(5,970,963)	-	(5,970,963)
-	(1,252,546)	-	(1,252,546)
152,732	(58,913,687)	-	(58,913,687)
36,990	-	376,923	376,923
64,579	-	644,807	644,807
550,000	-	(1,400,663)	(1,400,663)
1,863,253	-	(889,741)	(889,741)
379,435	-	(148,956)	(148,956)
-	-	(84,526)	(84,526)
2,894,257	-	(1,502,156)	(1,502,156)
\$ 3,046,989	(58,913,687)	(1,502,156)	(60,415,843)
	42,519,558	-	42,519,558
	197,663	-	197,663
	17,205,888	-	17,205,888
	633,268	-	633,268
	2,720,894	-	2,720,894
	192,920	47,816	240,736
	583,485	-	583,485
	(1,482,918)	(61,521)	(1,544,439)
	(3,158,019)	3,158,019	-
	59,412,739	3,144,314	62,557,053
	499,052	1,642,158	2,141,210
	63,441,332	91,290,984	154,732,316
	\$ 63,940,384	\$ 92,933,142	\$ 156,873,526

TOWN OF OCEAN CITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

	General	Capital Project	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,320,076	\$ 321,043	\$ 5,641,119
Investments	14,905,542	3,899,578	18,805,120
Accounts receivable (net of allowances for uncollectibles)	2,659,852	2,833	2,662,685
Intergovernmental receivable	4,845,738	-	4,845,738
Due from other funds	475,000	-	475,000
Interest receivable	33,134	880	34,014
Other	1,927	-	1,927
Total assets	\$ 28,241,269	\$ 4,224,334	\$ 32,465,603
LIABILITIES			
Accounts payable	\$ 1,037,888	\$ 911,953	\$ 1,949,841
Accrued liabilities	4,732,611	-	4,732,611
Other	678,969	-	678,969
Unearned revenues	1,846,812	-	1,846,812
Total liabilities	8,296,280	911,953	9,208,233
Deferred inflows of resources			
Unavailable revenue-property and income taxes	930,898	-	930,898
Total deferred inflow of resources	930,898	-	930,898
FUND BALANCES			
Committed:			
Capital projects - purchases on order	-	1,389,255	1,389,255
Capital projects	-	1,923,126	1,923,126
Assigned:			
Purchases on order	810,280	-	810,280
Subsequent year's budget: appropriation of fund balance	1,235,805	-	1,235,805
Unassigned	16,968,006	-	16,968,006
Total fund balances	19,014,091	3,312,381	22,326,472
Total liabilities, deferred inflows of resources, and fund balances	\$ 28,241,269	\$ 4,224,334	

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.	81,881,921
Other long-term assets are not available to pay for current-period expenditures and therefore are offset by deferred revenue in the governmental funds.	820,348
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, \$2,126,930	13,214,771
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.	(54,303,128)
Net position of governmental activities	\$ 63,940,384

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, 2016

	General	Capital Projects	Total Governmental Funds
REVENUES			
Property taxes	\$ 42,550,867	\$ -	\$ 42,550,867
Other taxes	17,949,706	-	17,949,706
Licenses and permits	4,486,927	-	4,486,927
Fines and forfeitures	694,761	-	694,761
Charges for current services	9,847,858	294,379	10,142,237
Revenue from other agencies	6,021,986	44,528	6,066,514
Other revenue	741,432	118,623	860,055
Total revenues	82,293,537	457,530	82,751,067
EXPENDITURES			
Current:			
General government	3,803,848	-	3,803,848
Public safety	33,456,922	22,301	33,479,223
General public works and beach	4,818,022	727,578	5,545,600
Sanitation and waste removal	5,635,304	-	5,635,304
Highways and streets	5,379,243	3,354,686	8,733,929
Economic development - Tourism	8,094,041	-	8,094,041
Recreation and culture	7,192,255	76,230	7,268,485
Capital outlay	-	4,507,498	4,507,498
Debt service:			
Principal	3,566,514	-	3,566,514
Interest	1,438,175	-	1,438,175
Bond issuance costs	33,585	-	33,585
Total expenditures	73,417,909	8,688,293	82,106,202
Excess (deficiency) of revenues over expenditures	8,875,628	(8,230,763)	644,865
OTHER FINANCING SOURCES (USES)			
Bonds and notes issued	2,943,167	3,746,400	6,689,567
Payment to refunded bond escrow agent	(2,914,784)	-	(2,914,784)
Transfers in	185,248	4,424,009	4,609,257
Transfers out	(7,665,882)	(185,248)	(7,851,130)
Total other financing sources and (uses)	(7,452,251)	7,985,161	532,910
Net change in fund balance	1,423,377	(245,602)	1,177,775
Fund balances - beginning	17,590,714	3,557,983	21,148,697
Fund balances - ending	\$ 19,014,091	\$ 3,312,381	\$ 22,326,472

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, 2016

Amounts reported for governmental activities in the statement of activities
(pages 40 and 41) are different because:

Net change in fund balances for total governmental funds (page 43)	\$ 1,177,775
statement of activities the costs of capital assets are allocated over their useful life Capital outlay exceeded depreciation in the current period by:	1,523,939
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in governmental funds.	55,804
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	(229,735)
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.	(2,049,068)
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.	20,337

Change in net position of governmental activities (page 41)

\$ 499,052

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, 2016

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Positive (Negative)
REVENUES				
Property taxes	\$ 42,241,417	\$ 42,441,417	\$ 42,550,867	\$ 109,450
Other taxes	16,538,806	17,434,299	17,949,706	515,407
Licenses and permits	4,073,126	4,410,461	4,486,927	76,466
Fines and forfeitures	581,500	598,685	694,761	96,076
Charges for current services	9,223,378	9,627,538	9,847,858	220,320
Revenue from other agencies	4,886,407	5,874,116	6,021,986	147,870
Other revenue	534,350	670,754	741,432	70,678
	<u>78,078,984</u>	<u>81,057,270</u>	<u>82,293,537</u>	<u>1,236,267</u>
EXPENDITURES				
Current:				
General government	3,815,931	3,917,888	3,803,848	114,040
Public safety	34,027,087	34,212,355	33,456,922	755,433
General public works and beach	5,147,325	5,183,301	4,818,022	365,279
Sanitation and waste removal	5,760,131	5,748,687	5,635,304	113,383
Highways and streets	5,532,152	5,511,749	5,379,243	132,506
Economic development - Tourism	7,349,360	8,601,399	8,094,041	507,358
Recreation and culture	7,778,044	7,411,594	7,192,255	219,339
Debt service:				
Principal	3,576,645	3,576,645	3,566,514	10,131
Interest	1,438,423	1,438,423	1,438,175	248
Bond issuance costs	-	-	33,585	(33,585)
	<u>74,425,098</u>	<u>75,602,041</u>	<u>73,417,909</u>	<u>2,184,132</u>
Excess of revenues over expenditures	<u>3,653,886</u>	<u>5,455,229</u>	<u>8,875,628</u>	<u>3,420,399</u>
OTHER FINANCING SOURCES (USES)				
Bonds and notes issued	-	-	2,943,167	2,943,167
Payment to Bond Escrow Agent	-	-	(2,914,784)	(2,914,784)
Transfers in	-	-	185,248	185,248
Transfers out	(5,293,913)	(7,619,850)	(7,665,882)	(46,032)
	<u>(5,293,913)</u>	<u>(7,619,850)</u>	<u>(7,452,251)</u>	<u>167,599</u>
Net change in fund balances	(1,640,027)	(2,164,621)	1,423,377	3,587,998
Fund balances, beginning	<u>17,590,714</u>	<u>17,590,714</u>	<u>17,590,714</u>	<u>-</u>
Fund balances, ending	<u>\$ 15,950,687</u>	<u>\$ 15,426,093</u>	<u>\$ 19,014,091</u>	<u>\$ 3,587,998</u>

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, 2016

	Business-type Activities - Enterprise Funds	
	Water	Wastewater
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 4,354,987	\$ 12,253,223
Investments	2,000,000	3,109,946
Receivables, net	1,006,348	1,084,705
Interest receivable	-	3,862
Intergovernmental receivable	-	6
Inventories	-	640,757
Other	-	-
Total current assets	7,361,335	17,092,499
Noncurrent assets:		
Restricted investments	-	-
Capital assets:		
Land	755,019	2,636,905
Buildings	18,674,452	45,382,800
Other improvements	4,181,727	1,314,357
Streets and infrastructure	23,707,900	9,857,881
Machinery and equipment	4,863,991	47,279,259
Construction in progress	4,210,528	4,079,467
Less accumulated depreciation	(38,184,954)	(55,977,632)
Total noncurrent assets	18,208,663	54,573,037
Total assets	25,569,998	71,665,536
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	90,364	296,343
Deferred outflows related to pensions	622,388	419,100
Total deferred outflows of resources	712,752	715,443
LIABILITIES		
Current liabilities:		
Accounts payable	473,646	984,578
Accrued expenses	47,991	244,285
Compensated absences	83,167	183,313
Due to other funds	-	-
Deferred revenue	-	-
Claims and judgments	-	-
Other	235,801	11,000
Current portion of long-term debt	850,806	2,815,743
Total current liabilities	1,691,411	4,238,919
Noncurrent liabilities:		
Claims and judgments	-	-
Bonds, notes, and loans payable	6,888,062	35,482,750
Net pension liability	1,216,010	810,728
Total noncurrent liabilities	8,104,072	36,293,478
Total liabilities	9,795,483	40,532,397
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	58,822	39,374
Total deferred inflows of resources	58,822	39,374
NET POSITION		
Net investment in capital assets	12,689,122	26,446,153
Restricted for debt service	-	-
Unrestricted	3,739,323	5,363,055
Total net position	\$ 16,428,445	\$ 31,809,208

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

Change in net position of business-type activities

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

Convention Center	Business-type Activities - Enterprise Funds			Governmental Activities
	Transportation	Nonmajor Enterprise Funds	Total	Internal Service
\$ 1,803,704	\$ 718,244	\$ 10,388	\$ 19,140,546	\$ 2,107,622
-	-	-	5,109,946	3,615,291
196,405	118,403	148,410	2,554,271	89,039
5,838	-	-	9,700	12,756
324,147	860,076	371,888	1,556,117	-
-	-	122,642	763,399	763,354
-	-	3,500	3,500	-
<u>2,330,094</u>	<u>1,696,723</u>	<u>656,828</u>	<u>29,137,479</u>	<u>6,588,062</u>
2,289,651	-	380,014	2,669,665	-
7,456,616	-	3,704,242	14,552,782	-
40,746,535	2,835,349	5,221,496	112,860,632	1,447,083
190,728	81,837	627,874	6,396,523	31,545
-	-	9,799,565	43,365,346	-
1,376,215	1,812,688	830,877	56,163,030	45,513,728
-	-	40,528	8,330,523	272,088
<u>(15,975,374)</u>	<u>(2,224,984)</u>	<u>(9,261,466)</u>	<u>(121,624,410)</u>	<u>(31,919,785)</u>
<u>36,084,371</u>	<u>2,504,890</u>	<u>11,343,130</u>	<u>122,714,091</u>	<u>15,344,659</u>
<u>38,414,465</u>	<u>4,201,613</u>	<u>11,999,958</u>	<u>151,851,570</u>	<u>21,932,721</u>
2,936	-	-	389,643	-
479,540	198,753	253,076	1,972,857	748,004
<u>482,476</u>	<u>198,753</u>	<u>253,076</u>	<u>2,362,500</u>	<u>748,004</u>
71,405	145,168	187,065	1,861,862	208,062
57,725	68,134	14,181	432,316	40,372
124,977	62,545	64,178	518,180	118,792
-	-	300,000	300,000	175,000
114,488	-	440,097	554,585	-
-	-	-	-	1,084,568
-	-	-	246,801	-
806,563	-	91,152	4,564,264	149,555
<u>1,175,158</u>	<u>275,847</u>	<u>1,096,673</u>	<u>8,478,008</u>	<u>1,776,349</u>
-	-	-	-	2,560,955
7,380,678	-	1,081,900	50,833,390	1,505,928
1,011,095	389,433	481,180	3,908,446	1,426,122
<u>8,391,773</u>	<u>389,433</u>	<u>1,563,080</u>	<u>54,741,836</u>	<u>5,493,005</u>
<u>9,566,931</u>	<u>665,280</u>	<u>2,659,753</u>	<u>63,219,844</u>	<u>7,269,354</u>
47,468	18,816	23,534	188,014	69,670
<u>47,468</u>	<u>18,816</u>	<u>23,534</u>	<u>188,014</u>	<u>69,670</u>
26,300,567	2,504,890	9,790,064	77,730,796	13,689,176
2,289,651	-	-	2,289,651	-
692,324	1,211,380	(220,317)	10,785,765	1,652,525
<u>\$ 29,282,542</u>	<u>\$ 3,716,270</u>	<u>\$ 9,569,747</u>	<u>90,806,212</u>	<u>\$ 15,341,701</u>
			2,126,930	
			<u>\$ 92,933,142</u>	

TOWN OF OCEAN CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities	
	Water	Wastewater
Operating revenues:		
Charges for sales and services	\$ 6,209,726	\$ 13,202,701
Total operating revenues	<u>6,209,726</u>	<u>13,202,701</u>
Operating expenses:		
Personal services	1,892,238	3,922,382
Contractual services	490,684	702,519
Utilities	405,105	547,545
Repairs and maintenance	684,841	1,628,992
Other supplies and expenses	471,192	726,936
Internal services	762,331	1,086,426
Insurance claims and expenses	-	-
Depreciation	1,016,294	3,066,466
Total operating expenses	<u>5,722,685</u>	<u>11,681,266</u>
Operating income (loss)	<u>487,041</u>	<u>1,521,435</u>
Nonoperating revenues (expenses)		
Interest and investment revenue	13,256	6,951
Operating grants	-	118,163
Interest expense	(116,267)	(1,025,435)
Gain (loss) on disposal of assets	-	(90,821)
Total nonoperating revenues (expenses)	<u>(103,011)</u>	<u>(991,142)</u>
Income (loss) before capital contributions and transfers	384,030	530,293
Capital contributions	36,990	64,579
Transfers in	-	-
Change in net position	<u>421,020</u>	<u>594,872</u>
Net position - beginning	<u>16,007,425</u>	<u>31,214,336</u>
Net position - ending	<u>\$ 16,428,445</u>	<u>\$ 31,809,208</u>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.
Change in net position of business-type activities (page 41)

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
\$ 1,705,782	\$ 4,650,181	\$ 3,000,694	\$ 28,769,084	\$ 11,157,705
<u>1,705,782</u>	<u>4,650,181</u>	<u>3,000,694</u>	<u>28,769,084</u>	<u>11,157,705</u>
2,801,524	3,849,512	1,357,453	13,823,109	2,972,746
280,480	114,930	366,791	1,955,404	1,191,766
512,799	74,516	95,701	1,635,666	119,923
367,168	2,094,317	104,012	4,879,330	666,281
782,058	183,344	866,957	3,030,487	2,395,241
320,684	628,860	291,561	3,089,862	912,749
-	-	-	-	2,228,331
1,038,550	129,149	480,184	5,730,643	2,420,281
<u>6,103,263</u>	<u>7,074,628</u>	<u>3,562,659</u>	<u>34,144,501</u>	<u>12,907,318</u>
<u>(4,397,481)</u>	<u>(2,424,447)</u>	<u>(561,965)</u>	<u>(5,375,417)</u>	<u>(1,749,613)</u>
24,582	2,471	556	47,816	60,520
2,708,269	825,782	-	3,652,214	-
(200,431)	-	(50,952)	(1,393,085)	(14,105)
27,637	1,663	-	(61,521)	359,556
<u>2,560,057</u>	<u>829,916</u>	<u>(50,396)</u>	<u>2,245,424</u>	<u>405,971</u>
(1,837,424)	(1,594,531)	(612,361)	(3,129,993)	(1,343,642)
550,000	1,863,253	379,435	2,894,257	-
1,437,183	1,310,013	410,823	3,158,019	83,854
149,759	1,578,735	177,897	2,922,283	(1,259,788)
<u>29,132,783</u>	<u>2,137,535</u>	<u>9,391,850</u>		<u>16,601,489</u>
<u>\$ 29,282,542</u>	<u>\$ 3,716,270</u>	<u>\$ 9,569,747</u>		<u>\$ 15,341,701</u>
			(1,280,125)	
			<u>\$ 1,642,158</u>	

TOWN OF OCEAN CITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities	
	Water	Wastewater
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers and users	\$ 6,309,618	\$ 13,245,791
Payments to suppliers	(1,939,713)	(3,297,693)
Payments to employees	(1,892,238)	(3,991,292)
Payments for interfund services used	(762,331)	(1,086,426)
Net cash provided (used) by operating activities	<u>1,715,336</u>	<u>4,870,380</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Advances from other funds	-	-
Subsidy from county, state and federal grants	-	-
Transfers from other funds	-	-
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital grant	-	118,163
Capital contributions	36,990	64,579
Acquisition and construction of capital assets	(3,731,392)	(4,102,281)
Proceeds from bond issue	5,515,483	14,818,449
Payment to bond escrow agent	(289,444)	(2,010,987)
Insurance claim payment	-	-
Bond issuance costs	(39,900)	(110,373)
Principal paid on capital debt	(639,495)	(2,281,455)
Interest paid on capital debt	(99,348)	(1,043,659)
Proceeds from sales of capital assets	-	-
Net cash provided (used) by capital and related financing activities	<u>752,894</u>	<u>5,452,436</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	-	-
Purchase of investments	(2,000,000)	(4,500,000)
Sale of investments	3,500,000	4,055,931
Interest and dividends received	13,256	3,089
Net cash provided (used) by investing activities	<u>1,513,256</u>	<u>(440,980)</u>
Net increase (decrease) in cash and cash equivalents	3,981,486	9,881,836
Cash and cash equivalents at beginning of the year	<u>373,501</u>	<u>2,371,387</u>
Cash and cash equivalents at end of the year	<u>\$ 4,354,987</u>	<u>\$ 12,253,223</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
\$ 1,787,511	\$ 4,668,539	\$ 2,974,929	\$ 28,986,388	\$ 11,096,165
(2,040,435)	(2,337,966)	(1,525,814)	(11,141,621)	(6,189,510)
(2,849,166)	(4,069,059)	(1,393,350)	(14,195,105)	(2,995,969)
(320,684)	(628,860)	(282,897)	(3,081,198)	(896,163)
(3,422,774)	(2,367,346)	(227,132)	568,464	1,014,523
-	-	268,000	268,000	108,854
2,807,032	821,625	-	3,628,657	-
1,437,183	1,310,013	410,823	3,158,019	-
4,244,215	2,131,638	678,823	7,054,676	108,854
2,335	1,364,080	-	1,484,578	-
50,000	-	87,540	239,109	-
(327,042)	(1,427,500)	(500,000)	(10,088,215)	(1,808,638)
713,600	-	-	21,047,532	-
-	-	-	(2,300,431)	-
27,637	-	-	27,637	-
-	-	-	(150,273)	-
(3,040,766)	-	(87,675)	(6,049,391)	-
(346,044)	-	(55,314)	(1,544,365)	-
-	1,663	-	1,663	359,556
(2,920,280)	(61,757)	(555,449)	2,667,844	(1,449,082)
-	-	-	-	3,574,000
(1,457,281)	-	(734)	(7,958,015)	(1,933,961)
4,823,898	-	-	12,379,829	-
25,293	2,471	556	44,665	68,798
3,391,910	2,471	(178)	4,466,479	1,708,837
1,293,071	(294,994)	(103,936)	14,757,463	1,383,132
510,633	1,013,238	114,324	4,383,083	724,490
\$ 1,803,704	\$ 718,244	\$ 10,388	\$ 19,140,546	\$ 2,107,622

TOWN OF OCEAN CITY
STATEMENT OF CASH FLOWS (Continued)
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Business-type Activities	
	Water	Wastewater
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS		
Operating income (loss)	\$ 487,041	\$ 1,521,435
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,016,294	3,066,466
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:		
Accounts receivable	51,727	43,090
Inventories	-	(9,167)
Prepaid expenses	-	-
Deferred outflows - related to pensions	(381,537)	(260,139)
Compensated absences	(3,004)	10,962
Customer deposits	48,165	-
Accounts payable	139,667	317,466
Accrued expenses	(42,428)	(92,059)
Unearned revenue	-	-
Claims liability	-	-
Net pension liability	374,101	255,069
Deferred inflows - related to pensions	25,310	17,257
Total adjustments	1,228,295	3,348,945
Net cash provided (used) by operating activities	\$ 1,715,336	\$ 4,870,380

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

Borrowing under capital lease	\$ -	\$ -
Decrease in fair value of investments	-	-
Loss on disposal of asset	-	(90,821)

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
\$ (4,397,481)	\$ (2,424,447)	\$ (561,965)	\$ (5,375,417)	(1,749,613)
1,038,550	129,149	480,184	5,730,643	2,420,281
120,264	18,358	(21,502)	211,937	(61,540)
-	-	23,141	13,974	43,898
-	-	(1,000)	(1,000)	-
(264,475)	(121,398)	(160,419)	(1,187,968)	(472,584)
5,176	11,534	(9,283)	15,385	6,974
-	-	-	48,165	-
(97,930)	129,141	(102,394)	385,950	(156,219)
(65,208)	(236,768)	(37,566)	(474,029)	(74,480)
(38,535)	-	(4,263)	(42,798)	-
-	-	-	-	563,081
259,320	119,032	157,293	1,164,815	463,376
17,545	8,053	10,642	78,807	31,349
974,707	57,101	334,833	5,943,881	2,764,136
\$ (3,422,774)	\$ (2,367,346)	\$ (227,132)	\$ 568,464	\$ 1,014,523

\$ -	\$ -	\$ -	\$ -	\$ 1,655,483
(16,210)	-	-	(16,210)	(9,077)
-	-	-	(90,821)	-

TOWN OF OCEAN CITY
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Pension</u> <u>Trust Funds</u>	<u>OPEB</u> <u>Trust Fund</u>
ASSETS		
Cash and cash equivalents	\$ 5,865,017	\$ 1,936,539
Interest and dividends receivable	114,377	25,675
Investments:		
Domestic equities	32,854,184	8,477,945
Domestic fixed income	25,665,816	6,145,481
International equities	17,426,776	4,713,793
International fixed income	4,881,530	1,142,991
Alternative investments	14,301,963	-
Natural resources	-	2,808,319
Total assets	<u>101,109,663</u>	<u>25,250,743</u>
LIABILITIES		
Accounts payable	<u>18,508</u>	<u>152,246</u>
Total liabilities	<u>18,508</u>	<u>152,246</u>
NET POSITION		
Net position held in trust for pension benefits and other purposes	<u>\$ 101,091,155</u>	<u>\$ 25,098,497</u>

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, 2016

	Pension Trust Funds	OPEB Trust Fund
Additions		
Contributions:		
Employer	\$ 4,318,353	\$ 3,207,000
Plan members	1,618,517	262,622
Total contributions	5,936,870	3,469,622
 Miscellaneous Income	-	49,915
 Investment earnings:		
Net decrease		
in fair value of investments	(4,771,151)	(769,892)
Interest	471,007	103,824
Dividends	1,507,709	487,358
Total investment loss	(2,792,435)	(178,710)
Less investment expense	711,429	162,951
Net investment loss	(3,503,864)	(341,661)
Total additions	2,433,006	3,177,876
 Deductions		
Benefits and refunds paid	5,675,646	1,404,157
Administrative expenses	105,895	-
Total deductions	5,781,541	1,404,157
 Change in net position	(3,348,535)	1,773,719
 Net Position - beginning	104,439,690	23,324,778
Net Position - ending	\$ 101,091,155	\$ 25,098,497

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

TOWN OF OCEAN CITY
Notes to the Financial Statements
June 30, 2016

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.

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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.

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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 period of within 60 days of year end.

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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, 2016 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

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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. These inventories consist of spare parts, fuel, and merchandise for resale to the public. Internal service funds maintain inventories of auto parts, water meters and connections, gasoline, and diesel fuel, which are maintained for consumption by other Town departments.

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 lower energy use fixtures and improvements in the Capital Projects Fund are 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 acquisition year. Donated assets are stated at their fair market value on the date donated. The costs

Town of Ocean City
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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.

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 Towns 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

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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	30 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, August, and September and monthly from October to June. Allowances for uncollectible accounts are maintained on all types of receivables that historically experience bad debt. Receivables are shown net of such an allowance for uncollectibles. Real property taxes are generally fully collectible.

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.

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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 42 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 \$81,881,921 adjustment are as follows:

Land	\$ 22,925,910
Construction in progress	2,740,883
Buildings	43,068,050
Less: Accumulated depreciation-buildings	(18,097,487)
Machinery and equipment	6,284,056
Less: Accumulated depreciation-machinery, and equipment	(4,086,448)
Streets and infrastructure	48,800,888
Less: Accumulated depreciation-infrastructure	(29,481,152)
Other improvements	23,015,334
Less: Accumulated depreciation- other improvements	<u>(13,288,113)</u>
Net adjustment to increase fund balance – total governmental funds to arrive at new position- governmental activities	<u>\$ 81,881,921</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 \$13,214,771 difference are as follows:

Net position of the internal service funds	\$ 15,341,701
Less: Internal payable representing charges in excess of cost to business-type activities – prior years	(3,407,055)
Add: Internal payable representing costs in less than charges to business-type activities – current year	<u>1,280,125</u>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 13,214,771</u>

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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 outflow are not due and payable in the current period and therefore are not reported in the funds.” The detail of this \$54,303,128 difference is as follows:

Bonds payable	\$ 36,592,696
Less: Deferred charge on refunding (to be amortized as interest expense)	(264,319)
Add: issuance premium (to be amortized over life to debt)	936,121
Notes payable	462,069
Capital leases	3,746,400
Accrued interest payable	294,078
Net pension liability	23,666,601
Less: Deferred outflow of resources – difference between projected and actual earnings on pension plan investments	(11,702,711)
Add: Deferred inflow of resources – difference between expected and actual experience	<u>572,193</u>
 Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	 \$ <u>54,303,128</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	\$ 5,206,956
Depreciation expense	<u>(3,683,017)</u>
 Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position - governmental activities	 \$ <u>1,523,939</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 \$229,735 is as follows:

Principal repayments on general obligation debt	\$ 3,566,514
Issuance of long-term debt	(6,689,567)
Issuance costs	(21,466)
Payment to refund bonds	<u>2,914,784</u>
 Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position - governmental activities	 \$ <u>(229,735)</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 \$2,049,068 difference are as follows:

Accrued interest on debt	\$ (18,475)
Amortization of bond premiums	204,735
Amortization of deferred charge on refunding	(8,205)
Change in net pension liability	(7,317,958)
Amortization of effect of difference between projected and actual earnings on pension plan investments	7,005,697
Amortization of difference between expected and actual experience	(57,888)
Loss on disposal of assets	(1,856,974)
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position - governmental activities	\$ (2,049,068)

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 \$20,337 difference are as follows:

Change in net position of the internal service funds	\$ (1,259,788)
Net expenses from charges to business-type activities	1,280,125
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	\$ 20,337

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 \$2,126,930 difference are as follows:

Internal receivable representing in excess of cost to business-type activities – prior years	\$ 3,407,055
Internal receivable representing costs in excess of charges to business-type activities – current year	(1,280,125)
Net adjustment to increase net position – total enterprise funds to arrive at net position – business-type activities	\$ 2,126,930

Note 3: Stewardship, compliance, and accountability

For year ended June 30, 2016, the Council approved two budget amendments to recognize additional revenues of \$2,978,286 to increase appropriations by \$3,502,880 and to increase the amount of appropriated prior year fund balance by \$524,594, from \$1,640,027 to \$2,164,621.

Note 4: Deposits and investments

A. Cash on hand

At year-end, cash on hand for petty cash and change funds was \$48,134.

Town of Ocean City
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B. Deposits

At year-end, the carrying amount of the Town's deposits was \$5,706,097 and the bank balance was \$6,981,600. The deposits of the Town were not exposed to custodial credit risk as of June 30, 2016.

C. Investments

As of June 30, 2016, the Town's investment balances by type and maturity were as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			Interest Rate At June 30
		Less than 1	1-5	6-10	
Certificates of deposit	\$ 5,052,127	\$ 1,880,900	\$ 3,171,227	-	.97 %
State investment pool	25,958,326	25,958,326	-	-	.38
U.S. government money market	6,321,094	6,321,094	-	-	.08
Money market mutual fund	6,091,807	6,091,807	-	-	.05
U.S. treasuries	10,542,525	5,163,691	1,927,052	3,451,782	1.69
U.S. agencies	19,474,168	5,714,055	12,925,894	834,219	1.17
Domestic equities	41,332,129	41,332,129	-	-	-
Domestic fixed income	17,507,883	6,551,051	7,511,965	3,444,867	3.79
International equities	22,140,570	22,140,570	-	-	-
International fixed income	6,024,521	6,024,521	-	-	3.25
Alternative investments	17,110,282	-	17,110,282	-	-
	<u>\$ 177,555,432</u>	<u>\$ 127,178,144</u>	<u>\$ 42,646,420</u>	<u>\$ 7,730,868</u>	

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

Cash on hand	\$ 48,134
Carrying amount of deposits	5,706,097
Carrying amount of investments - (above)	<u>177,555,432</u>
Total cash and investments	183,309,663
Less: amounts in fiduciary funds	<u>(126,220,354)</u>
Total cash and investments per statement of net position	<u>\$ 57,089,309</u>
Cash and cash equivalents	\$ 26,889,287
Investments	27,530,357
Restricted investments	<u>2,669,665</u>
Total cash and investments per statement of net position	<u>\$ 57,089,309</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, 2016, met the Town's investment policy as of that date.

Town of Ocean City
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Investment income includes the following for the year ended June 30, 2016:

Net interest and dividends	\$	2,948,693
Net decrease in fair value of investments		<u>(5,679,102)</u>
Total investment loss		(2,730,409)
Less: investment loss in fiduciary funds		<u>(2,971,145)</u>
Total net investment income per statement of activities	\$	<u><u>240,736</u></u>

Credit risk. Town investment policy does not permit investments in commercial paper or corporate bonds except in fiduciary funds or if they are permitted under state law in the state investment pool. The Town invests in the Maryland Local Government Investment Pool (MLGIP) which is under the Administration of the State Treasurer. The MLGIP was established in 1982 under Article 95 Section 22G of the Annotated Code of Maryland and is rated AAAM by Standard and Poor's, their highest rating for money market mutual funds. The MLGIP seeks to maintain a constant unit value of \$1.00 per unit. Unit value is computed using the amortized cost method. In addition, the net asset value of the pool, marked to market, is calculated and maintained on a weekly basis to ensure a \$1.00 per unit constant value. In the fiduciary funds, domestic fixed income securities must be rated "B" or above. The trustees permit the purchase of international fixed income securities below a rating of "B" or to be unrated. As of June 30, 2016, \$8,316,895 of fiduciary fund investments were rated "BBB" or "BB" and \$12,402,623 were unrated, with 83.6% of total fixed income securities below single "A" quality.

The \$53,549,097 in fixed income investments as of June 30, 2016, are listed below using the Standard and Poor's rating scale:

Investment Type	Credit Rating	Domestic Amount	International Amount	Total
US treasuries	AA	\$ 10,542,525	\$ -	\$ 10,542,525
US agencies	AA	19,474,168	-	19,474,168
Corporate and international bonds	AAA	270,696	-	270,696
	AA	222,906	-	222,906
	A	2,319,284	-	2,319,284
	BBB	7,667,907	-	7,667,907
	BB	648,988	-	648,988
Bond Mutual Funds	Unrated	<u>6,378,102</u>	<u>6,024,521</u>	<u>12,402,623</u>
Totals		<u>\$ 47,624,576</u>	<u>\$ 6,024,521</u>	<u>\$ 53,549,097</u>

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 24.2% at year-end, or \$21,670,850. As of June 30, 2016, the pension and OPEB trust funds held \$1,909,725 hedging foreign investment positions.

Town of Ocean City
Notes to the Financial Statements
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The foreign currency risk as of June 30, 2016 is presented in the following table:

Currency	U.S. dollars
Euro	\$ 3,864,801
British Pound	3,439,484
Mexican Peso	2,003,622
Chinese Yuan	2,034,724
Brazilian Real	1,974,184
Swiss Franc	1,548,136
Canadian Dollar	1,420,514
Indonesian Rupiah	1,071,941
Hong Kong Dollar	1,030,207
Malaysian Ringgit	912,944
Guernsey Pound	727,045
Indian Rupee	484,712
South African Rand	491,814
Swedish Krona	339,504
Russian Ruble	344,270
Australian Dollar	247,341
Polish Zloty	215,503
Chilean Peso	215,467
Norwegian Krone	207,818
Turkish Lira	193,213
Philippine Peso	187,277
Taiwanese Dollar	165,109
South Korean Won	159,911
Colombian Peso	137,051
Thai Baht	59,720
Other: Emerging	53,640
Sri Lankan Rupee	34,616
Peruvian Neuvo Sol	8,043
Singapore Dollar	7,964
Argentine Peso	(351,677)
Japanese Yen	(1,558,048)
Total foreign currencies	<u>\$ 21,670,850</u>

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, 2016, 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.

Town of Ocean City
Notes to the Financial Statements
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Note 5: Receivables

A. Property taxes receivable

Property taxes are reported at their estimated collectible value. Total assessed value on which levies were made for the year ended June 30, 2016, was \$8,549,884,579. The Town's real property tax rate was \$0.478 per \$100 of assessed value. The Town tax rate for personal and corporate property was \$1.29 per \$100 of assessed value. The Town collected 97.6% of current year property taxes levied in the current year. Total property tax collections were 99.7% of current taxes levied.

B. Receivables

Receivables as of June 30, 2016 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	\$ 1,109,102	\$ -	\$ 1,109,102
Emergency medical	251,120	-	251,120
Accounts	<u>1,424,497</u>	<u>2,558,130</u>	<u>3,982,627</u>
Gross receivables	2,784,719	2,558,130	5,342,849
Less allowance	<u>(32,995)</u>	<u>(3,859)</u>	<u>(36,854)</u>
Total	<u>\$ 2,751,724</u>	<u>\$ 2,554,271</u>	<u>\$ 5,305,995</u>

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

Town of Ocean City
Notes to the Financial Statements
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Note 6: Capital assets

The following is a summary of governmental capital assets activity for the year ended June 30, 2016:

Governmental activities:	<u>Beginning Balance</u>	<u>Transfers and Increases</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 24,667,031	\$ 875,700	\$ (2,616,821)	\$ 22,925,910
Construction in progress	<u>3,023,952</u>	<u>2,634,879</u>	<u>(2,645,860)</u>	<u>3,012,971</u>
Total capital assets, not being depreciated	<u>27,690,983</u>	<u>3,510,579</u>	<u>(5,262,681)</u>	<u>25,938,881</u>
<i>Capital assets, being depreciated:</i>				
Buildings	45,315,679	148,431	(948,977)	44,515,133
Machinery and equipment	50,430,790	3,927,794	(2,560,800)	51,797,784
Streets and infrastructure	44,371,571	4,597,433	(168,116)	48,800,888
Other improvements	<u>22,999,697</u>	<u>47,182</u>	<u>-</u>	<u>23,046,879</u>
Total capital assets, being depreciated	<u>163,117,737</u>	<u>8,720,840</u>	<u>(3,677,893)</u>	<u>168,160,684</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(18,936,300)	(1,234,998)	833,123	(19,338,175)
Machinery and equipment	(34,481,313)	(2,718,653)	2,459,525	(34,740,441)
Streets and infrastructure	(28,281,694)	(1,366,495)	167,037	(29,481,152)
Other improvements	<u>(12,530,065)</u>	<u>(783,152)</u>	<u>-</u>	<u>(13,313,217)</u>
Total accumulated depreciation	<u>(94,229,372)</u>	<u>(6,103,298)</u>	<u>3,459,685</u>	<u>(96,872,985)</u>
Total capital assets being depreciated, net	<u>68,888,365</u>	<u>2,617,542</u>	<u>(218,208)</u>	<u>71,287,699</u>
Governmental activities capital assets, net	<u>\$ 96,579,348</u>	<u>\$ 6,128,121</u>	<u>\$ (5,480,889)</u>	<u>\$ 97,226,580</u>

The following is a summary of business-type capital assets activity for the year ended June 30, 2016:

Business-type activities:	<u>Beginning Balance</u>	<u>Transfers and Increases</u>	<u>Transfers and Deletions</u>	<u>Ending Balance</u>
<i>Capital assets, not being depreciated:</i>				
Land	\$ 14,552,782	\$ -	\$ -	\$ 14,552,782
Construction in progress	<u>1,097,786</u>	<u>7,481,230</u>	<u>(248,493)</u>	<u>8,330,523</u>
Total capital assets, not being depreciated	<u>15,650,568</u>	<u>7,481,230</u>	<u>(248,493)</u>	<u>22,883,305</u>
<i>Capital assets, being depreciated:</i>				
Buildings	113,041,520	-	(180,888)	112,860,632
Machinery and equipment	54,330,498	2,189,790	(357,258)	56,163,030
Streets and infrastructure	42,616,853	748,493	-	43,365,346
Other improvements	<u>6,340,938</u>	<u>55,585</u>	<u>-</u>	<u>6,396,523</u>
Total capital assets, being depreciated	<u>216,329,809</u>	<u>2,993,868</u>	<u>(538,146)</u>	<u>218,785,531</u>
<i>Less accumulated depreciation for:</i>				
Buildings	(61,889,182)	(2,597,023)	90,067	(64,396,138)
Machinery and equipment	(27,783,536)	(1,781,997)	357,256	(29,208,277)
Streets and infrastructure	(23,532,417)	(1,306,026)	-	(24,838,443)
Other improvements	<u>(3,135,955)</u>	<u>(45,597)</u>	<u>-</u>	<u>(3,181,552)</u>
Total accumulated depreciation	<u>(116,341,090)</u>	<u>(5,730,643)</u>	<u>447,323</u>	<u>(121,624,410)</u>
Total capital assets being depreciated, net	<u>99,988,719</u>	<u>(2,736,775)</u>	<u>(90,823)</u>	<u>97,161,121</u>
Business-type activities capital assets, net	<u>\$ 115,639,287</u>	<u>\$ 4,744,455</u>	<u>\$ (339,316)</u>	<u>\$ 120,044,426</u>

Town of Ocean City
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Depreciation expense was charged to functions/programs in governmental activities as follows:

General government	\$ 127,540
Public safety	456,266
General public works and beach	1,189,423
Highways and streets	1,388,711
Sanitation and waste removal	307,040
Economic development	5,824
Recreation and culture	<u>208,213</u>
	3,683,017
Capital assets held by the Town's internal service funds are charged to the various functions based on usage	<u>2,420,281</u>
Total depreciation – governmental activities	<u>\$ 6,103,298</u>

Depreciation expense was charged to business type activities as follows:

Water fund	\$ 1,016,294
Wastewater fund	3,066,466
Convention Center fund	1,038,550
Transportation fund	129,149
Airport fund	446,968
Golf Course fund	<u>33,216</u>
Total depreciation – business-type activities	<u>\$ 5,730,643</u>

The Town has on-going construction projects as of June 30, 2016. The projects include the fire house at 15th St, boat ramp, radio system, street improvements, water and wastewater plant improvements, and water storage tower. At year-end, the Town's obligations with contractors were as follows:

<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
15 th fire house	\$ 1,414,748	\$ 24,743
Energy improvements	913,441	467,489
Street paving	390,494	64,547
Boat ramp	22,200	714,849
700 MHz radio system	272,088	5,500,000
Airport improvements	40,528	6,500
Water mains	738,509	133,236
Water storage tower	3,472,019	1,753,956
Wastewater plant improvements	<u>4,079,467</u>	<u>195,330</u>
Total	<u>\$ 11,343,494</u>	<u>\$ 8,860,650</u>

Note 7: Interfund receivables, payables and transfers

Interfund balances exist between the general fund and two minor funds, the airport fund for \$190,000 and the golf course fund for \$110,000 until grants are received from other governments and the general fund and an internal service fund, the service center fund, for \$150,000 to purchase inventory.

In governmental funds, a transfer was made from the General Fund of \$4,424,009 to the Capital Projects Fund and \$83,854 to an internal service fund for capital expenditures.

Town of Ocean City
Notes to the Financial Statements
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Net transfers of \$3,158,019 are shown in the statement of activities. Transfers were made from the general fund to subsidize operations and for capital expenditures.

Convention Center fund	\$ 1,437,183
Transportation fund	1,310,013
Airport fund	364,791
Golf Course fund	<u>46,032</u>
Total	<u>\$ 3,158,019</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 \$110,053,000. In December 2015, the town issued general obligation bonds of \$16,760,000 with a true interest rate of 2.89% maturing in 2035. In June 2016, the Town issued a bond to TD Bank for \$5,266,000 at 1.92%, maturing in 2027 to refund outstanding 2007 municipal bonds maturing between 2019 and 2027. 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, 2016</u>
Airport Improvement Bond of 2005	2024	3.20%	\$ 1,025,000	\$ 585,553
Airport Improvement Bond of 2006	2016	3.50%	4,100,000	2,800,000
Municipal Refunding Bonds of 2007	2027	3.50 – 5.00%	22,320,000	3,965,000
Municipal Refunding Bonds of 2009	2021	2.00 – 4.00%	12,745,000	6,990,000
Airport Improvement Bond of 2010	2020	5.82%	725,000	587,500
Municipal Purpose Bonds of 2010	2028	1.00 – 5.60%	18,105,000	10,385,000
Municipal Refunding Bonds of 2012	2032	0.50 – 3.08%	33,560,000	30,290,000
Municipal Purpose Bonds of 2013	2023	0.20 – 2.85%	12,700,000	10,460,000
Municipal Refunding Bonds of 2014A	2017	0.82%	4,173,000	613,000
Municipal Purpose Bond of 2014B	2020	2.00%	600,000	407,868
Municipal Purpose Bond of 2015	2035	2.89%	16,760,000	16,760,000
Municipal Refunding Bonds of 2016A	2027	1.92%	<u>5,266,000</u>	<u>5,266,000</u>
Total			<u>\$ 132,079,000</u>	<u>\$ 89,109,921</u>

Annual debt service requirements to maturity for general obligation bonds are below. Future federal subsidy for Build America Bonds issued in 2010 of \$1,598,930 is not netted with interest.

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 3,900,410	\$ 1,230,601	\$ 4,532,700	\$ 1,955,280
2018	3,698,915	1,090,691	4,421,916	1,762,236
2019	2,909,479	970,296	4,062,280	1,584,865
2020	2,943,958	878,999	4,614,436	1,426,949
2021	3,037,640	780,025	4,339,987	1,239,879
2022-2026	11,687,940	2,378,412	15,262,257	3,958,378
2027-2031	6,534,127	827,559	9,273,873	1,781,000
2032-2036	<u>1,880,227</u>	<u>58,651</u>	<u>6,009,776</u>	<u>434,521</u>
Total	<u>\$ 36,592,696</u>	<u>\$ 8,215,232</u>	<u>\$ 52,517,225</u>	<u>\$ 14,143,107</u>

Town of Ocean City
Notes to the Financial Statements
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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, 2016</u>
Soil erosion control 1 st Street	2017	-	\$ 106,112	\$ 8,489
Soil erosion control 6 th Street	2017	-	71,000	2,840
Soil erosion control South Ocean Drive	2023	-	548,115	225,200
Soil erosion control Robin Drive	2029	-	<u>297,171</u>	<u>225,540</u>
Total intergovernmental loans			<u>\$ 1,022,398</u>	<u>\$ 462,069</u>

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

Year Ending <u>June 30</u>	<u>Principal</u>
2017	\$ 51,345
2018	48,504
2019	44,260
2020	44,260
2021	44,260
2022-2026	<u>229,440</u>
Total	<u>\$ 462,069</u>

C. Capital leases

The Town entered into two lease agreements as lessee with Bank of America for financing the acquisition of equipment in 2016. Equipment and services with a 15-year estimated useful life which reduce energy costs is valued at \$4,460,000. Construction equipment with an 8-year estimated useful life is valued at \$1,655,483. 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, 2016 as follows:

Year ending June 30	<u>Governmental Activities</u>	<u>Business-type Activities</u>
2017	\$ 315,260	\$ 31,564
2018	382,017	34,500
2019	398,401	36,751
2020	413,852	38,804
2021	431,382	41,232
2022-2026	1,905,351	234,441
2027-2031	<u>1,555,620</u>	<u>296,308</u>
	<u>\$ 5,401,883</u>	<u>\$ 713,600</u>

Town of Ocean City
Notes to the Financial Statements
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D. Legal debt margin

The Town's legal debt margin as of June 30, 2016 based on 5.2% of assessable property was \$444,593,998. As of June 30, 2016 the total outstanding debt applicable to the limit was \$89,109,921 which is 1.04% of assessable property.

E. Advance refunding of debt

On June 23, 2016 the Town issued at par \$5,266,000 of general obligation bonds for the purpose of refunding \$4,955,000 outstanding 2007 Municipal Purpose and Refunding Bonds. The 2016 bonds bear an interest rate of 1.92% and will be repaid in December 2027. The refunded 2007 bonds carried an interest rate of 4.1% and were due in December 2027. The net proceeds of \$5,215,215 (after \$50,785 in issuance costs) were deposited in an irrevocable trust with an escrow agent to provide funds for future debt service on the refunded bonds. Consequently, the 2007 bonds are considered defeased and the liability for the bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the old debt by \$311,000, and is reported in the accompanying financial statements as an addition to bonds payable. It is being charged to operations through 2027 using the effective interest method. This advance refunding was undertaken to reduce total debt service over the next 10 years by \$506,291 and resulted in an economic gain of \$482,120.

F. Changes in long-term liabilities

During the year ended June 30, 2016, 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	\$ 39,944,178	\$ 2,943,168	\$ (6,294,650)	\$ 36,592,696	\$ 3,900,410
Intergovernmental loans	503,283	-	(41,214)	462,069	51,345
Premium	<u>1,140,856</u>	<u>-</u>	<u>(204,735)</u>	<u>936,121</u>	<u>-</u>
Total bonds and loans payable	41,588,317	2,943,168	(6,540,599)	37,990,886	3,951,755
Capital leases	-	5,401,883	-	5,401,883	315,260
Claims and losses	<u>3,082,442</u>	<u>2,233,992</u>	<u>(1,670,911)</u>	<u>3,645,523</u>	<u>1,084,568</u>
Governmental activities Long-term liabilities	<u>\$ 44,670,759</u>	<u>\$ 10,579,043</u>	<u>\$ (8,211,510)</u>	<u>\$ 47,038,292</u>	<u>\$ 5,351,583</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	\$ 41,669,434	\$ 19,082,833	\$ (8,235,042)	\$ 52,517,225	\$ 4,532,700
Premium	<u>1,177,928</u>	<u>1,251,099</u>	<u>(262,198)</u>	<u>2,166,829</u>	<u>-</u>
Total bonds payable	42,847,362	20,333,932	(8,497,240)	54,684,054	4,532,700
Capital lease	-	713,600	-	713,600	31,564
Business-type activities Long-term liabilities	<u>\$ 42,847,362</u>	<u>\$ 21,047,532</u>	<u>\$ (8,497,240)</u>	<u>\$ 55,397,654</u>	<u>\$ 4,564,264</u>

Town of Ocean City
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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 since June 30, 2014 were:

Claims liability as of June 30, 2014	\$	3,009,291
Current year claims		826,767
Changes in estimates		10,399
Claim payments		<u>(764,015)</u>
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	\$	<u>3,645,523</u>

As of June 30, 2016, the risk management fund had cash and investments of \$4,023,196 to pay claims.

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

Town of Ocean City
Notes to the Financial Statements
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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 \$810,280 in the General Fund and \$1,389,255 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, 2016, the amount of the contribution was \$1,293,928.

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 \$1,354,506 were \$2,032,304 less than debt service for year ended June 30, 2016. Cumulative receipts and interest of \$2,289,651 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 \$6,975,000 as of June 30, 2016.

D. New accounting pronouncements

The GASB has issued Statement No. 72, entitled *Fair Value Measurement and Application*, which was implemented by the Town during the year ended June 30, 2016. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. All of the Town's investments (except for alternative investments held in the fiduciary fund) are considered level 1, which are based on inputs that are quoted prices in active markets for identical assets. The alternative investments (\$17,110,282) held in the fiduciary fund are considered level 3, which are based on significant unobservable inputs and are valued at the estimated fair market value based on fund's valuation method.

The GASB has issued Statement No. 73, entitled, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to certain Provisions of GASB Statements 67 and 68*. This statement did not have a material effect on the Town's financial statements.

The GASB has also issued Statement No. 74 entitled, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; GASB Statement No. 75, entitled, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; 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 Disclosures*, 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.

Town of Ocean City
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June 30, 2016

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. Separate financial statements are not issued for the OPEB Trust.

The OPEB Trust offers post retirement medical, dental, vision, and prescription coverage for employees. 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.

Plan membership: At June 30, 2016, OPEB Trust membership consisted of the following:

Active employees	500
Retirees and beneficiaries receiving benefits	<u>141</u>
Total	<u>641</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 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 22 year period beginning in 2016 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, 2016, the Town's contribution rate was \$3,207,000, which was 9.5% of covered-employee payroll. The contribution included \$1,138,535 for current premiums, and an additional \$1,138,535 to amortize the UAAL. Active employees are not required to contribute to the plan. Plan members receiving benefits contributed \$262,622, or 18.7% of total premiums through their required contribution.

Town of Ocean City
Notes to the Financial Statements
June 30, 2016

C. Annual OPEB cost and net OPEB obligation

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the methodology of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liability over a period up to thirty years. The ARC for fiscal year 2016 was based on an actuarial valuation for fiscal year beginning July 1, 2015 and ending June 30, 2016, dated May 2, 2014. The ARC and the net OPEB obligation as of July 1, 2013, for fiscal year 2014; July 1, 2014, for fiscal year 2015; and July 1, 2015, for fiscal year 2016, are as follows:

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Annual required contribution (ARC)	\$ 3,617,000	\$ 3,083,000	\$ 3,207,000
Contribution made	<u>(3,617,000)</u>	<u>(3,083,000)</u>	<u>(3,207,000)</u>
100.0%			
Net OPEB obligation	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

D. Funding status and funding progress

As of March 7, 2016, the most recent actuarial valuation date, the plan was 45.2% funded. The actuarial accrued liability for benefits was \$51,647,000 and the actuarial value of assets, at market, was \$23,324,777 resulting in an unfunded actuarial liability (UAAL) of \$28,322,223. The covered payroll (annual payroll of active employees covered by the plan) was \$26,642,752, and the ratio of the UAAL to the covered payroll was 106.3%. The market value of assets as of June 30, 2016, was \$25,250,743.

The actuarial valuation of the OPEB plan is performed using estimates of the value of reported amounts and assumptions about the probability of the occurrence of events in the future including assumptions about future employment, mortality, and healthcare costs. The actuarially determined amounts regarding the funded status of the OPEB plan and the ARC of the Town are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The Town made 100.0% of the ARC for fiscal years 2014, 2015 and 2016.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Actuarial methods and assumptions

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

Town of Ocean City
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Actuarial assumptions used in the actuarial valuation were:

Valuation date	March 7, 2016
Actuarial method	Entry age normal
Amortization method	Closed, level percentage of payroll
Amortization period	Closed 23 year period for initial transitional UAAL, 15 for new experience gains and losses
Inflation rate	3.0%
Investment rate of return	7.0%
Discount rate	7.0%
Asset valuation method	Fair value of assets at year end
Salary scale	5.0%
Mortality	RP2000 Combined Healthy Table
Health care cost trend rates:	Initial 5.0%
	Ultimate 3.8%

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, 2016, there were 119 employees in the plan. Employee contributions totaled \$252,441 and the Town recognized pension expense of \$252,441. The market value of the 401(a) plan assets totaled \$1,607,844 as of June 30, 2016.

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, 2016:

<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, 2016, the annual money weighted rate of return on pension plan investments, net of investment expense was -2.13% for the EPPT and -2.18% 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, 2016 and rolled forward using appropriate techniques to June 30, 2016, utilizing the Entry Age Normal actuarial funding method and the following actuarial assumptions applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	5.0 – 10.0%, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Post-retirement benefit increases	None

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2018. The actuarial assumptions used in the April 1, 2016 valuation were based on the results of an actuarial experience study for the period April 1, 2004 through April 1, 2009.

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

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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 7.50%. 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	\$ 2,082,101	\$ 3,897,293	\$ 5,979,394
Investments	47,845,678	47,284,591	95,130,269
Total assets	49,927,779	51,181,884	101,109,663
Liabilities:			
Total liabilities	8,089	10,419	18,508
Net position:			
Held in trust for pension benefits	\$ 49,919,690	\$ 51,171,465	\$ 101,091,155

Town of Ocean City
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June 30, 2016

Condensed statement of changes in fiduciary net position

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
Additions:			
Contributions	\$ 2,670,854	\$ 3,266,016	\$ 5,936,870
Investment loss	<u>(1,776,490)</u>	<u>(1,727,374)</u>	<u>(3,503,864)</u>
Total additions	<u>894,364</u>	<u>1,538,642</u>	<u>2,433,006</u>
Deductions:			
Benefits and refunds paid	2,741,671	2,933,975	5,675,646
Administrative expenses	<u>54,980</u>	<u>50,915</u>	<u>105,895</u>
Total deductions	<u>2,796,651</u>	<u>2,984,890</u>	<u>5,781,541</u>
Change in net position	(1,902,287)	(1,446,248)	(3,348,535)
Net position - beginning of year	<u>51,821,977</u>	<u>52,617,713</u>	<u>104,439,690</u>
Net position - end of year	<u>\$ 49,919,690</u>	<u>\$ 51,171,465</u>	<u>\$ 101,091,155</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, 2016, the valuation date:

Retirees and survivors currently receiving benefits	180
Terminated vested employees entitled to but not yet receiving benefits	49
Inactive nonvested members	12
Active members	<u>250</u>
Total	491

- 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.
- 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 is determined using the projected unit credit actuarial cost method. The contribution to the EPPT for 2016 was \$1,927,595 computed through an actuarial valuation performed as of April 1, 2015 and represented 12.8% of covered payroll. Members contributed \$743,259, a rate of 5.0% of annual base pay.

Town of Ocean City
Notes to the Financial Statements
June 30, 2016

- d. *Net Pension Liability of the Town for the EPPT.* The changes in the net pension liability for year ended June 30, 2016 is as follows:

	Total Pension Liability	Increase (Decrease) Plan Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2015	\$ 61,726,783	\$ 51,821,977	\$ 9,904,806
Changes for the year:			
Service cost	1,044,701	-	1,044,701
Interest	4,528,555	-	4,528,555
Differences between expected and actual experience	(482,721)	-	(482,721)
Contributions - employer	-	1,927,595	(1,927,595)
Contributions - employee	-	743,259	(743,259)
Net investment income (loss)	-	(1,776,489)	1,776,489
Benefit payments, including refunds of employee contributions	(2,741,672)	(2,741,672)	-
Administrative expense	-	(54,980)	54,980
Net changes	2,348,863	(1,902,287)	4,251,150
Balance as of June 30, 2016	\$ 64,075,646	\$ 49,919,690	\$ 14,155,956

EEPT net position as a percentage of total pension liability 77.91%

- 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 7.50%, 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 (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1.0% decrease (6.50%)	Current rate 7.50%	1.0% increase (8.50%)
Net pension liability	\$ 20,933,186	\$ 14,155,956	\$ 8,322,517

- f. *Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.* For the year ended June 30, 2016, the Town recognized pension expense of \$2,130,709 for the EEPT. At June 30, 2016, 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	\$ -	\$ 681,863
Net difference between projected actual earnings on pension plan investments	7,169,189	-
Total	\$ 7,169,189	\$ 681,863

Town of Ocean City
Notes to the Financial Statements
June 30, 2016

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	
2017	\$ 1,774,288
2018	1,774,288
2019	1,774,288
2020	<u>1,164,462</u>
Total	<u>\$ 6,487,326</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) following the notes to the financial statements on pages 90 and 92-93.

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, 2016, the valuation date:

Retirees and survivors currently receiving benefits	70
Terminated vested employees entitled to but not yet receiving benefits	3
Inactive nonvested members	7
Active members	<u>153</u>
Total	<u>233</u>

- 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 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 is determined using the projected unit credit actuarial cost method.

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Notes to the Financial Statements
June 30, 2016

The contribution to the PSEPP for 2016 was \$2,390,758 computed through an actuarial valuation performed as of April 1, 2015 and represented 22.4% of covered payroll. Members contributed \$875,258, 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, 2016 is as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of June 30, 2015	\$ 62,767,927	\$ 52,617,713	\$ 10,150,214
Changes for the year:			
Service cost	1,517,325	-	1,517,325
Interest	4,599,559	-	4,599,559
Differences between expected and actual experience	65,842	-	65,842
Contributions - employer	-	2,390,758	(2,390,758)
Contributions - employee	-	875,258	(875,258)
Net investment income (loss)	-	(1,727,374)	1,727,374
Benefit payments, including refunds of employee contributions	(2,933,975)	(2,933,975)	-
Administrative expense	-	(50,915)	50,915
Net changes	3,248,751	(1,446,248)	4,694,999
Balance as of June 30, 2016	<u>\$ 66,016,678</u>	<u>\$ 51,171,465</u>	<u>\$ 14,845,213</u>

EEPT net position as a percentage of total pension liability 77.51%

- 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 7.50%, 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 (6.50%) or 1-percentage point higher (8.50%) than the current rate:

	1.0% decrease (6.50%)	Current rate 7.50%	1.0% increase (8.50%)
Net pension liability	\$22,522,990	\$14,845,212	\$8,359,352

- g. *Pension expense and deferred outflows of resources and deferred inflows of resources related to pensions.* For the year ended June 30, 2016, the Town recognized pension expense of \$2,635,587 for the EEPT. At June 30, 2016, 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	\$ -	\$ 148,014
Net difference between projected actual earnings on pension plan investments	7,254,383	-
Total	<u>\$ 7,254,383</u>	<u>\$ 148,014</u>

Town of Ocean City
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June 30, 2016

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	
2017	\$ 1,942,605
2018	1,942,605
2019	1,942,605
2020	<u>1,278,554</u>
Total	<u>\$ 7,106,369</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 91 and 94-95.



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 Relate 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

Schedules of Funding Progress

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, 2016, 2015 and 2014

	2016	2015	2014
Total pension liability			
Service cost	\$ 1,044,701	\$ 1,106,267	\$ 1,106,190
Interest	4,528,555	4,352,810	4,137,554
Differences between expected and actual experiences	(482,721)	(492,667)	-
Benefit payments, including refunds of member contributions, deaths, & terminations	(2,741,672)	(2,508,830)	(2,283,852)
Net change in total pension liability	2,348,863	2,457,580	2,959,892
Total pension liability - beginning	61,726,783	59,269,203	56,309,311
Total pension liability - ending (a)	<u>\$ 64,075,646</u>	<u>\$ 61,726,783</u>	<u>\$ 59,269,203</u>
Plan fiduciary net position			
Contributions - employer	\$ 1,927,595	\$ 2,036,678	\$ 2,351,375
Contributions - member	743,259	755,591	781,220
Net investment income (loss)	(1,776,489)	810,888	6,750,912
Benefit payments, including refunds of member contributions	(2,741,672)	(2,508,830)	(2,283,852)
Administrative expense	(54,980)	(42,686)	(75,228)
Net change in plan fiduciary net position	(1,902,287)	1,051,641	7,524,427
Plan fiduciary net position - beginning	51,821,977	50,770,336	43,245,909
Plan fiduciary net position - ending (b)	<u>\$ 49,919,690</u>	<u>\$ 51,821,977</u>	<u>\$ 50,770,336</u>
Town's net pension - liability - ending (a) - (b)	<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	77.91%	83.95%	85.66%
Covered employee payroll	\$ 14,515,114	\$ 15,091,207	\$ 15,073,776
Net liability as a percentage of covered payroll	97.53%	65.63%	56.38%
Annual money-weighted rate of return, net of investment expense	-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.

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, 2016, 2015 and 2014

	2016	2015	2014
Total pension liability			
Service cost	\$ 1,517,325	\$ 1,541,283	\$ 1,559,854
Interest	4,599,559	4,392,574	4,165,353
Differences between expected and actual experiences	65,842	(334,481)	-
Benefit payments, including refunds of member contributions, deaths, & terminations	(2,933,975)	(2,748,521)	(2,692,361)
Net change in total pension liability	3,248,751	2,850,855	3,032,846
Total pension liability - beginning	62,767,927	59,917,072	56,884,226
Total pension liability - ending (a)	<u>\$ 66,016,678</u>	<u>\$ 62,767,927</u>	<u>\$ 59,917,072</u>
Plan fiduciary net position			
Contributions - employer	\$ 2,390,758	\$ 2,588,214	\$ 3,331,311
Contributions - member	875,258	854,139	1,007,839
Net investment income (loss)	(1,727,374)	737,843	6,828,365
Benefit payments, including refunds of member contributions	(2,933,975)	(2,748,521)	(3,049,533)
Administrative expense	(50,915)	(37,506)	(77,691)
Net change in plan fiduciary net position	(1,446,248)	1,394,169	8,040,291
Plan fiduciary net position - beginning	52,617,713	51,223,544	43,183,253
Plan fiduciary net position - ending (b)	<u>\$ 51,171,465</u>	<u>\$ 52,617,713</u>	<u>\$ 51,223,544</u>
Town's net pension - liability - ending (a) - (b)	<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	77.51%	83.83%	85.49%
Covered employee payroll	\$ 10,835,080	\$ 10,671,545	\$ 10,540,564
Net liability as a percentage of covered payroll	137.01%	95.11%	82.48%
Annual money-weighted rate of return, net of investment expense	-3.63%	2.29%	14.96%

This information is not available for previous years.

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 1,927,595	\$ 2,036,678	\$ 2,351,375
Contributions in relation to the actuarially determined contribution	<u>1,927,595</u>	<u>2,036,678</u>	<u>2,351,375</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 14,515,114	\$ 15,091,207	\$ 15,073,776
Contributions as a percentage of covered employee payroll	13.28%	13.50%	15.60%

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	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

2013	2012	2011	2010	2009	2008	2007
\$ 2,468,399	\$ 2,473,662	\$ 2,135,538	\$ 2,472,916	\$ 2,474,479	\$ 2,348,529	\$ 2,255,718
<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>2,255,718</u>
<u>\$ -</u>						
\$15,370,687	\$ 16,162,237	\$ 17,316,053	\$ 19,517,323	\$ 20,595,416	\$ 20,666,347	\$ 19,043,583
16.06%	15.31%	12.33%	12.67%	12.01%	11.36%	11.85%

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

	2016	2015	2014
Actuarially determined contribution	\$ 2,390,758	\$ 2,588,214	\$ 3,331,311
Contributions in relation to the actuarially determined contribution	2,390,758	2,588,214	3,331,311
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 10,835,080	\$ 10,671,545	\$ 10,540,564
Contributions as a percentage of covered employee payroll	22.06%	24.25%	31.60%

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

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
\$3,228,530	\$ 3,380,743	\$ 2,917,210	\$ 2,771,852	\$ 2,721,333	\$ 2,709,034	\$ 2,371,215
<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>2,371,215</u>
<u>\$ -</u>						
\$9,690,975	\$10,248,502	\$11,260,790	\$12,119,371	\$12,064,994	\$11,367,218	\$10,742,790
33.31%	32.99%	25.91%	22.87%	22.56%	23.83%	22.07%

TOWN OF OCEAN CITY
OPEB TRUST FUND
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
For fiscal years ended June 30, 2009 - June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Actuarial Accrued Liability as a Percentage of Covered Payroll
7/1/2015	\$ 23,324,777	\$ 51,647,000	\$ 28,322,223	45.2 %	\$ 26,642,752	106.3 %
7/1/2014	20,986,696	48,305,000	27,318,304	43.4	26,484,340	103.1
7/1/2013	15,718,943	46,079,000	30,360,057	34.1	25,951,662	117.0
7/1/2012	12,151,386	42,383,000	30,231,614	28.7	27,310,739	120.6
7/1/2011	9,384,092	40,674,000	31,289,908	23.1	29,451,843	106.2
7/1/2010	5,209,649	37,010,000	31,800,351	14.1	32,511,694	97.8
7/1/2009	2,751,277	28,958,000	26,206,723	9.5	33,535,410	78.1
7/1/2008	-	28,958,000	28,958,000	0.0	32,883,565	88.1

Source: "Town of Ocean City, Maryland Post Employment Medical Benefits Actuarial Valuation for Fiscal Year Ended June 30, 2016", Bolton Partners, Inc..

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

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2016	\$3,207,000	100 %
2015	3,083,000	100
2014	3,617,000	100
2013	3,475,000	100
2012	3,675,000	100
2011	3,516,000	100
2010	3,104,000	100
2009	3,104,000	100

NONMAJOR ENTERPRISE FUNDS

Enterprise Funds are used to account for the acquisition operation, and maintenance of governmental facilities and services which are entirely or predominantly self-supporting by user charges. The operation of Enterprise Funds 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, 2016

	Business-type Activities - Enterprise Funds		
	Airport	Golf Course	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,416	\$ 6,972	\$ 10,388
Receivables, net	9,222	139,188	148,410
Intergovernmental receivable	371,600	288	371,888
Inventories	46,224	76,418	122,642
Other	-	3,500	3,500
Total current assets	<u>430,462</u>	<u>226,366</u>	<u>656,828</u>
Noncurrent assets:			
Restricted investments	380,014	-	380,014
Capital assets:			
Land	1,174,102	2,530,140	3,704,242
Buildings	4,587,345	634,151	5,221,496
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	40,528	-	40,528
Less accumulated depreciation	(7,580,107)	(1,681,359)	(9,261,466)
Total noncurrent assets	<u>8,566,084</u>	<u>2,777,046</u>	<u>11,343,130</u>
Total assets	<u>8,996,546</u>	<u>3,003,412</u>	<u>11,999,958</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	34,712	218,364	253,076
Total deferred outflows of resources	<u>34,712</u>	<u>218,364</u>	<u>253,076</u>
LIABILITIES			
Current liabilities:			
Accounts payable	155,942	31,123	187,065
Accrued expenses	4,204	9,977	14,181
Compensated absences	13,984	50,194	64,178
Due to other funds	190,000	110,000	300,000
Deferred revenue	380,014	60,083	440,097
Current portion of long-term debt	91,152	-	91,152
Total current liabilities	<u>835,296</u>	<u>261,377</u>	<u>1,096,673</u>
Noncurrent liabilities:			
Bonds, notes, and loans payable	1,081,900	-	1,081,900
Net pension liability	66,818	414,362	481,180
Total noncurrent liabilities	<u>1,148,718</u>	<u>414,362</u>	<u>1,563,080</u>
Total liabilities	<u>1,984,014</u>	<u>675,739</u>	<u>2,659,753</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	3,252	20,282	23,534
Total deferred inflows of resources	<u>3,252</u>	<u>20,282</u>	<u>23,534</u>
NET POSITION			
Net investment in capital assets	7,013,018	2,777,046	9,790,064
Unrestricted	30,974	(251,291)	(220,317)
Total net position	<u>\$ 7,043,992</u>	<u>\$ 2,525,755</u>	<u>\$ 9,569,747</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Airport	Golf Course	Total
Operating revenues:			
Charges for sales and services	\$ 978,545	\$ 2,022,149	\$ 3,000,694
Total operating revenues	<u>978,545</u>	<u>2,022,149</u>	<u>3,000,694</u>
Operating expenses:			
Personal services	311,180	1,046,273	1,357,453
Contractual services	122,364	244,427	366,791
Utilities	43,702	51,999	95,701
Repairs and maintenance	48,353	55,659	104,012
Other supplies and expenses	395,061	471,896	866,957
Internal services	88,356	203,205	291,561
Depreciation	446,968	33,216	480,184
Total operating expenses	<u>1,455,984</u>	<u>2,106,675</u>	<u>3,562,659</u>
Operating loss	<u>(477,439)</u>	<u>(84,526)</u>	<u>(561,965)</u>
Nonoperating revenues (expenses)			
Interest and investment revenue	489	67	556
Interest expense	<u>(50,952)</u>	<u>-</u>	<u>(50,952)</u>
Total nonoperating revenues (expenses)	<u>(50,463)</u>	<u>67</u>	<u>(50,396)</u>
Loss before capital contributions and transfers	(527,902)	(84,459)	(612,361)
Capital contributions	379,435	-	379,435
Transfers in	<u>364,791</u>	<u>46,032</u>	<u>410,823</u>
Change in net position	216,324	(38,427)	177,897
Total net position - beginning	<u>6,827,668</u>	<u>2,564,182</u>	<u>9,391,850</u>
Total net position - ending	<u>\$ 7,043,992</u>	<u>\$ 2,525,755</u>	<u>\$ 9,569,747</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS
 NONMAJOR ENTERPRISE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Airport	Golf Course	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 973,407	\$ 2,001,522	\$ 2,974,929
Payments to suppliers	(670,543)	(855,271)	(1,525,814)
Payments to employees	(320,157)	(1,073,193)	(1,393,350)
Payments for interfund services used	(88,356)	(194,541)	(282,897)
Net cash used by operating activities	(105,649)	(121,483)	(227,132)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Advances from other funds	190,000	78,000	268,000
Transfers from other funds	364,791	46,032	410,823
Net cash provided by noncapital financing activities	554,791	124,032	678,823
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital contributions	87,540	-	87,540
Acquisition and construction of capital assets	(500,000)	-	(500,000)
Principal paid on capital debt	(87,675)	-	(87,675)
Interest paid on capital debt	(55,314)	-	(55,314)
Net cash used by capital and related financing activities	(555,449)	-	(555,449)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments	(734)	-	(734)
Interest and dividends received	489	67	556
Net cash provided (used) by investing activities	(245)	67	(178)
Net increase (decrease) in cash and cash equivalents	(106,552)	2,616	(103,936)
Cash and cash equivalents at beginning of the year	109,968	4,356	114,324
Cash and cash equivalents at end of the year	\$ 3,416	\$ 6,972	\$ 10,388

(Continued)

TOWN OF OCEAN CITY
COMBINING STATEMENT OF CASH FLOWS (Continued)
NONMAJOR ENTERPRISE FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	<u>Airport</u>	<u>Golf Course</u>	<u>Total</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATIONS			
Operating loss	\$ (477,439)	\$ (84,526)	\$ (561,965)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	446,968	33,216	480,184
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:			
Accounts receivable	(5,138)	(16,364)	(21,502)
Inventories	24,655	(1,514)	23,141
Prepaid expenses	-	(1,000)	(1,000)
Deferred outflows - related to pensions	(21,678)	(138,741)	(160,419)
Compensated absences	(1,439)	(7,844)	(9,283)
Accounts payable	(86,734)	(15,660)	(102,394)
Accrued expenses	(7,538)	(30,028)	(37,566)
Unearned revenue	-	(4,263)	(4,263)
Net pension liability	21,256	136,037	157,293
Deferred inflows - related to pensions	1,438	9,204	10,642
Total adjustments	<u>371,790</u>	<u>(36,957)</u>	<u>334,833</u>
Net cash used by operating activities	<u>\$ (105,649)</u>	<u>\$ (121,483)</u>	<u>\$ (227,132)</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, 2016

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 263,045	\$ 4,870	\$ 1,431,802	\$ 407,905	\$ 2,107,622
Investments	-	-	-	3,615,291	3,615,291
Receivables, net	-	-	89,039	-	89,039
Interest receivable	-	-	-	12,756	12,756
Inventories	-	763,354	-	-	763,354
Total current assets	<u>263,045</u>	<u>768,224</u>	<u>1,520,841</u>	<u>4,035,952</u>	<u>6,588,062</u>
Noncurrent assets:					
Capital assets:					
Buildings	-	1,373,223	73,860	-	1,447,083
Other improvements	-	31,545	-	-	31,545
Machinery and equipment	594,073	203,219	44,716,436	-	45,513,728
Construction in progress	-	-	272,088	-	272,088
	<u>594,073</u>	<u>1,607,987</u>	<u>45,062,384</u>	<u>-</u>	<u>47,264,444</u>
Less accumulated depreciation	(553,028)	(1,391,758)	(29,974,999)	-	(31,919,785)
Total noncurrent assets	<u>41,045</u>	<u>216,229</u>	<u>15,087,385</u>	<u>-</u>	<u>15,344,659</u>
Total assets	<u>304,090</u>	<u>984,453</u>	<u>16,608,226</u>	<u>4,035,952</u>	<u>21,932,721</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pensions	221,565	446,077	-	80,362	748,004
Total deferred outflows of resources	<u>221,565</u>	<u>446,077</u>	<u>-</u>	<u>80,362</u>	<u>748,004</u>
LIABILITIES					
Current liabilities:					
Accounts payable	13,572	108,689	220	85,581	208,062
Accrued expenses	7,774	14,254	14,105	4,239	40,372
Compensated absences	33,687	67,727	-	17,378	118,792
Due to other funds	-	175,000	-	-	175,000
Claims and judgments	-	-	-	1,084,568	1,084,568
Current portion of long-term debt	-	-	149,555	-	149,555
Total current liabilities	<u>55,033</u>	<u>365,670</u>	<u>163,880</u>	<u>1,191,766</u>	<u>1,776,349</u>
Noncurrent liabilities:					
Claims and judgments	-	-	-	2,560,955	2,560,955
Loans payable	-	-	1,505,928	-	1,505,928
Net pension liability	414,650	861,410	-	150,062	1,426,122
Total noncurrent liabilities	<u>414,650</u>	<u>861,410</u>	<u>1,505,928</u>	<u>2,711,017</u>	<u>5,493,005</u>
Total liabilities	<u>469,683</u>	<u>1,227,080</u>	<u>1,669,808</u>	<u>3,902,783</u>	<u>7,269,354</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	20,412	41,865	-	7,393	69,670
Total deferred inflows of resources	<u>20,412</u>	<u>41,865</u>	<u>-</u>	<u>7,393</u>	<u>69,670</u>
NET POSITION					
Net investment in capital assets	41,045	216,229	13,431,902	-	13,689,176
Unrestricted	(5,485)	(54,644)	1,506,516	206,138	1,652,525
Total net position	<u>\$ 35,560</u>	<u>\$ 161,585</u>	<u>\$ 14,938,418</u>	<u>\$ 206,138</u>	<u>\$ 15,341,701</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Information Technology	Service Center	Vehicle & Equipment Trust	Risk Management	Total
Operating revenues:					
Charges for sales and services	\$2,013,152	\$ 4,306,781	\$ 2,359,640	\$ 2,478,132	\$11,157,705
Total operating revenues	<u>2,013,152</u>	<u>4,306,781</u>	<u>2,359,640</u>	<u>2,478,132</u>	<u>11,157,705</u>
Operating expenses:					
Personal services	991,265	1,723,423	-	258,058	2,972,746
Contractual services	45,101	20,097	182,277	944,291	1,191,766
Utilities	79,864	39,075	-	984	119,923
Repairs and maintenance	556,828	107,837	-	1,616	666,281
Other supplies and expenses	309,727	2,048,169	35,103	2,242	2,395,241
Internal services	55,236	282,051	482,082	93,380	912,749
Insurance claims and expenses	-	-	-	2,228,331	2,228,331
Depreciation	9,213	40,156	2,370,912	-	2,420,281
Total operating expenses	<u>2,047,234</u>	<u>4,260,808</u>	<u>3,070,374</u>	<u>3,528,902</u>	<u>12,907,318</u>
Operating income (loss)	<u>(34,082)</u>	<u>45,973</u>	<u>(710,734)</u>	<u>(1,050,770)</u>	<u>(1,749,613)</u>
Nonoperating revenues (expenses)					
Interest and investment revenue	-	-	-	60,520	60,520
Interest expense	-	-	(14,105)	-	(14,105)
Gain on disposal of assets	-	-	359,556	-	359,556
Total nonoperating revenues	<u>-</u>	<u>-</u>	<u>345,451</u>	<u>60,520</u>	<u>405,971</u>
Income (loss) before capital contributions and transfers	(34,082)	45,973	(365,283)	(990,250)	(1,343,642)
Transfers in	83,854	-	-	-	83,854
Change in net position	49,772	45,973	(365,283)	(990,250)	(1,259,788)
Net position - beginning	(14,212)	115,612	15,303,701	1,196,388	16,601,489
Net position - ending	<u>\$ 35,560</u>	<u>\$ 161,585</u>	<u>\$ 14,938,418</u>	<u>\$ 206,138</u>	<u>\$15,341,701</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Information Technology
CASH FLOWS FROM OPERATING ACTIVITIES:	
Receipts from customers and users	\$ 2,013,152
Payments to suppliers	(1,010,432)
Payments to employees	(1,001,138)
Payments for interfund services used	(55,236)
Net cash provided (used) by operating activities	(53,654)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Advances from other funds	83,854
Net cash provided by noncapital financing activities	83,854
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Acquisition and construction of capital assets	(31,874)
Proceeds from sales of capital assets	-
Net cash used by capital and related financing activities	(31,874)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sales and maturities of investments	-
Purchase of investments	-
Interest and dividends received	-
Net cash provided (used) by investing activities	-
Net increase (decrease) in cash and cash equivalents	(1,674)
Cash and cash equivalents at beginning of the year	264,719
Cash and cash equivalents at end of the year	\$ 263,045

(Continued)

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ 4,306,781	\$ 2,298,100	\$ 2,478,132	\$ 11,096,165
(2,335,271)	(217,380)	(2,626,427)	(6,189,510)
(1,729,928)	-	(264,903)	(2,995,969)
(264,481)	(482,082)	(94,364)	(896,163)
(22,899)	1,598,638	(507,562)	1,014,523
25,000	-	-	108,854
25,000	-	-	108,854
-	(1,776,764)	-	(1,808,638)
-	359,556	-	359,556
-	(1,417,208)	-	(1,449,082)
-	1,000,000	2,574,000	3,574,000
-	-	(1,933,961)	(1,933,961)
-	-	68,798	68,798
-	1,000,000	708,837	1,708,837
2,101	1,181,430	201,275	1,383,132
2,769	250,372	206,630	724,490
<u>\$ 4,870</u>	<u>\$ 1,431,802</u>	<u>\$ 407,905</u>	<u>\$ 2,107,622</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CASH FLOWS (Continued)
 INTERNAL SERVICE FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	Information Technology
RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY OPERATIONS	
Operating income (loss)	\$ (34,082)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	9,213
EFFECT OF CHANGES IN OPERATING ASSETS & LIABILITIES:	
Accounts receivable	-
Inventories	-
Deferred outflows - related to pensions	(143,076)
Compensated absences	(576)
Accounts payable	(12,209)
Accrued expenses	(22,703)
Claims liability	-
Net pension liability	140,288
Deferred inflows - related to pensions	9,491
Total adjustments	(19,572)
Net cash provided (used) by operating activities	\$ (53,654)

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES

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

Service Center	Vehicle & Equipment Trust	Risk Management	Total
\$ 45,973	\$ (710,734)	\$ (1,050,770)	\$ (1,749,613)
40,156	2,370,912	-	2,420,281
-	(61,540)	-	(61,540)
43,898	-	-	43,898
(277,481)	-	(52,027)	(472,584)
6,320	-	1,230	6,974
(133,422)	-	(10,588)	(156,219)
(38,824)	-	(12,953)	(74,480)
-	-	563,081	563,081
272,074	-	51,014	463,376
18,407	-	3,451	31,349
(68,872)	2,309,372	543,208	2,764,136
<u>\$ (22,899)</u>	<u>\$ 1,598,638</u>	<u>\$ (507,562)</u>	<u>\$ 1,014,523</u>
\$ -	\$ 1,655,483	\$ -	\$ 1,655,483
-	-	(9,077)	(9,077)



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, 2016

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
ASSETS			
Cash and cash equivalents	\$ 2,024,364	\$ 3,840,653	\$ 5,865,017
Interest and dividends receivable	57,737	56,640	114,377
Investments, at fair value:			
Domestic equities	16,508,256	16,345,928	32,854,184
Domestic fixed income	13,014,602	12,651,214	25,665,816
International equities	8,745,180	8,681,596	17,426,776
International fixed income	2,449,117	2,432,413	4,881,530
Alternative investments	7,128,523	7,173,440	14,301,963
Total investments	<u>47,845,678</u>	<u>47,284,591</u>	<u>95,130,269</u>
Total assets	<u>49,927,779</u>	<u>51,181,884</u>	<u>101,109,663</u>
LIABILITIES			
Accounts payable	<u>8,089</u>	<u>10,419</u>	<u>18,508</u>
Total liabilities	<u>8,089</u>	<u>10,419</u>	<u>18,508</u>
NET POSITION			
Net position held in trust for pension benefits	<u>\$ 49,919,690</u>	<u>\$ 51,171,465</u>	<u>\$ 101,091,155</u>

TOWN OF OCEAN CITY
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 PENSION TRUST FUNDS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Employees Pension Fund	Public Safety Employees Pension Fund	Total
Additions			
Contributions:			
Employer	\$ 1,927,595	\$ 2,390,758	\$ 4,318,353
Members	743,259	875,258	1,618,517
Total contributions	2,670,854	3,266,016	5,936,870
Investment earnings:			
Net depreciation			
in fair value of investments	(2,411,228)	(2,359,923)	(4,771,151)
Interest	236,013	234,994	471,007
Dividends	755,897	751,812	1,507,709
Total investment loss	(1,419,318)	(1,373,117)	(2,792,435)
Less investment expense	357,172	354,257	711,429
Net investment loss	(1,776,490)	(1,727,374)	(3,503,864)
Total additions	894,364	1,538,642	2,433,006
Deductions			
Benefits and refunds paid	2,741,671	2,933,975	5,675,646
Administrative expenses	54,980	50,915	105,895
Total deductions	2,796,651	2,984,890	5,781,541
Change in net position	(1,902,287)	(1,446,248)	(3,348,535)
Net Position - beginning	51,821,977	52,617,713	104,439,690
Net Position - ending	\$ 49,919,690	\$ 51,171,465	\$ 101,091,155



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.

<u>Contents</u>	<u>Page(s)</u>
Financial Trends These schedules contain trend information to help the reader understand how the town's financial performance and well-being have changed over time.	116-124
Revenue Capacity These schedules contain information to help the reader assess the Town's most significant local revenue sources, the property tax, and the room tax.	126-136
Debt Capacity These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	131-134
Economic and Demographic Information These schedules offer economic and demographic indicators to help the reader understand the environment within which the Town's financial activities take place.	135-136
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	137-141

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>2016</u>	<u>2015</u>	<u>2014</u>
Governmental Activities			
Net investment in capital assets	\$ 55,670,509	\$ 57,685,894	\$ 57,349,894
Restricted	-	-	115,000
Unrestricted	<u>8,269,875</u>	<u>5,755,438</u>	<u>13,700,802</u>
<i>Total Governmental Activities Net Position</i>	<u>63,940,384</u>	<u>63,441,332</u>	<u>71,165,696</u>
Business-Type Activities			
Net investment in capital assets	77,730,796	73,668,728	70,435,192
Restricted	2,289,651	4,284,817	6,272,857
Unrestricted	<u>12,912,695</u>	<u>13,337,439</u>	<u>13,594,642</u>
<i>Total Business-Type Activities Net Position</i>	<u>92,933,142</u>	<u>91,290,984</u>	<u>90,302,691</u>
Primary government			
Net investment in capital assets	133,401,305	131,354,622	127,785,086
Restricted	2,289,651	4,284,817	6,387,857
Unrestricted	<u>21,182,570</u>	<u>19,092,877</u>	<u>27,295,444</u>
<i>Total Primary Government Net Position</i>	<u><u>\$156,873,526</u></u>	<u><u>\$154,732,316</u></u>	<u><u>\$161,468,387</u></u>

2013	2012	2011	2010	2009	2008	2007
\$ 53,768,043	\$ 35,032,961	\$ 47,390,589	\$ 46,393,277	\$ 44,851,930	\$ 43,313,477	\$ 44,411,771
165,000	16,140,004	1,713,579	1,222,022	1,543,521	4,383,493	1,406,804
15,548,344	15,420,770	16,213,407	15,742,899	16,823,057	13,601,386	14,081,801
69,481,387	66,593,735	65,317,575	63,358,198	63,218,508	61,298,356	59,900,376
65,917,836	55,645,888	58,001,891	60,260,847	58,489,349	55,116,392	52,958,492
7,474,542	8,551,119	9,638,746	9,667,139	9,406,011	8,199,752	7,094,064
10,158,004	17,520,679	11,466,523	4,659,855	6,860,798	11,832,112	10,049,458
83,550,382	81,717,686	79,107,160	74,587,841	74,756,158	75,148,256	70,102,014
119,685,879	90,678,849	105,392,480	106,654,124	103,341,279	98,429,869	97,370,263
7,639,542	24,691,123	11,352,325	10,889,161	10,949,532	12,583,245	8,500,868
25,706,348	32,941,449	27,679,930	20,402,754	23,683,855	25,433,498	24,131,259
<u>\$ 153,031,769</u>	<u>\$ 148,311,421</u>	<u>\$ 144,424,735</u>	<u>\$ 137,946,039</u>	<u>\$ 137,974,666</u>	<u>\$ 136,446,612</u>	<u>\$ 130,002,390</u>

Town of Ocean City, Maryland

Changes in Net Position

Last Ten Fiscal Years

(accrual basis of accounting)

	2016	2015	2014
Expenses			
Governmental Activities:			
General Government	\$ 1,019,892	\$ 852,529	\$ 1,314,758
Public Safety	35,138,306	32,782,621	36,112,813
General Public Works and Beach	7,261,653	7,240,368	6,329,540
Sanitation and Waste Removal	6,256,386	5,787,086	6,230,810
Highways and Streets	10,501,844	7,102,511	7,787,410
Economic Development - Tourism	8,343,211	8,139,166	7,998,815
Recreation and Culture	7,862,334	7,479,558	7,654,518
Interest on Long-Term Debt	1,307,810	1,335,105	1,462,237
<i>Total Governmental Activities Expenses</i>	<u>77,691,436</u>	<u>70,718,944</u>	<u>74,890,901</u>
Business-Type Activities:			
Water	5,869,793	5,532,561	6,251,720
Wastewater	12,740,636	11,299,812	11,966,765
Convention Center	6,364,714	5,341,279	5,438,689
Transportation	8,228,957	8,213,299	8,036,903
Airport	1,506,936	1,832,178	1,615,099
Golf	2,106,675	2,050,051	2,069,805
<i>Total Business-Type Activities Expenses</i>	<u>36,817,711</u>	<u>34,269,180</u>	<u>35,378,981</u>
<i>Total Primary Government Expenses</i>	<u>\$ 114,509,147</u>	<u>\$ 104,988,124</u>	<u>\$ 110,269,882</u>
Program Revenues			
Governmental Activities:			
Charges for Services:			
General government	\$ 4,207,093	\$ 3,892,295	\$ 3,870,984
Public safety	2,171,345	2,038,976	2,056,556
General public works and beach	4,238,386	4,314,242	4,044,925
Sanitation and waste removal	134,390	115,232	99,350
Highways and streets	1,129,247	1,054,220	1,126,770
Economic development - Tourism	1,652,093	1,589,455	1,465,927
Recreation and culture	1,791,371	1,627,668	1,573,586
Operating Grants and Contributions	3,301,092	3,026,042	3,432,044
Capital Grants and Contributions	152,732	190,351	105,000
<i>Total Governmental Activities Program Revenues</i>	<u>18,777,749</u>	<u>17,848,481</u>	<u>17,775,142</u>
Business-Type Activities:			
Charges for Services:			
Water	6,209,726	7,107,376	7,050,007
Wastewater	13,202,701	12,771,316	12,551,066
Convention Center	1,705,782	1,745,001	1,792,680
Transportation	4,650,181	4,558,857	4,100,681
Airport	978,545	1,108,590	1,146,509
Golf	2,022,149	2,022,992	1,983,132
Operating Grants and Contributions	3,652,214	3,680,145	3,593,254
Capital Grants and Contributions	2,894,257	1,530,415	6,501,328
<i>Total Business-Type Activities Program Revenues</i>	<u>35,315,555</u>	<u>34,524,692</u>	<u>38,718,657</u>
<i>Total Primary Government Program Revenues</i>	<u>\$ 54,093,304</u>	<u>\$ 52,373,173</u>	<u>\$ 56,493,799</u>

2013	2012	2011	2010	2009	2008	2007
\$ 1,118,606	\$ 335,703	\$ 751,333	\$ 1,621,071	\$ 1,673,926	\$ 2,299,373	\$ 2,354,011
34,030,231	35,440,373	34,297,859	33,961,816	34,517,293	32,345,385	29,202,378
5,315,570	6,257,840	6,205,643	6,055,716	6,675,942	6,090,271	6,175,410
6,034,146	6,776,510	6,193,273	7,081,833	7,587,896	7,127,947	6,849,196
7,157,008	7,250,787	6,763,540	7,036,697	8,008,372	7,338,573	6,964,317
8,055,355	7,692,558	6,671,972	6,243,797	5,739,043	5,600,101	4,227,250
7,685,116	7,873,652	7,783,123	7,890,492	8,795,235	8,109,675	7,098,691
1,640,586	1,352,400	1,296,137	1,261,803	1,397,984	1,449,018	1,538,808
<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>	<u>64,410,061</u>
6,428,575	6,419,219	7,597,787	6,978,781	7,333,521	7,193,221	7,045,220
11,710,740	11,642,169	11,045,110	10,337,839	11,075,781	9,622,464	8,839,617
5,221,549	5,173,147	5,533,018	5,669,798	6,265,962	6,003,335	5,896,177
8,007,909	7,936,422	7,493,620	7,715,464	8,324,858	8,036,740	8,014,968
1,906,293	1,681,333	1,503,697	1,449,538	1,749,959	1,614,880	1,627,726
2,071,155	2,092,046	1,981,914	1,978,188	2,260,550	2,164,803	2,124,943
<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>33,548,651</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>	<u>\$ 97,958,712</u>
\$ 3,748,747	\$ 3,647,286	\$ 3,758,744	\$ 3,464,313	\$ 3,699,975	\$ 3,987,939	\$ 4,555,293
2,068,706	2,005,130	1,965,631	1,859,508	1,696,096	1,745,958	1,701,398
3,810,298	3,662,776	3,651,107	3,123,547	2,888,571	3,007,666	3,118,017
85,418	91,608	109,543	312,364	430,535	552,864	306,433
1,108,543	1,086,162	982,101	926,911	715,568	823,938	753,772
1,465,695	1,600,439	1,321,806	1,294,913	1,675,547	1,452,035	1,359,916
1,555,940	1,382,413	1,334,262	1,610,682	1,606,662	1,575,344	1,496,451
3,223,755	2,805,472	2,807,769	2,705,797	2,932,577	2,810,084	2,794,189
551,735	-	75,000	80,000	218,551	292,244	787,782
<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>	<u>16,873,251</u>
7,020,705	6,846,684	6,772,436	6,926,482	7,204,163	7,162,687	6,840,989
12,161,493	11,761,802	11,311,636	10,466,562	10,274,178	9,746,366	9,129,355
1,678,397	1,663,028	1,758,112	1,630,172	1,691,850	1,638,928	1,923,673
3,934,859	3,854,314	3,558,571	3,363,679	3,439,218	3,605,466	3,511,131
1,181,550	1,307,014	1,034,475	837,533	1,139,331	1,038,623	1,070,152
1,959,709	2,105,886	1,962,632	1,979,205	2,017,988	2,055,393	1,931,502
3,627,269	3,413,436	3,414,926	3,401,683	4,539,925	4,606,116	4,309,687
1,988,370	3,269,491	5,960,662	671,195	756,286	3,607,552	885,908
<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>29,602,397</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>	<u>\$ 46,475,648</u>

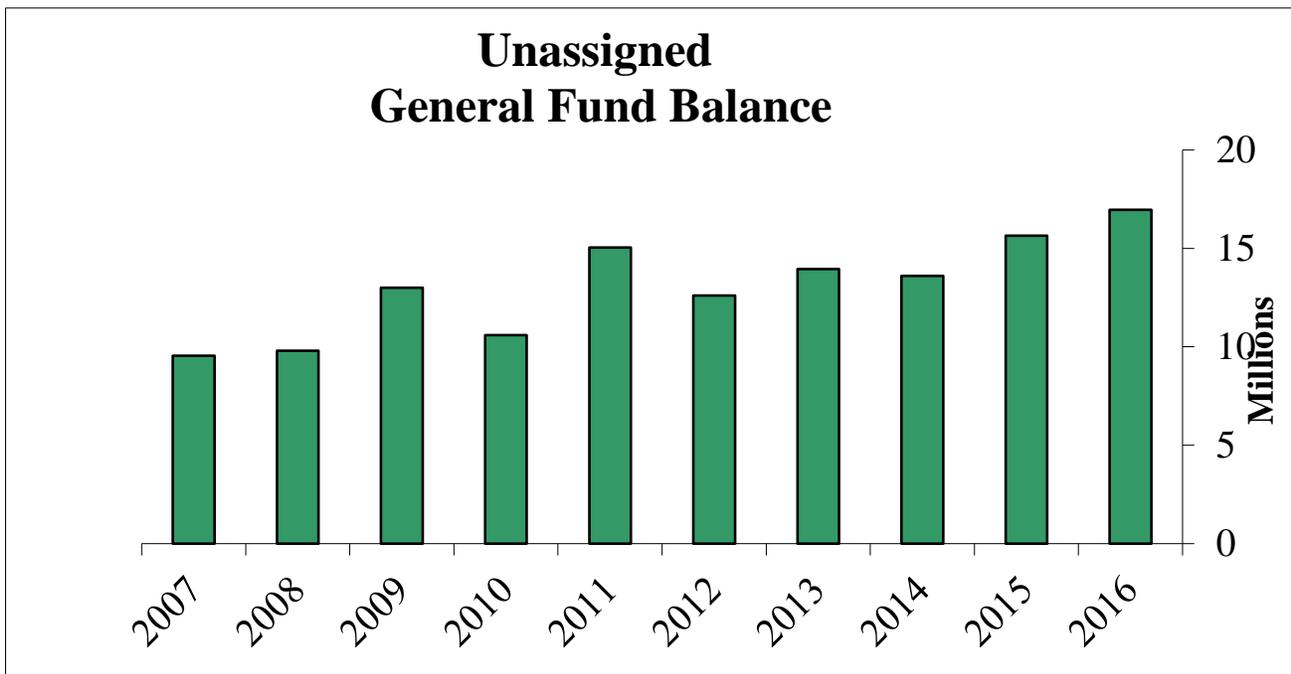
Town of Ocean City, Maryland
Changes in Net Position (continued)
Last Ten Fiscal Years
(accrual basis of accounting)

	2016	2015	2014
Net (Expense)/Revenue			
Governmental Activities	\$ (58,913,687)	\$ (52,870,463)	\$ (57,115,759)
Business-Type Activities	(1,502,156)	255,512	3,339,676
<i>Total Primary Government Net Expense</i>	<u>\$ (60,415,843)</u>	<u>\$ (52,614,951)</u>	<u>\$ (53,776,083)</u>
 General Revenues and Other Changes in Net Position			
Governmental Activities:			
Taxes:			
Property and Other Local Taxes Levied For:			
General Purposes	\$ 42,717,221	\$ 42,444,386	\$ 42,199,671
Sales and Income Taxes	17,205,888	16,454,632	16,042,019
State gaming contributions	633,268	563,517	469,430
Grants and Entitlements not Restricted to Specific Programs	2,720,894	2,576,103	2,586,297
Investment Earnings	192,920	199,294	181,668
Loss on Sale of Capital Assets	(1,482,918)	-	-
Other Revenue	583,485	769,305	684,250
Transfers	(3,158,019)	(3,022,929)	(3,363,267)
<i>Total Governmental Activities</i>	<u>59,412,739</u>	<u>59,984,308</u>	<u>58,800,068</u>
Business-Type Activities:			
Investment Earnings	47,816	49,470	56,399
Gain (loss) on Sale of Capital Assets	(61,521)	-	-
Other Revenue	-	14,568	(7,033)
Transfers	3,158,019	3,022,929	3,363,267
<i>Total Business-Type Activities</i>	<u>3,144,314</u>	<u>3,086,967</u>	<u>3,412,633</u>
<i>Total Primary Government</i>	<u>\$ 62,557,053</u>	<u>\$ 63,071,275</u>	<u>\$ 62,212,701</u>
 Change in Net Position			
Governmental Activities	\$ 499,052	\$ 7,113,845	\$ 1,684,309
Business-Type Activities	1,642,158	3,342,479	6,752,309
<i>Total Primary Government</i>	<u>\$ 2,141,210</u>	<u>\$ 10,456,324</u>	<u>\$ 8,436,618</u>

2013	2012	2011	2010	2009	2008	2007
\$ (53,417,781) (1,793,869)	\$ (56,698,537) (722,681)	\$ (53,956,917) 618,304	\$ (55,775,190) (4,853,097)	\$ (58,531,609) (5,947,692)	\$ (54,112,271) (1,174,312)	\$ (47,536,810) (3,946,254)
<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>	<u>\$ (51,483,064)</u>
\$ 41,425,378 15,069,904 454,949	\$ 42,509,186 14,649,416 433,060	\$ 42,660,709 13,703,686 224,791	\$ 43,900,041 13,031,401 -	\$ 48,025,233 13,757,540 -	\$ 44,320,692 13,789,976 -	\$ 38,714,874 13,696,456 -
2,372,735 (45,412) -	2,660,866 163,704 -	2,411,597 124,288 -	2,436,638 297,072 -	2,509,917 683,113 -	628,833 1,175,057 -	704,624 1,498,827 -
508,084 (3,480,205)	764,234 (3,205,769)	587,179 (3,795,956)	538,205 (4,288,477)	621,324 (5,145,366)	936,421 (5,340,728)	914,535 (4,927,374)
<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>	<u>50,601,942</u>
60,354 -	124,938 -	100,789 -	310,128 -	410,228 -	872,247 -	839,134 -
86,006 3,480,205	2,500 3,205,769	4,270 3,795,956	86,175 4,288,477	- 5,145,366	7,579 5,340,728	- 4,927,374
<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>5,766,508</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>	<u>\$ 56,368,450</u>
\$ 2,887,652 1,832,696	\$ 1,276,160 2,610,526	\$ 1,959,377 4,519,319	\$ 139,690 (168,317)	\$ 1,920,152 (392,098)	\$ 1,397,980 5,046,242	\$ 3,065,132 1,820,254
<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>	<u>\$ 4,885,386</u>

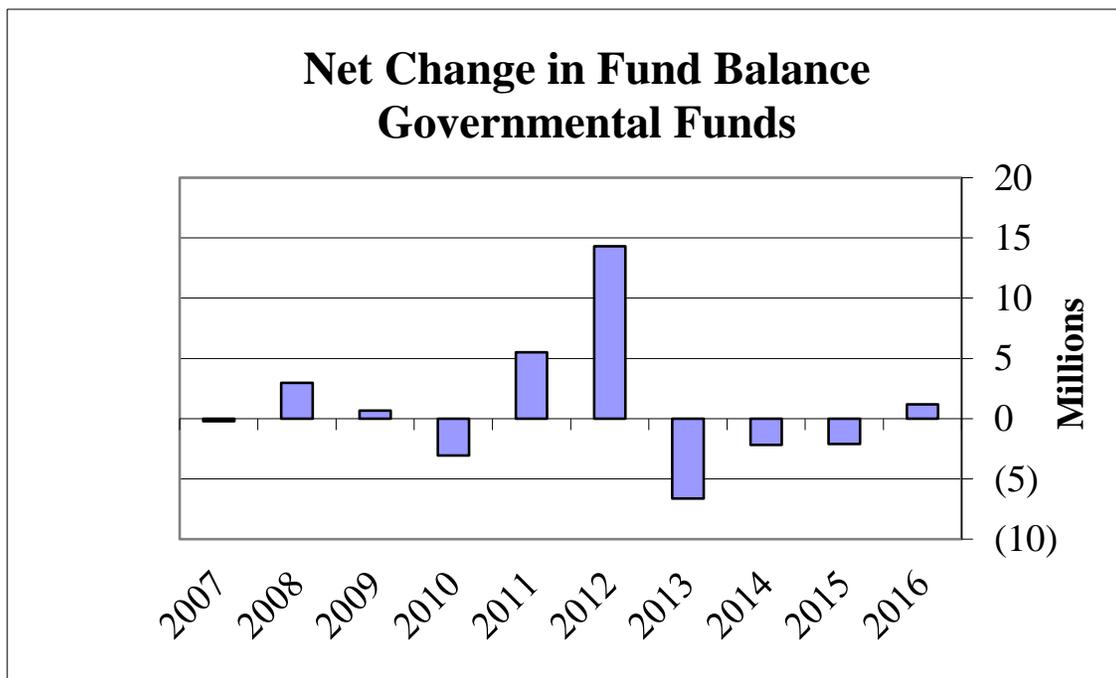
Town of Ocean City, Maryland
Fund Balances of Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund				
Nonspendable advances to other funds	\$ -	\$ -	\$ 115,000	\$ 165,000
Assigned - purchases on order	810,280	302,139	498,539	427,271
Assigned - subsequent year's budget	1,235,805	1,640,027	931,828	247,066
Assigned - other purposes	-	-	-	465,000
Unassigned	<u>16,968,006</u>	<u>15,648,548</u>	<u>13,602,038</u>	<u>13,949,931</u>
<i>Total General Fund</i>	<u>\$ 19,014,091</u>	<u>\$ 17,590,714</u>	<u>\$ 15,147,405</u>	<u>\$ 15,254,268</u>
All Other Governmental Funds				
Restricted for capital projects	\$ -	\$ 3,020,069	\$ 5,333,799	\$ 8,656,416
Committed - purchases on order	1,389,255	-	-	-
Committed for capital projects	<u>1,923,126</u>	<u>537,914</u>	<u>2,758,897</u>	<u>1,517,524</u>
Total All Other Governmental Funds	<u>3,312,381</u>	<u>3,557,983</u>	<u>8,092,696</u>	<u>10,173,940</u>
<i>Total Governmental Funds</i>	<u>\$ 22,326,472</u>	<u>\$ 21,148,697</u>	<u>\$ 23,240,101</u>	<u>\$ 25,428,208</u>
 Unassigned General Fund Balance as a Percentage of Expenditures	 23.1%	 21.6%	 18.2%	 19.3%



2012	2011	2010	2009	2008	2007
\$ 235,000	\$ 130,000	\$ 250,000	\$ 250,000	\$ 260,000	\$ 270,000
566,585	998,595	446,430	762,998	456,351	699,721
2,749,395	-	-	-	-	-
-	-	-	-	-	-
<u>12,605,645</u>	<u>15,049,478</u>	<u>10,590,252</u>	<u>13,005,682</u>	<u>9,795,646</u>	<u>9,549,272</u>
<u>\$ 16,156,625</u>	<u>\$ 16,178,073</u>	<u>\$ 11,286,682</u>	<u>\$ 14,018,680</u>	<u>\$ 10,511,997</u>	<u>\$ 10,518,993</u>
\$ 14,031,244	\$ 747,437	\$ 129,990	\$ 166,068	\$ 3,138,153	\$ 450,319
1,272,334	52,343	61,546	118,881	785,960	166,548
601,426	783,799	780,486	1,008,572	199,380	519,937
<u>15,905,004</u>	<u>1,583,579</u>	<u>972,022</u>	<u>1,293,521</u>	<u>4,123,493</u>	<u>1,136,804</u>
<u>\$ 32,061,629</u>	<u>\$ 17,761,652</u>	<u>\$ 12,258,704</u>	<u>\$ 15,312,201</u>	<u>\$ 14,635,490</u>	<u>\$ 11,655,797</u>

17.5% 20.2% 13.4% 16.9% 12.8% 13.7%



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

	2016	2015	2014
Revenues			
Property Taxes	\$ 42,550,867	\$ 42,429,988	\$ 42,334,031
Other Taxes	17,949,706	17,024,793	16,498,162
Licenses and Permits	4,486,927	4,327,809	4,183,957
Fines and Forfeitures	694,761	583,087	714,142
Charges for Services	10,142,237	9,721,191	9,339,999
Revenue from Other Agencies	6,066,514	5,602,145	6,048,341
Other Revenue	860,055	974,121	735,727
<i>Total Revenues</i>	<u>82,751,067</u>	<u>80,663,134</u>	<u>79,854,359</u>
Expenditures			
Current:			
General Government	3,803,848	3,817,132	3,824,796
Public Safety	33,479,223	32,728,554	34,620,629
General Public Works and Beach	5,545,600	5,919,839	5,169,305
Sanitation and Waste Removal	5,635,304	5,353,919	5,613,364
Highways and Streets	8,733,929	5,560,206	6,280,506
Economic Development - Tourism	8,094,041	7,889,134	7,737,415
Recreation and Culture	7,268,485	7,090,260	7,131,635
Capital Outlay	4,507,498	6,082,562	6,586,308
Debt service:	-		
Principal Retirement	3,566,514	3,636,266	3,694,110
Interest and Fiscal Charges	1,438,175	1,563,318	1,646,570
Bond Issuance Costs	33,585	-	36,516
<i>Total Expenditures</i>	<u>82,106,202</u>	<u>79,641,190</u>	<u>82,341,154</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>644,865</u>	<u>1,021,944</u>	<u>(2,486,795)</u>
Other Financing Sources (Uses)			
Bonds and notes issued	6,689,567	-	4,895,483
Premium on bonds issued	-	-	99,578
Payment to refunded bond escrow agent	(2,914,784)	-	(992,858)
Transfers In	4,609,257	2,592,610	2,431,000
Transfers Out	(7,851,130)	(5,705,958)	(6,134,515)
<i>Total Other Financing Sources (Uses)</i>	<u>532,910</u>	<u>(3,113,348)</u>	<u>298,688</u>
<i>Net Change in Fund Balances</i>	<u>\$ 1,177,775</u>	<u>\$ (2,091,404)</u>	<u>\$ (2,188,107)</u>
Debt Service as a Percentage of Noncapital Expenditures	6.4%	7.1%	7.0%

	2013	2012	2011	2010	2009	2008	2007
\$	41,618,457	\$ 42,555,644	\$ 42,731,367	\$ 43,808,149	\$ 47,881,933	\$ 44,112,396	\$ 38,553,222
	15,611,879	15,069,260	13,909,064	13,062,376	13,922,143	13,831,745	13,706,607
	4,061,716	4,050,517	3,921,106	3,858,142	3,811,003	4,072,860	4,711,672
	785,979	856,672	780,018	741,763	612,431	632,554	570,709
	8,995,653	8,568,625	8,422,070	7,992,333	8,289,520	8,440,330	8,008,899
	6,073,225	5,466,338	5,294,366	5,222,435	5,521,329	3,640,661	4,015,590
	653,618	743,082	664,892	714,825	1,128,148	1,911,742	2,488,030
	<u>77,800,527</u>	<u>77,310,138</u>	<u>75,722,883</u>	<u>75,400,023</u>	<u>81,166,507</u>	<u>76,642,288</u>	<u>72,054,729</u>
	3,860,291	3,051,546	3,320,277	3,990,472	3,869,464	4,401,856	4,336,014
	32,546,489	33,355,683	32,301,718	32,223,500	32,467,482	31,104,717	28,185,979
	5,109,638	5,026,883	4,908,045	4,698,501	5,063,642	4,973,218	4,984,240
	5,389,174	5,871,647	5,332,518	6,423,476	6,784,236	6,659,892	6,328,058
	5,867,104	5,621,764	5,263,430	5,684,270	6,319,490	6,084,432	5,448,588
	7,792,309	7,428,498	6,420,490	5,999,877	5,507,535	5,400,974	4,053,155
	7,259,523	7,239,149	7,167,738	7,359,074	8,048,173	7,544,679	6,580,642
	8,301,432	5,468,269	1,145,147	3,764,227	3,718,202	4,350,085	3,242,665
	2,872,330	3,160,956	3,416,907	3,282,636	2,164,178	2,245,407	2,750,168
	1,596,699	1,279,997	1,295,164	1,306,084	1,402,028	1,361,330	1,435,689
	-	149,245	43,746	73,711	-	118,485	-
	<u>80,594,989</u>	<u>77,653,637</u>	<u>70,615,180</u>	<u>74,805,828</u>	<u>75,344,430</u>	<u>74,245,075</u>	<u>67,345,198</u>
	<u>(2,794,462)</u>	<u>(343,499)</u>	<u>5,107,703</u>	<u>594,195</u>	<u>5,822,077</u>	<u>2,397,213</u>	<u>4,709,531</u>
	103,889	22,018,939	4,159,350	4,388,662	-	12,642,381	-
	-	1,738,770	-	180,873	-	406,051	-
	-	(5,908,464)	-	(4,495,824)	-	(7,125,224)	-
	2,000,000	1,737,430	1,548,567	1,181,198	916,016	2,064,944	623,463
	<u>(5,942,848)</u>	<u>(4,943,199)</u>	<u>(5,312,672)</u>	<u>(4,902,601)</u>	<u>(6,061,382)</u>	<u>(7,405,672)</u>	<u>(5,550,837)</u>
	<u>(3,838,959)</u>	<u>14,643,476</u>	<u>395,245</u>	<u>(3,647,692)</u>	<u>(5,145,366)</u>	<u>582,480</u>	<u>(4,927,374)</u>
\$	<u>(6,633,421)</u>	<u>\$ 14,299,977</u>	<u>\$ 5,502,948</u>	<u>\$ (3,053,497)</u>	<u>\$ 676,711</u>	<u>\$ 2,979,693</u>	<u>\$ (217,843)</u>
	6.2%	6.2%	6.8%	6.5%	5.0%	5.2%	6.5%

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
2016	\$ 42,550,867	\$ 14,574,627	\$ 1,405,802	\$ 854,817	\$ 1,104,645	\$ 60,490,758
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	59,704,682
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	63,041,891
2008	43,744,359	10,719,678	1,302,455	918,144	891,468	59,062,546
2007	38,200,651	10,345,545	1,238,744	1,183,634	938,684	52,525,809
Change 2007-2016	11.4%	40.9%	13.5%	-27.8%	17.7%	15.2%

* In 2008 the room tax rate was increased from 4% to 4.5%.

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
2016	\$ 8,430,184,989	\$ 13,595,814	\$ 156,230,465	\$ 8,600,011,268	\$ 0.478	\$ 8,600,011,268	(1.0) %
2015	8,526,614,796	13,646,124	147,557,519	8,687,818,439	0.474	8,687,818,439	0.7
2014	8,481,052,332	12,670,775	133,532,093	8,627,255,200	0.472	8,627,255,200	(0.8)
2013	8,551,832,279	12,670,775	133,532,093	8,698,035,147	0.459	8,698,035,147	(16.0)
2012	10,209,869,114	13,553,101	129,845,969	10,353,268,184	0.395	10,353,268,184	(0.6)
2011	10,268,325,607	13,650,155	131,517,984	10,413,493,746	0.395	10,413,493,746	(2.2)
2010	10,501,239,662	14,338,062	133,172,636	10,648,750,360	0.395	10,648,750,360	(13.0)
2009	12,090,447,495	16,500,853	135,247,984	12,242,196,332	0.38	12,242,196,332	17.0
2008	10,309,041,337	15,670,379	140,104,253	10,464,815,969	0.41	10,464,815,969	21.1
2007	8,491,695,814	15,500,465	135,395,271	8,642,591,550	0.43	8,642,591,550	27.3

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2007-2016.

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
2016	\$ 42,550,867	\$ 41,471,737	97.46 %	\$ -	\$ 41,471,737	97.46 %
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
2007	38,257,770	37,639,139	98.38	618,551	38,257,690	100.00

Source: Uniform Financial Report of Town of Ocean City to Maryland Department of Fiscal Services, 2007 - 2016.

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

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

Taxpayer	2016	
	Taxable Assessed Value (1)	Percentage of Total Taxable Assessed Value
Harrison Inn Stardust Inc	\$ 57,898,430	0.67
Americana Stowaway Motel, Inc.	53,656,130	0.62
Delmarva Power	35,413,550	0.41
91st Street Joint Venture	33,123,800	0.39
Genesar	23,813,637	0.28
Harrison HI 18 LLC	22,875,170	0.27
Harrison Inn Ocean View	21,301,700	0.25
LPBOC Hotel Limited Partnership	20,923,900	0.24
Harrison Inn 66	19,796,323	0.23
Harrison QI 17 LLC	16,127,500	0.19
	<u>\$ 304,930,140</u>	<u>3.55%</u>
Total Assessed Valuation	<u>\$ 8,600,011,268</u>	
Taxpayer	2007	
	Taxable Assessed Value (1)	Percentage of Total Taxable Assessed Value
Americana Stowaway Motel, Inc.	\$ 54,070,071	0.63%
Harrison Inn Stardust Inc.	41,595,754	0.48
91st Street Joint Venture	39,966,276	0.46
Ocean View Inc.	24,847,800	0.29
Delmarva Power	22,579,880	0.26
Genesar, Inc.	22,509,095	0.26
Harrison HI 18 LLC	20,478,250	0.24
LPBOC Hotel Limited Partnership	18,812,630	0.22
Harrison Inn Sixty Six Inc.	17,992,065	0.21
Harrison QI 17 LLC	17,577,500	0.20
	<u>\$ 280,429,321</u>	<u>3.2500%</u>
Total Assessed Valuation	<u>\$ 8,642,591,550</u>	

(1) Assessed valuation based on the valuation of property for taxes collected in 2016 and 2007 respectively, and a review of the ten largest taxpayers for the City.

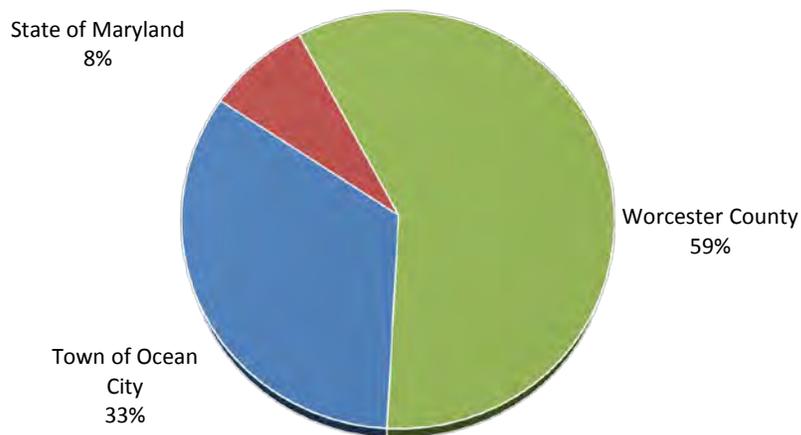
Source: Town of Ocean City Finance Department

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	
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
2006	0.4700		0.73	0.132	1.3320

Source: Town of Ocean City Finance Department

Percentage of Total Tax Bill by Overlapping Governments



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

Tax Year	Governmental Activities			Business-type Activities			Total Primary Government	% of Actual Property Value	Per Capita	Estimated Percentage of Personal Income*
	General Obligation Bonds	Inter-Governmental Loans	Loans & Capital Leases	General Obligation Bonds	Inter-Governmental Loans	Capital Leases				
2016	\$ 37,528,817	\$ 462,069	\$ 5,401,883	\$ 54,684,054	\$ -	\$ 713,600	\$ 98,790,423	1.15%	\$ 13,930	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	13,610	43.6
2011	32,866,092	720,393	-	48,822,511	14,014	-	82,423,010	0.79	11,606	49.2
2010	31,573,155	766,148	593,389	38,671,516	23,127	-	71,627,335	0.67	9,284	36.0
2009	30,228,391	502,400	1,459,247	45,696,736	32,061	-	77,918,835	0.64	10,304	28.3
2008	32,369,874	672,150	2,498,372	48,954,815	40,819	-	84,536,030	0.81	10,249	28.8
2007	29,496,156	173,855	3,610,632	48,532,564	45,132	-	81,858,339	0.95	10,933	21.7

Source: Town of Ocean City Finance Department

*Ocean City residents occupy 8% of total properties

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

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

Tax Year	General Obligation Bonds Outstanding	% of Actual Property Value	Per Capita
2016	\$ 92,212,871	1.07%	\$ 13,002
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	13,515
2011	81,688,603	0.78	11,502
2010	70,244,671	0.66	9,105
2009	75,925,127	0.62	9,940
2008	81,324,689	0.78	10,754
2007	78,028,722	0.90	10,422

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, 2016

Jurisdiction	Debt Outstanding	Percentage Applicable to City *	Amount Applicable to Town of Ocean City
Direct			
Town of Ocean City	<u>\$ 98,790,423</u>	100.0%	<u>\$ 98,790,423</u>
Overlapping			
Worcester County	<u>94,004,273</u>	57.8%	<u>55,744,534</u>
Total Direct and Overlapping Debt	<u><u>\$ 192,794,696</u></u>		<u><u>\$ 154,534,957</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, 2016

Assessed Value		<u>\$ 8,600,011,268</u>
Maximum general obligation debt limited to 5.2% of assessed valuation *		\$ 447,200,586
Outstanding bonds	<u>\$ 92,212,871</u>	
Net Chargeable to Bond Limit		<u>92,212,871</u>
LEGAL DEBT MARGIN at JUNE 30, 2016		<u>\$ 354,987,715</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

2007 - 2016

Fiscal Year	Assessed Value	Legal Debt Limitation	Legal Borrowing Limitation	Debt Subject to Limitation	Legal Debt Margin
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
2007	8,642,591,550	5.2	449,414,761	78,028,722	371,386,039

Town of Ocean City, Maryland
Demographic and Economic Statistics
Calendar Years 2006 - 2015

Year	(1) Population	(2) Median Household Income	(3) Worcester County Personal Income	(4) Median Age	(5) School Enrollment	(6) Unemployment Rate
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
2006	7,487	50,950	1,754,329	47.2	6,830	6.4

- (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

Number of employees for quarter ending June 30, 2016

2016		
Employer	Employees	Percentage of Total County Employment
Harrison Group	1,172	4.32 %
Bayshore Development	519	1.91
OC Seacrets, Inc.	469	1.73
KTG LLC	360	1.33
Clarion Resort Fontaine Bleau	340	1.25
Phillips	303	1.12
Fagers Island, Ltd.	299	1.10
91st St. Joint Venture	292	1.08
Trimpers Rides, Inc.	244	0.90
Castle In the Sand	186	0.69
Total	4,184	15.43 %
Total Worcester County Employees (Data available for county only)	27,110	

2007		
Employer	Employees	Percentage of Total County Employment
Harrison Group	1,200	3.67 %
Phillips	725	2.22
OC Seacrets, Inc.	504	1.54
Bayshore Development	500	1.53
KTG LLC	400	1.22
Clarion Resort Fontaine Bleau	300	0.92
Fagers Island, Ltd.	280	0.86
Trimpers Rides, Inc.	250	0.76
Genesar, Inc.	165	0.50
Castle in the Sand, Inc.	150	0.46
Total	4,474	13.68 %
Total Worcester County Employees (Data available for county only)	32,705	

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

<u>Function/program</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
General Government	36	37	37	36	36	37	38	39	39	40
Public Safety	213	213	213	207	211	210	215	218	223	213
General Public Works	47	47	45	45	45	46	49	55	54	53
Solid Waste	21	21	22	23	23	25	40	44	44	44
Highway and Streets	23	23	23	22	22	22	33	36	36	36
Tourism	4	4	4	4	4	4	8	9	9	9
Recreation	42	43	42	42	42	42	48	51	51	48
Water	21	21	21	21	21	21	23	24	25	25
Transportation	13	13	13	13	13	13	16	17	17	17
Wastewater	46	46	46	46	45	45	46	49	48	48
Convention Center	34	33	32	32	33	34	35	40	40	40
Airport	3	3	3	3	3	3	3	4	4	3
Internal Service	30	30	30	30	30	30	33	36	36	36
Full-Time Employee Totals:	533	534	531	524	528	532	587	622	626	612
Part-Time Employees	850	911	874	867	837	814	755	799	871	841
Total Employees	<u>1,383</u>	<u>1,445</u>	<u>1,405</u>	<u>1,391</u>	<u>1,365</u>	<u>1,346</u>	<u>1,342</u>	<u>1,421</u>	<u>1,497</u>	<u>1,453</u>

Source: Town of Ocean City, Maryland 2007-2016 annual budgets

Method: Using 1.0 for each full-time employee.

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

Function/program	2016	2015	2014	2013
General Information				
Area in Square Miles	5	5	5	5
Year-round Residents	7,102	7,092	7,092	7,173
Registered Voters	5,703	6,141	5,267	6,184
Average Summer Population	258,330	242,611	253,561	254,906
General Government				
Construction Permits Issued	1,855	1,472	1,564	1,660
Estimated Value of Construction	\$ 61,003,886	\$ 57,890,098	\$ 51,755,670	\$ 36,287,285
Public Safety - Police				
Total Arrests	2,312	3,568	2,921	3,614
Parking Violations	9,344	7,934	10,460	11,237
Classified Officers	105	105	105	105
Seasonal Officers	100	100	100	100
Fire and Emergency Services				
Fire responses	1,158	1,278	1,262	1,190
Ambulance responses	4,698	4,518	4,157	4,634
Fire Safety Inspections/Re-Inspections	2,308	2,659	2,423	1,935
Fire Investigations	45	65	98	107
Classified Fire Personnel	3	3	3	3
Volunteer Officers, Firemen, Life Honor, Gold Badge	226	231	235	135
Classified Emergency Medical Technicians	42	41	44	37
Seasonal Emergency Medical Technicians	69	65	67	65
Solid Waste				
Trash Processed (tons)	33,794	32,603	32,814	39,640
Trash Recycled (tons)	279	202	185	190
Tourism and Recreation				
Seasonal Beach Patrol Personnel	175	186	190	194
Water				
Daily Average Consumption (gallons)	4,179,104	4,156,608	4,637,616	4,891,890
Plants Daily Capacity (gallons)	18,000,000	18,000,000	18,000,000	18,000,000
Transportation				
Bus Passengers	2,611,384	2,588,189	2,737,568	2,852,639
Wastewater				
Daily Average Treatment (gallons)	5,528,000	5,378,000	5,445,000	5,700,000
Summer Daily Treatment Average (gallons)	9,330,000	9,194,000	9,603,000	9,200,000
Plants Daily Treatment Capacity (gallons)	14,000,000	14,000,000	14,000,000	14,000,000
Number of Customer Accounts	28,698	28,804	28,739	28,775
Airport				
Based Aircraft	76	67	64	77
Aircraft Fueled	2,900	2,900	3,165	3,544

Source: Town of Ocean City Finance Department

2012	2011	2010	2009	2008	2007
5	5	5	5	5	5
7,110	7,102	7,715	7,638	7,562	7,487
6,034	5,166	6,549	5,417	6,550	5,447
276,809	263,765	257,479	256,169	258,726	259,105
1,525	1,622	1,501	1,407	1,795	2,065
\$ 35,460,786	\$ 25,521,294	\$ 36,525,292	\$ 49,378,207	\$ 69,597,628	\$ 164,614,258
3,879	3,572	4,213	3,515	3,599	3,925
13,045	14,705	13,859	12,871	11,749	9,284
103	102	107	107	107	107
96	102	90	82	110	110
1,303	1,224	1,254	1,429	1,344	1,460
6,025	5,935	5,776	5,529	5,680	5,580
2,050	2,068	2,010	2,310	3,176	2,990
115	136	144	202	257	171
4	4	4	4	3	3
235	221	219	220	230	237
36	36	40	42	42	42
54	74	58	54	41	34
36,069	34,253	33,149	28,959	31,635	33,447
205	283	2,742	3,285	3,603	3,096
182	189	189	194	208	190
5,243,506	5,591,287	5,026,025	5,434,695	5,555,219	5,582,958
18,000,000	18,000,000	18,000,000	18,000,000	18,000,000	18,000,000
2,872,472	2,997,578	3,099,117	3,315,614	3,481,330	3,423,798
5,747,000	5,731,000	5,766,000	5,428,814	5,442,071	5,691,945
1,050,000	9,986,000	9,595,000	9,237,300	9,720,000	9,795,522
14,000,000	14,000,000	14,000,000	14,000,000	14,000,000	14,000,000
28,772	28,781	28,792	28,777	28,481	28,284
75	67	67	66	68	63
4,092	4,081	3,838	3,738	3,661	7,500

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

Function/program	2016	2015	2014	2013
Public Safety - Police				
Stations	2	2	2	2
Vehicles	81	84	84	82
Public Safety - Fire and Emergency Services				
Stations	5	5	5	5
Ambulances	10	10	9	10
Highways and Streets				
Streets (miles)	69	69	69	69
Number of Streetlights	3,078	3,078	3,054	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
Solid Waste				
Heavy Equipment	32	32	32	32
Economic Development - Tourism, Recreation, and Culture				
Number of Parks / Playgrounds	13 / 6	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
Water				
Water Mains (miles)	150	150	150	150
Treatment Plants	3	3	3	3
Service Connections	7,074	7,068	7,237	7,143
Fire Hydrants	847	847	847	847
Transportation				
Buses	62	61	62	60
Handicapped Buses	3	3	3	3
Trolleys	-	-	-	-
Boardwalk Trams	8	8	8	8
Wastewater				
Sanitary sewers (miles)	152	152	152	152
Treatment Plants	1	1	1	1
Pumping Stations	10	10	10	9
Convention Center				
Convention Center (7,000 seats)	1	1	1	1
Airport				
Runway (2) (feet)	7,273	7,273	7,270	7,270
Square feet of Hangars	115,064	115,064	115,064	115,064

Source: Town of Ocean City Finance Department

2012	2011	2010	2009	2008	2007
2	2	2	2	2	2
83	84	83	84	81	81
5	5	5	5	5	5
9	9	9	9	9	9
69	69	69	69	69	69
3,024	3,024	3,024	3,024	3,006	2,997
43	43	43	43	43	43
2,315	2,310	2,307	2,307	2,307	2,305
48	48	50	50	50	50
32	32	28	28	30	28
14 / 6	14 / 6	14 / 6	14 / 6	14 / 6	14 / 6
77	77	77	77	77	79
1	1	1	1	1	1
3	3	3	3	3	3
10	10	10	10	10	10
14	14	14	14	14	14
1	1	1	1	1	1
1	1	1	1	1	1
150	141	150	150	150	150
3	3	3	3	3	3
7,584	7,131	7,125	7,121	7,121	7,096
847	847	846	915	915	915
62	69	55	56	55	56
3	4	4	3	3	3
4	8	8	8	8	8
8	8	8	8	8	8
152	150	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
140,080	140,080	120,860	120,860	120,860	120,860

